

SAM – PROPERTY ACCOUNTING

IMPAIRMENT OF CAPITAL ASSET AND RELATED INSURANCE RECOVERIES

8619

(New 09/2010)

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The service utility of a capital asset is the expected usable capacity at acquisition. A capital asset may be impaired due to events or changes in circumstances, such as physical damage, obsolescence or changes in technology, enactment or approval of laws or regulations or other changes in environmental factors, a change in manner or duration of use, or a construction stoppage.

A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

Impaired capital assets that will no longer be used by a department should be reported at the lower of carrying value or fair value (i.e., additional depreciation expense and accumulated depreciation would be recorded in the year of the impairment to bring the carrying value down to the lower fair value).

Impairment losses on capital assets that will continue to be used by the department should be measured using one of three methods prescribed by the [Governmental Accounting Standards Board](#) that best reflects the diminished service utility of the capital asset. The prescribed methods are the restoration cost approach, the service units approach, or the deflated depreciated replacement cost approach.

Departments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A prominent event would be conspicuous or known to the department. It would be an event or circumstance that has prompted discussion by the governing board, management, or the media. Absent any such event or circumstance, departments are not required to perform additional procedures to identify potential impairment of capital assets beyond those already performed as part of their normal operations.

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(Continued)

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8619 (Cont. 1)

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Impairment losses are generally reported as a direct expenditure to the program that uses the impaired capital assets. Insurance recoveries related to impaired assets are reported net of the related loss when the recovery is realized or realizable in the same fiscal year as the loss.

If a prominent event or change in circumstance has occurred and there is a potential impairment of capital assets, please contact the [State Controller's Office](#), GAAP Reporting Section, for additional instructions to help you identify whether impairment has occurred, measure the impairment loss, and account for the impairment loss and any insurance recoveries.