

# Non-Current Asset Policies For the Queensland Public Sector

June 2005

(revised August 2007; February 2008; July 2009)

### OVERVIEW

Overview  
management

The *Non-Current Asset Policies for the Queensland Public Sector* (asset policies) is designed to assist departments and statutory bodies in developing a framework for the identifying, acquiring, maintaining, disposing of, valuing or revaluing, recording and writing-off assets.

The asset policies are mandatory for departments and statutory bodies, and it is expected that they will adopt processes which reflect each agency's circumstances and operational characteristics.

The asset policies consists of the following chapters -

Reference	Chapter	Date Issued
1	Introduction	January 2010
2	Recognition of Assets	January 2010
3	Complex Assets and their Significant Components	January 2010
4	Valuation of Assets	January 2010
5	Revaluation of Assets	January 2010
6	Non-Current Assets Held for Sale	January 2010
7	Impairment of Assets	January 2010
8	Depreciation and Amortisation	January 2010
9	Disposal of Non-Current Assets	January 2010
10	Investment Property	January 2010
11	Intangible Assets	January 2010
12	Reporting and Policy Disclosures	January 2010
13	Accounting for Library Collections	January 2010

## GLOSSARY OF TERMS

A glossary of terms defined in the Australian Accounting Standards, the Statements of Accounting Concepts, and the *Framework for the Preparation and Presentation of Financial Statements* is available at:

<http://www.aasb.com.au/Pronouncements/Glossary-of-defined-terms.aspx>

## CHAPTER OVERVIEWS

At the beginning of each Chapter is a high level overview to direct the reader to relevant parts of the document.

## FURTHER INFORMATION

If you have any questions concerning the *Non-Current Asset Policies for the Queensland Public Sector*, please contact the relevant Business Branch of Treasury for your agency.

Alternatively, email the Financial Management Helpdesk with details of your query and a response will be provided by the Financial Management Branch of Treasury:

- Email: [fmhelpdesk@treasury.qld.gov.au](mailto:fmhelpdesk@treasury.qld.gov.au)

## OVERVIEW

This chapter discusses the purpose and scope of the Non-Current Asset Policies for the Queensland Public Sector.

This chapter consists of the following sub-sections:

<b>Reference</b>	<b>Sub-section</b>
1.1	Background
1.2	Scope
1.3	Purpose
1.4	Prescribed Requirements

## 1.1 BACKGROUND

Effective and efficient asset management

The efficient and effective management of Queensland's public sector non-current assets is essential to the delivery of the Government's fiscal obligations as set out in its *charter of fiscal responsibility*.

For the purposes of these policies such assets may be under the control or stewardship of:

- *departments* - which carry out general government, shared service provider and commercialised business unit functions; or
- *statutory bodies* - which carry out general government, trading and public finance activities.

## 1.2 SCOPE

The *Financial and Performance Management Standard 2009* (FPMS) provides for a holistic approach to asset management. Section 23(1) of the FPMS requires departments and statutory bodies to manage assets in accordance with the asset management system established under section 15(1) of the FPMS.

This system must provide for identifying, acquiring, maintaining, disposing of, valuing or revaluing, recording and writing-off assets in accordance with the *Non-current asset policies for the Queensland Public Sector*.

Mandatory policies:  
Departments and Statutory Bodies

Departments and statutory bodies must apply the policies set out in this document, as per section 23(3) of the FPMS. It applies both to assets controlled by agencies and those administered on a whole-of-Government basis.

These policies also apply to controlled entities of the above agencies to the extent necessary to ensure consistency in accounting policies in accordance with AASB 127 *Consolidated and Separate Financial Statements*.

This policy document does not deal with financial assets, tax assets, agricultural assets or inventories.

## 1.3 PURPOSE

The purpose of these policies is to provide a framework for identifying, valuing, recording and writing-off non-current physical and intangible assets. In particular, the policies aim to:

- clarify the definition of, and accounting recognition concepts for, assets;
- provide guidance on determining the periodic cost of using assets (depreciation/amortisation);
- specify a basis for valuing non-current assets; and
- set out the approach to be adopted in regularly reviewing the carrying amount of assets and, where appropriate, writing down or revaluing assets.

## 1.4 PRESCRIBED REQUIREMENTS

FPMS establishes minimum asset management requirements

Under section 61 of the *Financial Accountability Act 2009*, each accountable officer and each statutory body is responsible for managing the agency efficiently, effectively and economically. Section 23 of the FPMS requires each department and statutory body to

establish an asset management system that provides for identifying, acquiring, managing, disposing of, valuing, recording and writing off assets.

A prerequisite of sound asset management is relevant, reliable and timely information about those resources. This information is necessary to:

- assess whether particular assets are being utilised in the manner that most effectively meets the goals and objectives of the organisation;
- assess whether assets controlled by the organisation are properly maintained, enabling the agency to meet its current and future requirements;
- plan for the future replacement of assets;
- identify and plan for the disposal of surplus or under-utilised assets;
- effectively manage the risks associated with asset control;
- determine the cost of the outputs, products and services provided by the agency; and
- assess, where appropriate, the commercial competitiveness of the agency.

The Non-Current Asset Policies for the Queensland Public Sector must be read in conjunction with the relevant Australian Accounting Standards and are not intended to be read in substitution for them.

Specifically, the policies must be read in conjunction with the accounting and disclosure requirements contained in:

- the *Financial and Performance Management Standard 2009*
- the *Framework for the Preparation and Presentation of Financial Statements* (the Framework)
- *AASB 116 Property, Plant and Equipment*
- *AASB 136 Impairment of Assets*
- *AASB 138 Intangible Assets*
- *AASB 140 Investment Property*
- *AASB 5 Non-Current Assets Held for Sale and Discontinued Operations* and
- relevant AASB Interpretations.

Requirements of the Standards have not been reproduced in full in this document.

## OVERVIEW

This chapter discusses the principles underlying the recognition of property, plant and equipment and intangible assets.

This chapter consists of the following sub-sections:

<b>Reference</b>	<b>Sub-section</b>
2.1	Definition of an Asset
2.2	Asset Recognition Principles
2.3	Initial Recognition of Assets
2.4	Capitalisation Vs Expensing of Costs Incurred
2.5	Mandated Asset Classes
2.6	Asset Recognition Thresholds
2.7	Guidance on Particular Asset Types
2.8	Grouping of Assets
2.9	Portable and Attractive Assets
2.10	Stocktakes
Appendix	
2.1	Non-Current Asset Classes and Thresholds
2.2	Descriptions of Classes of Property Plant and Equipment
2.3	Description of Classes of Intangible Assets
2.4	Asset Recognition
2.5	Initial Asset Valuation

## 2.1 DEFINITION OF AN ASSET

Definition The *Framework for the Preparation and Presentation of Financial Statements* (the Framework) defines an asset as

*a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.*

The key features are that:

- the agency must control the asset;
- there was a past transaction or event which gave rise to the control; and
- there must be future economic benefits expected to flow to the agency.

Each of these features is discussed below. A flowchart depicting the decision table is included in **Appendix 2.4**.

### Control

Power to obtain future economic benefits and restrict other's access

An agency controls an asset if it has the power to obtain the future economic benefits flowing from the resource and to restrict the access of others to those benefits. In determining the existence of an asset, the right of ownership is not essential. An agency must simply have the ability to control the benefits which are expected to flow from the asset.

All agencies control assets that they use in meeting their objectives.

Control is demonstrated by the ability of the agency to:

- use the asset to achieve its objectives;
- obtain a benefit from the sale of the asset;
- charge for the use of the asset; or
- deny use of the asset to others.

Other factors that must be considered in determining whether control exists are:

- access to the asset may be more relevant than mere possession or ownership; and
- ownership of an asset may not be necessary to control access to the benefits derived from the asset e.g. assets that are the subject of a finance lease.

There may be situations that arise where there could be doubt as to which one of a group of agencies controls a particular asset or whether an agency controls an asset or only administers that asset on behalf of the Government as a whole.

Shared control

In some instances no one agency may have exclusive control of an asset i.e. it shares the right to the future economic benefits associated with the asset with another agency. In this case, both agencies must recognise their 'share' of the future economic benefits of the asset on a proportional basis, subject to satisfaction of the recognition criteria contained in the Framework.

It is possible that an agency may cede control of an asset to another entity. In these instances the agency must not recognise the asset, but provide an explanation in the notes to its financial statements.

**Past Transaction or Event**

Purchase or transfer

The assets of an agency must result from past transactions or other past events. The past transaction will generally be the purchase of the asset; however other transactions or events may generate assets, such as the transfer of assets from other agencies or donations.

Transactions or events expected to occur in the future do not give rise to assets. For example, the intention to purchase an asset does not meet the definition of an asset.

**Future Economic Benefits**

Cash flows or provision of goods and services

Future economic benefits embodied in an asset have the potential to contribute, directly or indirectly, to the flow of cash or cash equivalents to the agency. These benefits need not necessarily be in the form of cash but can include revenue from a future sale, cost savings or other benefits resulting from the use of the asset by the agency.

In the case of not-for-profit agencies, the future economic benefits may be in the form of providing goods and services in accordance with the agencies' objectives. The fact that not-for-profit agencies do not charge, or do not fully charge, their customers for the goods and services they provide does not deprive those outputs of utility or value.

For example, assets such as monuments, museums, and historical treasures enrich the lives of beneficiaries, typically at little or no direct cost to the beneficiaries. These assets benefit the agencies by enabling them to meet their objectives of providing needed services to beneficiaries.

An asset is not recognised on the Statement of Financial Position when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the agency beyond the current accounting period e.g. expenditure on feasibility studies for the construction of infrastructure.

Instead, such a transaction results in the recognition of an expense in the Statement of Comprehensive Income. This treatment does not imply either that the intention of management in incurring expenditure was other than to generate future economic benefits for the agency or that management was misguided. The only implication is that the degree of certainty that economic benefits will flow to the agency beyond the current accounting period is insufficient to warrant the recognition of an asset.

**2.2 ASSET RECOGNITION PRINCIPLES**

Recognition

Property, plant and equipment is defined in AASB 116 *Property, Plant and Equipment* (AASB 116) as

*tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period.*

In terms of the Framework and AASB 116, assets are only to be recognised by an agency when:

- it is probable that future economic benefits will eventuate; and
- the asset possesses a cost or other value that can be measured reliably.

**Probability that Future Economic Benefits will Eventuate**

Must be greater than 50%

In determining whether to recognise an asset, an agency must consider the degree of uncertainty that attaches to the flow of future economic benefits from that particular asset. If it considers that it is more rather than less likely that future economic benefits will eventuate, then this arm of the recognition test will be satisfied.

**Reliable Measurement**

Market value expert advice

The value of purchased goods and services can usually be measured reliably by the price charged by the supplier, while manufactured assets can be valued from labour and other costing systems. In other instances it may be necessary to obtain expert advice or a value from the market place.

Where a cost cannot be measured reliably but it is probable that future economic benefits will eventuate, an asset is not to be recognised. However, this fact must be disclosed in the notes to the financial statements.

**2.3 INITIAL RECOGNITION OF ASSETS**

Circumstances resulting in the initial recognition of assets include:

- acquisition involving consideration;
- assets acquired at no cost or for nominal consideration, including those acquired as a result of restructuring of administrative arrangements (machinery-of-Government changes); and
- assets not previously recognised.

A flowchart relating to Initial Asset Valuation is contained in **Appendix 2.5**.

**Acquisition Involving Consideration**

Initially at cost

Property, plant and equipment acquired for consideration are accounted for in accordance with AASB 116. This Standard requires that an item of property, plant and equipment that qualifies for recognition as an asset shall initially be measured at its cost. Cost is defined as:

*the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.*

This includes the initial purchase costs discussed in Section 2.4.

On exchange recognise at fair value

One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment must be measured at fair value unless:

- (a) the exchange transaction lacks commercial substance; or
- (b) the fair value of neither the asset received nor the asset given up is reliably measurable.

Fair value is defined in AASB 116 as

*the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.*

If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with AASB 117 *Leases*.

**Assets Acquired at No Cost or for Nominal Consideration**

**Not-for-profit agencies**

Assets acquired for no cost recognised at fair value

In respect of not-for-profit agencies, assets acquired at no cost or for a nominal consideration, other than those acquired through restructuring, must be recognised initially at fair value as at the date of acquisition.

Further guidance regarding assets acquired at no cost or for nominal consideration is provided in paragraphs Aus15.2 and Aus15.3 of AASB 116.

**For-profit agencies**

Assets acquired for no cost recognised at the consideration in exchange

In respect of for-profit agencies, assets acquired at no cost or for a nominal consideration, other than those acquired through restructuring, and heritage and cultural assets, must be recognised initially at the amount of consideration given in exchange. Certain classes of assets must be remeasured at fair value after initial recognition. This is discussed subsequently. The exception to this is discussed in Interpretation 18 *Transfers of Assets from Customers*, where the contributions of non-current assets and/or cash are recognised at fair value when the network is extended or modified.

Fair value Heritage and Cultural assets on acquisition

Heritage and cultural assets acquired at no cost, or for a nominal cost by for-profit government departments, are required to be initially recognised at fair value as at the date of acquisition. Refer to section 4.7 under subheading *Heritage and Cultural Assets* for further guidance on valuation of these assets.

Restructuring of administrative arrangements – see APG 9

For assets acquired through restructuring of administrative arrangements, refer to APG 9 *Accounting for Contributions by Owners* for treatment and disclosure of these assets (refer also Section 4).

**Assets Not Previously Recognised**

*Changes in Accounting Estimates*

Recognise from date meet criteria

Assets not recognised in previous periods that subsequently meet the recognition criteria shall be recognised from the date that the criteria are met.

**Example**

An amount may have been initially expensed because it was assessed as not probable that future economic benefits would result, based on the information available at that time e.g. costs of \$50,000 relating to the development of a software product were expensed as there was no viable asset at that time.

Outlays expensed stav expensed

If new information comes to light to change that assessment, for example, there is now demand for the software product (i.e. probable future economic benefits will flow); an asset should be recognised in relation to any subsequent expenditure that exceeds the asset recognition threshold. If we now spend \$150,000 on further developing the item, the \$150,000 will be capitalised but not the previous \$50,000.

Expenditure that was expensed in prior periods must not be reversed and capitalised as part of the cost of the asset, as this is not a correction of an error, rather it is

similar to a revision of an accounting estimate. This asset is not revalued as software is recorded at cost.

Revisions may be made to estimates if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

Change to take form of note for errors

**Example**

An entity purchased a painting for \$2,000. This amount was expensed at the time as the asset recognition threshold was \$5,000. Three years later, demand for the works of this particular artist increased, such that the painting is now valued at \$50,000.

This is considered a change in an accounting estimate, as new information has become available since the previous estimate was made. The entity cannot reverse the \$2,000 previously expensed, but should recognise the asset at its current fair value of \$50,000. The increase in value is treated as a revaluation of an asset recognised at zero value.

Asset	Dr	50,000	
Asset Revaluation Surplus	Cr		50,000

*Errors*

Material changes in asset values as a result of errors in prior periods are retrospectively corrected

Where assets are identified that have not been previously recognised due to error, e.g. during asset verification, this is treated as the correction of an error under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Refer also APG 11 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretation of facts, and fraud.

Material errors made and discovered in the same reporting period are generally corrected before the financial report is authorised for issue. However, where material errors are not discovered until a subsequent period, these prior period errors must be corrected in the comparative information presented in the financial report for that subsequent period. If the error occurred before the earliest period presented, the opening balances of assets, liabilities and equity shall be restated for the earliest prior period presented.

**Example**

An agency conducted a physical verification of buildings in June 20X4. It was found that one building had not previously been recorded in the asset register. Investigations revealed that this building had been transferred to the agency on 1 July 20X1, with a fair value of \$1,000,000 and accumulated depreciation of \$100,000 as part of a Machinery-of-Government change. The building has a useful life of 50 years, and on 1 July 20X1 had a remaining useful life of 45 years. It is depreciated on a straight-line basis at \$20,000 per year.

As the error occurred before the earliest period presented in the financial statements, the agency will need to make the following entry to the opening balances of the earliest period presented in its financial report i.e. 20X2-X3 to correct the omission:

**20X4**

30 June	Buildings	Dr	1,000,000
	Accumulated Depreciation	Cr	100,000
	Contributed Equity	Cr	900,000

*(to record asset at its original transfer value against Contributed Equity as it results from a MOG change)*

Accumulated Surpluses	Dr	40,000	
Accumulated Depreciation	Cr		40,000

*(to record depreciation for 20X1-X2 adjusted against Accumulated Surpluses which will affect the opening balance of the asset (\$20,000); to record depreciation for 20X2-X3 (\$20,000), adjusted against Accumulated Surpluses and also adjusted in prior year figures in the Statement of Comprehensive Income and Statement of Financial Position)*

Depreciation Expense	Dr	20,000	
Accumulated Depreciation	Cr		20,000

*(to record depreciation for 20X3-X4)*

## 2.4 CAPITALISATION VS EXPENSING OF COSTS INCURRED

On initial recognition of an asset, or where subsequent costs are incurred, a decision must be made as to whether those costs are capitalised into the value of the asset or expensed through the Statement of Comprehensive Income.

Capitalise purchase/ construction costs + costs to prepare asset for use

On initial recognition, all costs incurred in purchasing or constructing the asset and getting it ready for use are capitalised to the value of the asset. Examples of these costs are provided below.

In relation to costs incurred subsequent to the initial purchase, expenditure on assets must be capitalised (i.e. added to the carrying amount of the asset) when it improves the condition of the asset beyond its originally assessed standard of performance or capacity. This can occur through:

Test for increased economic benefits

- an increase in the annual service potential provided by the asset; or
- increasing the useful life of the asset.

### Initial Purchases – Costs capitalised

The following costs are included in the cost of an item of property, plant and equipment upon initial purchase or construction and are capitalised:

Directly attributable costs are capitalised

- the purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

Examples of directly attributable costs include:

- costs of employee expenses arising directly from the construction or acquisition of the item of property, plant and equipment;
- costs of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;
- costs of testing whether the asset is functioning properly (after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition, such as samples produced when testing equipment); and

- professional fees.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, where that obligation is recognised and measured in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

Stop capitalising costs when asset is located and ready to use

Once the item of property, plant and equipment is in the location and condition necessary for it to be capable of being operated in the manner intended, the capitalising of costs must cease.

**Example**

An agency operates a power station and associated coal mine where its licensing agreement requires it to remove the power station at the end of production and restore the construction site and mine site. It is estimated that 90 per cent of the eventual costs relate to the removal of the power station and restoration of damage caused by building it, and 10 per cent arise from restoring the mine site after the extraction of coal. At the reporting date, the power station has been constructed but no coal has been extracted.

Recognise a restoration provision when legally required to restore a site

The construction of the power station creates a legal obligation under the terms of the licence to remove the power station and restore the site on which it is constructed. This is termed an obligating event. At the reporting date, however, there is no obligation to rectify the damage that will be caused by extraction of the coal.

A provision is recognised for the best estimate of 90 per cent of the eventual costs that relate to the removal of the power station and restoration of damage caused by building it. These costs are included as part of the cost of the power station. The 10 per cent of costs that arise through the extraction of coal are recognised as a provision when the coal is extracted, as this becomes the obligating event that is necessary before a provision can be recognised.

Refer Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* for guidance on the accounting treatment for changes in the measurement of decommissioning, restoration and similar liabilities that are recognised as part of the cost of an item of property, plant and equipment.

**Initial Purchases – Costs expensed**

Expense costs incurred prior to asset recognition criteria being satisfied

General administration and other indirect overhead costs and training costs are not to be capitalised. Because training costs rarely are of a type to qualify for capitalisation, Treasury policy requires all training costs to be expensed.

**Incidental Operations**

Incidental operations may occur before or during construction or development activities. For example, income may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognised in the Statement of Comprehensive Income and included in their respective classifications of income and expense.

**Third-Party Costs**

In the course of constructing assets, particularly infrastructure assets, it may be necessary for an agency to relocate or replace assets belonging to another entity, e.g. removing and replacing pipes, relocating trees, relocating power lines, etc.

Capitalise costs necessary to complete the asset

Such costs are necessarily incurred in completing the project, even though they may relate to assets which are controlled by another reporting entity (i.e. a third party). Any costs incurred in moving and replacing or updating third party assets are to be capitalised by the constructing entity, as per AASB 116, paragraph 16(b).

Impair asset if third party costs no longer relevant

However, each entity must review its assets annually for impairment indicators, whether the assets are measured at cost or fair value. Assets recorded at fair value must be revalued within a five year timeframe. During this process, agencies must consider what costs should remain as part of the carrying amount of the asset.

*Example*

As part of a road construction activity, an agency must remove sewerage pipes belonging to the local council. Once construction earthworks are completed, the sewerage pipes are replaced under the road base. These costs are capitalised to the asset as part of the initial costs of construction.

Within a 5 year timeframe, the agency revalues its assets using depreciated replacement cost. If the asset were to be completely replaced on the same site, these costs would need to be incurred again, so the relocation costs would need to be replicated in determining revalued carrying amount.

*Example*

An agency is constructing a new dam and has agreed to relocate power lines and roads which would be flooded as part of the project. The relocated power lines will belong to Energex and the roads to the local council.

The costs incurred in relocating the power lines and the roads will initially be capitalised to the new asset, as part of the costs of construction.

Within 5 years of the asset's life, the agency revalues its assets using depreciated replacement cost. Should the dam be replaced on the same site, the cost of relocating the power lines and the roads will not need to be incurred again as the assets have already been removed. The agency should not replicate these costs in determining the written down replacement value of the asset.

Expense third party costs incidental to bringing asset to location and desired operational condition

Directly attributable costs, such as third party costs, need to be distinguished from costs incurred in connection with the acquisition of an asset but which are not necessary to bring the asset to the location and condition necessary for it to operate as intended. For example, ex gratia/special payments such as compensation for relocation costs paid to land occupants who are not legal owners of the land. These costs are to be expensed.

**Demolition/Restoration Costs**

Write off demolished assets

Where an asset is to be demolished and a new asset constructed in its place, the carrying amount of the old asset must be written off in accordance with the provisions of AASB 116 and is **not** to be capitalised into the cost of the new asset under any circumstances.

The costs associated with the demolition of the old asset are to be capitalised as site preparation costs (AASB 116 para.17(b)) of the new asset **only** where there is:

- Capitalise when
- No restoration provision exists; and
  - Management committed to rebuilding
- no provision for restoration (as a result of a legal or constructive obligation to restore the site) of the old asset as per AASB 116 paras 16 and 18; and

- there exists, prior to the demolition, a formal management commitment to demolish and build on the site of the old asset.

Legal and constructive obligations are defined in paragraph 10 of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

A formal management commitment would be, for example, a Board Minute; an asset disposal plan endorsed by the Director-General or Chief Executive Officer; or an investment plan endorsed by the Director-General or Chief Executive Officer.

Where an entity demolishes an asset and does not have a formal management commitment to rebuild on the site prior to the demolition, the demolition costs must be expensed.

Where there is a Provision for Restoration, the estimated costs of dismantling and removing the asset are included in the initial provision and are charged against the provision when they are incurred, with any costs over and above the amount of the provision expensed. These costs are included in the cost of the original asset and are therefore not capitalised as site preparation costs of the new asset.

Link the asset management system to financial reporting

The *Financial and Performance Management Standard 2009* requires agencies to develop asset management systems for efficiently, effectively and economically managing assets of each agency (including disposal of assets). Agencies are to develop linkages between the asset management systems and financial reporting processes to ensure assets that are appropriately valued, managed and recorded in agency financial statements.

**Example**

ABC department has received written funding approval from the Cabinet Budget Review Committee and has an asset disposal plan approved by the Director-General to demolish Building A and replace it with Building B. The department has not created a provision for restoration costs during the life of Building A. The current value of Building A is \$100,000 with \$95,000 accumulated depreciation. It will cost the department \$1million to demolish the old asset and prepare the site for the construction of Building B. The following transactions would need to be processed:

Expense	Dr	5,000	
Accumulated Depreciation - Building A	Dr	95,000	
Building A	Cr		100,000
(to write off building A)			
Building B	Dr	1,000,000	
Cash/Payables	Cr		1,000,000
(to record the demolition costs as part of the cost of the new asset)			

Refer also to section 4.4 *Assets Withdrawn Permanently from Use*.

**Parts**

Parts are generally classified as inventory and are recognised in the Statement of Comprehensive Income when consumed. However, they may be capitalised into the cost of the item of property, plant and equipment if the recognition principles as outlined in Section 2.4 are satisfied and either:

- the agency expects to use the major parts or stand-by equipment during more than one period; or

- spare parts are purchased specifically for a particular asset or class of assets and would become redundant if that asset or class were discontinued.

If parts are capitalised, once they are again replaced, the remaining carrying amount of the replaced parts must be derecognised.

**Expenditure subsequent to Initial Purchase**

*Major Replacements*

The cost of major replacements to non-current assets and the cost of conducting major inspections of them must be capitalised. (Refer AASB 116 paragraphs 13 and 14).

*Repairs and Maintenance*

Expense all outlays that do not meet the recognition criteria

Outlays that do not meet the criteria for recognition as an asset must be expensed as repairs and maintenance as incurred. For example, expenditure that merely restores an asset to its original functionality, or repairs damage or wear and tear that would have prevented the asset reaching its original estimated useful life, must be expensed as repairs and maintenance.

*Replacement of Components*

For some complex assets, significant components with different estimated useful lives are separately identified for accounting purposes. Deciding whether expenditure on asset components should be capitalised follows the same process outlined for assets above, i.e. does the expenditure increase the annual service potential or useful life of the component beyond the originally assessed standard. (Refer also to Chapter 3 *Complex Assets and their Significant Components*)

*Day-to-Day Servicing*

Expense day-to-day servicing costs

General day-to-day servicing of an item of property, plant and equipment is not to be capitalised into the cost of an asset. Generally, these costs will primarily be the costs of labour and consumables and may include the cost of immaterial parts. They are generally described as 'repairs and maintenance' and are recognised in the Statement of Comprehensive Income as incurred.

*Overhauls/Refurbishments*

Must meet the asset recognition criteria to be capitalised

Some items of property, plant and equipment may have parts which require replacement at regular intervals. For example, a furnace may need to be relined after a certain number of hours of use or aircraft interiors such as seats may require replacement several times during the life of the airframe of the aircraft.

In other instances, items of property, plant and equipment may be renewed on an unplanned or ad hoc basis, such as replacing the interior walls of a building.

In these instances, an agency recognises the cost of replacing part of such an item in the carrying amount of the item of property, plant and equipment when that cost is incurred only if the asset recognition criteria are met. The carrying amount of those parts that are replaced must be derecognised.

*Regular Major Inspections*

Capitalise if a condition of continued use

As a condition of continuing to operate an item of plant and equipment, some agencies will be required to undertake regular major inspections for faults, regardless of whether faults are indicated or parts of the item are replaced. For example, some

aircraft must have a major inspection every 5,000 flying hours (this may equate to approximately every five years).

When each major inspection is performed, its cost is recognised as a replacement in the carrying amount of the item of property, plant and equipment if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection must be derecognised. Costs of performing every-day inspections are not to be capitalised.

*Provisions for Future Maintenance*

No provisions for future maintenance

The creation of a provision for future maintenance of non-current assets is not permitted as such action would be inconsistent with the principles for the recognition of provisions as detailed in AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. A provision is a liability and for a liability to be recognised, a past event must have occurred.

## 2.5 MANDATED ASSET CLASSES

Must adopt prescribed asset classes

**Appendix 2.1** to this Chapter outlines the prescribed asset classes and the measurement method prescribed for each class for all entities, as well as the asset recognition thresholds prescribed for not-for-profit entities. Further guidance is provided in subsequent sections.

For financial reporting purposes, agencies must adopt the asset classes specified for Property, Plant and Equipment and Intangibles.

The asset classes outlined are mandated to achieve consistency in reporting asset information across the Queensland Public Sector to provide more reliable and relevant information to users of financial statements and asset managers.

The requirement to disclose classes of property, plant, equipment and intangibles is provided for in AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Asset*.

### Asset Class

The lowest note level disclosure in the financial statements

A 'class' of non-current assets is a grouping of assets of a similar nature and use in an entity's operations, which, for the purposes of disclosure, is shown as a single item in the financial report **without supplementary dissection**. That is, a class is the lowest note level disclosure in the financial statements. See **Appendix 2.2** for asset class descriptions.

### Details of Particular Asset Classes

*Infrastructure*

The definition of infrastructure is as follows:

Infrastructure definition

*A long-life physical asset that consists of an entire system or network (including components), not otherwise defined, which provides the foundation to support Government services and enhance the capacity of the economy.*

An infrastructure asset is primarily stationary in nature, with a long useful service life, and associated with a network or system. Usually infrastructure assets are purpose built with no alternative usefulness other than as scrap and are only of value to the entity for the service they will provide in the future.

The following are examples of items included in the definition of *Infrastructure*:

- Water and Wastewater Systems
- Lighting Systems
- Dams
- Bridges
- Electricity Supply Systems
- Gas Supply Systems/ Networks
- Pipelines
- Rail Network
- Harbour and Port Facilities
- Wharves
- Bus Stations
- Road Networks
- Hangers
- Runways
- Sewerage Systems

The above examples are not an exhaustive list of Infrastructure items.

External services are land improvements

Exclusions from the definition of 'Infrastructure' include **Buildings** (including treatment plants) and **Land Improvements** which include **External Services** unless they are an ancillary part of an infrastructure system (such as a sewerage pump station or landscaping around an infrastructure asset etc).

**External services** include the services above or below ground but external to buildings and which are within the confines of a parcel of land. These services are more appropriately classified as Land Improvements. Refer to Land Improvements below.

*Land Improvements*

Land improvements are long-life attachments to parcels of land that increase the land's usefulness or value, have a limited useful life, and are depreciated. They include **External Services** (as defined above) and other items that are within the confines of a parcel of land (eg external services within school grounds, correctional facilities and ambulance stations etc).

The following are examples of items included in *Land Improvements*:

- Covered Play Areas
- Fountains
- Landscaping and Improvements
- Sheds
- Parking Lots (bitumen car parks)
- Parking Barriers
- Retaining Walls
- Centralised Energy Systems
- Roads, Footpaths, Paved Areas
- Outbuildings and Covered Ways
- Stormwater and Sewer Drainage
- Water and Gas Supply
- Fire Protection Systems
- Electric Light & Power
- Communication Systems

The above examples are not an exhaustive list. Land improvements are not required to be separately recorded and depreciated from the main asset.

**Major Plant and Equipment**

Major Plant and Equipment is a voluntary class

This is not a mandatory class.

This asset class may be used at management discretion. For instance, an agency may wish to consider using Major Plant and Equipment where some assets within the class have potential for high price volatility and/or valuations (eg foreign exchange fluctuations, high incidence of obsolescence, etc).

All plant and equipment assets with a value over \$5,000 must be capitalised as either Major Plant and Equipment or Plant and Equipment. In most cases, the default classification for new plant and equipment assets will be Plant and Equipment.

Where an asset satisfies the criteria of Major Plant and Equipment, it is to be recognised at fair value. Examples of Major Plant and Equipment include:

- Aircraft

- Specialised Vehicles
- Shipping Vessels
- Earthmoving Equipment
- Hi-Tech Equipment

The list above is illustrative only. Each agency should consider their assets based on their individual agency needs.

*First Time Adoption of the Major Plant and Equipment Class*

Upon initial adoption, the non-current assets transferred to the new class are required to be written out of the relevant plant and equipment class, and written into the Major Plant and Equipment Asset class.

Restate on a gross basis and immediately revalue

These assets are to be restated on a gross basis showing the value of the assets and the accumulated depreciation.

They are to be revalued immediately after transfer to the new class, and any revaluation increments or decrements treated as follows:

- revaluation increments are to be credited directly to an asset revaluation surplus; and
- revaluation decrements are to be recognised in Accumulated Surpluses/Retained Earnings.

In subsequent years, revaluations are to be treated the same way as that specified in AASB 116.

*Reporting/Disclosure*

The agency's accounting policy notes must disclose:

- the new asset class;
- the criteria used to determine these assets; and
- the types of assets included in this category.

Sample note disclosure is included in Part D of the *Financial Reporting Requirements for Queensland Public Sector Agencies for reporting periods beginning on or after 1 January 2005*.

**Intangible Assets**

Descriptions of classes of intangible assets are contained in **Appendix 2.3**.

*Software*

When determining whether computer software is to be classified as property, plant and equipment or as an intangible, the agency must use judgement to assess whether the tangible or intangible element is more significant. For example, computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as property, plant and equipment. The same applies to the operating system of a computer.

Software not integral to the hardware and below threshold must be expensed

When the software is not an integral part of the related hardware, computer software is treated as an intangible asset where it meets the asset recognition threshold, otherwise it is expensed.

The Purchased Software class refers to software that is substantially used in the form it was purchased without material changes programmed by the agency. Purchased software also includes software purchased by another Queensland government agency and subsequently transferred, by way of a machinery-of-Government change or other transfers, to the current holder of the software asset.

Internally Generated Software is composed of the software purchased to generate the asset plus all costs necessary to get the asset ready for use as per section 11 Intangible Assets. Internally generated software also includes software internally generated by another Queensland government agency and subsequently transferred, by the mechanism of a machinery-of-Government change or other transfers, to the current holder of the software asset.

## 2.6 ASSET RECOGNITION THRESHOLDS

Expense assets valued below the designated threshold

Agencies usually control a number of low value items that satisfy the asset recognition criteria, but if accounted for individually as assets would result in significant costs for limited benefits. To avoid such a situation and to facilitate a consistent threshold for whole-of-Government consolidation purposes, asset recognition thresholds have been established.

Section 23(3) of the *Financial and Performance Management Standard 2009* (FPMS) requires departments and statutory bodies to use the asset recognition thresholds set out in the *Non-Current Asset Policies for the Queensland Public Sector*.

A non-current asset with a fair value at the time of acquisition of less than the mandated asset recognition threshold must be expensed in the period of acquisition.

## 2.7 GUIDANCE ON PARTICULAR ASSET TYPES

### Easements

Easements are defined as

*A "interest" in land or property – a right to use land or property of an external entity for a limited purpose (as right of passage).*

Easements accounted for in accordance with AASB 138 *Intangible Assets*

By their nature, easements are intangible and are to be accounted for in accordance with AASB 138 *Intangible Assets*. For further guidance on intangible assets, refer to Chapter 11 'Intangible Assets'.

### Land under Roads

Land under roads is defined in AASB 1051 *Land Under Roads* as

*Land under roadways, and road reserves, including land under footpaths, nature strips and median strips.*

All land under roads acquired on or after 1 July 2008 must be recognised.

Departments and statutory bodies must recognise all land under roads acquired on or after 1 July 2008 in accordance with AASB 116 *Property, Plant and Equipment*.

For the purposes of this policy, land under roads only relates to land to which the *Land Act 1994* applies. It does not capture land under internal roads such as those on TAFE or hospital sites.

Land under roads is to be recorded in the asset class 'Land' and therefore, subject to the asset recognition threshold of \$1.

Recognise at the lower of fair value and the net present value of the minimum lease payments

**Leased Assets**

AASB 117 *Leases* requires that assets acquired under finance leases be recognised initially at a amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, using the interest rate implicit in the original lease contract as the discount factor. A corresponding liability for the lease payments must also be recorded.

Assets acquired under a finance lease are subject to the same revaluation requirements as assets that are owned or otherwise controlled by the agency.

Assets subject to operating leases are not controlled by the agency and must not be recognised as assets.

**2.8 GROUPING OF ASSETS**

Only networks can be grouped together for capitalisation

Agencies are not to group similar or like-natured assets, including personal computers, which do not meet the definition of a network. Only assets that form a network or part of a network are to be grouped for capitalisation. For the purposes of this policy, a network is defined as:

*A chain of interconnected but dissimilar assets connected for the provision of the one simultaneous service.*

Examples of a network of assets include:

- *Computer network* (excluding personal computers): the network includes the network operating system in the client and server machines, the cables connecting them and all supporting hardware in between such as bridges, routers and switches.
- *Leasehold improvements*: leasehold improvements include wall construction, painting, cabling, carpeting, glazing, joinery, built in desks, cabinets and work stations.
- *Land improvements*: including landscaping, sheds, retaining wall, parking lots, covered play areas, etc.

In relation to part replacements of networks, such acquisitions are to be capitalised, when and only when it is probable that future economic benefits in excess of the original standard of performance of the network will flow to the agency in future financial years and the acquisition is material to the class of asset.

**2.9 PORTABLE AND ATTRACTIVE ITEMS**

Certain items that have values below the asset recognition threshold are, by their nature, susceptible to theft or loss. Such items, termed portable and attractive, may include personal computers, programmable calculators, cameras, power tools, ladders and like items.

Record in a separate register

Regardless of the treatment of these types of assets for financial reporting purposes, such items must be registered for physical control purposes. It may be appropriate to specify a control threshold to exclude very low value items. If a separate Register of Portable and Attractive Items is not maintained such assets may instead be recorded at 'nil' value in the Asset Register of the agency. Portable and attractive items are not reported in an agency's financial statements.

## 2.10 STOCK TAKES

Verify existence of assets on regular basis

Stock take of assets are to be undertaken on a regular basis. That is, the existence of assets (including inventories) are to be verified on a regular basis.

The frequency of the asset verification procedure should be decided after considering the risk profile and materiality of each class of asset. For the purposes of this policy, 'regular' means, as a minimum, all assets are verified at least once every 3 years, on a rolling basis.

In undertaking the stock take process, it is expected that the assets are sighted. Assets not located during a stock take are to be written off in that year in accordance with the agency's accounting policies and procedures, and authorised by an appropriately delegated officer.

Land, building and infrastructure assets are not included as part of stock takes (annual or rolling). Condition assessments are performed during comprehensive revaluation and is a separate process.

## APPENDIX 2.1 NON-CURRENT ASSET CLASSES AND THRESHOLDS

(Refer to section 2.5)

	Asset Class	Asset Recognition Threshold *	Measurement Method
<b>Property, Plant and Equipment</b>	• Land	\$1 (all land)	Revaluation
	• Buildings	\$10,000	Revaluation
	• Infrastructure	\$10,000	Revaluation
	• Major Plant and Equipment (optional class)	≥\$5,000 (at discretion of agency management)	Revaluation
	• Plant and Equipment	\$5,000	Cost
	• Library Reference Collections	\$1,000,000	Fair value
	• Leased Assets (finance lease)	Threshold of class to which asset would belong if not subject to finance lease	Revaluation (per AASB 117)
	• Heritage and Cultural Assets	\$5,000	Revaluation
	• Work in Progress	n/a	Cost
<b>Intangibles</b>	• Software Purchased • Software Internally Generated • Intellectual Property • Other Intangibles	\$100,000	No active market – Cost Active market – Revaluation (per AASB 138)
	• Software Work in Progress • Intellectual Property work in Progress	n/a	Cost

\* The recognition thresholds apply only to not-for-profit agencies.

## APPENDIX 2.2 DESCRIPTIONS OF CLASSES OF PROPERTY PLANT AND EQUIPMENT

(Refer to section 2.5)

Asset Classes	Examples of Assets Forming the Asset Class
Land	Land and Land under roads (including land under roadways, and road reserves, including land under footpaths, nature strips and median strips)
Buildings*	Buildings, Building Fitouts, Housing, Sporting Facilities, Other structures and Improvements and associated Land Improvements*
Infrastructure *	Electricity, Gas, Water, Transport, Environmental, Sewerage, Forestry, Recreation, Amenities and associated Land Improvements* that enhance the capacity of the economy.
Major Plant and Equipment	Examples of Major Plant and Equipment may include: Aircraft, Specialised Vehicles, Shipping Vessels, Earthmoving Equipment and Hi-Tech Equipment.
Plant and Equipment	Furniture, Fixtures and Fittings including Leasehold Improvements to Buildings, Computer Equipment (excluding personal computers), Office Equipment, Common Use/General Purpose Libraries, Motor Vehicles, Agricultural and Farming Equipment, and other items not otherwise included in the asset class, Major Plant and Equipment.
Library Reference Collections	General and specialised items, usually not able to be borrowed, but available for use, even if archived. Generally have variable uses (e.g. undergraduate and research purposes), and a longer useful life than common use collections, but not held indefinitely. If possible, would generally be replaced if lost or damaged.
Heritage and Cultural Assets	Works of Art, Cultural Collections, Heritage Library Collections, National Parks, Buildings, Other
Leased Assets	Any assets purchased under a finance lease arrangement.
Work in Progress	Property, plant and equipment under construction or in the process of being constructed but yet to meet the recognition criteria of being in the location and condition necessary for it to be capable of operating in the manner intended by management.

*\*Land improvements are to be included in the class Buildings or in the class Infrastructure based on their proximity to the asset to which they relate. See Section 2.5 for details of what is to be included in Land Improvements.*

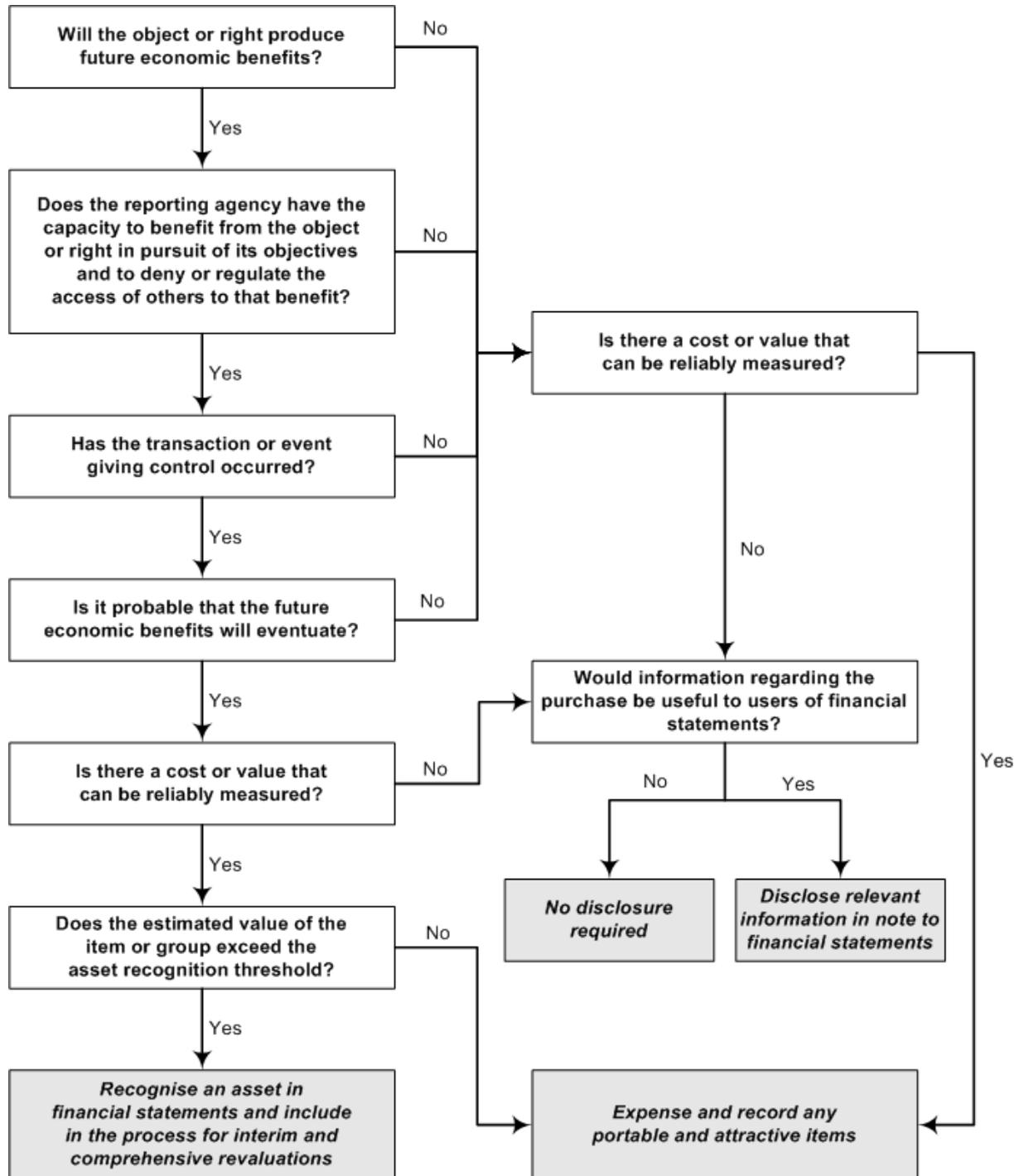
## APPENDIX 2.3 DESCRIPTIONS OF CLASSES OF INTANGIBLE ASSETS

(Refer to Section 2.5)

Asset Classes	Examples of Assets Forming the Asset Class
Software Purchased	Software predominantly purchased from external providers; Purchased software transferred from another Queensland government agency
Software Internally Generated	Software predominantly built within the agency; Internally generated software transferred from another Queensland government agency
Software Work in Progress	Software being built which is not yet in location and ready for use
Intellectual Property	Patents, Copyrights
Intellectual Property Work in Progress	Intellectual property being developed which is not yet patented or copyrighted
Other Intangibles	Licences

## APPENDIX 2.4 ASSET RECOGNITION

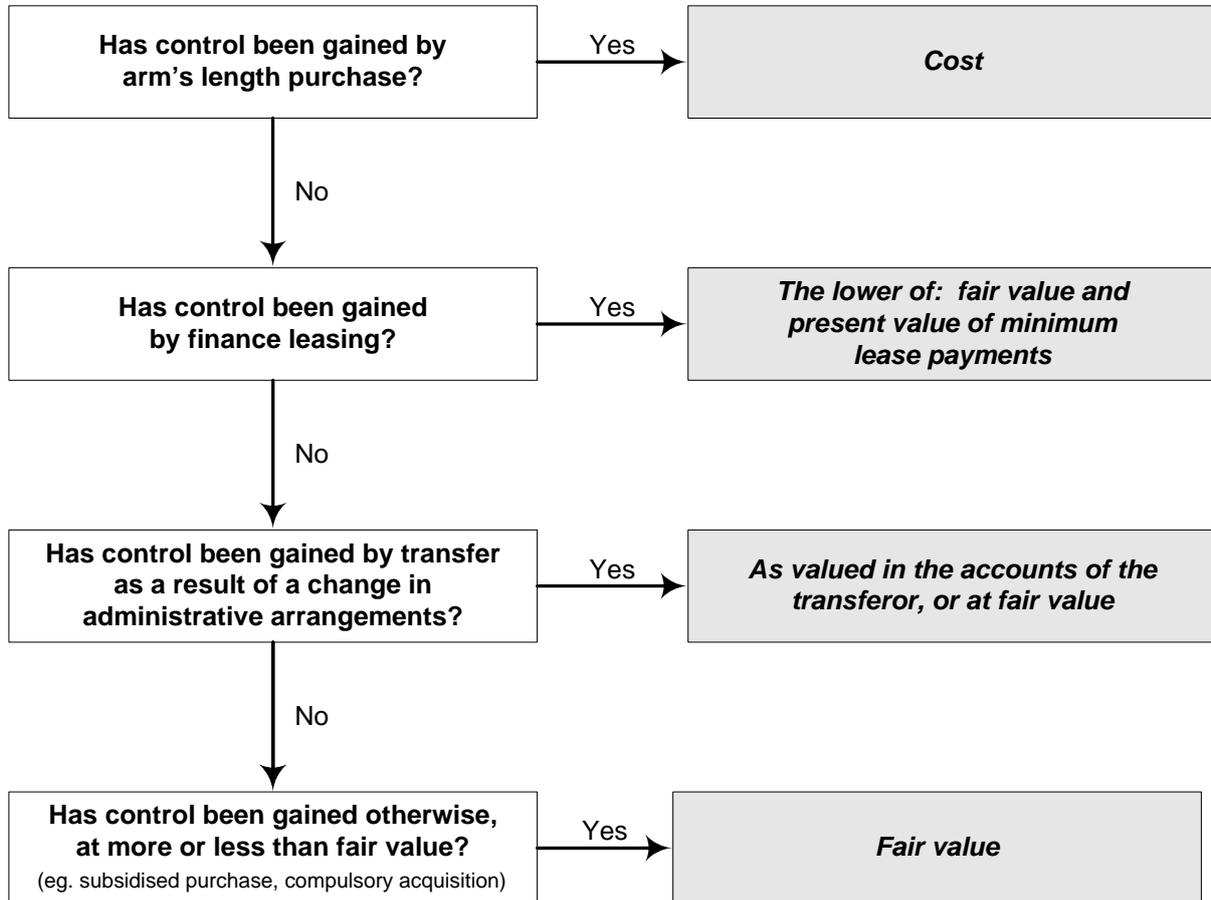
(Refer to Section 2.1)



## APPENDIX 2.5 INITIAL ASSET VALUATION

(Refer to Section 2.3)

For Assets coming under agency control within the current reporting period



## OVERVIEW

This chapter defines a complex asset and prescribes the requirements for the accounting for significant components.

This chapter consists of the following sub-sections:

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<b>Reference</b>	<b>Sub-section</b>
3.1	Introduction
3.2	Definition of a Complex Asset
3.3	Definition of Significant Components of a Complex Asset
3.4	Depreciation of a Significant Component of a Complex Asset
3.5	Reviews of Complex Assets
3.6	Complex Asset Threshold
3.7	Replacement of Significant Components
3.8	Disclosures
Appendix 3.1	Identification of the Significant Components of a Complex Asset

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### 3.1 INTRODUCTION

Complex assets include special purpose buildings, road infrastructure, water distribution networks and aircraft. A special purpose building is one designed for a specific function and which cannot be converted readily to other uses, e.g., hospital, gatehouse within a correctional facility. Residential dwellings, general classroom blocks and general office buildings are not considered to be special purpose buildings.

The requirement to separately identify and depreciate significant components of assets is provided for in AASB 116 *Property, Plant and Equipment*.

Separately identify and depreciate significant components

The separate identification, recognition and depreciation of significant components of complex assets will provide more reliable and relevant information to users of the financial statements and asset managers. Where significant components have materially different lives from the complex asset, the impact on depreciation expense may be material.

When the change in depreciation expense from separately identifying significant components is material to the class to which the assets relate, the significant components are separately identified and depreciated. This results in more accurate costs being allocated to the financial period to which they relate.

A flowchart to assist in the identification of significant components is in **Appendix 3.1**.

### 3.2 DEFINITION OF A COMPLEX ASSET

For the purposes of this policy a **complex asset** is defined as

*a physical asset capable of disaggregation into **significant** components.*

The following are examples of complex assets that are capable of being broken into components which are potentially significant:

- *Special Purpose Building* (e.g. hospitals and gatehouse within a correctional facility): A special purpose building may have components including cooling systems, electronic security systems and elevators.
- *Road Infrastructure*: The components may include: initial earthworks, formation, pavement, seal, kerb and channelling, road furniture and footpaths.
- *Water Distribution Network*: The components of this type of network may include water reservoirs (dams), water treatment works, major delivery pipes and water distribution systems.
- *Aircraft*: The aircraft body, the interiors such as seats and galleys and engines of the aircraft would be components of the aircraft.

In each of the above cases, each identifiable component should be tested against the following criteria to determine whether it constitutes a significant component for accounting and reporting purposes.

### 3.3 DEFINITION OF A SIGNIFICANT COMPONENT OF A COMPLEX ASSET

To satisfy the definition of a significant component of a complex asset, the component must meet **all** of the following criteria. The component must:

- be separately identifiable and measurable and able to be separated from the complex asset; **and**

- require *replacement at regular intervals* during the life of the complex asset to which it relates i.e., its life differs in duration from another component of the complex asset; **and**
- exceed the asset recognition threshold for the agency; **and**
- have a *significant value* in relation to the total cost of the complex asset; **and**
- have a different estimated useful life from the complex asset so that failure to depreciate it separately would result in a *material difference* in the annual depreciation expense for that asset.

Agencies should assess their assets on a case by case basis when identifying complex assets and their significant components.

**Replacement at Regular Intervals**

Regular interval suggests a system of organisation or planned timeframe, generally occurring more than once.

While not conclusive evidence of the regular replacement of assets, the following may demonstrate a planned replacement schedule is in place:

Demonstrated by:

- historical data
- regular fiscal limit funding

- historical data that clearly shows evidence of replacement at regular intervals; and/or
- funding has been allocated from an agency’s fiscal limit for future, regular upgrades, e.g. the asset management plan provides for replacement.

**Significant Value**

Each agency will need to consider its own circumstances when making a decision on when a component has a significant value compared to the total fair value of the complex asset. For the purposes of this policy ‘significant’ denotes considerable amount or effect.

On this basis, a component that has a value within the range of 5 - 10% compared to the total cost of the complex asset will be a matter of judgement for the agency, but a component with a value greater than 10% will generally be considered significant.

**Material Difference in Depreciation**

Judgement 5-10%  
Material > 10%

Again, each agency will need to consider its own circumstances when making a decision on what is material. As a rule of thumb, any difference in depreciation within the range of 5% - 10% will be a matter of judgement for the agency, but a difference greater than 10% will generally be considered material in relation to the complex asset.

Dissimilar components of a complex asset must not be combined to test for materiality, e.g. a communication system should not be added to an air conditioning system. However, where multiple similar units/parts exist and are treated as one component e.g. multiple air conditioning units within a single complex asset it would be appropriate to group these parts in testing whether the impact on depreciation expense is material.

**Measurement**

Components must be measured on the same basis as the complex asset to which they belong, i.e., if the asset is valued at cost, the component must also be valued at cost but if the revaluation method is used, both the asset and its components must be fair valued.

**Recognition**

In line with assessing relevance for financial reporting purposes, a further test by asset class may be undertaken. This will ascertain whether the resultant impact on depreciation expense is material in relation to the total annual depreciation expense for the asset class. The normal materiality range shall be adopted.

If there are several complex assets within a class of asset, the significant components should be grouped to test for materiality. The aggregated increase in depreciation expense from separately accounting for these significant components is then measured against the depreciation expense for the class to determine whether the impact is material.

If the test determines there would be a material difference in depreciation expense for the class, then the significant components must be separately identified and depreciated. That is, there may be circumstances where there are several significant components within a class of asset but the test for material difference in the depreciation expense for the class may determine they are not material. In this case, they need not be separately depreciated from the complex asset.

### 3.4 DEPRECIATION OF SIGNIFICANT COMPONENTS

Depreciated separately if a material difference exists between the components and the complex assets

Where a significant component is identified (i.e. it meets both the definition criteria and the materiality test for depreciation against the class of asset) the agency is to account for the significant component as a separate asset and depreciate it separately from the complex asset.

The remaining components of a complex asset are to be depreciated over the estimated useful life of the complex asset itself. Agencies are not to average the useful lives of each component to determine the overall estimated useful life of the complex asset, but should assess the life of the asset as a whole based on the management plan and maintenance program in operation, the affordability and feasibility of replacement, and any other relevant policy/service delivery decisions taken by the agency.

### 3.5 REVIEWS

For the purposes of this policy, agencies are expected to undertake a review of each complex asset for significant components where there is a material change to the complex asset, its components and/or its estimated useful life, e.g., there is a partial demolition or major upgrade of facilities.

### 3.6 COMPLEX ASSET THRESHOLD

No complex asset valuation threshold

Agencies are not to establish a complex asset value threshold, e.g., only test all assets over a specified value, when assessing for significant components. Rather the test is a combination of the:

- significance of a component based on its cost in relation to the individual asset; **and**
- materiality of the impact on the depreciation expense for the asset.

Significant components need not be separately identified unless the impact on the depreciation expense for the class is material.

### 3.7 REPLACEMENT OF SIGNIFICANT COMPONENTS

Capitalise replacement costs and derecognise replaced components

Expenditure on the replacement of significant components of complex assets is to be capitalised and the written down value of the original significant component de-recognised. If a part of the original significant component is not replaced an adjustment should be made to reinstate it as part of the replacement, i.e., new, significant component.

The separate recording of significant components is important in allocating the correct cost of assets over the period they provide benefit to the user. It is also helpful in assisting management to plan for the removal, replacement and maintenance of the components in both accounting and physical asset management terms. This is consistent with AASB 116 which specifies that the replacement of components of an asset can be distinguished from expenditure on repairs or maintenance made to help maintain the future economic benefits that an agency can expect from an asset.

### 3.8 DISCLOSURE

Components not separately disclosed

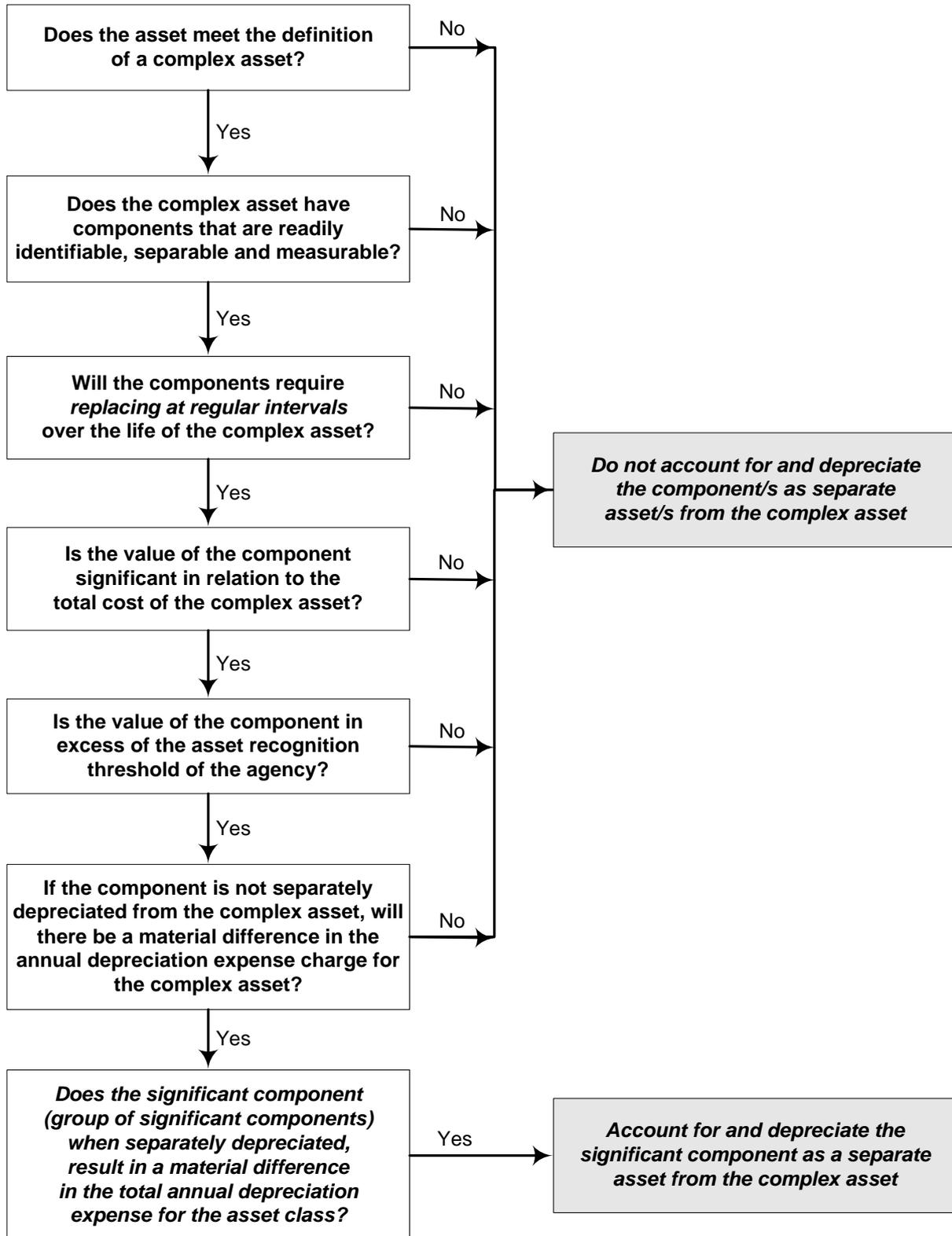
Significant components of a complex asset are not to be separately disclosed in the financial statements. Rather, significant components should be disclosed in the same class as the complex asset to which they relate.

For example, where the security system is a significant component of a facility it will form part of the total disclosed for the class to which the facility belongs.

Similarly, depreciation expense and accumulated depreciation relating to significant components of complex assets are also to be disclosed on the same class basis.

### APPENDIX 3.1 - IDENTIFICATION OF THE SIGNIFICANT COMPONENTS OF A COMPLEX ASSET

(Refer to Section 3)



**EXAMPLE A**

*Worked Examples*

The following worked examples demonstrate the process to be undertaken when identifying significant components of a complex asset. For the purposes of this exercise, the data in the examples are fictional.

*Complex Asset A*

<b>Component Asset Description</b>	<b>Fair Value</b>	<b>Proportion to total cost</b>	<b>Significant cost</b>	<b>Remaining Estimated Useful Life</b>	<b>Annual Component Depreciation using component life</b>	<b>Annual Whole Asset Depreciation using whole asset life</b>	<b>Difference</b>	<b>Difference</b>	<b>Material</b>
	\$	%			\$ (a)	\$ (b)	\$ (a)-(b)=(c)	% (c)/(d)x100=(e)	
Air-conditioning system	3,000,000	7.89%	Judgement required	13.25	226,415	78,948	147,467	14.75	Yes
Balance of Complex Asset A	35,000,000	92%	n/a	38.00	921,052	921,052	-	-	-
<b>Total Value of Complex Asset A</b>	<b>\$38,000,000</b>	<b>100.00%</b>		<b>38.00</b>	<b>\$1,147,467</b>	<b>(d) \$1,000,000</b>			

*Assumptions*

1. Fair Value has been adopted as the valuation methodology for this class of asset.
2. It is a policy of the agency to allocate funding to replace the total air-conditioning system (in total) of the complex asset every 13.25 years for workplace health and safety reasons.
3. The agency has made a judgement in this case that the air-conditioning system represents a significant cost to the total value of complex asset A.
4. The above example uses straight line depreciation. (The example should be adjusted to reflect the depreciation methodology adopted for the asset when assessing whether a component is significant or not.)

*Conclusion*

The air-conditioning system meets the criteria of a significant component.

**EXAMPLE B**

*Complex Asset B*

Component Asset Description	Fair Value \$	Proportion to total cost %	Significant cost	Remaining Estimated Useful Life	Annual Component Depreciation using component life \$ (a)	Annual Whole Asset Depreciation using whole asset life \$ (b)	Difference \$ (a)-(b)=(c)	Difference % (c)/(d)x100=(e)	Material
Special security system (Metal Detectors etc)	748,590	22.10%	Yes	10	74,859	12,476	62,383	110.49	Yes
Electronic security system	707,858	20.89%	Yes	10	70,786	11,797	58,989	104.48	Yes
External security system (Cameras, Monitors and Towers)	176,164	5.20%	Judgement required	30	5,872	2,936	2,936	5.20	Judgement required
Air-conditioning system	29,884	0.88%	No	60	498	498	No further action required		
Balance of Complex Asset B	1,725,282	50.93%	n/a	60	28,755	28,755	-	-	-
<b>Total Value of Complex Asset B</b>	<b>\$3,387,778</b>	<b>100.00%</b>		<b>60.00</b>	<b>\$180,770</b>	<b>(d) \$56,462</b>			

*Assumptions*

1. Fair Value has been adopted as the valuation methodology for this class of asset.
2. It is a policy of the agency to allocate funding to replace each of the above systems (in total) of the complex asset every 10 to 30 years due to obsolescence, technological changes in electronics and for workplace health and safety reasons. The estimated useful lives of each system have been determined based on historical practices with existing similar complex assets.
3. The agency has made a judgement in this case that the External Security System represents a significant cost to the total value of complex asset B.
4. Each component is assessed on an individual basis.
5. The above example uses straight line depreciation. (The example should be adjusted to reflect the depreciation methodology adopted for the asset when assessing whether a component is significant or not.)

*Conclusion*

The Special and Electronic Security Systems meet the definition criteria of significant component. Professional judgment will be required to determine whether the External security system is a significant component under the definition. The Air-conditioning system does not meet all of the definition criteria of significant component.

**EXAMPLE C**

**Class: Complex Assets**

Component Asset/Significant Component  Asset Description	Fair Value  \$	Proportion to total value of Asset Class  %	Remaining Estimated Useful Life	Annual Component Depreciation using component life  \$ (a)	Annual Whole Asset Depreciation using whole asset life  \$ (b)	Difference  \$ (a)-(b)=(c)	Difference To Total Asset Depreciation  % (c)/(d)x100=(e)	Material
Complex A (total value \$ 38,000,000):								
Air-conditioning system	3,000,000		13.25	226,416	78,947			
Balance of Complex Asset A	35,000,000		38.00	921,052	921,052			
Complex Asset B (total value \$3,387,778):								
Special security system (Metal Detectors etc)	748,590		10.00	74,859	12,476			
Electronic security system	707,858		10.00	70,786	11,797			
External security system (Cameras, Monitors and Towers)	176,164		30.00	5,872	2,936			
Balance of Complex Asset B	1,755,166		60.00	29,253	29,253			
<b>Total Value of Asset Class</b>	<b>\$41,387,778</b>	<b>100.00%</b>		<b>\$1,328,238</b>	<b>(d) \$1,056,461</b>	<b>\$271,777</b>	<b>25.73%</b>	<b>Yes</b>

*Assumptions*

1. Each of the components aggregated above meet the definitional criteria required of a significant component.
2. The class of assets is valued on a fair value basis.

*Conclusion*

The depreciation expense for the class of assets is materially different when significant components are separately depreciated. Based on this assessment, the components should be separately depreciated from the complex asset.

## OVERVIEW

This chapter provides the framework for the valuation of assets.

This chapter consists of the following sub-sections:

<b>Reference</b>	<b>Sub-section</b>
4.1	Introduction
4.2	Application of Fair Value Basis
4.3	Measurement of Assets at Fair Value
4.4	Assets Withdrawn Permanently from Use
4.5	Use of Cost Basis
4.6	Application of the Discounted Cashflow Approach
4.7	Other Valuation Issues
Appendix	
4.1	Determination of Fair Value
4.2	Better Practice Guidelines for Instructing Valuers
4.3	Sample – Instructions – Valuation of Non Current Assets
4.4	Template for Land and Building Valuations

## 4.1 INTRODUCTION

The *Framework for the Preparation and Presentation of Financial Statements* (the Framework) identifies four principal characteristics that make the information provided in financial reports useful to users: understandability, relevance, reliability and comparability. Other important factors in the recording of assets are timeliness, materiality and cost versus benefit.

Most relevant measure is fair value

This policy takes the position that, for the most part, the characteristic of *relevance* will be met by valuing non-current assets at their fair value, as defined in AASB 116 *Property Plant and Equipment* (AASB 116) rather than at cost.

*Better Practice Guidelines for Instructing Valuers* is contained in **Appendix 4.2** of this document. **Appendix 4.3** contains a sample instruction letter for valuers and **Appendix 4.4** contains a template for land and building valuations.

## 4.2 APPLICATION OF FAIR VALUE BASIS

Agencies are to record at fair value all land, buildings, infrastructure, heritage and cultural assets and major plant and equipment.

Investment property is also to be recorded at fair value except where fair value cannot be measured reliably – refer to Section 5.5 under sub-heading ‘Investment Property’.

Definition

The term ‘fair value’ is defined in AASB 116 as being

*‘the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction’.*

Application of fair value to individual assets requires different approaches for different assets. An important distinction is that between:

- assets for which a market price for the asset in its current type and condition exists or is able to be inferred from market activity; and
- assets for which no such market price exists or can be inferred.

Fair value is based on highest and best use

For the former, the market price is the fair value. The fair value of an asset is determined by reference to its highest and best use, that is, the most probable use of the asset that is physically possible, legally permissible, financially feasible, and which results in the highest value. Opportunities that are not available to the agency are not taken into account. For the latter, fair value can be estimated using an income or a depreciated replacement cost approach (discussed in section 4.6 and 4.3 respectively).

A flowchart setting out the steps involved in the determination of fair value is attached at **Appendix 4.1**.

## 4.3 MEASUREMENT OF ASSETS AT FAIR VALUE

### Assets for which a Market Price can be determined

Market price is an active and liquid market

Where there is an active and liquid market for assets similar in type and condition, the fair value of an asset is its price in that market e.g. land, houses, office accommodation and motor vehicles. The market price should exclude any incidental costs of acquisition (e.g. delivery and handling costs) that would accrue to the agency if it acquired the asset. These costs are excluded when the asset is recorded at market selling price. It should also

exclude prices inflated or deflated by special terms or circumstances such as financing, sale and leaseback arrangements or any concessions granted by anyone associated with a sale.

Use market information where available

Where a market price can be derived from market information, that price is regarded as the fair value of the asset e.g. the value of an office building can be derived by discounting projected market rentals for similar buildings in the same location.

Apportion value to significant components

In the case of some complex assets which comprise several significant components, it may be difficult to identify a market price of each individual significant component. If the fair value for the significant components is not readily obtainable, the value of the complex asset as a whole should be apportioned between the significant components on a consistent and rational basis.

**Example**

Building fit-outs could be valued using the percentage that the fit-outs typically represent in the cost of a particular type of building multiplied by the fair value of the complex as a whole. This calculation should be based on assets of similar type and similar condition.

**Not-for-Profit Entities**

**Assets where No Market Price Exists – Asset not held to generate Cash Inflows**

Use depreciated replacement cost when no market information exists

*Depreciated Replacement Cost*

In some instances, there will be no market information on which fair value can be based. This is particularly the case where there is no active market for the asset in its current form e.g. infrastructure assets such as roads, harbours and dams and specialised buildings such as hospitals.

Methodology assumes the future service potential embodied in the asset will be replaced to provide the same level of service..

Where:

- there is no market price for assets similar in type and condition; and
- the asset is not dependent on generating net cash inflows

the asset is to be valued at the cost of replacing the future service potential embedded in that asset, adjusted to reflect the condition of the asset being currently valued. This value is the depreciated replacement cost.

Depreciated replacement cost can be determined in one of two ways:

Asset replacement cost adjusted for current asset condition

- as the cost per unit of service potential of the most appropriate modern replacement facility, adjusted for any differences in future service potential (i.e. quality and quantity of outputs, useful life and over-design/over-capacity) of the asset being valued; or
- as the cost of reproducing or replicating the future service potential of the asset.

**Examples**

A bridge may be constructed of wood. The existing replacement bridge will be constructed of concrete, therefore the replacement cost is adjusted for the difference in utility and also for the remaining useful life of the existing asset.

Where the remaining service potential from the asset is assessed as having changed, this is to be taken into account in the revaluation. Adjustments to useful life may also be required.

**Assets where No Market Price Exists – Asset Held to Generate Cash Inflows**

Some agencies may hold an asset for the purpose of generating cash inflows.

Where there is no market price for an asset, its value will be either the net present value of the cash flows associated with the asset or the current replacement/reproduction cost.

Where a number of assets work together to generate cash flows for a not-for-profit agency, the assets shall be valued in accordance with the following section related to for-profit agencies with assets with no market price.

**For-Profit Agencies**

**Assets with No Market Price**

Some public sector agencies operate on a commercial basis, with the primary objective being the generation of cash inflows. Where there is no market price for the asset of such agencies, fair value is either the depreciated replacement cost or the net present value of the cash flows from the asset.

Fair Value can be either DRC or NPV of cash flow

If the asset does not generate cash inflows independent from other assets or group of assets then the fair value will be either the sum of the depreciated replacement cost of the group of assets or the net present value of the cash flows from the group of assets.

NPV is to be allocated across the individual assets in the group

If an agency adopts the net present value of the cash flows from the asset group, this amount is to be allocated across the individual assets in the group in a manner as determined and documented by agency management.

***Example***

Examples of assets covered by this section might include a dam and associated infrastructure and equipment used by a commercialised business unit that stores water for sale; and a printery operating on a cost recovery basis.

**4.4 ASSETS WITHDRAWN PERMANENTLY FROM USE**

Where an asset is to be withdrawn permanently from use, for example, because it has previously been replaced or because it is surplus to requirements, an agency must review the carrying value of that asset.

The majority of assets in the public sector that are required to be valued at fair value, are valued at depreciated replacement cost as there is no active and liquid market for those assets. Where the asset is to be withdrawn permanently from use, valuation at depreciated replacement cost is no longer appropriate, and the asset is therefore to be valued at selling price or scrap value.

Value at selling price or scrap value

Where an asset is valued at fair value, AASB 116 does not permit the revaluation of a single asset. The provisions of AASB 136 *Impairment of Assets* may therefore apply when the decision to withdraw assets from use is taken.

Two situations need to be considered in relation to the permanent withdrawal of an asset:

1. Sale - where the asset is to be sold, the provisions of AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations* will apply. Refer to Chapter 6 of this document.
2. Abandonment - an *abandoned* asset is one which has been decommissioned or scrapped. Assets of this type are normally used to the end of their useful life or until

such time as they are closed down. The write-off of the old asset is treated according to the provisions of AASB 116.

## 4.5 USE OF COST BASIS

Under AASB 116, agencies may record classes of assets at cost in lieu of fair value. Where assets have relatively short useful lives to the entity, fair values may not differ significantly from depreciated cost. The cost of carrying out revaluations in such cases generally outweigh the benefits of regular asset valuations.

Agencies must record at cost plant and equipment and intangible assets for which there is no active market.

Work in Progress is also to be carried at cost.

Assets measured at cost are never to be revalued. The annual review of estimated useful life should ensure the assets are not fully depreciated while they retain some service potential. Once they are fully depreciated, assets carried at cost cannot be revalued.

Assets measured at cost not to be revalued

## 4.6 APPLICATION OF THE DISCOUNTED CASH FLOW APPROACH

Income approach can be the discounted cash flow method

If there is no market-based evidence of fair value because of the specialised nature of the asset and the item is rarely sold, AASB 116 paragraph allows for the use of an income approach to estimate the fair value.

Although the standard provides no guidance or direction on what is meant by an “income approach”, it is generally accepted that under the income method the fair value of an asset or group of assets forming a cash generating unit is determined by the discounted cash flow methodology (DCF).

A cash-generating unit is defined in AASB 136 *Impairment of Assets* as

*the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.*

Discounted cash flow method to calculate fair value

For the purposes of valuing and revaluing Queensland public sector non-current assets in accordance with AASB 116, the DCF methodology may be used to determine the value of an asset, or group of assets forming a cash-generating unit, where there is no market price and the asset is held to generate cash inflows.

Need to obtain external, independent, expert advice

For reliability, agencies will need to obtain external, independent, expert advice in the development of a quality assurance of their DCF model and calculations.

The DCF methodology involves:

- a) estimating the future cash inflows, outflows and appropriate terminal value to be derived from the cash-generating unit; and
- b) applying an appropriate discount rate to those future cash flows.

In applying the DCF methodology, agencies must have regard to the guidance contained in Appendix A of AASB 136 *Impairment of Assets*, subject to fair value principles, including the following key consideration points:

DCF – key consideration points

- The timeframe for cash flows should be five years unless cash flows for a longer period can be reliably determined.

Cash flows beyond five years should be extrapolated at a steady or declining growth rate for a longer period.

- Cash flows should be consistent with past actual outcomes.  
Cash flows should be based on reasonable and supportable assumptions with greater weight being given to external evidence (e.g. comparing cash flows with external organisations that operate in a similar industry).

Estimates of future cash flows include projection of: cash inflows from the continuing use of the asset; cash outflows that are necessarily incurred to generate cash inflows from continuing use of the asset; and net cash flows (if any) to be received/paid for the disposal of the asset at the end of its useful life.

Estimated future cash flows arising from future restructuring to which an entity is not yet committed, or improving or enhancing the asset’s performance (as opposed to maintenance and planned capital expenditure) is not included in the composition of estimates of future cash flows.

- A disposal cash flow/terminal value (regardless of whether the asset has an indefinite useful life) for the asset or cash generating unit should be included in the calculation i.e. the expected cash flows, adjusted for future price increases, that will be realised on scrapping or selling the asset at the end of the discrete period for which the cash flow projections is prepared.
- The discount rate should reflect the conditions in which the agency operates (e.g. the risks specific to the asset for which the future cash flow estimates have not been adjusted and the time value of money – AASB 136 par 55).

The discount rate is to be determined in consultation with external expert advice. Queensland Treasury Corporation’s Treasury Services Team is to be contacted in the first instance to arrange for direct assistance to determine an appropriate entity specific discount rate or referral to a suitably experienced external party.

Discounted cash flow model assumptions based on supportable, objective evidence.

The key assumptions and variables used in the DCF model must be able to be supportable based on objective evidence and reasoned judgement. If this cannot be achieved then fair value cannot be reliably estimated using the DCF approach.

Refer section 4.3 on how the fair value derived from the DCF calculation for the asset group is allocated across the individual assets in the asset group.

Disclose significant assumptions

Agencies must disclose in the notes to the financial statements all significant assumptions underpinning the results of the DCF calculations.

## 4.7 OTHER VALUATION ISSUES

In addition to the general valuation principles set out in these policies, issues specific to particular circumstances are set out below.

### Highest and Best Use

The fair value of an asset is determined by reference to its highest and best use, that is, the use of the asset that is physically possible, legally permissible, financially feasible, and which results in the highest value. Opportunities that are not available to the agency are not taken into account.<sup>1</sup>

### Valuations on Acquisition

Assets that come under the control of an agency within a financial year initially must be recognised at the cost of acquisition in accordance with the provisions of AASB 116.

<sup>1</sup> Sourced from the previous Australian Guidance that accompanied, but did not form part of, AASB 116

**Acquisition at other than Fair Value**

APG 2 & 3 Where an asset has been gained e.g. by way of a gift, bequest, subsidised purchase or compulsory acquisition, such that an asset is acquired at less than its fair value, it must be valued initially at its fair value.

APG 8 & 9 As provided in AASB 1004 *Contributions*, where a Government Department has acquired an asset at no cost, or for nominal consideration, as a consequence of a machinery of Government change, the asset need not be recognised at its fair value. Rather, the receiving department must initially recognise the asset at the amount agreed upon by the transferor and itself (transferee). Such transfers shall be recorded as an adjustment to general equity, not revenue. Both the gross value and accumulated depreciation is to be recognised, where this information is reasonably obtainable.

**No Reliable Value available**

There may be instances when it is impossible to obtain a reliable value for an asset because of its unique nature or because its future economic benefits cannot be measured. In such a case, the agency shall disclose details of that asset in the notes to its financial statements giving reasons why a reliable value is not available. Such assets are held at nil value until the value can be ascertained. These instances should be rare and every effort should be made to obtain a realistic valuation.

**Renewals Accounting**

Renewals accounting is not permitted The 'renewals accounting' approach, where all expenditure on an asset is recognised as an expense in the period in which it is incurred, without consideration of whether increases in future economic benefits have resulted, is not permitted under this policy.

**Leased Assets**

Initial value is the lower of fair value and the present value of minimum lease payments AASB 117 *Leases* requires that assets acquired under finance leases be recognised initially at amounts equal to the fair value of the leased property or if lower, the present value of the minimum lease payments, using the interest rate implicit in the original lease contract as the discount factor. A corresponding liability for lease payments must also be recorded.

Assets acquired under a finance lease are subject to the same revaluation requirements as assets that are owned or otherwise controlled by the agency.

**Investment Property**

Valuation issues associated with investment property are covered in Chapter 10 *Investment Property*.

**Non-Current Assets Held for Sale**

Valuation issues associated with non-current assets held for sale are covered in Chapter 6 *Non-Current Assets Held for Sale*.

**Heritage and Cultural Assets**

Distinguish between heritage and functional or operational asset value Some agencies control assets of significant heritage and cultural value. These may be preserved solely for these attributes, or used in agency operations. It is important to distinguish between the heritage value of such assets and their functional or operational value.

The fact that an asset is not included on an official 'heritage listing' does not prevent it from having heritage value.

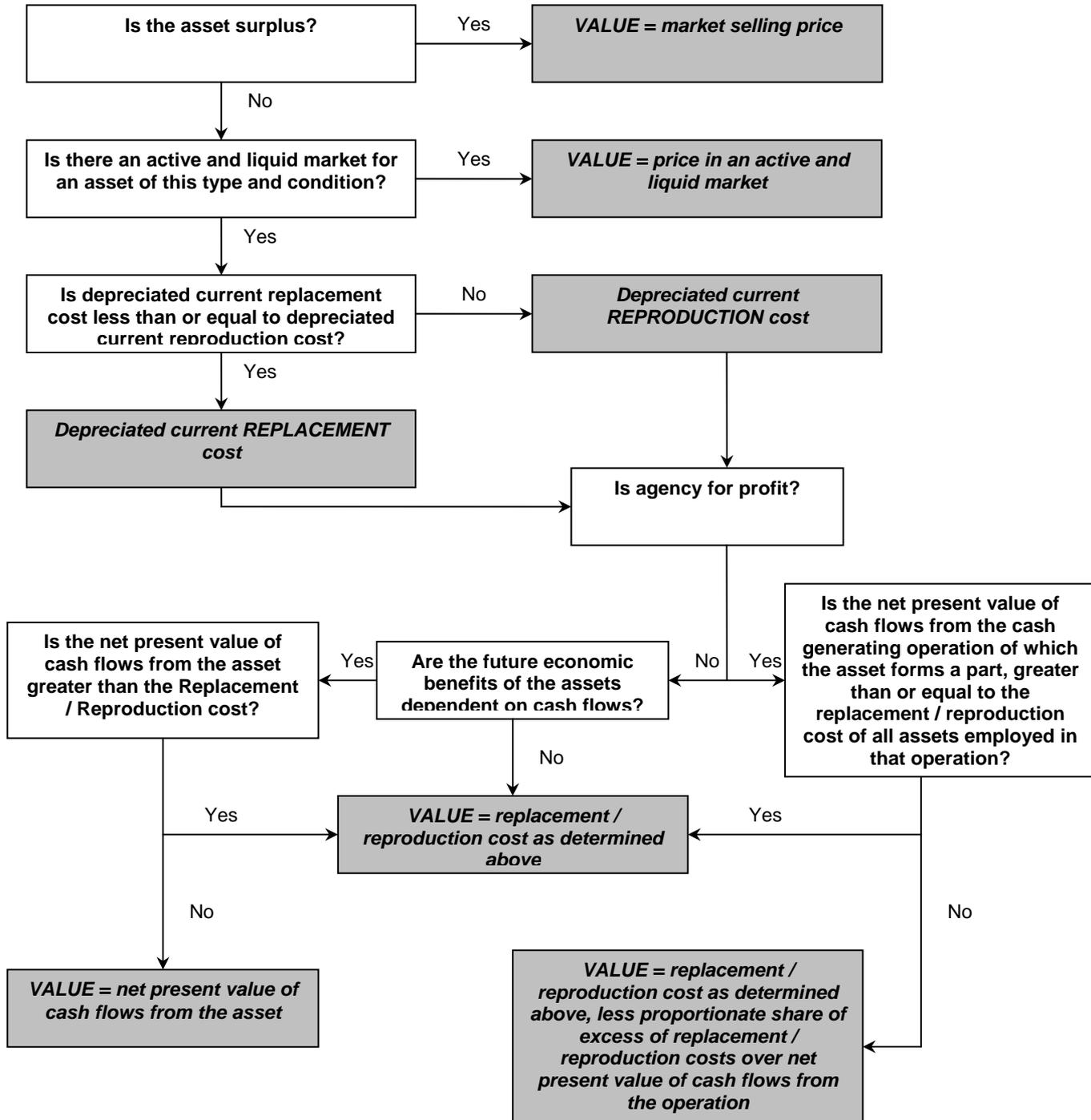
The valuation of property with heritage or cultural attributes is essentially the same as for other non-current assets.

In cases where the values of heritage and cultural assets cannot be measured reliably, they are not to be recognised in the Statement of Financial Position but disclosed as a note to the financial statements. This disclosure should state the reason why its heritage value can not be reliably estimated and include the nature of the asset, the purposes for which it is held and, to the extent practicable, the annual costs of maintenance/preservation.

Instances of this nature should be rare and agencies are required to make every effort to value heritage and cultural assets at their fair value.

Where a heritage or cultural asset that provides a functional service is recognised on the Statement of Financial Position, but the heritage or aesthetic utility component of the asset has not been included in this value, an explanation of the heritage value and the reasons why it cannot be valued reliably shall be included in the notes to the financial statements.

**APPENDIX 4.1 DETERMINATION OF FAIR VALUE**  
(Refer to Section 4.2)



## APPENDIX 4.2 BETTER PRACTICE GUIDELINES FOR INSTRUCTING VALUERS (Refer to Section 4.1)

### INTRODUCTION

The purpose of this Appendix is to provide better practice guidance on instructing valuers and is intended to help achieve consistency in valuations undertaken for the Queensland Public Sector. It provides details about what information should be included in the instructions to valuers and the information to be included in the valuer's report.

For the purposes of this Appendix 'instructing agency' refers to an agency which instructs valuer/s on behalf of itself or as agent for another agency (e.g. Shared Service Providers may be the instructing agency for departments within their cluster).

This Appendix should be read in conjunction with the information provided in Sections 3 and 4 of this policy.

### PRESCRIBED REQUIREMENTS

The revaluation of property, plant and equipment is provided for in AASB 116 *Property, Plant and Equipment* and section 23 of the *Financial and Performance Management Standard 2009*.

The Asset Policies require land, buildings, major plant and equipment, infrastructure and heritage and cultural assets to be recorded at fair value. Such assets require comprehensive revaluation at regular intervals.

### REVALUATIONS ARE TO BE CONDUCTED BY EXPERTS

Comprehensive asset revaluations normally should be undertaken by independent, professionally qualified experts acting at 'arms length' e.g. qualified valuers or quantity surveyors. For some assets, valuations based on in-house expertise may be undertaken where sufficient controls are in place to ensure the integrity and independence of the valuations and the probability of over or under valuation also is small. A combination of external and in-house expertise may be appropriate in particular circumstances.

### CONDUCT OF AN EFFICIENT AND EFFECTIVE REVALUATION PROCESS

To ensure the revaluation process is conducted efficiently and effectively the following should be considered:

- use of sample valuation techniques for homogeneous assets\*;
- application of 'desktop' valuations (where appropriate for the asset class); and
- valuation of a class of assets on a progressive basis.

\* Subject to consultation with the Office of Economic Statistics and Research regarding an appropriate sampling technique.

**Instructing agencies should liaise with their auditors on proposed methodologies.**

### REVALUATION OF ASSETS

The *Financial and Performance Management Standard 2009* requires each asset class that is measured at fair value to be revalued in terms of the Asset Policies.

### Revaluations and Accumulated Depreciation

When a depreciable asset is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

### OTHER ASSET INFORMATION REQUIREMENTS

When undertaking the valuation process, instructing agencies should consider the broader information requirements needed for asset management and asset reporting purposes and identify cost-effective opportunities that may exist to gather this information at the same time. For example, agencies should consider combining the condition assessment process with asset revaluations where this may be undertaken under the one agreement. Generally this will be provided in a partnership arrangement e.g. Valuation firm and Quantity Surveying firm.

When assessing the level of information maintained, agencies should be mindful of their auditor's requirements.

#### **RESPONSIBILITY FOR THE INFORMATION**

The accountable officer or chief executive officer of the reporting agency (or appropriately delegated officer) is responsible for ensuring that valuation figures used in annual financial statements provide a true and fair view. If a reporting agency does not agree with data contained in the valuer's report it must take measures to verify and validate the information by other means. For example, if the valuer has provided an estimate of an asset's remaining estimated useful life but the reporting agency does not believe the valuer has appropriately considered the plans for the ongoing management and use of the asset, it would need to verify the information another way. The reporting agency should allow for any additional costs involved in verification or validation of valuer's reports.

When a reporting agency appoints another agency to act as an agent to coordinate the revaluation process, eg a department appoints its shared service provider to be its agent then, for the purposes of this policy, the appointed agent will be the instructing agency. Where a reporting agency delegates responsibility for revaluations to an agent the extent and level of delegation must be fully documented and agreed between the parties, eg in an operating level agreement.

#### **CONTENT OF INSTRUCTIONS TO THE VALUER**

To avoid confusion and ambiguity involving valuation issues or problems it is appropriate that valuers are instructed in writing, i.e. letter or contract for services. Variations to the originally agreed instructions must also be confirmed in writing. Instructions or variations to the instructions should be on official letterhead and signed by the accountable officer or chief executive officer or an appropriately delegated officer. For the purposes of this guidance, email is not considered appropriate for providing the final set of, or major variations to, instructions to valuers.

The letter to or contract with the valuer should detail the assets to be valued, the quantity and quality of information available and the outputs required. Ensuring as much information as possible on the assets to be valued is collated for the valuer prior to the process should reduce the time and costs to undertake the valuation process.

To enable the valuer to assess the nature and extent of the valuation assignment, the letter or contract should specify the following:

- the purpose of the valuation;
- the date of valuation, what date the valuation is to be effective and when the valuation is required;
- that the valuation methodology should be in accordance with the relevant accounting Standards, *Financial and Performance Management Standard 2009*, the Queensland Government *Non-Current Asset Policies for the Queensland Public Sector* and the *Financial Reporting Requirements for Queensland Government Agencies*. To provide further guidance for Valuers, a copy of the relevant sections of any Queensland Government policies may be attached to the instructing letter;
- the definition of the basis or type of value sought;
- a detailed list and description of the assets to be valued, together with their Real Property Description and location;
- the following should be provided to the valuer, if not already provided during the quotation process (select as available for each listed asset):
  - age and estimated remaining life;

- condition assessments;
  - recent maintenance/capital expenditure works;
  - recent/historical costing information;
  - significant components, if appropriate (refer to Section 3);
  - asset management and maintenance plans;
  - plans at end of life (eg, sale, scrap, demolition and/or restoration requirements);
  - asset income (including lease terms and conditions) and operating expenses;
  - legislative requirements that may impact the value of land and/or buildings (eg Contaminated Land Register, Environmental Management Register, Heritage Listed etc);
  - current plans or working drawings; and
  - gross floor areas.
- whether the valuer is to measure building areas if accurate building plans are not available;
  - the requirements relating to inspection of the assets. In relation to building valuations, if a full site inspection is requested, specify if external and/or internal inspections of buildings are required;
  - any agency requirements regarding site access, identification etc. where full site inspections are required;
  - any other specific information required from the valuer, including for example:
    - required professional credentials;
    - proposed team and their qualifications;
    - timetable;
    - expectations as to management input required;
    - fees and payment terms; and
    - other (including agency specific requirements).
  - the agency contact persons and details; and
  - asset data, in an appropriate format, to enable electronic update of the asset system at the completion of the valuation.

Two sample letters are presented in **Appendix 4.2**. The first sample is a letter of instruction (including the option to request a fee proposal at the same time) and the second sample is a letter for a request for a fee proposal to valuers (suitable for use where a fee proposal is requested from more than one valuer).

**Appendix 4.3** contains a template for instructing agencies for information to be provided for land and building valuations. Instructing agencies should ensure all efforts are made to provide the information listed in **Appendix 4.4** to ensure the valuer's costs to undertake the valuation process are contained where possible.

#### VALUATION PROCESS

##### *Instructing agency representatives*

Instructing agencies should ensure that they have at least two representatives to liaise with the valuer throughout the valuation process. A representative should be available for:

- asset inspections;
- discussing and clarifying information on the assets;
- monitoring of progress reports from valuers;
- reviewing and confirming valuation numbers and key assumptions; and

- ensuring that the report has been prepared in accordance with the agency's instructions and the relevant accounting Standards and policies.

#### *Written confirmation from valuer*

It is important that valuers provide confirmation in writing (i.e. formal letter on official letter head) of the terms on which they will be acting. The letter should include information about valuer charges, payment of expenses and how they will be calculating expenses and disbursements.

#### *Email communication*

Email is acceptable for day to day communication, including for regular progress reporting, between the instructing agency and the valuer. All progress reports should be monitored and followed up by the instructing agency representatives where necessary. The instructing agency should ensure appropriate records are kept of any email communications regarding the valuation.

#### *Meetings*

It is common practice to meet with the valuer to discuss preliminary figures of valuation prior to the valuer producing the final report. Such meetings are beneficial to understanding the evidence gathered by the valuer and the conclusions drawn. They also provide an opportunity to clarify any areas of concern. Valuers should be asked to cover any costs involved in meeting attendance in their initial fee proposal.

#### *Steering Committees*

When the valuation process is complex in nature and/or there are large volumes of assets to be valued, a steering committee should be established to oversee and monitor the process. Representation should include, at minimum, a member from the audit committee and of senior management of the instructing agency. It would be anticipated the steering committee regularly report to senior management. Valuers should be asked to provide details of any costs involved in steering committee attendance in their initial fee proposal.

### **VALUER'S REPORT AND DISCLOSURES**

A valuation report is a document that records the instructions for the assignment, the basis and purpose of the valuation, and the results of the analysis that led to the opinion of value.

All valuation reports should be written reports in compliance with the Australian Property Institute's practice standards and manuals. These reports should be submitted to the instructing agency in both paper and 'read only' electronic format.

The valuer's written report should include, at minimum, the information listed below:

- The nature of instructions and the intended use or purpose of the valuation (as per the letter instructing the valuer).
- The following dates:
  - the date as of which the valuation applies;
  - the date of the report; and
  - the date of the inspections.
- An indication that they have complied with the relevant accounting Standards (eg AASB 116 *Property, Plant and Equipment*) and any Queensland Treasury policy documentation governing the accounting treatment of the asset.
- Identification and description of the:
  - property rights or interests being valued; and

- the assets, their locations, their physical and legal characteristics and the date and extent of inspections (i.e. valued on-site or off-site).
- The basis of the valuation, including type of valuation and definition of value.
- A description of the information and data examined, the market analysis performed, the basis of the valuation and procedures followed, and the reasoning that supports the analyses, opinions, and conclusions. That is, the valuer's report should contain sufficient information for the instructing agency to determine how the valuation was conducted and how the revaluation amounts were derived.
- The assumptions underlying construction costs, construction period and borrowing costs, where appropriate. This information may be provided by a third party and should be appropriately referenced.
- How any restoration, dismantling or removal obligations associated with an asset have been treated, where applicable. This information may be provided by a third party and should be appropriately referenced.
- Any key and/or special assumptions and/or limiting conditions
- Values of each asset and apportionments as appropriate (i.e. in the case of land and buildings, the value of the land is to be provided separately to the value of the building).
- The valuer's professional qualifications relevant to the valuation including the valuer's number in the register.
- The names, qualifications and contributions of outside professional persons who have provided assistance, where used;
- Such other matters pertinent to the valuation.

When valuations are made by an internal valuer, specific disclosure must be made in the valuation report of the existence and nature of the relationship between the valuer and agency controlling the asset.

If the valuer is involved with an agency in a capacity other than as a valuer, for example, as an independent or impartial agent, as a consultant or advisor to a business agency, or as a mediator, the valuer should disclose the specific role taken in each assignment.

#### *Documentation to be supplied by the Valuer*

- One (1) copy of valuation report including digital photographs of each listed asset.
- One (1) electronic copy of the valuation report (including digital photos), on CD ROM.
- One (1) electronic copy of data in an appropriate format for direct up-loading to the agency's relevant asset management/accounting system. An appropriate electronic format should be supplied to the valuer by the instructing agency.

When valuation reports are transmitted electronically, the instructing agency should ensure the valuer has taken all reasonable steps to protect the integrity of the data and text in the report and to ensure that no errors occur in transmission. The steps are set out below.

- Identification of the origin, date and time of the sending as well as the destination, date and time of receipt.
- Rendering the electronic report as 'read-only' to all except the author.
- Ensuring the digital signature(s) is/are protected and fully under the valuer's control.

A statement that all data supplied to the valuer and the report and data provided by the valuer to the agency is the property of the Queensland Government should be included.



## APPENDIX 4.3 SAMPLE - INSTRUCTION - VALUATION OF NON CURRENT ASSETS

(Refer to Section 4.1)

**'Insert Date'**

**'Insert Address Block'**

Dear Sir / Madam

### Instruction - Valuation of Non Current Assets – **'Insert agency name'**

The **'insert agency name'** requires a revaluation of its non-current physical assets for asset valuation purposes. The valuation will be used for the preparation of the Department's financial reports for the period ended **'insert date'**.

#### Scope of Works

**(Delete if not applicable)**

Please provide your fee proposal to undertake the valuation of those assets shown on the attached list.

The valuation is to be carried out in accordance with the requirements of relevant accounting Standards and the *Non-Current Asset Policies for the Queensland Public Sector*. In addition, your valuers should also be familiar with the *Financial Reporting Requirements for Queensland Government Agencies*.

In line with these Standards and guidelines 'Asset Value' is the value of real property or plant, equipment or any other moveable asset to a Government Agency at a given point in time. AASB116 *Property, Plant and Equipment* require assets to be valued at fair value or cost. Fair value is defined in the *Non-Current Asset Policies for the Queensland Public Sector* as:

'the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.'

This is not necessarily the market selling price of the asset. Rather it should be regarded as the maximum value that agency management would rationally pay to acquire the asset if it did not currently hold it, taking into account:

- quoted market price in an active and liquid market, e.g. listed shares
- the current market price of the same or similar asset, e.g. land
- the cost of replacing or reproducing the asset
- the remaining useful life and condition of the asset; and
- cash flows from future use and disposal.'

Further detail related to the application of fair value methodology is available in the documents identified above and relevant Australian Property Institute (API) practice standards.

It is essential that your valuations conform with the Standards and guidelines identified.

The effective date of the valuation is to be **'insert date'**.

Attached are details of those assets to be valued including:

- Property Name
- Location – address and real property description
- Land Area
- Asset Number

- Government Land Register Number
- Description of asset and current use
- Age of Asset
- Gross Floor Area/Structure size
- Ownership details/interest held
- Lease Details (if applicable)
- Construction or Capitalisation date

**(Delete if not applicable)**

In addition to the information shown in the attached list the Department will be able to provide your valuers with the following information:

- Condition assessments
- Recent maintenance/capital expenditure works
- Asset management/maintenance plans
- Building plans
- Register searches i.e. Environmental Management Register

**(Delete if not applicable)**

In relation to each listed building, valuers are to undertake onsite inspections including both internal and external inspections to complete their valuation. Where building plans are unavailable for these assets, valuers will be required to measure building areas in order to determine Gross Floor Area.

### Personnel Details

In your fee proposal please include Curricula Vitae detailing relevant qualifications and expertise for all team members including sub-contractors. Where sub-contractors are used, your proposal should clearly identify that part of the project to be undertaken by the sub-contractor.

### Reporting

You will be required to provide monthly status reports and/or attend monthly project meetings **(adapt as required)**.

The final report shall provide the required information detailed in the *Financial Reporting Requirements for Queensland Government Agencies*, and *Appendix 4.3 of Non-Current Asset Policies for the Queensland Public Sector* and be prepared in accordance with the relevant Australian Property Institute's practice standards.

Final reports are to be provided as follows:

- One (1) signed copy of the valuation report including digital photos of each listed asset
- One (1) electronic copy of the valuation report including digital photos on CD ROM.
- One (1) electronic copy of data in the preferred file format **(specify as appropriate)** for direct uploading to the Department's relevant asset management/accounting system.

All data supplied to the valuer and the report and data provided by the valuer to the agency is the property of the Queensland Government. The Department will have full access to any supporting documentation for verification of reports, if required.

### Timing

The final valuation report is required by **(insert date)**.

***(Delete if not applicable)***

### **Pricing**

Your proposal should clearly show the fixed price for the works outlined in this letter including all meetings, site inspections and reports.

Disbursements such as travel, additional copies of reports, accommodation etc should be identified.

In addition, the proposal should provide a schedule of fees for any variations or works outside the scope of this project.

The contact officer for this revaluation process will be the primary point of contact for any queries and for the day to day running of the project. I look forward to your response and should you have any questions regarding any aspect of this request please contact ***(insert name, contact number and email address of agency contact)*** at any time.

Yours sincerely

(Accountable Officer or Delegate)

---

#### Notes:

1. Shaded paragraphs should be deleted if not applicable to the agency.
2. Items in the shaded areas should be completed by the instructing agency.

## Sample – Request for Fee Proposal – Valuation of Non Current Assets

**'Insert Date'**

**'Insert Address Block'**

Dear Sir / Madam

### Request for Fee Proposal – Valuation of Non Current Assets – **'Insert agency name'**

The **(insert agency name)** is requesting a fee proposal to carry out a revaluation of its non-current physical assets. The valuation will be used for the preparation of the Department's financial reports for the period ended **(insert date)**.

#### Scope of Works

You are requested to provide a fee proposal to undertake the valuation of those assets shown on the attached list.

The valuation is to be carried out in accordance with the requirements of relevant accounting Standards and the *Non-Current Asset Policies for the Queensland Public Sector*. In addition, your valuers should also be familiar with the *Financial Reporting Requirements for Queensland Government Agencies*.

The effective date of the valuation is to be **(insert date.)**

Attached are details of those assets to be valued including:

- Property Name
- Location – address and real property description
- Land Area
- Asset Number
- Government Land Register Number
- Description of asset and current use
- Age of Asset
- Gross Floor Area/Structure size
- Ownership details/interest held
- Lease Details (if applicable)
- Construction or Capitalisation date

**(Please delete if not applicable)**

In addition to the information shown in the attached list the Department will be able to provide the successful Offeror with the following information:

- Condition assessments
- Recent maintenance/capital expenditure works
- Asset management/maintenance plans
- Building plans
- Register searches i.e. Environmental Management Register

**(Please delete if not applicable)**

In relation to each listed building, valuers are to undertake onsite inspections including both internal and external inspections to complete their valuation. Where building plans are unavailable for these assets, valuers will be required to measure building areas in order to determine Gross Floor Area.

### Methodology

Proposals should include a discussion of the valuation methodology to be used and the proposed process to be followed.

Examples of data collection forms and all other relevant material to be used should be tendered as part of your proposal.

### Personnel Details

Proposals should include Curricula Vitae detailing relevant qualifications and expertise for all team members including sub-contractors.

Where sub-contractors are used, the proposal should clearly identify that part of the project to be undertaken by the sub-contractor.

### Reporting

Valuers will be required to provide monthly status reports and/or attend monthly project meetings (*adapt as required*).

The final report shall provide the required information detailed in the *Financial Reporting Requirements for Queensland Government Agencies, Appendix 4.3 of the Non Current Asset Policies for the Queensland Public Sector*, and be prepared in accordance with the relevant Australian Property Institute practice standards.

Examples of the proposed reporting format should be tendered as part of the fee proposal.

Final reports are to be provided as follows:

- One (1) signed copy of the valuation report including digital photos of each listed asset
- One (1) electronic copy of the valuation report including digital photos on CD ROM
- One (1) electronic copy of data in the preferred file format (*specify as appropriate*) for direct uploading to the Department's relevant asset management/accounting system.

All data supplied to the valuer and the report and data provided by the valuer to the agency is the property of the Queensland Government.

The Department will have full access to any supporting documentation for verification of reports, if required.

### Timing

The final valuation report is required by (*insert date*). Proposals should include a project timeline based on this date.

### Pricing

Proposals should clearly show the fixed price for the works outlined in this letter including all meetings, site inspections and reports.

Disbursements such as travel, additional copies of reports, accommodation etc should be identified.

In addition, the proposal should provide a schedule of fees for any variations or works outside the scope of this project.

The contact officer for this revaluation process will be the primary point of contact for any queries and for the day to day running of the project. I look forward to your response and should you have any questions

regarding any aspect of this request please contact, ***(insert name, contact number and email address of agency contact)*** at any time.

Yours sincerely

(Accountable Officer or Delegate)

---

Notes:

3. Shaded paragraphs should be deleted if not applicable to the agency.
4. Items in the highlighted areas should be completed by the instructing agency.

## APPENDIX 4.4 TEMPLATE FOR LAND AND BUILDING VALUATIONS (Refer to Section 4.1)

**Building Asset:** .....

Items “\*” should be considered mandatory:

Property Name: *	
Property Address and Region/Area/District: *	
Real Property Description: *	
Building Description:	
Full Asset Number: *	
Government Land Register Number: *	
Land Area: *	
Net Lettable Area:	
Gross Floor Area:	
Valuation Basis:	
Capitalisation Rate:	
Present Valuations Recorded: <ul style="list-style-type: none"> <li>• Land</li> <li>• Improvements</li> <li>• Building</li> <li>• Significant Components (per Section 3 of the Non-Current Asset Policies for the Queensland Public Sector)</li> <li>• Total</li> </ul>	
Construction or Capitalisation Date: *	
Plans for end of life (eg Sale, Scrap, Demolition or Restoration Requirements)	
Total Estimated Useful Life:	
Expired Useful Life:	
Estimated Remaining Useful Life:	
Residual Value & assumptions:	
Recent maintenance/capital expenditure:	
Legislative (i.e. zoning) requirements that may impact value of land:	
Lease details (if applicable) *	

Have the following been attached:

	Yes	No	N/A
Photograph of property/asset	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Asset Management and Maintenance Plan or Condition Assessment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Site Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Building plans and/or floor plans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cadastral map locating the property	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Note: The information provided in this schedule is in no way intended to constrain the Valuers from providing a professional opinion.

## OVERVIEW

This chapter provides the framework for the re-valuation of assets.

This chapter consists of the following sub-sections:

<b>Reference</b>	<b>Sub-section</b>
5.1	Introduction
5.2	Frequency of Comprehensive Revaluations
5.3	Interim Revaluations
5.4	Accounting for Revaluation Increments and Decrements
5.5	Specific Revaluation Issues
5.6	Disclosures
Appendix	
5.1	Checklist for Revaluations – Interim and Comprehensive Revaluations

## 5.1 INTRODUCTION

'Relevance' requires assets to be revalued with sufficient regularity

To ensure that information relating to assets continues to satisfy the criterion of *relevance*, it is necessary that periodic revaluations be performed. Determining the frequency of valuations depends on striking a balance between having relevant and timely information and the cost of obtaining such information. It is appropriate in the circumstances to provide for periodic comprehensive revaluations combined with annual interim revaluations based on specific indices.

An agency must revalue each asset class that is measured at fair value as defined in these Asset Policies. A checklist for interim and comprehensive revaluations is contained in **Appendix 5.1**.

## 5.2 FREQUENCY OF COMPREHENSIVE REVALUATIONS

Revalue every 5 years or when

- a significant change in asset value occurs
- asset subject to volatile pricing

Agencies are required to perform comprehensive revaluations at least once every five years. However, agencies should undertake more frequent comprehensive revaluations of those assets which experience significant or volatile changes in fair value. If any such change exists, the asset and the entire class to which the asset belongs should be revalued. The concept of materiality contained in AASB 1031 *Materiality* should be considered in determining whether the change is significant or volatile and whether only those material assets in the class should be revalued.

AASB 116 *Property, Plant and Equipment* (AASB 116) requires revaluations to be undertaken with sufficient regularity to ensure that the carrying amount of an asset does not differ materially from that which would be determined using fair value at the reporting date. The Standard suggests that comprehensive revaluations every three or five years may be sufficient for non-current assets that experience only insignificant changes in fair value.

### *Rolling Valuations*

AASB 116 provides that a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

For the purposes of this policy, comprehensive revaluations may be conducted progressively over more than one year, provided that the entire asset class is revalued within a five-year period. However, assets not comprehensively revalued in a given year must be the subject of an interim revaluation. Again, the concept of materiality contained in AASB 1031 *Materiality* should be considered in determining whether only those material assets in the class, rather than all assets of the class, should be revalued.

## 5.3 INTERIM REVALUATIONS

To maintain the value of assets in current terms, interim revaluations of assets measured at fair value should be performed on an annual basis.

Index annually where cumulative change is material

These interim valuations should use relevant Australian Bureau of Statistics price indices or other reliable measures that can be used to estimate the current values of major asset classes. **Agencies need only account for the impact of revaluation if the cumulative change in the index is 5% or greater** (either positive or negative).

**Example**

The change in the Implicit Price deflator for a particular type of asset in the current year is 3%. The change in the previous year was 3%, therefore the index was not applied. The cumulative change over the past two years is 6%, therefore an index of 6% will be applied in the current year. However, use of indices may be limited by the availability and timeliness of an index appropriate to a particular type of asset.

Indices should take into account not only the effects of specific or general price levels, but also technological change, where possible. A general price index may take account of the effects of inflation on asset prices, but not of obsolescence.

Clients of the Department of Environment and Resource Management (State Valuation Service) may obtain appropriate valuation indices for land from that department.

For the valuation of non-residential buildings, the Queensland Implicit Price Deflator should only be used as the basis of interim valuations if there are no other more specific indices available.

OESR advises appropriate indices

The Economic Statistics Section, Office of Economic and Statistical Research (OESR), Queensland Treasury will provide advice on indices, including the Implicit Price Deflator index. The OESR website is located at:

<http://www.oesr.qld.gov.au/queensland-by-theme/economic-performance/prices/index.shtml>

For non-residential office buildings within the Brisbane CBD valued at current market buying price, the Investment Property Databank Capital Growth Index may be an appropriate index.

Interim revaluations also should take into account any other changes that have a material impact on the value of the asset.

**CPI is not an appropriate index for the interim revaluation of non-current physical assets.**

## 5.4 ACCOUNTING FOR REVALUATION INCREMENTS AND DECREMENTS

Revaluation increments and decrements must be accounted for in accordance with AASB 116.

### Not-For-Profit Agencies

Revaluation increments/ decrements based on class

Net revaluation increments in respect of each **class** of non-current asset must be credited to the agency's asset revaluation surplus, except to the extent that they reverse a previous decrement recognised as an expense for that class in the Income Statement. In this instance the reversal portion of the increment must be recognised as revenue in the Statement of Comprehensive Income.

Net revaluation decrements in respect of each class must be recognised as an expense in the Statement of Comprehensive Income, except to the extent that they reverse a previous increment for that class and a positive balance exists in the asset revaluation surplus (ARS) for that class of assets. In this instance, the reversal portion of the decrement is to be charged directly to the ARS, but so as not to exceed the balance of the ARS.

**For-Profit Agencies**

Revaluation increments/decrements based on individual asset

The rules regarding when revaluation increments and decrements are to be taken to the Statement of Comprehensive Income or the asset revaluation surplus are the same as those for not-for-profit agencies. However, for-profit agencies can only offset increments and decrements in respect of the **same asset**, not the same class. As such, for-profit agencies must be able to separately account for and identify increments and decrements for each asset.

**5.5 SPECIFIC REVALUATION ISSUES**

**Asset Revaluation Thresholds**

Neither these policies nor the FPMS mandate a generic asset revaluation threshold limit.

**Sampling Techniques**

Sampling techniques must be statistically valid

Sampling techniques may be used to revalue classes of assets for both interim and comprehensive valuations. Agencies are to ensure that sampling techniques are statistically valid. The Surveys and Mathematical Statistics Section, Office of Economic and Statistical Research, Queensland Treasury can provide advice in this regard.

**Intangible Assets**

If an intangible asset is revalued, any accumulated amortisation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Carry at cost or last revalued amount if no active market

If an intangible asset (which has never been revalued) in a class of revalued intangible assets cannot be revalued because there is no active market for the asset, the asset is to be carried at its cost less any accumulated amortisation or impairment losses.

Suspend revaluations when market is no longer active

If the fair value of a revalued intangible asset can no longer be determined by reference to an active market, the carrying amount of the asset is to be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortisation and any subsequent impairment losses.

Apply revaluation model when market again becomes active

The fact that an active market no longer exists for a revalued intangible asset may indicate that the asset may be impaired and that it needs to be tested in accordance with AASB 136 *Impairment of Assets*.

If the fair value of the asset can be determined by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.

Refer to Section 11 for further information on Intangible Assets.

**Investment Property**

Initially recognise at cost and subsequently at fair value

Investment property is to be initially recognised at cost, which is to include transaction costs. Subsequently, it is to be measured at fair value. The fair value of an investment property is to reflect market conditions at the reporting date. (Refer to Section 10 *Investment Property* for further information.)

Gains and losses on revaluation recognised in Statement of Comprehensive Income

A gain or loss arising from a change in the fair value of an investment property is to be recognised in profit or loss for the period in which it arises.

There may be exceptional circumstances when an agency first acquires an investment property (or when an existing property first becomes an investment property following the

completion of construction or development or after a change in use) when the fair value of the investment property is not reliably determinable on a continuing basis.

Only use cost if fair value cannot be reliably measured

This only occurs when comparable market transactions are infrequent, and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. In such cases, the investment property is to be measured using the cost model in AASB 116 until the disposal of the investment property.

## 5.6 DISCLOSURE

The following disclosures shall be made in the financial statements in respect of asset revaluations:

- the net amount of asset revaluation increments less decrements for each class of non-current assets (for not-for-profit) or each non-current asset (for for-profit);
- the date of the last comprehensive valuation;
- whether that valuation was made internally or by an independent external party;
- the method and significant assumptions underlying the valuation; and
- details of the basis on which interim revaluations are made.

## APPENDIX 5.1 CHECKLIST FOR REVALUATIONS - INTERIM AND COMPREHENSIVE REVALUATIONS (Refer to Section 5.1)

This self assessment checklist for annual revaluation of property, plant and equipment will help to ensure your agency's revaluation processes reflect better practice. The questions in this checklist should be revisited regularly to facilitate continued compliance with the *Non-Current Asset Policies for the Queensland Public Sector* and AASB 116 *Property, Plant and Equipment*.

Objective

To ensure the agency's property, plant and equipment has been properly valued at fair value and reported.

No	Question	Yes	No	Improvements/ Actions Required
<b><u>GENERAL</u></b>				
1	<ul style="list-style-type: none"> <li>Are there robust systems and processes in place (i.e. a framework) to ensure that reliable fair values for property, plant and equipment are obtained on an annual basis?</li> <li>Are these systems/processes documented in the agency's Financial Management Practice Manual?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	<ul style="list-style-type: none"> <li>Has a responsible officer been assigned by management to undertake annual revaluation of property, plant and equipment?</li> <li>Does the responsible officer have the appropriate skills, competencies and experience in asset valuations?</li> </ul> <p>For example – skills and experience from undertaking revaluations in prior years; a working knowledge of Australian Accounting Standards, or a strong working relationship with the asset manager/accounting manager.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	<ul style="list-style-type: none"> <li>Are the accounting policies relating to the valuation of property, plant and equipment clearly understood by personnel co-ordinating or involved in one or more of the following:-                             <ul style="list-style-type: none"> <li>✓ the revaluation process</li> <li>✓ the determination of reasonableness of the fair value assigned to items; and</li> <li>✓ the system accounting process (eg, the asset manager, valuer, systems accountant)?</li> </ul> <p>Refer to the <i>Non-Current Asset Policies for the Queensland Public Sector</i> and AASB 116 <i>Property Plant and Equipment</i>.</p> </li> <li>Are the accounting policies relating to the valuation of property, plant and equipment implemented into agency systems, processes, Financial Management Practice Manual and other agency specific policies?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	<ul style="list-style-type: none"> <li>Are the results from the annual revaluations (both comprehensive and interim) and related adjustments explicitly endorsed by senior management?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	<ul style="list-style-type: none"> <li>Does the Audit Committee review the controls over the total asset management system and scrutinise the asset revaluation policies,</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	<p>processes and/or outcomes?</p> <ul style="list-style-type: none"> <li>If the Audit Committee has an oversight role in asset measurement, is there regular reporting to that committee on the outcomes of the valuation process?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	<ul style="list-style-type: none"> <li>Have specific valuation methodologies been reviewed and modified where appropriate, in the context of the current economic environment?</li> <li>Are valuation processes sufficiently flexible to incorporate the impact of periodic changes (eg the current economic environment) into the methodology?</li> </ul>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>

**INTERIM REVALUATIONS**

7	<ul style="list-style-type: none"> <li>To ensure selection of an appropriate index, have the following factors been considered:-                             <ul style="list-style-type: none"> <li>✓ type of asset being revalued</li> <li>✓ location of the asset</li> <li>✓ timing of when the index will be available</li> <li>✓ components used in arriving at the index?</li> </ul> </li> <li>Are there arrangements in place for the agency to assess the appropriateness of indices prior to being used for the interim revaluations?</li> <li>Is this process documented in the Financial Management Practice Manual?</li> </ul>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
8	<ul style="list-style-type: none"> <li>Does the agency document in its Financial Management Practice Manual the type of indices to be used in relation to particular asset classes for 'indexation years'?</li> <li>Does the Financial Management Practice Manual document how those indices are to be applied to asset values?</li> </ul>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
9	<ul style="list-style-type: none"> <li>Does the Financial Management Practice Manual document the action to be taken when index movements are considered to be 'significant' or 'volatile' for a particular reporting period or a particular asset class, and a comprehensive revaluation has not been performed for that year, to ensure that the reported fair values are not materially misstated at balance date?</li> <li>Is guidance provided on what constitutes 'significant' or 'volatile' movements?</li> </ul>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
10	<ul style="list-style-type: none"> <li>Has the agency communicated with other agencies with similar assets in similar locations to determine whether:-                             <ul style="list-style-type: none"> <li>✓ economies of scale can be achieved by undertaking a co-ordinated approach to identifying appropriate indices?</li> <li>✓ there are any key learnings from the application of particular indices or the interim revaluation process (generally) undertaken by the other agencies?</li> </ul> </li> </ul>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
11	<ul style="list-style-type: none"> <li>Where a sample of assets is selected for valuation, are the methodology adopted and the key assumptions used for selecting the</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	<p>sample assessed on a regular basis to ensure they remain statistically valid?</p> <ul style="list-style-type: none"> <li>Has the approach for rolling valuations been assessed annually to ensure it takes into account changes in particular circumstances that could impact the valuation?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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<b><u>COMPREHENSIVE REVALUATIONS</u></b>				
12	<ul style="list-style-type: none"> <li>When selecting a valuer, have the following factors been considered:-                             <ul style="list-style-type: none"> <li>✓ Is the valuer registered/licenced?</li> <li>✓ Does the valuer have any particular skills or past experience in valuing the type of assets required?</li> <li>✓ Does the valuer have any experience in valuing assets in a public sector environment?</li> <li>✓ Does the valuer understand the requirements of AASB 116, AASB 136, and the <i>Non-Current Asset Policies</i>, and have a valuation approach to ensure compliance with these standards?</li> </ul> </li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	<ul style="list-style-type: none"> <li>Does the agency prepare comprehensive instructions to valuers?  Refer to the <i>Non-Current Asset Policies for the Queensland Public Sector, Appendix 4.2 Better Practice Guidelines for Instructing Valuers.</i></li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	<ul style="list-style-type: none"> <li>Have all current potential exposures and risks been identified and assessed in the development of the instructions to valuers and/or development of internal valuation models?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15	<ul style="list-style-type: none"> <li>Are the instructions to valuers endorsed by key internal stakeholders within the agency prior to forwarding to valuers?</li> <li>Are these instructions endorsed by the Audit Committee prior to their issue?</li> <li>Are the instructions to valuers reviewed and approved by management?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16	<ul style="list-style-type: none"> <li>Does the agency have a policy to periodically rotate external valuers to provide assurance over the reliability of values supplied from year to year?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17	<ul style="list-style-type: none"> <li>Are the key assumptions used in internal and external valuation models clearly understood, documented and disclosed in the financial statement notes?</li> <li>Are the key assumptions supported by sound evidence, for example, historical information, engineering reports, industry trends etc?</li> <li>Are key assumptions consistent with expectations/plans for the assets being valued and do they tie-in with strategic asset management plans?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18	<ul style="list-style-type: none"> <li>Are the results of comprehensive revaluations reviewed for 'reasonableness' by management given their knowledge of the agency 'business' and operating environment?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	<ul style="list-style-type: none"> <li>Is a review undertaken after completion of comprehensive revaluations, to assess whether the indices previously applied were representative of fair value movements in those prior years?</li> <li>Are there arrangements in place to gauge the ongoing reliability of those indices (in light of the extent of movement in fair values resulting from the current period comprehensive revaluation)?</li> <li>Are these arrangements documented in the Financial Management Practice Manual and linked to the solution of appropriate indices for the next period? (refer to 7-10 above).</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19	<ul style="list-style-type: none"> <li>Has the agency documented in its Financial Management Practice Manual what it considers to be 'significant' changes in fair value, or 'volatility' of asset values (refer to para 34 in AASB 116) which would warrant more frequent comprehensive valuations than once every five years?</li> <li>Is guidance provided on what constitutes 'significant' or 'volatile'?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20	<ul style="list-style-type: none"> <li>Does the agency assess whether any material movement in fair values is likely to have occurred between the date of asset revaluation and balance date, to ensure the material reliability of reported asset values (refer to para 31 of AASB 116)?</li> <li>Is this process documented in the Financial Management Practice Manual?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
21	<ul style="list-style-type: none"> <li>Has the agency communicated with other agencies with similar assets in similar locations to determine whether:-                             <ul style="list-style-type: none"> <li>✓ economies of scale can be achieved by undertaking a co-ordinated approach to comprehensive revaluations?</li> <li>✓ there are any key learnings from the comprehensive revaluations undertaken by the other agencies?</li> </ul> </li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b><u>FINANCIAL REPORTING DISCLOSURES</u></b>				
22	<ul style="list-style-type: none"> <li>Has the agency disclosed the effective date of the revaluation? (refer to para 77(a) of AASB 116)</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
23	<ul style="list-style-type: none"> <li>Has the agency disclosed whether an independent valuer was involved? (refer to para 77(b) of AASB 116)</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
24	<ul style="list-style-type: none"> <li>Have the methods and significant assumptions applied in estimating the property, plant and equipments' fair values been disclosed? (refer to para 77(c) of AASB 116)</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
25	<ul style="list-style-type: none"> <li>Has the extent to which the property, plant and equipment values were determined directly by reference to observable prices in an active market, or by recent market transactions on arm's length terms, or by using other estimation techniques been shown? (refer to para 77(d) of AASB 116)</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

26	<ul style="list-style-type: none"> <li>Has the agency disclosed the measurement bases used to determine gross carrying amounts for property, plant and equipment? (refer to para 73(a) of AASB 116)</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
27	<ul style="list-style-type: none"> <li>Has the agency separately disclosed (within the movements reconciliation required by para 73(e) of AASB 116) the increases and decreases in asset values, per class, resulting from the annual revaluation?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
28	<ul style="list-style-type: none"> <li>Has the agency separately disclosed details of its asset revaluation surplus (including the increases and decreases in asset values, per class, resulting from the annual revaluation)? (refer to para 77(f) of AASB 116)</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## OVERVIEW

This chapter discusses the accounting and reporting requirements for non-current assets held for sale.

This chapter consists of the following sub-sections:

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<b>Reference</b>	<b>Sub-section</b>
6.1	Introduction
6.2	Disposal Group
6.3	Criteria for Recognition as Held for Sale
6.4	Measurement
6.5	Changes to a Plan of Sale
6.6	Disclosures
Appendix	
6.1	Criteria to Transfer Non-Current Assets to Held for Sale Classification

---

## 6.1 INTRODUCTION

AASB 5 applies to all non-current assets approved by management for sale within the next year

AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* (AASB 5) applies to all non-current assets and groups of non-current assets (disposal groups) that have been withdrawn from use and for which a plan for their sale within the next year has been approved by management.

Those non-current assets that are exempt from the requirements of AASB 5 are detailed in paragraph 5 of that Standard.

AASB 5 does not apply to machinery of Government changes or inventory

The requirements of AASB 5 do not apply to the restructuring of administrative arrangements and administered activities of Government departments (i.e. machinery-of-Government changes).

This Standard also does not apply to inventories held for sale in the normal course of business – this includes items of property, plant and equipment that are otherwise used for rental to others, that have been transferred to inventories (at their carrying amount) when the rental arrangement ceases and have become held for sale.

Non-current assets that are acquired exclusively with a view to resale are not to be classified as current assets until they meet the criteria in AASB 5 to be so classified (refer also to Section 6.3).

## 6.2 DISPOSAL GROUPS

Definition

A disposal group consists of a group of assets to be disposed of by sale or otherwise, together in a group in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction.

If a non-current asset is part of a disposal group, the measurement requirements of AASB 5 apply to the group as a whole.

## 6.3 CRITERIA FOR RECOGNITION AS HELD FOR SALE

All criteria are to be met prior to reporting date

- Immediately available for sale
- In its present condition subject to normal sales conditions
- Sale is highly probable

A non-current asset or disposal group is classified as being held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

To be classified as held for sale, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable (i.e. significantly more likely than probable).

Classification as 'Non-current Assets held for Sale' is permitted only when specific criteria are met. A summary of these and the treatment on change in classification are detailed in **Appendix 6.1**.

While one of the criteria for an asset to be classified as being held for sale is that the sale is expected to be completed within one year, there are some allowable exceptions to this. If a delay in the completion of the sale is caused by events or circumstances beyond the agency's control and there is sufficient evidence that the agency remains committed to its plan to sell the asset, then it may still be considered as held for sale.

One example may be the requirement for government approval to sell the asset, and this approval has been delayed through Parliament.

Another example is where market conditions have deteriorated to the extent that the initial sale price is no longer viable. If management does not respond to the change in market conditions by reducing the sale price, for example, then the classification of the asset as being held for sale cannot be extended beyond the initial 12 month period.

Appendix B of AASB 5 provides a list of exceptions to the one-year requirement.

Non-current assets (or disposal groups) that are abandoned are not classified as assets held for sale. These assets (or groups) include those that are to be used to the end of their useful lives and those that are to be disposed of other than through sale.

Assets and liabilities of a subsidiary which an entity will lose control off in a sale plan is to be classified as held for sale regardless of whether a non-controlling interest will be retained after the sale.

## 6.4 MEASUREMENT

Lower of cost or net fair value

A non-current asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell (net fair value).

Assets held for sale are not to be depreciated/amortised, however they are subject to testing for indicators of impairment.

If the sale of the asset is expected to occur beyond one year, any costs to sell are to be measured at their present value. Any increase in the present value of the costs to sell that arises from the passage of time is shown in the Statement of Comprehensive Income as a financing cost.

Immediately prior to an asset being transferred to the class Assets held for Sale, a revaluation of the asset is to occur in compliance with the asset's relevant accounting Standard (eg AASB 116, AASB 138) and normal revaluation principles.

Increase in asset value is a gain

After reclassification of the asset, an agency must ensure that the asset is recognised at the lower of its carrying amount and net fair value.

Write-down of asset value an impairment loss

Any subsequent write-downs in Assets held for Sale are to be recognised as impairment losses. Any subsequent increase in the net fair value of an asset is recognised as a gain. However, the gain must not exceed the cumulative impairment losses that have been recognised, either while the asset was recorded as property, plant and equipment or held for sale.

Gains or losses recognised while the asset is classified as held for sale are to be taken to the Statement of Comprehensive Income. Any gains or losses which have not been recognised by the date of the sale of the asset are to be recognised at the date of derecognition.

Cease 'held for sale' classification if asset no longer meets recognition criteria

If an agency removes an individual asset or liability from a disposal group classified as held for sale, the remaining assets and liabilities of the disposal group to be sold will continue to be measured as a group only if the group continues to meet the recognition criteria in paragraphs 7-9 of AASB 5.

## 6.5 CHANGES TO A PLAN OF SALE

If an asset which has been classified as held for sale no longer meets the recognition criteria, the agency must cease to classify the asset as held for sale, and the asset is to be measured at the lower of its:

- carrying amount before the asset was classified as held for sale, adjusted for any depreciation/amortisation or revaluations that would have been recognised had the asset not been classified as held for sale; and
- recoverable amount at the date of the subsequent decision not to sell.

Changes to value treated as normal revaluation

Any required adjustments to the carrying amount of the asset are to be treated like a normal revaluation, with the amount shown in the Statement of Comprehensive Income, unless the asset has been revalued, in which case the adjustment is to be treated as a revaluation increase or decrease.

## 6.6 DISCLOSURE

Show assets classified as 'held for sale' separately as current assets

Once assets meet the criteria for classification as held for sale, they are to be shown separately on the face of the Statement of Financial Position as current assets. The liabilities of a disposal group classified as held for sale are to be presented separately from other liabilities in the Statement of Financial Position. These assets and liabilities are not to be offset and presented as a single amount.

If the classification of an asset held for sale has changed from previous periods, the comparative information is not to be reclassified or re-presented on the Statement of Financial Position.

Agencies must refer to AASB 5 for disclosure requirements for assets held for sale, particularly as requirements may vary between for-profit entities and not-for-profit entities.

## APPENDIX 6.1 CRITERIA TO TRANSFER NON-CURRENT ASSETS TO HELD FOR SALE CLASSIFICATION

Transfer To/From	Criteria	Treatment
<p><b>Transfer to 'Non-current assets classified as held for sale'</b></p>	<ul style="list-style-type: none"> <li>• Is the non-current asset or disposal group available for immediate sale in its present condition?</li> </ul> <p><b>Indicators:</b></p> <ul style="list-style-type: none"> <li>- the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets; and</li> <li>- to qualify as being available for an immediate sale in present condition, the sale terms should be vacant possession or without any condition of continuing use or occupation by the vendor</li> </ul>	<ul style="list-style-type: none"> <li>• No – Held for sale classification criteria not satisfied</li> <li>• Yes – go to next criterion</li> </ul>
	<ul style="list-style-type: none"> <li>• Is the sale highly probable?</li> </ul> <p><b>Indicators:</b></p> <ul style="list-style-type: none"> <li>- management's commitment to a plan to sell</li> <li>- initiation of an active program to locate a buyer and complete the plan</li> <li>- active marketing for sale at a price commensurate with fair value</li> <li>- expected completion of sale within 12 months from the classification date (however, a held for sale classification is not precluded if the agency remains committed to the sale and the period is extended beyond 12 months due to circumstances beyond the agency's control)</li> <li>- unlikely that the plan will be changed significantly or that the plan will be withdrawn</li> </ul>	<ul style="list-style-type: none"> <li>• No – Held for sale classification criteria not satisfied</li> <li>• Yes – Classification as held for sale applies providing the criteria are met prior to the reporting date</li> <li>- Non-current assets (or disposal group) measured at lower of carrying amount and fair value less costs to sell</li> <li>- Recognise an impairment loss for any initial or subsequent write-down to fair value less costs to sell</li> <li>- Recognise a gain for any subsequent increase in fair value less costs to sell, but not in excess of the cumulative impairment loss that has been recognised either in accordance with AASB 5 or previously in accordance with AASB 136.</li> <li>- An impairment loss on a non-revalued asset is recognised in profit or</li> </ul>

Transfer To/From	Criteria	Treatment
		<p>loss. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset (for profit agencies) or class (not-for-profit agencies) only prior to recognising as held for sale.</p> <ul style="list-style-type: none"> <li>- Assets cease to be depreciated.</li> </ul>

Transfer To/From	Criteria	Treatment
<p><b>Transfer from 'Non-current assets classified as held for sale'</b></p>	<ul style="list-style-type: none"> <li>Criteria for classification as held for sale no longer met e.g. decision to sell is reversed</li> </ul>	<ul style="list-style-type: none"> <li>Asset is reclassified as property, plant and equipment, and is measured at the lower of its:                             <ul style="list-style-type: none"> <li>carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset not been classified as held for sale; and</li> <li>recoverable amount at the date of the subsequent decision not to sell.</li> </ul> </li> <li>Include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale, in income from continuing operations in the period in which the criteria for that classification are no longer met. However, if the asset is property, plant and equipment or an intangible asset that had been revalued in accordance with AASB 116 or AASB 138 before classification as held for sale, the adjustment is treated as a revaluation increase or decrease.</li> <li>Depreciation or amortisation must recommence. If the reclassified asset remains idle, a review of its useful life and residual value should be undertaken.</li> </ul>

## OVERVIEW

This chapter discusses the accounting and reporting requirements for impairment of assets.

This chapter consists of the following sub-sections:

<b>Reference</b>	<b>Sub-section</b>
7.1	Introduction
7.2	Impairment
7.3	Indicators of Impairment
7.4	Recoverable Amount
7.5	Cash-Generating Units
7.6	Recording an Impairment Loss
7.7	Reversing an Impairment Loss
7.8	Disclosure
Appendix	
7.1	Impairment Decision Making
7.2	Examples of Indicators of Impairment
7.3	Checklist for Testing and Adjusting for Impairment

## 7.1 INTRODUCTION

Assess all non-current assets for indicators of impairment

All non-current assets must be assessed for indicators of impairment in accordance with AASB 136 *Impairment of Assets* (AASB 136). Assets held at either cost or fair value are subject to the requirements of this Standard, which applies to both for-profit and not-for-profit agencies.

Write down if materially impaired

The requirements of AASB 136 apply subject to the provisions contained in AASB 1031 *Materiality*. In determining materiality, where assets are tested for impairment and the total change in the written down value for the class of assets or the total impact on depreciation for the class of assets is material, then the impairment loss must be brought to account.

## 7.2 IMPAIRMENT

Definition

Impairment is the decline in the future economic benefits or service potential of an asset, over and above the use reflected through depreciation. Refer to **Appendix 7.1** for flowcharts to assist in determining where impairment may exist.

Test

In general, an asset is impaired when its recoverable amount is less than its carrying amount (refer to section 7.4). If an asset is impaired, it must be written down and an impairment loss recorded.

Review for indications  
- general  
- specific

A review for impairment indicators must be performed and documented annually. **Appendix 7.3** contains a checklist for testing and adjusting for impairment.

Physical and most intangible assets – establish framework to identify indicators

For physical assets and most intangible assets, agencies only have to test an asset for impairment if there are indicators of impairment. Such indicators could be of a general nature, e.g. a prolonged period of drought, or more specific in nature such as a fire in a complex.

## 7.3 INDICATORS OF IMPAIRMENT

Assess for indicators at each reporting date

Agencies must assess every year at reporting date whether there are any **indicators** that an asset may be impaired. The term ‘an asset’ applies equally to an individual asset or a cash generating unit. An entity is not required to make a formal estimate of recoverable amount of an asset if no indicators of impairment are identified.

Agencies are to have a framework in place to ensure that any impairment indicators are identified and if an actual material impairment of an asset’s value exists, that this is reflected in an agency’s asset records and financial statements (refer to process in **Appendix 7.1**, flowchart 2).

### **Example**

If an engineer in the field determined that pipes were cracked and therefore the value of the asset should be impaired, the documented agency framework would outline processes to ensure that:

- the field assessment is recorded in the asset management system;
- an assessment of the value of the impairment is made;
- the determination is notified to the staff maintaining the asset register; and
- the impairment is recorded in the appropriate revaluation surplus/Statement of Comprehensive Income and accumulated impairment losses as appropriate.

**Examples of Indicators and effects**

Indicator - Prolonged drought and resultant water restrictions

Effect to look for - cracked pipes. Inspection finds cracked pipes – assess if there is reduction in value due to inability to supply the same amount of water due to leaks, or a reduction in the asset’s useful life.

Effects of Water restrictions – park fountains no longer being used, or filled in as garden beds, therefore need assessment as to whether there has been an impairment of their value caused by non-use or alternative use.

Further examples are contained in **Appendix 7.2**.

Assess some intangible assets annually for impairment – irrespective of indicators

For intangible assets with an indefinite useful life or an intangible asset not yet available for use, the agency must test for impairment annually, irrespective of whether there are any indicators of impairment, and whenever there is an indication that the intangible asset may be impaired.

The events or circumstances that may indicate the impairment of an asset will generally be significant and will often have prompted discussion by a management group or similar, or the media. Agencies should use judgement in identifying indicators of impairment.

Agencies should refer to AASB 136 (paragraph 12) for a list of minimum considerations for indicators of impairment. The list in the Standard is not exhaustive. **Appendix 7.2** to this Chapter provides some examples of indicators which may be applicable in the public sector.

An indicator of impairment will not always lead to an impairment loss being recorded. If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortisation) method or the residual value for the asset needs to be reviewed and adjusted in accordance with the Standard applicable to the asset, even if no impairment loss is recognised for the asset. Judgement must be used to determine whether it is more appropriate to record an impairment loss, or make other adjustments. Reasons for these decisions must be included in supporting documentation.

**7.4 RECOVERABLE AMOUNT**

Definition

Recoverable amount is determined as the higher of an asset’s net selling price (fair value less costs to sell) and its value-in-use.

**Fair Value less Costs to Sell**

Fair value less costs to sell is the amount obtainable from the sale of the asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Refer to Section 4.3 for guidance on determining fair values.

Costs to sell are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

**Value-in-use**

Value-in-use differs between for-profit and not-for-profit agencies.

**Not-for-Profit Agencies**

Value in use is the asset’s depreciated replacement cost

Where the future economic benefits of an asset are not primarily dependent on the asset’s ability to generate net cash inflows i.e. a commercial return (and where the agency would, if deprived of the asset, replace its remaining future economic benefits) value-in-use is the

depreciated replacement cost of the asset. Further guidance on depreciated replacement cost is provided in Section 4.3.

For the purposes of this policy, the future economic benefits of the assets of not-for-profit agencies have been determined, in most instances, to be held to provide a community service, and not to generate a commercial return. Further, not-for-profit agencies would normally replace the future economic benefits (or service potential) as governments generally tend to maintain the current level of community services as a minimum.

**Example**

If a school burned down, all other things being equal, the Government would want to ensure that these services are maintained, albeit not necessarily in the same location as the asset of which it has been deprived. Therefore, while the actual school assets may not be replaced in that location, the future economic benefits may be provided in another location or another form.

However, where an agency is not using an asset and has made a formal decision not to re-use or replace the impaired asset, the value-in-use would be the present value of net disposal proceeds.

**Example**

This would occur where a policy decision has been made to withdraw from delivering a particular service or delivering it in another way, rendering the assets surplus to requirements.

In the rare instance that a not-for-profit agency holds an asset for its ability to generate a commercial return, the value-in-use will be the present value of the future cash flows expected to be derived from the asset.

**For-Profit Agencies**

Value in use is the present value of future cash flows

For for-profit agencies, value-in-use is the present value of the future cash flows expected to be derived from an asset.

Where agencies receive Community Service Obligations (CSOs), these are to be included in the calculation to determine recoverable amount. For further information on what represents a CSO refer to the Queensland Treasury document *Community Service Obligations – A Policy Framework*, March 1999.

**7.5 CASH-GENERATING UNITS**

In some instances, it may not be possible for a for-profit agency to determine the recoverable amount of an individual asset as they do not generate cash flows independent from other assets.

The cash-generating unit concept is only used when it is not possible to estimate the recoverable amount of an individual asset.

Cash-generating units will generally only be applicable to for-profit agencies.

CGU = the smallest identifiable asset group which generates independent cash inflows

A cash-generating unit is the smallest identifiable group of assets which generates independent cash inflows. Therefore, agencies should start with individual assets, and identify the lowest aggregate of assets that generate largely independent cash inflows.

**Example**

In relation to power lines, an electricity distributor may find it difficult to determine the fair value of a single power line, or the present value of the line's cash flows. If this occurs, the electricity distributor would group together assets to determine recoverable amount. For this example, the smallest number of assets within a power distribution network which generates its own cash inflow would need to be grouped together and the recoverable amount applied to the group.

Another example may be ports. It may be difficult to determine the recoverable amount of a single wharf, so the agency may group together the entire wharf facility, including such assets as the wharves, channels, loading equipment and the private access roads. Again, this must be the smallest grouping of assets which generates its own cash inflow.

Identification of a cash-generating unit to which an asset may belong involves professional judgement by management and ideally should be formally endorsed by a senior level of management.

Once the cash-generating units have been identified, these are to be consistently applied from year to year, unless a change is justified.

The recoverable amount of a cash-generating unit is determined in the same manner as for a single asset of a for-profit agency, i.e. the higher of fair value less costs to sell and the present value of future cash flows expected to be derived from the unit.

CGU is NOT a separate asset for reporting purposes

A cash-generating unit is not a separate asset for reporting purposes. A cash-generating unit is used solely for the determination of impairment losses.

Refer to AASB 136, paragraphs 100-102 for the treatment of impairment of corporate assets that relate to cash-generating units.

## 7.6 RECORDING AN IMPAIRMENT LOSS

An impairment loss is recognised immediately in the Statement of Comprehensive Income, unless the asset is carried at a revalued amount. When an asset is measured at a revalued amount, the impairment loss is to be treated in the same way as a revaluation decrement, i.e. offset against the asset revaluation surplus to the extent available.

Decrement in the revaluation surplus for revalued assets

### For-Profit Agencies

An impairment loss on a revalued asset can only be offset against a revaluation surplus for the same asset.

### Not-for-Profit Agencies

An impairment loss on a revalued asset must be offset against a revaluation surplus for the same class of asset.

Following the recognition of an impairment loss, the depreciation/amortisation charge for the asset is to be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

**Cash Generating Unit – allocating an impairment loss**

Allocate impairment losses to goodwill first

While the impairment loss is determined for a cash-generating unit, the loss is allocated against individual assets. The impairment loss is allocated firstly to reduce the carrying amount of any goodwill and then on a pro-rata basis against the carrying amounts of each asset in the unit.

These reductions in carrying amounts are treated and recognised as impairment losses on individual assets.

Allocation of impairment loss across CGU assets

In allocating an impairment loss of a cash-generating unit across all assets in the unit, an agency must not reduce the carrying amount of an asset below the highest of:

- (a) its fair value less costs to sell (if determinable);
- (b) its value-in-use (if determinable); and
- (c) zero.

If the entire amount of an impairment loss cannot be allocated to an individual asset due to the rules above, the remaining impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the cash-generating unit.

**7.7 REVERSING AN IMPAIRMENT LOSS**

Goodwill impairment losses cannot be reversed

An impairment loss can be reversed for all assets other than goodwill.

Annual assessment of indicators of reversal

At each reporting date, an agency must assess whether there is any indication that a previously recognised impairment loss may no longer exist or may have decreased. If an indication exists, the agency must again determine recoverable amount.

An impairment loss can only be reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. AASB 136 provides examples of changes in estimates in paragraph 115.

Allocation of reversal of impairment loss across CGU assets

In reversing an impairment loss, the same rules apply as to those when impairment losses are initially recognised, in that the reversal is recognised immediately in the Statement of Comprehensive Income, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

In relation to **for-profit agencies**, a reversal of an impairment loss on a revalued asset can only be offset against a prior decrement to the extent available for the same asset.

In respect of **not-for profit agencies**, a reversal of an impairment loss on a revalued asset can only be offset against a prior decrement for the same class of asset.

Need to maintain record of asset exclusive of impairment loss

When reversing the impairment loss of an individual asset, the increased carrying amount must not exceed the carrying amount that would have been determined had no impairment loss been recognised. As a result, agencies must ensure that they maintain a record of the value of the asset exclusive of the impairment loss.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset must not be increased above the lower of:

- (a) its recoverable amount (if determinable); and
- (b) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

Any amount of a reversal of an impairment loss that cannot be allocated to an individual asset due to the rules above is to be allocated pro rata to the other assets of the unit. Goodwill is not to be included in the allocation process.

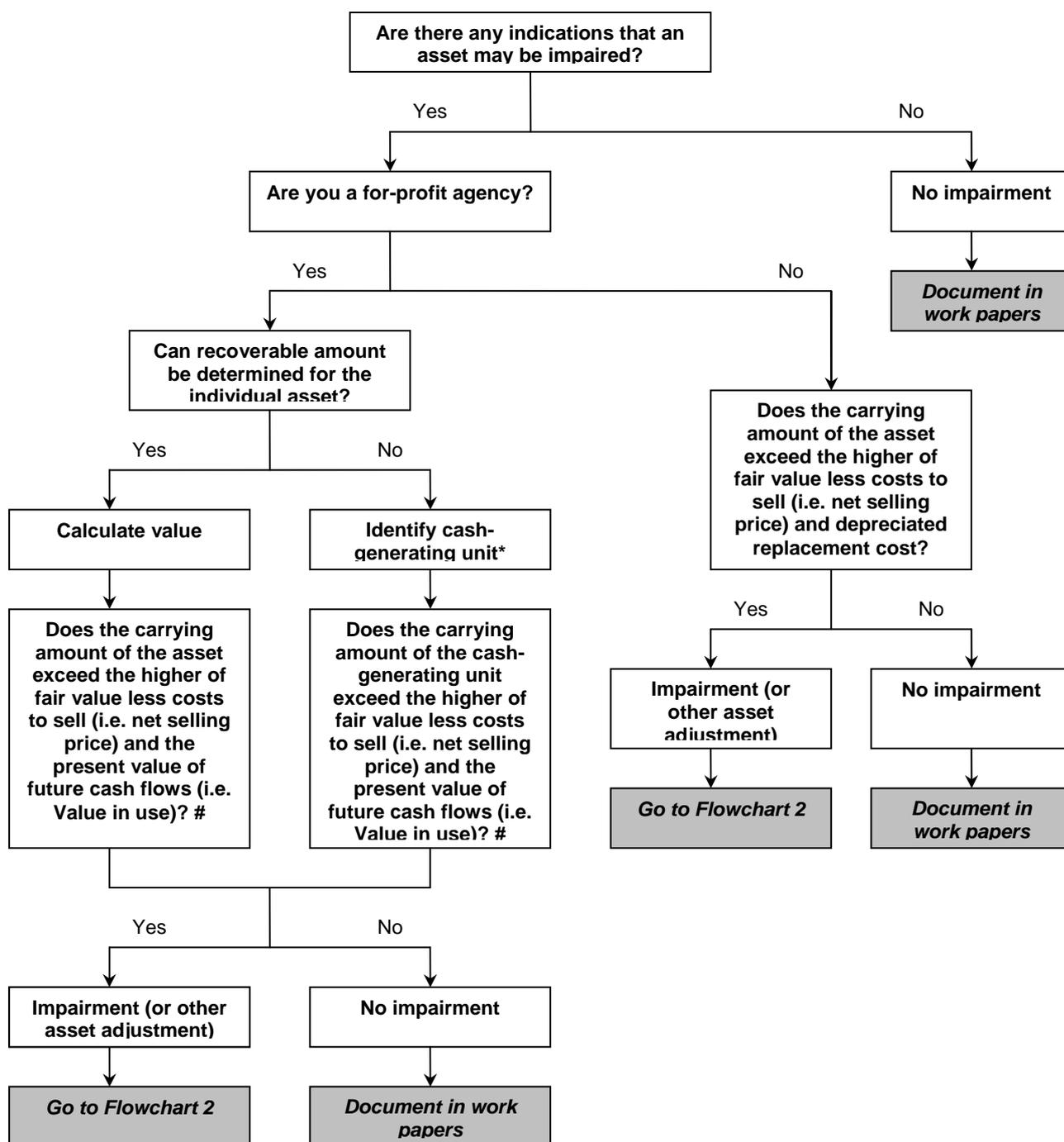
## 7.8 DISCLOSURE

Agencies are to make the relevant disclosures in relation to impairment in accordance with paragraphs 126, 129, 130, 131, 133, 134 and 135 of AASB 136.

Further, to ensure transparent reporting, an additional line of disclosure is to be included in the notes to the financial statements so that Accumulated Impairment Losses is disclosed separately from Accumulated Depreciation.

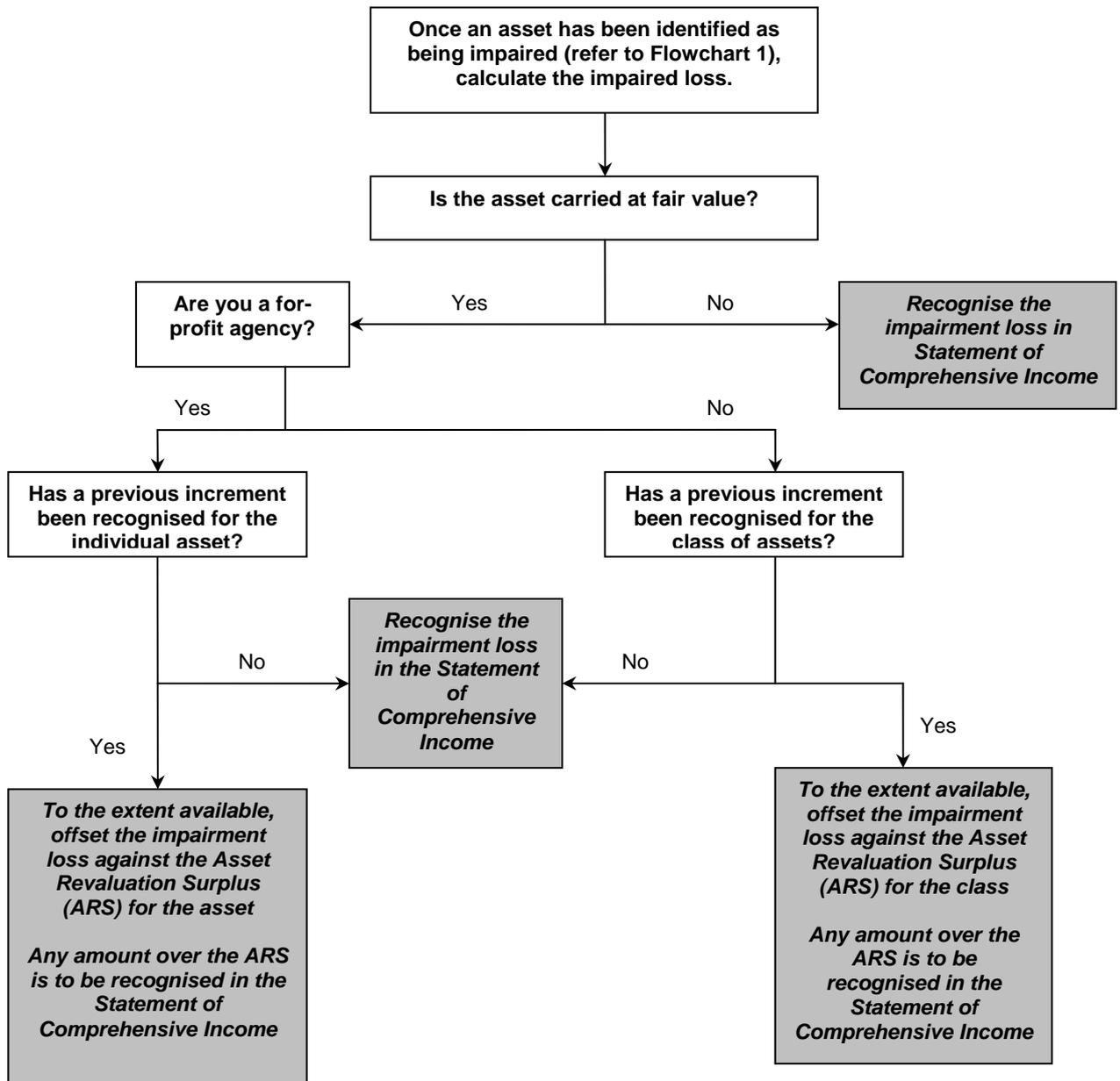
## APPENDIX 7.1 IMPAIRMENT DECISION MAKING

Flowchart 1 - Is An Asset Impaired?



\*Would be rare to have cash-generating unit in a not-for-profit agency  
 #Value in use for for-profit entities

**Flowchart 2 - How is an Impairment Loss Recognised?**



## APPENDIX 7.2 EXAMPLES OF INDICATORS OF IMPAIRMENT

(Some of the following examples have been taken from IPSAS 21 – Impairment of Non-Cash Generating-Assets)

### (a) Cessation of the demand or need for services provided by the asset

The asset still maintains the same service potential, but demand for that service has ceased.

#### **Examples**

A school closed because of a lack of demand for school services arising from a population shift to other areas. It is not anticipated that this demographic trend affecting the demand for the school services will reverse in the foreseeable future.

A railway line closed due to lack of patronage (for example, the population in a rural area has substantially moved to the city due to successive years of drought and those who have stayed behind use the cheaper bus service).

A convention centre or stadium whose principal lessee does not renew its lease with the result that the facility is expected to close.

### (b) Significant long-term changes in the technological environment with an adverse effect on the agency

The service utility of an asset may be reduced if technology has advanced to produce alternatives that provide better or more efficient service.

#### **Examples**

Medical diagnostic equipment is rarely or never used because a newer machine embodying more advanced technology provides more accurate results.

Software is no longer being supported by the external supplier because of technological advances and the agency does not have the personnel to maintain the software.

Computer hardware has become obsolete as the result of technological development.

### (c) Significant long-term changes in the legal or government policy environment

An asset's service potential may be reduced as a result of a change in a law or regulation.

#### **Examples**

An automobile does not meet new emission standards or a plane that does not meet new noise standards.

A school can no longer be used for instruction purposes due to new safety regulations regarding its building materials or emergency exit procedure.

A water treatment plant cannot be used because it does not meet new environmental standards.

**(d) Evidence is available of physical damage of an asset**

Physical damage would likely result in the asset being unable to provide the level of service that it once was able to provide.

**Examples**

A building damaged by fire or flood or other factors.

A building closed due to identification of structural deficiencies.

Sections of an elevated roadway that have sagged, indicating that that segment of roadway will need to be replaced in 15 years rather than the original design life of 30 years.

A dam whose spillway has been reduced as a result of a structural assessment.

A water treatment plant whose capacity has been reduced by intake blockage and the removal of the blockage is not economical.

A bridge is weight-restricted due to identification of structural deficiencies.

Equipment is damaged and can no longer be repaired or for which repairs are not economically feasible.

**(e) Significant long-term changes in the extent to which an asset is used, or is expected to be used, with an adverse effect on the agency**

If an asset is not being used to the same degree as it was when originally put into service or the expected useful life of the asset is shorter than originally estimated, the asset may be impaired. A significant long-term decline in the demand for an asset's services may translate itself into a significant long-term change in the extent to which the asset is used.

**Example**

A mainframe computer that is underutilized because many applications have been converted or developed to operate on servers or PC platforms.

**(f) Significant long-term changes in the manner in which an asset is used, or is expected to be used, with an adverse effect on the agency.**

If the asset is not being used in the same way as it was when originally put into service, the asset may be impaired.

**Example**

A school building that is being used for storage rather than for educational purposes.

- (g) **Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected**

Internal reports may indicate that an asset is not performing as expected or its performance is deteriorating over time.

**Example**

An internal health department report on operations of a rural clinic may indicate that an x-ray machine used by the clinic is impaired because the cost of maintaining the machine has significantly exceeded that originally budgeted.

- (h) **Market for the asset under construction declines**

If the market in which the work in progress asset operates declines, the asset would be impaired

**Example**

The market for investment property may decline. This may indicate that a property under construction is impaired because of the decline in value as a result of the market decline.

### APPENDIX 7.3 CHECKLIST FOR TESTING AND ADJUSTING FOR IMPAIRMENT

This self assessment checklist for identifying and accounting for impairment will help to ensure your agency’s impairment processes for property, plant and equipment reflect better practice. The questions in this checklist should be revisited regularly to facilitate continued compliance with the *Non-Current Asset Policies for the Queensland Public Sector* and AASB 136 *Impairment of Assets*.

This checklist was compiled on a not-for-profit basis and is intended to provide guidance to not-for-profit agencies to assist the impairment testing and adjusting process.

Objective

To ensure the agency’s property, plant and equipment has been reliably assessed for impairment and adjusted (where necessary).

No	Question	Yes	No	Improvements/ Actions Required
<b><u>SYSTEMS</u></b>				
1	<ul style="list-style-type: none"> <li>Does the agency have a comprehensive framework (including a governance framework) in place for the annual testing for impairment of its property, plant and equipment?</li> <li>Does this framework consider the identification of cash generating units (CGUs) (where applicable)?</li> <li>Are these systems/processes adequately documented in the agency’s Financial Management Practice Manual?</li> </ul>	<input type="checkbox"/>   <input type="checkbox"/>   <input type="checkbox"/>	<input type="checkbox"/>   <input type="checkbox"/>   <input type="checkbox"/>	<input type="checkbox"/>   <input type="checkbox"/>   <input type="checkbox"/>
2	<ul style="list-style-type: none"> <li>Has a responsible officer been assigned by management to undertake annual impairment testing of property, plant and equipment?</li> <li>Does the responsible officer have the appropriate skills, competencies and experience in impairment accounting for property, plant and equipment?</li> </ul> <p>For example – skills and experience from impairment testing in prior years; a working knowledge of Australian Accounting Standards, or a strong working relationship with the asset manager/accounting manager.</p>	<input type="checkbox"/>  <input type="checkbox"/>	<input type="checkbox"/>  <input type="checkbox"/>	<input type="checkbox"/>  <input type="checkbox"/>
3	<ul style="list-style-type: none"> <li>Are the accounting policies relating to the impairment of property, plant and equipment understood by personnel co-ordinating or involved in the testing and accounting for impairment process (including the systems accountant)? Refer to the <i>Non-Current Policies for the Queensland Public Sector</i> and AASB 136 <i>Impairment of Assets</i>.</li> <li>Are the accounting policies relating to the impairment of property, plant and equipment implemented into agency systems, processes, and the Financial Management Practice Manual and other agency specific policies?</li> </ul>	<input type="checkbox"/>  <input type="checkbox"/>	<input type="checkbox"/>  <input type="checkbox"/>	<input type="checkbox"/>  <input type="checkbox"/>
4	<ul style="list-style-type: none"> <li>Are the results of the annual impairment process and related adjustments explicitly endorsed by senior management?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	<ul style="list-style-type: none"> <li>Does the Audit Committee review the controls over the total</li> </ul>			

	<p>asset management system and scrutinise the asset impairment policies, processes and/or outcomes?</p> <ul style="list-style-type: none"> <li>If the Audit Committee has an oversight role in asset measurement, is there regular reporting to that committee on the outcomes of the impairment testing and/or adjustment process?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b><u>INDICATORS OF IMPAIRMENT</u></b>				
6	<ul style="list-style-type: none"> <li>Has the agency identified all key stakeholders involved in identifying the indicators of impairment (eg regional offices, external valuers, executive management, Audit Committee, external auditors and internal auditors)?</li> <li>Has the agency identified and documented a comprehensive range of asset/asset class indicators of impairment – including both external and internal indicators that are specific to the types of property, plant and equipment the agency holds, and the range of activities that the agency undertakes?</li> <li>Is this list critically reviewed annually and revised if appropriate, and as soon as practicable after any machinery of Government changes to your agency (to take into account the consequential changes in property, plant and equipment and activities)?</li> <li>Have any key inputs into impairment indicators changed?</li> <li>Has the agency developed and implemented an agreed format, and minimum information required for the working papers relating to annual reviews of indicators of impairment?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	<ul style="list-style-type: none"> <li>Have asset/asset class indicators of impairment been endorsed by the Audit Committee?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	<ul style="list-style-type: none"> <li>Have agency specific impairment indicators and policies been reviewed, and modified where appropriate, in the context of the current economic environment?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b><u>IMPAIRMENT TESTING AND ADJUSTMENTS</u></b>				
9	<ul style="list-style-type: none"> <li>Has the agency identified and developed key assumptions for the testing of its property, plant and equipment for impairment?</li> <li>Is there sufficient substantiation of the assumptions underlying any impairment, including objective evidence, to support the impairment calculation, or to refute the need to impair?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	<ul style="list-style-type: none"> <li>Has the agency identified the types of objective evidence required to support any adjustments made for impairments (eg. statistical data, memos, newspaper articles or other documentation related to potential impairments)?</li> <li>During the examination process, did the agency access a</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	wide range of information that extends beyond that traditionally gathered for accounting purposes – e.g. from sources such as operational staff, legal, administrative and managerial processes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	<ul style="list-style-type: none"> <li>Does the agency have in place a documented methodology for the determination of impairment adjustments, based on identified impairment indicators for the agency's assets?</li> <li>Where impairment is identified in a CGU, is there a documented methodology for the determination and allocation of impairment adjustments across assets within the CGU?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	<ul style="list-style-type: none"> <li>Where there are one or more indicators of impairment, has the agency prepared reliable and comprehensive documentation to substantiate the calculation of material impairment?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>FINANCIAL REPORTING DISCLOSURES</b>				
13	<ul style="list-style-type: none"> <li>For each class of asset, has the agency disclosed the amount of impairment loss recognised in the Statement of Comprehensive Income during the period?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	<ul style="list-style-type: none"> <li>For each class of asset, has the agency disclosed the amount of reversals of impairment losses recognised in the Statement of Comprehensive Income?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15	<ul style="list-style-type: none"> <li>For each class of asset, has the agency disclosed the amount of impairment loss on revalued assets recognised as an offset to the asset revaluation surplus?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16	<ul style="list-style-type: none"> <li>For each class of asset, has the agency disclosed the amount of reversals of impairment losses on revalued assets recognised as an offset to the asset revaluation surplus?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17	<ul style="list-style-type: none"> <li>For each material impairment, has the agency disclosed:                             <ul style="list-style-type: none"> <li>✓ the events and circumstances leading to the impairment? (refer to para 130(a) in AASB 136);</li> <li>✓ the amount of the impairment? (refer to para 130(b) in AASB 136).</li> </ul> </li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18	<ul style="list-style-type: none"> <li>For each material impairment of an individual asset, has the agency disclosed:                             <ul style="list-style-type: none"> <li>✓ the nature of the asset? (refer to para 130(c)(i) in AASB 136);</li> <li>✓ the reportable segment to which the asset belongs, if applicable? (refer to para 130(c)(ii) in AASB 136).</li> </ul> </li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19	<ul style="list-style-type: none"> <li>For each material impairment of a cash-generating unit, has the agency provided or disclosed the following:                             <ul style="list-style-type: none"> <li>✓ a description of the cash generation unit? (refer to para 130(d)(i) in AASB 136);</li> <li>✓ the amount of the impairment and reportable segment (if applicable)? (refer to para 130(d)(ii) in AASB 136);</li> </ul> </li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	<ul style="list-style-type: none"> <li>✓ any change in the aggregation of assets for identifying the cash-generation unit? (refer to para 130(d)(iii) in AASB 136).</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20	<ul style="list-style-type: none"> <li>• For each material impairment, has the agency disclosed:                             <ul style="list-style-type: none"> <li>✓ whether the recoverable amount of the asset is its fair value less costs to sell, or its value in use? (refer to para 130(e) in AASB 136);</li> <li>✓ if the recoverable amount is fair value less costs to sell, the basis used to determine this amount? (refer to para 130(f) in AASB 136);</li> <li>✓ if the recoverable amount is value in use, the discount rate used in the current estimate and the previous estimate of the value in use? (refer to para 130(g) in AASB 136).</li> </ul> </li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
21	<ul style="list-style-type: none"> <li>• Where the agency has not disclosed any information on aggregate impairment losses/reversals in accordance with para 130 of AASB 136, has it provided information on:                             <ul style="list-style-type: none"> <li>✓ the main classes of assets affected by impairment losses/reversals? (refer to para 131(a) in AASB 136);</li> <li>✓ the main events and circumstances leading to the recognition of these losses/reversals? (refer to para 131(b) in AASB 136)</li> </ul> </li> </ul>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>

## OVERVIEW

This chapter discusses depreciation and amortisation concepts.

This chapter consists of the following sub-sections:

<b>Reference</b>	<b>Sub-section</b>
8.1	Definitions and Concepts
8.2	Appropriate Depreciation Bases
8.3	Appropriate Depreciation Methods
8.4	Non Complying Methods of Depreciation
8.5	Changes in Depreciation
8.6	Other Depreciation Issues
8.7	Disclosures

## 8.1 DEFINITIONS AND CONCEPTS

### Depreciation, Amortisation and Depreciable Asset

Non-current assets with a limited useful life must be depreciated / amortised

Where non-current assets, including intangible assets, have a limited useful life they must be depreciated in accordance with the requirements of AASB 116 *Property, Plant and Equipment* (AASB 116) and AASB 138 *Intangible Assets* (AASB 138). The term 'depreciation' should be used when referring to non-current assets that have physical substance. The term 'amortisation' is used in relation to intangible assets and finance leases.

Definitions

AASB 116 defines depreciation as:

*the systematic allocation of the depreciable amount of an asset over its useful life;*

and

AASB 138 defines amortisation as:

*the systematic allocation of the depreciable amount of an intangible asset over its useful life.*

Essentially, depreciation is an allocation process, in which the cost of an asset or any other amount substituted for cost, (less any expected residual value) is systematically allocated over the useful life of the asset to the agency, that is, the time over which it is expected to earn revenue or provide service potential to the agency.

In accordance with the definition, the depreciable amount of an asset should be allocated on a systematic basis over its expected remaining useful life to the agency. Critical to the exercise of recognising depreciation expense is estimating correctly the depreciable amount of the asset and its useful life.

With the exception of land, investment property measured at fair value and some unique heritage and cultural assets, most non-current physical assets have limited useful lives and their service potential diminishes over time to a point where it is entirely consumed or lost.

#### *Exclusions*

The following assets are not depreciated or amortised:

- inventories, as they are current assets;
- non-current assets whilst classified as held for sale or while they are part of a disposal group classified as held for sale (Refer AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations*, paragraph 25);
- items held pursuant to the terms of an operating lease (Refer AASB 117 *Leases*, paragraph 33);
- an intangible asset with an indefinite useful life (Refer AASB 138 paragraph 107);
- investment property accounted for under the fair value model (refer AASB 140 *Investment Property* paragraphs 33 and 35);
- land, where its service potential is not expected to diminish with time or use (refer AASB 116, paragraph 56);
- heritage and cultural assets (e.g. works of art, objets d'art, rare books and manuscripts, library collections, museum pieces and unique historical objects) with indefinite lives i.e. where their service potential is not expected to diminish with time or use, and for which curatorial and preservation policies are demonstrated to be in place (refer AASB 116, Implementation Guidance paragraphs G3 and G4);

- self generating and regenerating assets carried at fair value, the accounting for which is covered by AASB 141 *Agriculture* (paragraphs 10-30); and
- work in progress assets, as depreciation only begins when an asset is available for use i.e. in the location and condition necessary for it to be capable of operating in the manner intended by management (refer AASB 116, paragraph 55).

### Criteria for the Recognition of Depreciation Expense

The criteria for the depreciation of a non-current physical asset are that the asset has a cost that can be depreciated i.e. a depreciable amount, and it has a useful life that can be estimated.

#### *Concept of 'Depreciable Amount'*

AASB 116 defines 'depreciable amount' as:

*the cost of an asset, or other amount substituted for cost, less the residual value*

and 'useful life' as

*the period over which an asset is expected to be available for use by an agency*

or

*the number of production or similar units expected to be obtained from the asset by an agency*

Residual value is defined in AASB 116 as:

*the estimated amount that an entity would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life .*

#### **Example**

If an agency purchased an asset with a limited life for \$30,000 and the amount expected to be recovered when it is disposed of by the agency is nil, the depreciable amount is \$30,000. If the residual value expected to be recovered at the end of the asset's useful life is \$5,000, the depreciable amount would be \$25,000

#### *Concept of the 'Useful Life' of an Asset*

The following factors are relevant in determining the useful life of non-current physical assets:

- expected usage of the asset i.e. its output;
- expected physical wear and tear, although a planned maintenance program may extend the useful life;
- technical or commercial obsolescence e.g. technological innovations in newer, similar assets may render an asset's useful life shorter than what might have otherwise been the case; and
- legal or similar limits on the use of an asset such as the expiry date of related leases, or compulsory replacement of assets for safety reasons e.g. aircraft, elevators.

Base useful life on past experience and asset planning

In addition, and most importantly, the estimation of useful life should be based on the agency's past experience and its realistic planned replacement program as outlined in its asset planning. Tensions often exist between the replacement timeframes estimated by engineers and those in which fiscal provision has been made for asset replacement. If an asset is expected to be used by an agency beyond an 'ideal' or 'optimum' replacement timeframe, the extended period is the useful life which should be used. This assessment is a matter requiring professional judgment to be exercised at each reporting date.

Estimated useful life – engineer's estimates versus fiscal reality

The useful life of a depreciable asset to one agency may well differ from the useful life to another agency or even within the same agency as a result of differing use or service requirements e.g. the estimated life of sensitive technical equipment in North Queensland may well be less than similar equipment located in Brisbane, due to climatic differences.

The useful life of an asset to an agency may be shorter than its economic life.

**Example**

An agency has been depreciating its servers over a 3 year timeframe using the straight line basis as their method of depreciation. A review of useful lives indicated that servers have typically been in service in the agency for 5 years. On this basis, the annual depreciation rate should be adjusted over the remaining period with the asset having a total useful life of 5 years. Worked examples of such changes are demonstrated in section 8.5.

**Recognition**

Depreciation expense commences from the time the asset is first put into use or held ready for use (usually from the end of the relevant month). Where an asset is a complex structure made up of interdependent sub-structures which require installation in successive stages, it must be considered as being held ready for use only after installation has been completed to a stage where service or a saleable product can be obtained.

Cease depreciating only when classified as held for sale or derecognised – whichever is earlier

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations* and the date that the asset is derecognised.

Continue depreciating idle assets unless fully depreciated

Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

**8.2 APPROPRIATE DEPRECIATION BASES**

Use most appropriate basis to depreciate assets

The two most common bases for depreciating assets over their useful lives are the time basis or the output/service basis. Agencies must choose the basis which is most suitable for the assets they hold.

The decision to select a time or output basis for depreciation charges will be a policy decision having regard to the manner in which the subject asset will deliver its embodied economic benefits over its useful life.

**Time Basis**

Using the time basis, the useful life of an asset is determined by the following factors:

- expected physical wear and tear;
- obsolescence (both technical and commercial); and
- legal and other limits on the use of the asset.

The useful life of an asset is normally the shortest of the applicable alternatives. As an example, computer hardware may have a physical life of ten years but become technically obsolete within five years.

In this case the appropriate life is five years provided replacement is based on technical obsolescence. Should an agency decide to use a non-current physical asset beyond the ideal or optimum replacement timeframe, then the depreciable amount should be allocated over the longer period.

#### **Output/Service Basis**

This basis is appropriate where the service potential of an asset is expected to be extinguished in direct proportion to the utilisation of the asset and before the asset becomes technically or commercially obsolete.

#### **Example**

An item of equipment may lose its required accuracy after the production of one million units but may still produce less accurate units for a further ten years. The agency, however, requires the equipment to produce accurate units and the asset will therefore not be used after having produced one million units.

If it is estimated that 200,000 units will be produced in a year, then the overall output basis is a more appropriate method, as the accuracy limit will be reached before the expiry of the asset's physical life. Therefore, on an output basis, the estimated useful life would be one million units.

### **8.3 APPROPRIATE DEPRECIATION METHODS**

The key issue in the selection of an appropriate method of depreciation is that the method chosen must closely reflect the expected pattern of consumption of the future economic benefits embodied in the asset.

Apply method consistently

The method chosen must be applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.

#### **Time Based Methods**

Within the time basis for the depreciation of non-current assets, the two most common methodologies used are the straight line method and the reducing balance method.

##### *Straight Line Method*

The straight line method allocates the depreciable amount in approximately equal amounts in each accounting period over the useful life of the asset being depreciated.

#### **Example**

If an asset had a cost of \$20,000, a residual value of \$2,000 and a useful life of five years, an amount of \$3,600 would be recorded each year as depreciation under the straight line method  $[(20,000-2,000)/5]$ .

The method would be suitable for use in depreciating assets which deliver their embodied economic benefits in approximately equal quantities in each accounting period over their useful lives.

*Reducing Balance Method*

The reducing balance method allocates larger amounts of the depreciable amount in the earlier periods of an asset’s useful life and lesser amounts in the later periods and would be suitable for use in depreciating assets whose embodied economic benefits are delivered in a similar pattern.

**Example**

If an asset cost \$40,000 and was to be depreciated at 20% per annum of the reducing balance, the depreciation charges would be as follows:

Year 1	20% x \$40,000	=	\$8,000
Year 2	20% x \$32,000	=	\$6,400
Year 3	20% x \$25,600	=	\$5,120
Year 4	20% x \$20,480	=	\$4,096
Year 5	20% x \$16,384	=	\$3,277

The residual value of the asset at the end of year five should be approximately \$13,107.

*Other Methods*

Other methods of allocating the depreciable amount over time may also be appropriate. As an example, the depreciable amount could be allocated over time in a way that reflects the expected deterioration in the condition of an asset based on engineering estimates or previous experience with similar assets.

**Output/Service Based Method**

The allocation of depreciation should be based on the actual output or service quantities in each reporting period and may vary between reporting periods. In this instance, depreciation is calculated using the following formula:

$$\frac{\text{Actual output or service during depreciation period}}{\text{Estimated useful life in output or services}} \times \frac{\text{Depreciable Amount}}{1}$$

The use of the output/service basis requires a systematic basis for measuring the service potential consumed.

**Example**

Assume that an asset with a depreciable amount of \$100,000 has an estimated output over its useful life of 1,000,000 units. If it was planned to produce 10,000 units in a particular year, then the depreciation expense for that year would be \$1,000.

**8.4 NON COMPLYING METHODS OF DEPRECIATION**

Condition based depreciation methods not permitted

Interpretation 1030 *Depreciation of Long-Lived Physical Assets: Condition Based Depreciation and Related Matters* does not permit the adoption of condition-based

depreciation or any other method of depreciation that includes any of the characteristics detailed in paragraph 8 of the Interpretation. Condition-based depreciation can be used only where its characteristics conform to the criteria detailed in AASB 116 for the recognition of depreciation.

The 'renewals' approach, that measures depreciation as the amount necessary to restore an asset to its original condition, is not permitted.

## 8.5 CHANGES IN DEPRECIATION

Useful life changes are changes in accounting estimates

Depreciation policies, including the method of depreciation, must be applied consistently and accurately reflect the pattern of consumption of economic benefits to be delivered by the asset over its estimated useful life to the agency.

AASB 116 requires that the residual value and the useful life of an asset be reviewed **at least** at the end of each annual reporting period. If expectations differ from previous estimates (i.e. expectations with respect to the depreciable amount or the useful life of the asset) the consequential change in the rate of depreciation is to be accounted for as a change in an accounting estimate in accordance with paragraphs 32-38 of AASB 108.

Adjustments to the estimated useful life shall be done in the earliest year in which a change is deemed necessary. This will achieve an allocation of cost that most closely aligns with the consumption of the asset. Adjustments to estimated useful life left to the period when the asset is almost fully depreciated are to be avoided, wherever possible.

### **Example**

Agency XYZ has established a process where a report is generated a few months prior to the end of each financial year to review remaining useful life estimates. While the estimated useful life of all estimates is carefully reviewed, particular attention is focussed on those assets where 75% or more of the asset's estimated useful life has elapsed.

XYZ then conducts an independent review to assesses whether the useful lives indicated on the report are an accurate reflection of how long the agency estimates it will use the assets and makes any necessary adjustments to the assets useful lives. Should any assets listed on the report be used in the regions, the respective persons in each of the regions are consulted prior to any necessary adjustments being made.

This process not only meets the requirement of paragraph 51 of AASB 116 which requires at least an annual review of the residual value and useful life of an asset, but also mitigates against assets still in use being fully depreciated.

Depreciation method changes are policy changes accounted for retrospectively

A change in depreciation method e.g. from units of use to straight line, will be a change of policy requiring **retrospective** adjustment and must be treated in accordance with the requirements of AASB 108.

Any change in the calculation of depreciation e.g. useful life, residual value, will be a change in accounting estimate and adjusted **prospectively**. A material change in consumption requiring the method to be changed is also treated as a change in an accounting estimate. Disclosure must be made in accordance with the requirements of AASB 108.

### **Example - Straight Line Method**

A machine was purchased on 1 July 20X0 for \$100,000. The estimated useful life is ten years with a residual value of zero. The machine is depreciated on a straight line basis.

On 30 June 20X4, after charging four years depreciation (4 x \$10,000 = \$40,000), it was decided that the machine's remaining useful life to the agency would be a further 12 years.

In this instance, there would be no adjusting journal entry at 30 June 20X4, as retrospective adjustments to depreciation are not permitted. However, the journal entry to record the depreciation expense in subsequent years would be:

Depreciation expense – machinery	Dr	5,000
Accumulated depreciation – machinery		Cr 5,000

The change in useful life has resulted in a new depreciable amount (\$100,000-\$40,000) and a remaining useful life of 12 years from the date of the change.

**Example - Reducing Balance Method**

Assume the same set of facts as above. However to depreciate the asset over ten years leaving as small an adjustment as possible to the depreciation charge at the end of the tenth year, a reducing balance rate of 40% will have to be applied.

The depreciation charges for the four years will be as follows:

Year 1	\$100,000	@	40%	=	\$40,000
Year 2	\$ 60,000	@	40%	=	\$24,000
Year 3	\$ 36,000	@	40%	=	\$14,400
Year 4	\$ 21,600	@	40%	=	\$ 8,640

At 30 June 20X4, the reduced balance of the asset will be \$12,960 and again there will be no adjusting journal entry at 30 June 20X4.

The rate of depreciation will have to be reduced to 20% in order to fully depreciate the asset at the end of the remaining useful life of 12 years.

Depreciation charges for the next 12 years follow:

Year 5	\$12,960	@	20%	=	\$ 2,592
Year 6	\$10,368	@	20%	=	\$ 2,073
Year 7	\$ 8,295	@	20%	=	\$ 1,659
Year 8	\$ 6,636	@	20%	=	\$ 1,327
Year 9	\$ 5,309	@	20%	=	\$ 1,061
Year 10	\$ 4,248	@	20%	=	\$ 849
Year 11	\$ 3,399	@	20%	=	\$ 679
Year 12	\$ 2,720	@	20%	=	\$ 544
Year 13	\$ 2,176	@	20%	=	\$ 435
Year 14	\$ 1,741	@	20%	=	\$ 348
Year 15	\$ 1,393	@	20%	=	\$ 278
Year 16	\$ 1,115	@	20%	=	\$ 223

The balance remaining of \$892 would be written off upon disposal of the asset.

## 8.6 OTHER DEPRECIATION ISSUES

### Re-Lifing Fully Depreciated Assets

Re-lifing is not permitted if asset at cost and fully-depreciated

Where an asset is carried at cost, should it transpire that the asset still has some useful life after it has been fully depreciated, re-lifing or revaluation of the asset will **not** be possible.

Where an asset is carried at fair value the revaluation process should ensure an asset will not still have some useful life after it has been fully depreciated.

Where large numbers of assets are fully depreciated and are still in use, a review of the depreciation rate or annual review processes may be warranted. Annual reviews of non-current physical assets should ensure that a situation will not arise where fully depreciated assets are still in use.

### Disaggregation of Assets for Depreciation

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and has a materially different useful life is to be depreciated separately.

Some assets, for example a power station, may consist of a number of integral components that will function only when all components are combined. Discrete components of the asset may have different useful lives and different methods and rates of depreciation. Chapter 3 *Complex Assets and their Significant Components* contains detailed criteria for the identification of significant components.

#### **Example**

One component of a dam is its gates. The dam, excluding the gates, may have a useful life of 100 years, but the gates may only have a useful life of 20 years. In this instance, the gates should be depreciated over 20 years and the other components of the dam over 100 years.

It is not necessary to separately depreciate each individual component of complex assets. However, depreciation should be calculated separately where failure to do so would make a material difference to the annual depreciation expense of the asset.

### Work in Progress

Work in progress must not be depreciated. Only once an asset is available for use should depreciation commence i.e. when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management.

### Subsequent Costs

Capitalised costs are to be depreciated as part of the asset

Costs incurred subsequent to a non-current physical asset first having been put into use, or held ready for use, must be added to the carrying amount of that asset and depreciated, *where it is probable that future economic benefits will occur, in excess of the originally assessed performance of the asset.* Subsequent costs which have been capitalised shall be depreciated over the remaining useful life of the asset to which they relate.

These increased future economic benefits can result from an increase in the annual output of the asset, or an increase in its useful life or both. An example is the modification of an item of plant to extend its useful life or increase its capacity thereby increasing the service potential of the asset.

AASB 116 identifies major inspections as costs to be capitalised.

All other costs must be expensed in the reporting period in which they are incurred.

**Spares**

Major spare parts and standby equipment qualify as property, plant and equipment when an agency expects to use them during more than one period. Where such spares can be used only in connection with a particular asset and do not have a separate useful life to the asset, they must be depreciated over the useful life of the asset. Spares are distinguishable from stores and supplies which are normally consumed on an ongoing basis. Stores and supplies are to be recognised in terms of AASB 102 *Inventories*.

**Revaluations and Accumulated Depreciation**

AASB 116 requires that when an item of property, plant and equipment is revalued, any accumulated depreciation at the date of revaluation is treated in one of the following ways:

When revaluing, agencies must use the proportional restatement method

- Restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount; or
- Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The proportional restatement method is Treasury’s mandated method. It is important the external valuers (if external valuers are involved) are instructed that their valuation must be conducted in accordance with this method.

**Example – Revaluation Increase**

An item of equipment was purchased for \$100,000 with a residual value of \$10,000 and was to be depreciated at 10% straight line. After three years, the asset was revalued at a written down value of \$75,000 with residual value remaining the same (current written down value - \$73,000).

*Proportional Restatement*

Asset	Dr	2,740	
Accumulated depreciation			Cr 740
Asset revaluation surplus			Cr 2,000

*(Proportional restatement; revaluation of plant and equipment from \$73,000 to \$75,000 WDV)*

**Calculation**

*Gross Value – 75,000 ÷ 73,000 \* 100,000 = 102,740*  
*Accumulated Depreciation – 75,000 ÷ 73,000 \* 27,000 = 27,740*

**Example – Revaluation Decrease**

An item of equipment (classified as Major Plant & Equipment) was purchased for \$100,000 with a residual value of \$10,000 and was depreciated at 10% straight line. After three years the asset was revalued at a written down value of \$65,000 with residual value remaining the same (current written down value - \$73,000).

*Proportional Restatement*

Accumulated Depreciation	Dr	2,959	
Expense (if not revalued) or			
Asset revaluation surplus – Major Plant & Equipment			
(where asset had previously been revalued up)	Dr	8,000	
Major Plant & Equipment – Asset			Cr 10,959

(Proportional restatement; revaluation of Major Plant & Equipment \$73,000 to \$65,000)

**Calculation**

Gross Value –  $65,000 \div 73,000 * 100,000 = 89,041$

Accumulated Depreciation –  $65,000 \div 73,000 * 27,000 = 24,041$

Depreciation charge is an expense

**Point of Recognition for Depreciation**

The depreciation charge for each period is to be recognised in profit or loss unless it is included in the carrying amount of another asset. For example, AASB 102 *Inventories* requires that a systematic allocation of fixed and variable production overheads be included in the cost of converting materials to finished goods. Fixed production overheads would normally include depreciation expense.

Also, AASB 111 *Construction Contracts* identifies depreciation of plant and equipment as being a cost that would relate directly to a construction contract and should be so recognised.

**Investment Property**

AASB 140 *Investment Property* provides for a fair value model or a cost model to be used for valuing an investment property. Treasury policy mandates the use of the fair value model (except in the rare and exceptional circumstances where fair value is not reliably determinable on a continuing basis – refer to the section titled 'Investment Property' under section 5.5).

Depreciation charges are not applicable in respect of these types of assets valued under the fair value model but are applicable, in accordance with the requirements of AASB 116, where the asset is measured at cost.

**Finance Leases**

*Lessee*

At the commencement of the lease term, lessees are required to recognise finance leases as assets and liabilities in their Statement of Financial Position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

A finance lease gives rise to depreciation expense for depreciable assets as well as a finance expense for each reporting period. The depreciation policy for depreciable leased assets is to be consistent with that for depreciable assets that are owned. Depreciation is to be calculated in accordance with AASB 116 and AASB 117. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is to be fully depreciated over the shorter of the lease term and its useful life. The depreciation rate is to be adjusted whenever a policy decision is taken that affects the remaining estimated useful life of the asset to the agency or an adjustment is made to the estimated residual value.

*Lessor*

Lessors do not recognise a physical or intangible asset subject to a finance lease. Instead, a receivable is recognised at an amount equal to the net investment in the lease. Assets subject to a finance lease are not depreciated by lessors.

**Operating Leases**

*Lessee*

Assets held under operating leases are not depreciated by lessees.

*Lessor*

The depreciation policy for depreciable leased assets is to be consistent with the lessor's normal depreciation policy for similar assets and depreciation is to be calculated in accordance with AASB 116 and AASB 138, where the asset is held on the lessor's books.

**Leasehold Improvements**

Where improvements are made to a leasehold property, these improvements must be allocated progressively over the unexpired portion of the lease or the useful lives of the improvements to the agency, whichever is the shorter. The unexpired period of the lease should include any options to extend the lease term when the exercise of the option is reasonably certain.

**Amortisation of Sale and Leaseback Transactions**

Any amortisation of a sale and leaseback transaction is to be recognised in accordance with paragraph 61 of AASB 117 *Leases*.

**Amortisation of Intangible Assets**

Amortise systematically over finite useful life

The depreciable amount of an intangible asset with a finite useful life is to be amortised on a systematic basis over the useful life of the asset.

No amortisation if indefinite life – test for impairment annually

An intangible asset with an indefinite useful life is not amortised. The term 'indefinite' does not mean 'infinite'. It is unlikely that an agency would have an intangible asset with an infinite useful life. On the other hand, an agency may well have an intangible asset which, at the time it is developed, has an indefinite useful life e.g. the intellectual property associated with a vaccine that brings a significant disease under control. Such an intangible asset would not be amortised but would be tested for impairment at each reporting period.

Similar to depreciation, amortisation is usually recognised in profit or loss but may be absorbed into the carrying amount of other assets e.g. amortisation of intangible assets used in the production process would be included in the carrying amount of inventories.

Review annually

Also similar to depreciation, the amortisation method for an intangible asset with a finite life is to be reviewed at least at the end of each annual reporting period. The useful life of all intangible assets should be assessed annually (even intangibles with indefinite lives – to confirm they continue to be indefinite).

**Heritage and Cultural Assets**

Service potential may not diminish with time

Some heritage and cultural assets may have a service potential that could diminish over time and should be depreciated accordingly. Works of art, objets d'art, rare books and manuscripts, library collections, museum pieces and unique historical objects should not be depreciated if the service potential is not expected to diminish with time or use.

Where heritage and cultural assets are not depreciated, it must be demonstrated that appropriate curatorial and preservation policies are in place. These policies would typically be those developed and monitored by qualified personnel and include:

- a clearly stated objective about the holding and preservation of items;
- a well developed plan to achieve the objective, including demonstration of how the policy will be implemented, based on advice by appropriately qualified experts;

- monitoring procedures; and
- periodic reviews.

If no depreciation is charged against such assets, the notes to the financial statements shall disclose the reason for this action.

### **Road Earthworks**

In some circumstances, the service potential of road earthworks is expected to be retained due to the absence of any events that cause physical deterioration, e.g. excessive usage, flooding or land movement, and the earthworks are not expected to become obsolete in the foreseeable future. Such assets, due to their unlimited useful life, are not subject to depreciation. Where management have assessed and assigned a useful life to road earthworks, this asset is depreciated.

It is necessary for an entity to assess which of its road earthwork assets do not have limited useful lives and which do have limited useful lives.

The depreciation or non-depreciation of road earthworks assets are to be reviewed at least at each reporting date to ensure that the accounting policy applied reflects the most recent assessment of the useful lives of the assets.

## **8.7 DISCLOSURE REQUIREMENTS**

In respect of each class of property, plant and equipment, an agency must make the disclosures detailed in paragraph 73 of AASB 116.

In respect of each class of intangible asset, an agency must make the disclosures detailed in paragraph 118 of AASB 138.

In respect of investment property measured at cost, an agency must make the disclosures in paragraph 79 of AASB 140.

Where a change to an accounting policy has occurred, e.g. a change in the method of depreciation from units of use to straight line, disclosures in accordance with paragraph 29 of AASB 108 must be made.

Where depreciation expenses for a reporting period have changed because of:

- reassessment of the useful lives of certain assets;
- changes in depreciable amounts in consequence of a revaluation (upward or downward) of certain assets; or
- changes in depreciable amounts following a reappraisal of residual value

an agency must make the disclosures detailed in paragraphs 39 and 40 of AASB 108.

AASB 101 *Presentation of Financial Statements* requires certain disclosures to be made in the notes to the financial statements. Relevant to depreciation (amortisation) are:

- paragraph 117: measurement bases used in preparing the financial report;
- paragraph 122: judgements made in applying accounting policies; and
- paragraph 125: assumptions regarding the future and estimation uncertainties.

## OVERVIEW

This chapter discusses key concepts in relating to accounting for and reporting of disposals of non-current assets.

This chapter consists of the following sub-sections:

<b>Reference</b>	<b>Sub-section</b>
9.1	Asset Revaluation Surplus on Disposal of Non-Current Assets
9.2	Disposal of Non-Current Assets

## 9.1 ASSET REVALUATION SURPLUS ON DISPOSAL OF NON-CURRENT ASSETS

Transfer net revaluation increment to retained surplus/deficit	When assets sold or otherwise disposed of have been subject to a revaluation, the net increment contained in the asset revaluation surplus relating to those assets may be transferred to retained surpluses/accumulated deficits. For a not-for-profit agency accounting for revaluations on a class basis, this is appropriate when the value of assets remaining under the control of the agency is disproportionate to the asset revaluation surplus for that class e.g. as a result of machinery-of-Government (MoG) changes.
Must not be > amount attributable to transferred assets	Any transfers from the asset revaluation surplus to retained surpluses/accumulated deficits should be limited to the amount of the asset revaluation surplus for that class of assets (or the particular asset for for-profit agencies) and must not exceed the amount of the net revaluation increments attributable to the assets disposed of.
ARS cannot be transferred between entities	Where assets are transferred between agencies, asset revaluation increments recorded in the asset revaluation surplus relating to those assets are <b>not</b> transferred, but remain with the transferring agency. The transferring agency may transfer the revaluation increment recorded for those assets to the accumulated surplus/deficit section of equity.
Transfers from ARS cannot be reversed	Once amounts are transferred from an asset revaluation surplus to other equity accounts, they cannot be transferred back to the asset revaluation surplus and are not available to be applied against revaluation decrements for any other assets of the agency.  Asset revaluation surpluses must never have a negative (debit) balance.
ARS not to be used to recognised assets erroneously not previously recognised	<i>Correction of Error</i>  The asset revaluation surplus must not be used to recognise assets not previously recognised due to error. These shall be treated under AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> .

## 9.2 DISPOSAL OF NON-CURRENT ASSETS

AASB 116 specifies that an item of property, plant and equipment is to be derecognised:

- on disposal; or
- when no future economic benefits are expected from its use or disposal.

The disposal of an asset may occur in a variety of ways, including:

- by sale;
- by donation;
- derecognition due to initial error in recording as an asset; or
- involuntary transfer including as part of a MoG change.

### Gain or Loss on Disposals of Non-Current Assets

Recognise in the Statement of Comprehensive Income	When an asset is sold and its selling price varies from the carrying amount (adjusted for depreciation and any impairments for the period between the beginning of the financial year and the date of sale), a gain or loss occurs which must be recognised in the Statement of Comprehensive Income.
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If an asset is scrapped for no consideration before it is fully depreciated the carrying amount of the asset i.e. the gross asset value less its accumulated depreciation and accumulated

impairment losses, represents a loss on disposal which must be expensed. If material costs are incurred in the disposal, such expenses are to be added to the loss on disposal.

#### **Disposal Where Proceeds from Sale are treated as an Equity Withdrawal**

Where the proceeds from the disposal of a non-current asset are returned to the Consolidated Fund, whether or not voluntarily, the transfer must be treated as an equity withdrawal and adjusted against the contributed equity account or retained earnings. Any gain or loss on disposal must be recognised in the Statement of Comprehensive Income.

Refer to APG 9

The transfer of an asset, without payment or other consideration, between wholly-owned State Government agencies as a result of a MoG change or as otherwise approved/directed by the 'owners' (i.e. Cabinet, CBRC, Executive Council or portfolio Ministers) does not constitute a sale and no gain or loss on sale is to be recognised. In lieu, the transfer is to be treated as a non-appropriated equity injection/withdrawal at the carrying amount of the asset immediately prior to the transfer. Refer APG 9 *Accounting for Contributions by Owners*.

## OVERVIEW

This chapter discusses key concepts in relating to accounting for and reporting of investment property.

This chapter consists of the following sub-sections:

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<b>Reference</b>	<b>Sub-section</b>
10.1	Introduction
10.2	Initial Recognition
10.3	Subsequent Valuation
10.4	Changes in Classification
10.5	Disclosure
Appendix	
10.1	Investment Property Transfers

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## 10.1 INTRODUCTION

Must be held with the intention to make a profit

AASB 140 *Investment Property* (AASB 140) applies to non-current assets classified as investment property. Investment property includes investment properties under construction. AASB 140 applies to both for-profit and not-for-profit agencies. Investment property is defined as:

*property (land or a building - or part of a building - or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or for both, rather than for:*

- (a) *use in the production or supply of goods or services or for administrative purposes; or*
- (b) *sale in the ordinary course of business.*

It should be noted that owner occupied property is not investment property unless the area occupied is not material in proportion to the remaining space that is leased.

Assets held to meet service delivery objectives are not investment property

In respect of not-for-profit agencies, property may be held to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations the property will not meet the definition of investment property and will be accounted for under AASB 116 *Property, Plant and Equipment* (AASB 116), for example:

- (a) property held for strategic purposes; and
- (b) property held to provide a social service, including those which generate cash inflows where the rental revenue is incidental to the purpose for holding the property.

Examples of assets held to meet service delivery objectives would include public housing stock where the revenue earned is below a commercial rate of return; land held for future infrastructure provision rather than for capital appreciation, such as a school or road; and a commercial building earning market returns but which is earmarked for redevelopment as an administrative headquarters.

Where an agency owns a property that is leased to and occupied by its parent or another subsidiary or controlled agency, the property does not qualify as an investment property in the consolidated financial statements.

Buildings that are leased principally to other Queensland State Government agencies are not to be classified as investment property either in the agency's financial statements or in the whole-of-Government consolidated financial statements, unless the asset is surplus to requirements and held specifically to earn income.

Property held as inventory is not investment property

Property that is held with an intention to sell, or to develop and sell, in the ordinary course of business does not qualify as investment property. In such instances, the property is considered to be inventory and AASB 102 *Inventory* is applicable.

## 10.2 INITIAL RECOGNITION

Recognise at cost

Acquisition at no cost, recognise at fair value

Investment property must be initially measured at cost, including transaction costs such as legal fees and transfer taxes etc. However, in respect of not-for-profit agencies, where an investment property is acquired at no cost or for nominal cost, its cost is deemed to be its fair value as at the date of acquisition. It should also be noted that pursuant to AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, any provision for dismantling, removal or rehabilitation recognised in respect of a newly acquired asset forms part of the cost of that asset.

See AASB 117 for investment property held under a finance lease

The initial cost of a property interest held under a finance lease and classified as an investment property is prescribed under AASB 117 *Leases* (AASB 117), i.e. measured at the lower of fair value and the present value of minimum lease payments.

### 10.3 SUBSEQUENT VALUATION

Revalue and carry at fair value

After initial recognition an agency must measure all of its investment property, including investment property under construction, at fair value except where fair value cannot be measured reliably. AASB 140 sets out the requirements for fair value measurement in paragraphs 33 – 52. Reference should also be made to the guidance in **Appendix 10.1**.

In the rare circumstances where fair value cannot be determined reliably for a particular investment property, the cost model under AASB 116 is to be applied to that property until such time that fair value can be determined reliably. In this situation, all other investment properties for which reliable fair values can be obtained must be measured at fair value. The requirements that apply where fair value cannot be determined reliably are contained in paragraphs 53 – 55 of AASB 140.

Recognise gains & losses on revaluation in Statement of Comprehensive Income

A gain or loss arising from a change in the fair value of investment property is recognised in the profit or loss in the period in which it arises.

It should be noted that investment property accounted for using the fair value model is not depreciated or subject to AASB 136 *Impairment of Assets*.

Do not depreciate if at fair value

### 10.4 CHANGES IN CLASSIFICATION

Only when use changes

Changes in classification to and from investment property occur only when there is a change in use evidenced by the occurrence of specific events. Examples of these and the treatment of any resultant valuation adjustment on transfer are included in **Appendix 10.1**.

Gains or losses arising from the retirement or disposal of an investment property are determined as the difference between net proceeds and the carrying amount (unless AASB 117 requires otherwise on a sale and leaseback transaction). Such gains or losses are recognised in the period of disposal or retirement.

Compensation from third parties for investment property that was impaired, lost or given up, is recognised in profit or loss when the compensation becomes receivable.

Where an entity routinely sells items of PP&E used for rental, such items are to be transferred to inventories (at their carrying amount) when rental ceases and the items become held for sale. Therefore AASB 5 would not apply when assets that are held for sale in the ordinary course of business are transferred to inventories.

### 10.5 DISCLOSURE

Agencies are to comply with the requirements of paragraphs 75, 76, 77 and 78 of AASB 140.

## APPENDIX 10.1 INVESTMENT PROPERTY VALUATION CHANGES

Situation	Evidence	Treatment
<b>Transfer to Investment Property</b>	End of owner-occupation, for a transfer from owner-occupied property to investment property	Any difference between the carrying amount under AASB 116 and the value per AASB 140 is treated as a revaluation increment in accordance with AASB 116.
	Commencement of operating lease to another party, for a transfer from inventories to investment property	Any difference between fair value at date of transfer and the previous carrying amount is recognised in profit or loss.
<b>Transfer from Investment Property</b>	Commencement of owner-occupation, for a transfer from investment property to owner-occupied property	Fair value at the date of transfer is deemed cost for purposes of AASB 116 or AASB 102 <i>Inventories</i> (AASB 102).
	Commencement of development with a view to sale, for a transfer from investment property to inventories	Fair value at the date of transfer is deemed cost for purposes of AASB 116 or AASB 102.
	End of rental of PP&E with a view to sell, for a transfer from investment property to inventories	Fair value at the date of transfer is deemed cost for purposes of AASB 116 or AASB 102
<b>Initial measurement at fair value</b>	Initial change in measurement from cost to fair value	Any difference between fair value at date of re-measurement and the previous carrying amount is recognised in profit or loss.

## OVERVIEW

This chapter discusses key concepts in relating to accounting for and reporting of intangible assets.

This chapter consists of the following sub-sections:

<b>Reference</b>	<b>Sub-section</b>
11.1	Definition
11.2	Initial Recognition
11.3	Internally Generated Intangible Assets
11.4	Measurement After Recognition
11.5	Useful Life
11.6	De-recognition
11.7	Disclosure

## 11.1 DEFINITION

AASB 138 *Intangible Assets* (AASB 138) defines an intangible asset as an identifiable non-monetary asset without physical substance.

Intangibles must be identifiable in order to distinguish them from goodwill. An intangible asset is identifiable when it:

Must be separable or arise from contractual or legal rights

- is separable (i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability); or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

There may be instances when it is difficult to determine whether an asset should be accounted for under AASB 116 *Property, Plant and Equipment* (AASB 116) or AASB 138. In these situations, professional judgement is required to assess which element is more significant.

AASB 138 provides the example that a computer's operating system software should be treated as property, plant and equipment because the software is integral and the computer cannot operate without it. However, when software is not an integral part of the related hardware, it is treated as an intangible asset.

Internally generated goodwill, brands, mastheads, publishing titles, customer lists and items similar in substance must not be recognised as intangible assets.

## 11.2 INITIAL RECOGNITION

Initially at cost

An intangible asset must be measured initially at cost. The cost of an intangible asset comprises its purchase price (including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates) and any directly attributable costs of preparing the asset for its intended use. Directly attributable costs include:

- costs of materials and services used or consumed in generating the intangible asset;
- costs of employee benefits (as defined in AASB 119 *Employee Benefits*) arising from the generation of the intangible asset;
- fees to register a legal right; and
- amortisation of patents and licences that are used to generate the intangible asset.

Expense all training costs

Note: Because training costs rarely are of a type to qualify for capitalisation, it is Treasury policy that all training costs must be expensed.

The asset recognition threshold for intangible assets is \$100,000. Refer to **Appendix 2.1** for asset classes and recognition thresholds and **Appendix 2.3** for descriptions of intangible asset classes.

### **Shared Service Solutions system development and implementation costs**

As a major information and communication technology project affecting all government agencies, certain Shared Service Solutions system development

and implementation costs will need to be capitalised for the whole of government SAP system as internally generated intangible assets where appropriate, having regard to the relevant Accounting Standards and policies. Further guidance in relation to accounting for these costs is contained in the *Guidelines for Accounting Treatment of Costs Associated with SSS Implementation* available at the following link:

[http://corpotech.govnet.qld.gov.au/forms\\_processes/Pages/capitalisation\\_guidelines.aspx](http://corpotech.govnet.qld.gov.au/forms_processes/Pages/capitalisation_guidelines.aspx)

### No or Nominal Cost

Not-for-profit agencies –  
Recognise at fair value

In respect of not-for-profit agencies, assets acquired at no cost or for a nominal consideration, other than those acquired through restructuring, must be recognised initially at fair value as at the date of acquisition. Where there is no active market, and a fair value is not determinable, the cost of the item at the date it is acquired becomes its fair value.

In situations when an intangible asset is acquired free of charge, or for nominal consideration, by way of a government grant, the agency is to recognise both the asset and the grant at fair value, in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* (for-profit agencies) or AASB 1004 *Contributions* (not-for-profit agencies). Although permitted under AASB 120, agencies must not recognise such intangible assets at their nominal values.

## 11.3 INTERNALLY GENERATED INTANGIBLE ASSETS

To assess whether an internally generated intangible asset meets the criteria for recognition, the generation of the asset is to be classified into either:

- a research phase; or
- a development phase.

'Research' is defined as:

Definitions

*original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.*

'Development' is the:

*application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.*

If an agency cannot distinguish the research phase from the development phase, the expenditure is to be treated as if it were incurred in the research phase only.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

### Research Phase

No intangible asset arising from research (or from the research phase of an internal project) can be recognised, due to the agency not being able to

demonstrate that an intangible asset exists that will generate probable future economic benefits.

Research costs  
expensed

Any expenditure on research must be recognised as an expense when it is incurred. Expenditure on an intangible item that was initially expensed cannot be recognised as part of the capitalised cost of an intangible asset at a later date.

Examples of research activities include:

- activities aimed at obtaining new knowledge;
- the search for, evaluation and final selection of, applications of research findings or other knowledge;
- the search for alternatives for materials, devices, products, processes, systems or services; and
- the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

### Development Phase

An intangible asset arising from development (or from the development phase of an internal project) can only be recognised if the agency can demonstrate all of the following:

Development  
costs must satisfy  
all criteria to be  
capitalised

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits (including demonstration of the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset);
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Examples of development activities include:

- the design, construction and testing of pre-production or pre-use prototypes and models;
- the design of tools, jigs, moulds and dies involving new technology;
- the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and
- the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

Any revenues generated during the development phase of an intangible asset are deducted from the value of the asset.

## 11.4 MEASUREMENT AFTER RECOGNITION

Where there is an active and liquid market, intangible assets are to be carried at fair value, otherwise they must be carried at cost.

Intangible assets, both at cost and fair value, are subject to amortisation and impairment testing.

The reinstatement and capitalisation of costs previously recognised as an expense is prohibited.

### Fair Value Model

Must be an  
active market  
  
Revalue  
regularly

Fair value is to be determined by reference to an active market. Revaluations must be performed with such regularity that at the reporting date the carrying amount of the asset does not differ materially from its fair value.

Any accumulated amortisation is to be restated on a gross basis on revaluation.

If the fair value of a revalued intangible asset can no longer be determined by reference to an active market, the carrying amount of the asset is to be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. If the fair value of the asset can be determined by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.

With regard to revaluation, the same rules apply as to those for property, plant and equipment.

## 11.5 USEFUL LIFE

An agency is to assess whether the useful life of an intangible asset is finite or indefinite. An intangible asset has an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows.

### Intangible Assets with Finite Useful Lives

Amortise over  
useful life

An intangible asset with a finite useful life is to be amortised over its useful life. The amortisation method should reflect the pattern in which the asset's future economic benefits are expected to be consumed. If that pattern cannot be determined reliably, the straight-line method is to be used.

Amortise from  
when asset is  
available for use

Amortisation is to begin when the asset is available for use and is to cease at the earlier of the date that the asset is classified as held for sale in accordance with *AASB 5 Non-Current Assets Held for Sale and Discontinued Operations* and the date that the asset is derecognised.

The residual value of an intangible asset with a finite useful life is to be zero unless:

- there is a commitment by a third party to purchase the asset at the end of its useful life to the agency; or
- there is an active market for the asset, residual value can be determined by reference to that market and it is probable that such a market will exist at the end of the asset's useful life.

The amortisation period and method for an intangible asset with a finite useful life are to be reviewed at least at the end of each annual reporting period. If the expected useful life or the expected pattern of consumption of the future economic benefits is different from previous estimates, the amortisation period or the method is to be changed accordingly. Such changes shall be accounted for as changes in accounting estimates in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

**Intangible Assets with Indefinite Useful Lives**

Intangible assets with an indefinite useful life are not be amortised.

Test for impairment annually

An agency is required to test an intangible asset with an indefinite useful life for impairment annually, and whenever there is an indication that the intangible asset may be impaired.

Each period, the agency is to assess whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with AASB 108.

**11.6 DERECOGNITION**

Gains and losses recognised in Statement of Comprehensive Income

An intangible asset shall be derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of an intangible asset is to be recognised in the Statement of Comprehensive Income when the asset is derecognised. However, gains must not be classified as revenue.

Derecognise replaced parts when capitalising replacement parts

If the agency recognises in the carrying amount of an asset the cost of a replacement for part of the asset, then it derecognises the carrying amount of the replaced part. If this is not practicable, the agency may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or internally generated.

Amortise until derecognised or classified as Held for Sale

Amortisation of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully depreciated or is classified as held for sale.

**11.7 DISCLOSURE**

Paragraphs 118 – 128 of AASB 138 provide details of the required disclosure requirements.

Agencies are also required to disclose information regarding:

- any fully amortised intangible assets still in use; and
- any significant intangible assets controlled by the agency that did not meet the recognition criteria

## OVERVIEW

This chapter discusses key concepts relating to reporting and policy disclosures

This chapter consists of the following sub-sections:

<b>Reference</b>	<b>Sub-section</b>
12.1	Presentation
12.2	Disclosure
12.3	Restricted Assets
12.4	Temporarily Idle and Permanently Retired Assets

## 12.1 PRESENTATION

General purpose financial statements are intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. In order to satisfy this intention, material presented in relation to non-current assets must be consistent with the qualitative characteristics of financial statements as detailed in the *Framework for the Preparation and Presentation of Financial Statements*.

Amongst other things, AASB 101 *Presentation of Financial Statements* (AASB 101) requires agencies to disclose the asset categories of property, plant and equipment, investment property and intangible assets on the face of their financial statements.

AASB 101 also requires that these asset categories be disaggregated into sub-classifications of assets having a similar nature or function, where relevant. The lowest level of breakdown of assets is defined in AASB 101 as an 'asset class'. Section 2.5 of this policy document mandates the asset classes to be used by Queensland public sector entities to which the policies apply.

An agency is required to disclose, either on the face of the Statement of Financial Position or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the agency's operations.

AASB 101 further requires the face of the Statement of Financial Position include, as appropriate, a line item that reports the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Assets and liabilities must not be offset

Assets and liabilities are separate elements of a financial report and must not be offset.

## 12.2 DISCLOSURE

Disclosure of asset values in agency financial statements shall be in accordance with applicable Australian Accounting Standards, in particular the requirements of:

AASB 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
AASB 101	<i>Presentation of Financial Statements;</i>
AASB 116	<i>Property, Plant and Equipment;</i>
AASB 136	<i>Impairment of Assets;</i>
AASB 138	<i>Intangible Assets;</i> and
AASB 140	<i>Investment Property</i>

While disclosures particular to specific asset classes have been included in individual sections of these policies, some key policy disclosures required in the notes to the financial statements include:

- a summary of significant policies relating to non-current assets, including the measurement basis (or bases) adopted for each class of assets;
- In respect of property, plant and equipment, the term '*Property, Plant and Equipment*' must be used as a line item in the Statement of Financial Position for consistency. Agencies that do not control or administer real property must refer to the asset group as '*Plant and Equipment*' only. In addition, for each class of property, plant and equipment – a reconciliation of the carrying amount is required at the beginning and end of the period; and
- information about key assumptions concerning the future and other key sources of estimation uncertainty as they relate to non-current assets (e.g. estimated useful lives).

## 12.3 RESTRICTED ASSETS

Disclose nature and value of material restricted assets

Periodically, restrictions whether legislative or otherwise, may be imposed on the manner in which an agency can utilise assets under its control. Where such restrictions are material, the nature of the restrictions and the value of the affected assets must be disclosed in the notes to the financial statements.

## 12.4 TEMPORARILY IDLE AND PERMANENTLY RETIRED ASSETS

As idle assets have not been defined in Australian accounting standards, for the purposes of disclosure in the financial statements, an idle asset or a permanently retired asset is defined as follows:

- a physical or intangible asset which has not been employed and/or has been unoccupied for 12 months or more;
- the carrying amount of the idle/permanently retired physical or intangible asset(s) is/are material to the relevant asset class; and
- a temporarily idle physical or intangible asset is intended to be re-employed by the agency in future reporting periods, whilst for permanently retired assets no plans exist to instate the asset to use.

Where idle physical or intangible assets are identified, the agency is required to disclose by class the following:

- the total carrying amount of idle assets;
- the reason(s) why the assets have been idle;
- where practical, if or when they are expected to be re-employed and or occupied; and
- the period during which the assets have been idle (disclosed over a range e.g. 2-5 years).

Disclosures by class of permanently retired physical or intangible assets that are not classified as held for sale is required as follows:

- the total carrying amount of permanently retired assets;
- the reason(s) why the assets have been retired;
- the reason(s) why the assets have not been sold or are not held to be sold; and
- the period when the assets have been permanently retired (disclosed over a range e.g. 2-5 years).

## OVERVIEW

This chapter discusses key accounting and reporting requirements for library collections.

This chapter consists of the following sub-sections:

Reference	Sub-section
13.1	Introduction
13.2	Service Potential
13.3	Classification of Collections
13.4	Accounting Treatments
13.5	Periodicals, Electronic Media and Internally Developed Information
13.6	Transfers Between Collections
13.7	Impairment
13.8	Disclosure
13.9	Physical Security and Verification
13.10	Transitional Provisions
Appendix	
13.1	Formula to Calculate Fair Value of a Reference Library Collection

### 13.1 INTRODUCTION

The purpose of this policy is to prescribe the financial reporting requirements for library collections.

Prescribes financial reporting requirements only

As with other non-current assets, the financial and management reporting needs for libraries often differ. For example, while a library may be recognised at a collection level for financial reporting, for management purposes an agency must ensure that it maintains a listing of individual items which make up the collection. The provisions of this policy apply only to financial reporting. Management reporting requirements are at the discretion of agency management.

This policy is designed to provide the overarching principles to be applied. Agencies should outline in their internal policies (e.g. Financial Management Practice Manual) how the policy is to be applied to their collection.

### 13.2 SERVICE POTENTIAL

Determines if an item is to be capitalised

In determining whether a purchased item should be capitalised or expensed, the future service potential of the item must be considered. Similarly, service potential considerations are essential in determining the useful life of an asset.

The service potential of a library collection, the cornerstone for any library accounting policy, could be determined in a number of ways, e.g. the number of times an item is borrowed or otherwise used, or the availability of the information regardless of usage. For the purposes of this policy, service potential is determined with reference to the availability of the information, i.e. the period of time over which an item is able to be accessed and used.

### 13.3 CLASSIFICATION OF COLLECTIONS

Document classification basis

A library is generally made up of a variety of different collections, or types of books and other materials. For financial reporting purposes, the following classifications are to be used:

- common use collections;
- reference collections; and
- heritage collections.

At a minimum, the agency policy must document the basis upon which library items are to be classified to ensure consistent treatment across reporting periods.

A broad description of each of these collections follows.

#### Common use collections

Large number of low value, frequently used items with short useful lives

A common use collection is usually comprised of a large number of low value items which are used in the day-to-day operations of the library, e.g. undergraduate text books and technical publications. These items, in most instances, may be borrowed. Due to a pattern of declining use, obsolescence and of physical deterioration over time, library materials in these collections generally have a short period of service potential (e.g. the greatest usage is within the first year). Individual items are continually being updated and replaced.

#### Reference collections

Includes general and specialised items  
Not borrowed

Reference collections usually include both general and specialised items. These items are usually not able to be borrowed, but are available for use, even if archived. Generally, these

Longer useful lives items have variable uses (e.g. undergraduate and research purposes), and have a longer useful life than common use collections, but are not held indefinitely. If possible, these items would generally be replaced if lost or damaged.

**Heritage collections**

Permanently retained

Heritage, cultural or historic value

A heritage collection is a permanently retained collection which has heritage, cultural or historic value that is worth preserving indefinitely and to which sufficient resources are committed to preserve and protect the collection and its service potential. The collection is generally held for public exhibition, education, or to provide a service to the community. Heritage collections are not usually available for sale, for redeployment or for an alternative use.

**13.4 ACCOUNTING TREATMENTS**

Based on collection attributes

Items are to be allocated across the different collections by agencies, based on their attributes. For example, items making up a medical library may be split across the collection types, based on their attributes (i.e. some parts of the medical library may be heritage, while others may be reference or common use). In addition, periodicals, subscriptions and electronic media with archive access can be split over the three classification types.

Professional judgement will be required to assess the characteristics of each item to determine its correct classification. In determining the correct classification, considerations may include:

- the useful life of the material – is it limited, long term or indefinite?;
- how the items are stored and used; and
- the nature of library expenditure within that category – regular replacement of holdings, expenses related to controlling the environment in which the asset is used, etc.

**Common use collections**

*Treatment*

The greatest usage of items within these collections would occur within the first year, with a rapid decline over subsequent years.

Expensed on acquisition

In recognition of their limited life and the cost/benefit of valuing collections with a high turnover of material, common use items are to be expensed on acquisition.

*Management*

A system to ensure the security of common use collections remains the responsibility of management, even though these items are expensed on acquisition.

**Reference collections**

*Treatment*

Capitalised

Recognised at fair value

Based on their longer periods of service potential to the library, material reference collections are to be capitalised and recognised at fair value, based on the methodology outlined below.

*Threshold*

\$1 million recognition threshold

An asset recognition threshold of \$1,000,000 is to be applied to the collection. If the value of the collection as a whole is less than \$1,000,000, it must be expensed.

	<p><i>Asset class</i></p> <p>Items in this category are to be recognised in the financial statements as 'Reference Library Collection', unless a better descriptor is determined by the agency, based on the contents of the collection.</p>
Reference Library Collection	
	<p><i>Initial acquisition</i></p> <p>If the library purchases multiple copies of the same item, only one of the items, per location (for example, one per university campus), is to be capitalised. Further, as part of the year end revaluation process, the average value, as determined below, will be applied to only one copy of multiple holdings per location.</p> <p>Similar to common use items, a system to ensure the security of multiple items remains the responsibility of management.</p>
Capitalise only one copy of each item	
	<p><i>Fair value</i></p> <p>Fair value is to be determined using average replacement cost, based on the average cost of purchases over a period considered to most closely provide an accurate average value for the collection. This cost is to be applied to all capitalised materials in the collection at year end. It is considered that a five year period would provide an accurate average value, however, a longer or shorter period may be used at management discretion where this is justified.</p> <p>The basis for determining the appropriate 'averaging' period is to be documented. Once determined, this period should be consistently applied.</p>
Based on average replacement cost	
	<p>Generally, a maximum rolling five year period is considered appropriate for determining average replacement cost based on the following:</p> <ul style="list-style-type: none"> <li>• Five years is consistent with the maximum period permitted between comprehensive revaluations, as outlined in Chapter 5 <i>Revaluation of Assets</i>.</li> <li>• Five years should provide a smoothing of any peaks and troughs experienced in the cost of books. For example, there may be one year when a large number of high value law textbooks are purchased. If this average cost was applied to all items in the collection, over-inflation of the fair value may result. Using a five year rolling average cost should result in this peak being effectively managed.</li> </ul> <p>In calculating average cost, agencies should determine any identifiable sub-collections and calculate the average cost of all items purchased over the previous five years according to these sub-collections, e.g. medical textbooks or periodicals. This average cost should then be applied to all capitalised items within that sub-collection including material acquired for no cost, ensuring these are assigned a replacement value.</p>
Document averaging period and apply consistently	
	<p>If the agency determines that differentiating by sub-collections is not providing an accurate fair value, then the agency should consider stratifying the sub-collections, e.g. into value bands, to calculate fair value.</p> <p>Any changes in the fair value of the collection are to be recognised in the Asset Revaluation Surplus. Revaluation increments and decrements are to be accounted for in accordance with AASB 116 <i>Property, Plant and Equipment</i> and Chapter 5 <i>Revaluation of Assets</i>.</p> <p>The formula to calculate fair value of the reference collection is shown in <b>Appendix 13.1</b>.</p>
Identify sub-collections	
	<p><i>Removal of items from collection</i></p> <p>To ensure a materially accurate valuation, assessments must be made on a regular basis to determine whether items are still providing benefit or whether they should be removed from</p>
Remove items not providing a benefit	

the collection. This may be included as part of the stocktake process, i.e. an assessment is made of each item as it is physically verified.

At a minimum, all capitalised items must be considered at least once every three years to determine whether they should be removed from the collection.

*Depreciation*

Assess appropriateness of depreciation

Agencies must undertake an annual assessment to determine the rate at which the reference collection should be depreciated.

If it is considered appropriate to depreciate the collection, then a useful life must be determined, applied and disclosed.

If it is determined that the collection should not be depreciated, the reasons must be clearly documented and included in the notes to the financial statements. Reasons for not depreciating the collection may include:

- the inherent complexity involved in determining a common useful life for the collection. Developing a useful life for a library collection involves consideration of a complex combination of the
  - physical lives – how long the item will last, taking into account user populations and climatic conditions or subject matter; and
  - relevant lives – the period during which the content or subject matter is relevant to the library’s user population

of the various categories of materials. In practice, an agency may not be able to reliably determine a useful life; and

- based on the characteristics of the collection, the useful life may be sufficiently long that the resultant depreciation expense would be immaterial in amount.

Refer also to Chapter 8 *Depreciation and Amortisation*.

*Independent valuation*

Independent confirmation of methodology

Agencies are not required to obtain an independent valuation of the collection. However, at least once every five years, the agency must obtain independent confirmation that the methodology being applied is appropriate.

**Heritage collections**

*Treatment*

Recognise at fair value

Heritage collections are to be capitalised and recognised at fair value, based on the methodology outlined below.

*Threshold*

\$5,000 threshold

A recognition threshold of \$5,000 is to be applied to the collection. If the value of the collection as a whole is less than \$5,000, then it must be expensed, similar to common use items.

*Asset class*

Items in this category will form part of the existing Heritage and Cultural Assets class in the financial statements.

*Fair value*

If no active or liquid market use current market price of similar assets

Where available, market valuations in an active and liquid market must be used. If there is no active and liquid market, the current market price of similar assets can be used, or the cost of replacing the future economic benefits contained in the asset can be applied.

Disclose only if fair value cannot be measured

If it is not possible to determine a fair value for the heritage collection, it is not to be recognised on the Statement of Financial Position but rather disclosed as a note to the financial statements. This disclosure should state:

- a description of the nature of the collection;
- the purposes for which it is held;
- the reason why its heritage value cannot be reliably estimated; and
- to the extent practicable, the annual costs of maintenance/preservation.

Despite the acknowledged difficulties involved, agencies are required to make every effort to value heritage collections at their fair value.

*Valuations*

As with all property, plant and equipment, valuations can be performed by either:

- an independent valuer;
- an in-house valuer; or
- a combination of independent and in-house valuers.

Valuers should be independent qualified experts

To ensure fair, 'arm's length' valuations of heritage collections, it is preferred that revaluations be undertaken by independent, professionally qualified experts. However, there may be few independent valuers with the expertise to value certain collections. In these instances, employees with relevant expertise/knowledge may undertake an in-house review.

If an in-house valuation is conducted, the basis, methodology and assumptions underpinning the valuation is to be independently reviewed at least once every five years to ensure the appropriateness of the valuation approach, e.g. by an expert valuer or by the in-house expert of another entity with a similar library collection.

*Depreciation*

Depreciation

Heritage collections are generally subject to stringent curatorial preservation techniques. As a result, they may have an indefinite life, may be held in perpetuity and appreciate in value. For any heritage/cultural asset that is not depreciated, curatorial and preservation policies would have to be demonstrated to be in place to justify the non-depreciation, as per guidance contained in AASB 116 *Property, Plant and Equipment*.

## 13.5 PERIODICALS, ELECTRONIC MEDIA AND INTERNALLY DEVELOPED INFORMATION

### Periodicals and Subscriptions

Generally, periodicals and subscriptions would be regarded as common use and expensed on acquisition. However, it may be appropriate for some of these items to be included in either the reference or heritage collections. Therefore, the library must determine the correct classification for individual items and account for them accordingly.

**Electronic Media**

Access to electronic media is generally obtained by either outright purchasing of the information or through a licence agreement. Under either method, the issue of control, as well as expected economic benefits, must be considered when determining whether capitalising or expensing is appropriate.

When electronic media is purchased outright, control over the asset is generally obtained to partially satisfy the asset recognition criteria. Assuming the other asset recognition criteria are satisfied, the agency must determine the correct classification of the individual items of electronic media, and account for them accordingly.

Annual licence agreements usually expensed

When information is accessed through a licence agreement, there is no access to the information unless the licence fee is paid and other terms of the agreement are met, e.g. access rights and copyright clauses apply. Where this occurs, the agency does not have control of the information. Consequently, the annual licence fee must be expensed, and not recognised as an asset.

However, where the agency has archival access, capitalising this electronic media may be appropriate, as the benefit lasts for more than one year.

**Internally Developed Information**

Some agencies, particularly universities, may hold internally developed information (e.g. theses or staff articles/books) in hard copy or digital repositories. These are to be considered as in-house Intellectual Property, and accounted for under AASB 138 *Intangible Assets*.

Refer also to Chapter 11 *Intangible Assets*.

**13.6 TRANSFERS BETWEEN COLLECTIONS**

AASB 138 Section 11

There may be instances where items are required to be transferred between collections. Where transfers occur, the following accounting treatments are to be applied:

Old Collection	New Collection	Accounting Treatment
Common use	Reference	Transfer the item to new class and apply the average value as part of the revaluation process
Common use	Heritage	Transfer the item to the new class, obtain a fair value, and record the full value of the asset
Reference	Common use	Remove the item from the collection and do not apply an average value, effectively expensing the item.
Reference	Heritage	Transfer the item to the new class, obtain a fair value, and record the full value of the asset
Heritage	Common use	Write off the fair value of the asset
Heritage	Reference	Transfer the item to the new class, and apply average value as part of revaluation process

**13.7 IMPAIRMENT**

Assess collections annually for impairment

In accordance with AASB 136 *Impairment of Assets*, agencies must annually assess whether there are indicators that library assets are impaired. As indicated in Chapter 7

*Impairment of Assets*, the events or circumstances that may indicate the impairment of an asset will generally be significant and will often have prompted discussion by a management group or similar, or the media.

There may be instances of impairment for heritage books, e.g. questions over the authenticity of the item, or an item being damaged during a flood. While a heritage book may be water damaged, it may be retained for its historical value, even though the fair value of the book may have decreased.

Professional judgement should be used to identify indicators of impairment for libraries.

## 13.8 DISCLOSURE

In addition to normal disclosures for non-current physical assets, agencies must disclose in their financial statements:

- the basis on which collections are classified;
- whether their collections are capitalised or expensed, and the basis for this;
- if capitalised, how the fair value of the collections is determined;
- if capitalised, whether their collections are depreciated, and the basis for this; and
- if fair value for a heritage collection cannot be determined, the reasons for this.

In addition, the insured value of the expensed common use collection must be disclosed in the notes to the financial statements, along with how this value was derived. While the insured value does not necessarily equate to fair value, it provides an indication of the replacement cost of the collection. This fact should also be disclosed.

## 13.9 PHYSICAL SECURITY AND VERIFICATION

Stocktakes of capitalised collections are to be undertaken on a regular basis. Ideally, collections should be physically verified on an annual basis however, a rolling three-year stocktake may be employed.

A formal stocktake of expensed collections may not be considered necessary. However, sufficient controls must be implemented to allow proper management of the holdings and to ensure security of the collections. This may involve a stocktake over an extended period combined with adequate security over the holdings, e.g. electronic protection, reviews of cataloguing, borrowing systems and procedures.

## 13.10 TRANSITIONAL PROVISIONS

Policy adoption is a voluntary policy change

Any changes in accounting treatment of holdings as a result of adoption of this policy must be accounted for as a voluntary change in accounting policy, in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

A voluntary change in accounting policy must be accounted for retrospectively by adjusting the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

If it is impracticable for the agency to apply the new policy retrospectively, appropriate notes must be included in the financial statements.

## APPENDIX 13.1 FORMULA TO CALCULATE FAIR VALUE OF A REFERENCE LIBRARY COLLECTION

The formula to calculate average replacement cost of the Reference Library Collection is as follows:

- opening number of items held at 1 January/1 July
- + number of purchases and other acquisitions during financial year (including transfers in)
- number of disposals and write-offs during financial year (including transfers out)
- = closing number of items held at 31 December/30 June
  
- x average cost over the relevant period applied (i.e. total value of purchases/number of items purchased)
- = total average replacement cost for the collection at 31 December/30 June

Note: Where multiple copies of an item are held, only one copy (per location) is to be included in the calculation.