



Victorian Government Policy

Revaluation of Non-Current Physical Assets



Department of
Treasury and Finance

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Executive Summary

Non-current physical assets represent a significant resource for the delivery of services by public sector entities. Effective decision-making in respect of these resources requires the accurate recognition of these assets.

This Policy reflects the requirements of AASB 1041 *Revaluation of Non-Current Assets* by prescribing and providing guidance on the measurement and recognition of non-current physical assets subsequent to their initial recognition. This is to ensure a consistent and accurate approach in the revaluation of non-current physical assets is adopted by all applicable public sector entities.

All entities defined as an 'authority' and 'public body' under section 3 of the *Financial Management Act 1994* (FMA) must comply with this Policy for annual reporting periods ending on or after 31 December 2001. Entities that store and distribute water as part of their core operations and entities that are involved in the provision of railway infrastructure are exempt from applying this Policy for the reporting periods ending on 31 December 2001 or 30 June 2002.

Measurement Basis

Subsequent to the initial recognition as assets, each class of non-current physical assets must be measured on either the cost or fair value basis.

For the purposes of applying this Policy, all non-current physical assets must be classified into the following classes, for which there are specific measurement bases:

- Buildings,
- Cultural asset,
- Earthworks,
- Infrastructure systems,
- Land,
- Leased infrastructure systems,
- Leased plant, equipment and vehicles,
- National parks and other 'land only' holdings,
- Plant, equipment and vehicles, and
- Roads.

All classes of non-current physical assets, except for plant, equipment and vehicles (both owned and leased) must be measured at fair value. Plant, equipment and vehicles must be measured at cost.

Cost is either of the following:

- cost of acquisition less any accumulated depreciation and accumulated recoverable amount write-downs or impairment losses (where the assets had not been revalued in the preceding reporting period), or
- deemed cost, being carrying amount of the asset less any subsequent accumulated depreciation and any subsequent recoverable amount write-downs or impairment losses (where the assets had been revalued in the preceding reporting period).

Fair value is determined based on the following:

- the market value or market price, where there is a quoted market price in an active and liquid market, or
- the market evidence, where there is no quoted market price, but there is available market evidence of fair value with respect to similar assets, or
- the asset's market buying price, where the market buying and selling prices differ materially or where no market exists for the asset.

Frequency of Revaluations

Where the fair value basis is adopted for a class of non-current physical assets, revaluations must be made with sufficient regularity to ensure that the carrying amount for each asset does not differ materially from its fair value at the reporting date.

To ensure that entities comply with the requirement to assess the material movement of the assets' fair value, this Policy prescribes a process for such an assessment.

Accounting for Revaluations

Where the fair value basis of measurement is adopted, the revaluation increments or decrements must be accounted for as follows:

- the net revaluation increment must be credited directly to an asset revaluation reserve, except where the net increment reverses a net revaluation decrement previously recognised as an expense in net profit or loss/result in the same class of assets, and
- the net revaluation decrement must be recognised immediately as an expense in net profit or loss/result, except where a credit balance exists in the asset revaluation reserve in that same class of assets.

Transitional Provisions

This Policy, consistent with AASB 1041, prescribes the transitional provisions for:

- the accounting treatment for the initial adoption of a measurement basis for a class of non-current physical assets that differs from the previous measurement basis prior to application of AASB 1041, and
- the adoption of progressive revaluations for a class of non-current physical assets that uses the fair value basis on initial application of the standard.

Recoverable amount test and disposal of non-current assets

This Policy also prescribes the application of the recoverable amount test and the accounting treatment for the disposal of non-current physical assets.

The recoverable amount test only applies to assets that are measured on a cost basis. Accordingly, each asset in the class of plant, equipment and vehicles must be written down to its recoverable amount when its carrying amount is greater than the recoverable amount.

The gain or loss on disposal of a non-current physical asset must be measured as the difference between the carrying amount of the asset as at the time of disposal and the net proceeds, if any, from disposal. The gain or loss on disposal must be recognised in the net profit or loss/result for the reporting period in which disposal of the asset occurs.

1. Purpose

- 1.1 **The purpose of this Policy is to prescribe and provide guidance on the measurement and recognition of non-current physical assets subsequent to their initial recognition. This is to ensure a consistent and accurate approach in the revaluation of non-current physical assets is adopted by all applicable public sector entities.**
- 1.1.1 In July 2001, the Australian Accounting Standards Board reissued AASB 1041 *Revaluation of Non-Current Assets* that applies to annual financial reporting periods ending on or after 30 September 2001. In response to the financial reporting changes in AASB 1041, this Policy has been issued to prescribe and provide guidance on the measurement and recognition of non-current physical assets.
- 1.1.2 The primary objective of this Policy is to ensure a consistent and accurate approach in the revaluation of non-current physical assets by public sector entities that are required to comply with the financial reporting requirements of the *Financial Management Act 1994* (FMA).
- 1.1.3 This Policy reflects the requirements of AASB 1041 and forms part of the Ministerial Directions 1.3.1(v) of the FMA. Accordingly, all applicable public sector entities that fall within the scope of section 2 'Application' must comply with this Policy.
- 1.1.4 The **bold** text in this Policy represents the financial reporting requirements that all applicable public sector entities must comply with. The 'light' text represents commentary in the form of clarification and/or additional guidance to the bold text.

2. Application

- 2.1 **This Policy applies to all entities defined as an 'authority' and 'public body' under section 3 of the *Financial Management Act 1994* (FMA).**
- 2.2 **An authority is defined as a department, person or body prescribed as an authority for the purposes of the FMA.**
- 2.3 **A public body is defined as:**
- (a) **a public statutory authority,**
 - (b) **a State business corporation or State body within the meaning of the State Owned Enterprises Act 1992, and**
 - (c) **a body, office or trust body:**
 - (i) **established by or under an Act or enactment, or**
 - (ii) **established by the Governor in Council or a Minister of the FMA,**
- and that is declared by the Minister, by notice published in the Government Gazette to be a body or office to which Part 7 applies.**

- 2.3.1 Authorities and public bodies include general government sector entities (including government departments), public non-financial corporations and public financial corporations. All State controlled entities are expected to comply with the requirements of this Policy. Accordingly, controlled entities established under the *Corporations Act 2001*, whilst outside the scope of the FMA, are expected to comply with this Policy to ensure consistent adoption of accounting policies within the economic entity of the State. Local government entities are outside the scope of this Policy.

3 Operative Date

- 3.1 This Policy applies to annual reporting periods ending on or after 31 December 2001.
- 3.2 When operative, this Policy supersedes the following pronouncements issued by the Department of Treasury and Finance (DTF):
- (a) *Recognition and Valuation of Non-current Physical Assets Guideline* (issued in January 1995),
 - (b) Accounting and Financial Reporting (AFR) Bulletins:
 - (i) *No. 3 Revaluation of Non-Current Physical Assets*,
 - (ii) *No. 35 Transitional Provisions in Australian Accounting Standard AAS 38 'Revaluation of Non-Current Assets'*, and
 - (iii) *No. 38 Valuation of Non-Current Assets Applicable to Financial Years Ending 31 December 2001*.
- 3.3 For reporting periods ending on or before 30 June 2002, this Policy does not apply to entities that:
- (a) store and distribute water as part of their core operations, including wholesalers and retailers, or
 - (b) are involved in the provision of railway infrastructures.
- 3.3.1 Entities listed in paragraph 3.3 have been temporarily excluded from complying with this Policy because there remains considerable uncertainty about how the fair value basis of measurement should be applied to the types of infrastructure assets they hold. DTF is working with these entities over the transitional period to resolve these issues. Consequently, these entities should continue to apply the existing measurement basis for reporting periods ending on or before 30 June 2002.

4 Measurement Basis

Cost or fair value measurement basis

4.1 Consistent with AASB 1041, this Policy requires that subsequent to the initial recognition as assets, each class of non-current physical assets must be measured on either the cost or fair value basis, subject to two exceptions.

4.1.1 The two exceptions referred to in paragraph 4.1 relate to:

- (a) transfer of assets by government departments for no cost or for nominal consideration by the transferor immediately prior to the transfer and where the assets are included in a class of non-current physical assets that are measured on a fair value basis, and
- (b) revaluation of non-current physical assets to fair value in the consolidated financial statements on acquisition of an equity interest in a subsidiary as required by another accounting standard.

These exceptions are discussed in more detail in section 7 of this Policy.

Classes of non-current physical assets and measurement bases

4.2 For the purposes of applying AASB 1041, this Policy prescribes the classes in which all non-current physical assets must be classified into and the specific measurement bases for the prescribed classes of assets.

4.3 The prescribed classes of non-current physical assets include:

- (a) buildings,
- (b) cultural asset,
- (c) earthworks,
- (d) infrastructure systems,
- (e) land,
- (f) leased infrastructure systems,
- (g) leased plant, equipment and vehicles,
- (h) national parks and other 'land only' holdings,
- (i) plant, equipment and vehicles, and
- (j) roads.

4.3.1 Natural resource reserves are excluded from the prescribed classes of non-current physical assets contained in paragraph 4.3, as these assets represent self-generating and regenerating assets (SGARAs). SGARAs are dealt with in AAS 35 *Self-Generating and Regenerating Assets*, which states that 'AAS 10 *Accounting for the Revaluation of Non-Current Assets* does not apply to self-generating and regenerating assets' (paragraph 1.2.1 of AAS 10). AAS 35 refers to the revaluation standard, AAS 10 that was issued in June 1996 and is superseded by the current AASB 1041 revaluation standard. Accordingly, natural resource reserves are excluded from the scope of this Policy.

4.4 All classes of non-current physical assets except for plant, equipment and vehicles (both owned and leased) must be measured at fair value. Plant, equipment and vehicles must be measured at cost.

- 4.4.1 Consistent with paragraph 9.1 of AASB 1041, a class of non-current assets is defined as ‘a category of non-current assets having a similar nature or function in the operations of the entity’. The classes of non-current physical assets prescribed in paragraph 4.3 reflect the classes that are adopted in the half-yearly and annual financial report for the State of Victoria.
- 4.4.2 For the purposes of preparing its own financial statements, an entity is permitted to group classes of non-current physical assets prescribed in paragraph 4.3, provided they are of a similar nature or function. For example, an entity may group the classes ‘buildings’ and ‘land’ into the group ‘buildings and land’ in its own financial statements. In such circumstances, measurement of this group of non-current physical assets must be consistent with the measurement basis prescribed for each of the separate classes. This Policy prohibits grouping classes that are measured on different bases, such as ‘buildings’ and ‘plant, equipment and vehicles’.
- 4.4.3 This Policy also permits entities, for the purposes of preparing its own financial statements, to sub-classify the classes of non-current physical assets specified in paragraph 4.3. For example, an entity, in its own financial statements, may sub-classify the class of ‘plant, equipment and vehicles’ into three classes: ‘furniture and fittings’, ‘computers’ and ‘motor vehicles’. Where this is the case, the entity must measure these sub-classes on a cost basis that is consistent with the measurement basis prescribed for the ‘plant, equipment and vehicles’ class. Accordingly, entities are prohibited from arbitrarily sub-classifying and measuring a class of non-current physical assets such as ‘buildings’ into the class of ‘plant, equipment and vehicles’ for the purposes of preparing their financial statements.
- 4.4.4 Additionally, where an entity uses sub-classes, the entity must aggregate these sub-classes to those prescribed in paragraph 4.3. This aggregation is to facilitate the transmission of financial information for consolidation in the financial report for the State of Victoria.

Cost basis

4.5 Plant, equipment and vehicles (both owned and leased) are required to be measured on a cost basis. Cost is either of the following:

- (a) **where the assets had not been revalued in the preceding reporting period prior to the operative date of this Policy, cost is the cost of acquisition less any accumulated depreciation and accumulated recoverable amount write-downs or impairment losses, or**
- (b) **where the assets had been revalued in the preceding reporting period prior to the operative date of this Policy, cost is deemed to be the carrying amount of the asset less any subsequent accumulated depreciation and any subsequent recoverable amount write-downs or impairment losses.**
- 4.5.1 Where a group of assets is acquired, it is necessary under AAS 21 *Acquisitions of Assets* to apportion the cost to the individual assets acquired on the basis of the fair value of those assets. This process illustrates the application of the cost basis and does not constitute applying the fair value basis.

- 4.5.2 Similarly, any reduction in the carrying amount of a class of assets to its recoverable amount in accordance with the requirements of AAS 10 *Recoverable Amount of Non-Current Assets* does not constitute a departure from the cost basis. Refer to section 9 of this Policy for a discussion of the recoverable amount test.

Fair value basis

- 4.6 **All other classes of non-current physical assets, other than plant, equipment and vehicles, are required to be measured on a fair value basis. Fair value is determined on the following basis:**
- (a) **where there is a quoted market price in an active and liquid market for an asset, the market price would represent the fair value of the asset, or**
 - (b) **where there is no quoted market price for an asset, but there is available market evidence of fair value with respect to similar assets, the market evidence would represent the estimated fair value, or**
 - (c) **where the market buying and selling prices differ materially or where no market exists for the asset, the fair value is determined with reference to the asset's market buying price, the best indicator of this is usually the replacement cost of the asset's remaining future economic benefits.**

Market price in active liquid market available

- 4.6.1 Where there is a quoted market price in an active and liquid market available for an asset, the fair value of the asset is determined as the market price of the asset taking into account all other costs that are necessary in making the asset operational. Examples of costs that are necessary in making the asset operational include the buyer's transaction costs and commissioning costs.
- 4.6.2 Assets that may have a quoted market price in an active liquid market include land, buildings, leased infrastructure systems or plant, equipment and vehicles (both owned and leased).

Market evidence available

- 4.6.3 Where no quoted market price exists for an asset, but there is available market evidence of fair value with respect to similar assets, the market evidence is used to estimate the fair value.

No market available

- 4.6.4 Where the market buying and selling prices differ materially or where no market exists for the asset, the fair value is determined with reference to the asset's market buying price, the best indicator of this is usually the replacement cost of the asset's remaining future economic benefits. This typically applies to specialised public sector assets where these assets often have a limited market, if any, and where the market price cannot be easily determined.

Cash generating operations

- 4.6.5 Some public sector assets, while they have been acquired separately, they form part of a cash generating operation. A cash generating operation is usually the smallest identifiable group of assets that generate net cash inflows from the assets' continuing use, which are largely independent of the net cash inflows from other assets.

- 4.6.6 Assets comprising part of a cash generating operation can often be sold as part of a sale of the cash generating operation. This may be due to the lack of available evidence for the market selling price of the individual assets. Where this is the case, consideration should be given to the fair value of the cash generating operation in determining the value of the assets comprising the operation. Where the fair value of the operation is not readily available, the fair value would be estimated as the present value of the net cash inflows that market participants would expect the 'highest and best use' of the operation to generate.

Highest and best use

- 4.6.7 In estimating the 'highest and best use' of the operation referred to in paragraph 4.6.6, consideration should be given to alternative operations that could be conducted in place of the existing operation. However, in determining alternative operations, consideration should be given to the restrictions that are placed on the use of the asset. These restrictions should take into account the type of operation that must satisfy the objectives of the entity. For instance, parkland that is located in a prime residential area and used for a children's playground will probably be worth more if the land is utilised for a housing development compared with its current use. However, to do so may preclude the government entity from fulfilling its objectives. Conversely, it may not always be appropriate to look beyond the current use of the asset when considering alternative operations for determining the fair value of the asset. Reference to the 'highest and best use' refers to more efficient ways of conducting the same operation to achieve the entity's objectives. However, due to the 'not-for-profit' nature of many government activities, it may be difficult to identify more profitable or 'better' uses of the asset.
- 4.6.8 Where the market buying prices of assets belonging to a cash generating operation aggregate to an amount exceeding the fair value of the operation, the fair value of the individual assets is determined after deducting the excess. AASB 1041 recommends applying the excess firstly against goodwill and then applying it proportionately against the fair value of the remaining assets in the operation, provided that the assets are stated at amounts less than their market selling prices.

5 Frequency of Revaluations

Frequency

- 5.1 Where the fair value basis is adopted for a class of non-current physical assets, revaluations must be made with sufficient regularity to ensure that the carrying amount for each asset does not differ materially from its fair value at the reporting date subject to the exceptions in section 7.**
- 5.1.1 The above requirement imposes the reassessment of the asset's carrying amount on an individual asset basis. Accordingly, an entity must reassess the fair value of every asset in a class for each reporting date to determine whether a revaluation is necessary. This is consistent with AASB 1041, which states that the fair value of all assets within a class should be reassessed at substantially the same time (paragraph 5.1.12). Consequently, it is not sufficient to reassess only one or a sample of assets within the class at a reporting date.

- 5.1.2 It is important to distinguish between reassessment and revaluation. Reassessment refers to the process of assessing the value of an asset while revaluation refers to the change in the asset's value that is recognised in the financial statements. That is, the reassessment of the fair value and comparison with the asset's carrying amount at reporting date, determines whether a revaluation is necessary. The reassessment of the fair value of the assets within an asset class will depend on management's strategy in assessing the susceptibility of the assets to material movements in fair value and carrying amount between reporting periods. For example, management may have a strategy in place that the entity undertakes a formal independent revaluation every three years for a specific class of non-current physical assets and an indexation of the carrying amounts of the assets during the intervening years. Furthermore, an addition of an asset to this specific class of assets should be treated in the same manner as the other assets within the asset class.
- 5.1.3 Essentially, entities that apply the fair value basis for a class of assets are required to reassess the value of each asset in that class at each reporting date. Where the assessed fair value is materially different from the carrying amount of that asset, a formal revaluation is required and the difference must be recognised in accordance with the revaluation requirements.
- 5.1.4 Additionally, the opportunity to revalue a class of assets on a progressive basis may be limited in that the entity needs to have assessed the value of each asset in the class at each reporting date to ascertain whether there is a material difference. The transitional provisions permit the use of progressive revaluations in certain restricted circumstances for a limited period. This is discussed in section 8.

Process of assessing material movement in fair value

- 5.2 To ensure that entities comply with the requirement to assess the material movement of the assets' fair value, this Policy requires the following approach to be taken:
- (a) the entity should assess the assets within a class of non-current physical assets to determine whether they are susceptible to material movements in fair value between reporting periods,
 - (b) where the assets are not susceptible to material movements in fair value between reporting periods, the entity should adopt a strategy to formally revalue the assets at least every three years and have their carrying amounts appropriately indexed during the intervening periods between the formal revaluations, and
 - (c) where the assets are susceptible to material movements in fair value between reporting periods, the entity should adopt a strategy to formally revalue the assets at each reporting date.
- 5.2.1 The above process does not apply to entities that undertake progressive revaluation for the class of property (refer paragraphs 8.6 to 8.7.3).
- 5.2.2 In some circumstances, the formal revaluations of a class of non-current physical assets may necessitate the use of an independent valuer, who has the technical expertise to accurately ascertain the material movements in the fair value of the assets. Conversely, the entity may have 'in-house' expertise to assess the fair value of the non-current physical assets without requiring the use of an independent valuer.

6 Accounting for Revaluations

- 6.1 Where the fair value basis of measurement is adopted, the revaluation increments or decrements must be accounted for as follows:**
- (a) the net revaluation increment must be credited directly to an asset revaluation reserve, except where the net increment reverses a net revaluation decrement previously recognised as an expense in net profit or loss/result in that same class of assets. Where the exception applies, the revaluation increment must be recognised immediately as revenue in net profit or loss/result, and**
 - (b) the net revaluation decrement must be recognised immediately as an expense in net profit or loss/result, except where a credit balance exists in the asset revaluation reserve in that same class of assets. Where the exception applies, the net revaluation decrement grossed up for any related recognised current tax and deferred tax must be debited directly to the asset revaluation reserve.**
- 6.2 Revaluation increments and revaluation decrements must only be offset against one another within the same class of non-current physical assets, and must not be offset in respect of different classes of non-current physical assets.**
- 6.2.1 The requirement that revaluation increments can only be offset against revaluation decrements within the same class of non-current physical assets would mean that revaluation increments for the class of buildings cannot be netted against revaluation decrements for the class of land.
- 6.3 The types of transactions that can be credited to the balance of the asset revaluation reserve is restricted to the following:**
- (a) net revaluation increments recognised for assets within the same class of non-current physical assets, and**
 - (b) amounts required to be credited to the balance of the asset revaluation reserve in respect of that class in accordance with another standard.**
- 6.4 Transfers to the asset revaluation reserve from another reserve such as retained profits/surplus is prohibited.**
- 6.4.1 Where depreciable assets are revalued, consistent with AASB 1041, the revaluation must be accounted for by either of the following:
- (a) any balances of accumulated depreciation existing as at the revaluation date in respect of those assets must be credited to the asset accounts to which they relate. The asset accounts must then be increased or decreased by the amount of the revaluation increments or revaluation decrements (paragraph 5.7 of AASB 1041), or
 - (b) where depreciable assets are revalued by reference to current prices for assets newer than those being revalued, and adjustments are made to those amounts to reflect the present condition of the assets, an entity may restate separately the gross amounts and related accumulated depreciation of the assets comprising the class of revalued assets (paragraph 5.8 of AASB 1041).

7 Exceptions to Measurement Basis

7.1 The requirement to measure each class of non-current physical assets on either the cost or fair value basis is subject to the following two exceptions:

- (a) transfer of assets by government departments for no cost or for nominal consideration by the transferor immediately prior to the transfer and where the assets are included in a class of non-current physical assets that are measured on a fair value basis, and
- (b) revaluation of non-current physical assets to fair value in the consolidated financial statements on acquisition of an equity interest in a subsidiary as required by another accounting standard.

7.1.1 The exceptions in paragraph 7.1(a) implies that where assets transferred are recognised at the carrying amount immediately prior to the transfer, and are included in a class of assets that is measured using fair value, any material difference from the fair value of the transferred assets need not be recognised until the class of assets is next revalued. Accordingly, a material difference between the carrying amount of the transferred assets and their fair value does not trigger the requirement to revalue the entire class of assets either at the time of the transfer or in the reporting period subsequent to the transfer. The assets will be revalued when the other assets within the class trigger the need to revalue that class of non-current physical assets. Where indexation is used during the intervening periods between the formal revaluations, the transferred assets should also be subject to indexation during the intervening period.

7.1.2 AASB 1041 and this Policy requires the revaluations to be kept up to date to ensure there is no material difference between the carrying amount and fair value at reporting date for assets that are measured at fair value. This requirement is subject to the transitional provisions that apply to public sector entities that are not required to prepare financial statements in accordance with Part 2M.3 of the *Corporations Act 2001*. These transitional provisions are discussed in section 8 of this Policy, which allows progressive revaluations over more than one reporting period. At the end of the transitional period, the requirement detailed in AASB 1041 will apply to classes of non-current physical assets measured using the fair value basis.

8 Transitional Provisions

8.1 The transitional provisions contained in section 8 of AASB 1041 prescribe the following:

- (a) the accounting treatment for the initial adoption of a measurement basis for a class of non-current physical assets that differs from the previous measurement basis on application of the standard, and
- (b) the adoption of progressive evaluations for a class of non-current physical assets that uses the fair value basis on initial application of the standard.

8.1.1 The transitional provisions contained in section 8 of AASB 1041 are complex and difficult to apply. Appendix 2 of this Policy provides a summary to assist entities in the application of these transitional provisions.

- 8.2** The transitional provisions of AASB 1041 (issued in July 2001) are only available to entities that have not previously applied the provisions through the early adoption of the standard. Entities that intend to apply these transitional provisions must do so in the reporting period ending 31 December 2001 or 30 June 2002.
- 8.3** Entities that have already applied the provisions of the superseded AAS 38 *Revaluation of Non-Current Assets* can also apply the transitional provisions of AASB 1041 (issued in July 2001).

Changes from a measurement other than cost to fair value

- 8.4** Where an entity changes its measurement basis from a measurement other than cost to fair value for a class of non-current physical assets, the transitional provisions require the adjustments resulting from the change in measurement basis to be made against the retained profits/surplus on the initial application of this Policy as per paragraph 8.5(b) of AASB 1041.
- 8.4.1 An example of paragraph 8.4 is where an entity has changed its measurement basis from a measurement other than cost, such as the deprival value, to the fair value basis upon the initial application of this Policy. This change in measurement basis has resulted in an initial revaluation increment that reverses a revaluation decrement of that asset class, which was recognised in the profit or loss/result in a previous reporting period. The transitional provision would require this initial revaluation increment to be recognised as a credit to retained profits/surplus.
- 8.4.2 Additionally, where an entity changes its measurement basis from a measurement basis from a measurement other than cost to fair value, the carrying amount of the assets must be adjusted to their fair values as at the beginning of the reporting period when this Policy and AASB 1041 is first applied. Any resulting adjustments are accounted for as per paragraph 8.4, while movements in fair value that occur during the first reporting period of applying this Policy must be accounted for in accordance with the revaluation principles contained in section 6.

Changes from cost to fair value

- 8.5** Where an entity changes its measurement basis from cost to fair value for a class of non-current physical assets, the transitional provisions of paragraph 8.4 applies with one exception. The exception relates to the reversal of previous impairment losses or recoverable amount write-downs. The transitional provisions restrict the reversal to the same asset and prohibits the reversal on a class basis.
- 8.5.1 The transitional provisions contained in paragraph 8.5 implies that the revaluation increment can only be credited against retained profits/surplus instead of the asset revaluation reserve when an asset being revalued has previously had an impairment write-down recognised as an expense in a previous period. This ensures that write-downs can only be reversed when the same asset's fair value increases. To allow otherwise would mean that previous losses in respect of assets that are no longer controlled by the entity could be reversed indefinitely as the fair values of other assets in the class increase.

Progressive revaluations

- 8.6 The transitional provisions permit public sector entities, other than public sector entities that are required to prepare financial statements in accordance with Part 2M.3 of the *Corporations Act 2001*, to use progressive revaluations for the class of property where the fair value basis is adopted on initial application of this Policy.
- 8.7 The transitional provisions of AASB 1041 (paragraph 8.13) allow progressive revaluations for the class of property to continue until the reporting periods beginning no later than 30 June 2005, provided that:
- (a) the revaluations are conducted in a systematic manner,
 - (b) all assets within the class are revalued within a five-year period, and
 - (c) the recoverable amount requirements of AAS 10 *Recoverable Amount of Non-Current Assets* are applied and write-downs are accounted for as if they were revaluation decrements.
- 8.7.1 The transitional provisions for progressive revaluations in paragraphs 8.6 and 8.7 override the general requirements of AASB 1041, whereby progressive revaluations are permitted regardless of whether any material difference arises between the carrying amount of any item in the class of property being revalued. Under the general requirements, progressive revaluations are not permitted where any material differences arises.
- 8.7.2 AASB 1041 extends the transitional provisions contained in paragraph 8.7 of this Policy for progressive revaluation to property, plant and equipment. This Policy limits the class to property, as the plant and equipment class is required to be measured at cost. AASB 1041 defines 'property, plant and equipment' (paragraph 9.1) as:
- 'tangible non-current assets that:
 - (a) are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes and may include items held for maintenance or repair of such assets, and
 - (b) have been acquired or constructed with the intention of being used on a continuing basis'.

Accordingly, the property class in this Policy is taken to mean the asset classes of land and building.

8.7.3 The table below summarises the transitional provisions for a class of non-current physical assets that has changed its measurement basis from cost or a basis other than cost to fair value.

Change in measurement basis from cost to fair value	Change in measurement basis from a mix of cost and basis other than cost to fair value
Reporting period ending: <ul style="list-style-type: none"> • 31 December 2001 • 30 June 2002 	
<ul style="list-style-type: none"> • Must apply fair value basis to those classes identified in this Policy • Can either revalue entire class by the reporting date to fair value or can apply transitional provisions and adopt progressive revaluation • Where progressive revaluation is applied, entity must have a documented revaluation plan, and must revalue all assets within a class within a five year period <ul style="list-style-type: none"> – During the course of the progressive revaluation, any asset within a class at the reporting date which has a carrying amount that differs from its recoverable amount, must be written down to recoverable amount – The write down to recoverable amount is treated as a revaluation decrement and recognised in accordance with the general provisions • Various disclosures are applicable (as per paragraphs 8.12, 8.13 to 8.16 of AASB 1041) 	<ul style="list-style-type: none"> • Must apply fair value basis to those classes identified in this Policy • Can either revalue entire class by the reporting date to fair value or can apply transitional provisions and adopt progressive revaluation • During the course of the progressive revaluation <ul style="list-style-type: none"> – Any asset within a class at reporting date which has a carrying amount which differs from its recoverable amount, must be written down to recoverable amount – The write down to recoverable amount is treated as a revaluation decrement and recognised in accordance with the general provisions • Various disclosures are applicable (as per paragraph 8.10 of AASB 1041)
Reporting period ending: <ul style="list-style-type: none"> • 31 December 2002 • 30 June 2003 and 31 December 2003 • 30 June 2004 and 31 December 2004 • 30 June 2005 and 31 December 2005 	
<ul style="list-style-type: none"> • Refer to above summary of 'Change in measurement basis from cost to fair value' 	<ul style="list-style-type: none"> • Where progressive revaluation is partially completed at this point in time, the fair value basis must be applied to the remainder of the assets yet to be revalued and assets that have already been revalued need not be revalued to fair value until the first reporting period after the progressive revaluation is completed • During the course of the progressive revaluation <ul style="list-style-type: none"> – Any asset within a class at the reporting date, which has a carrying amount that differs from its recoverable amount, must be written down to recoverable amount – The write down to recoverable amount is treated as a revaluation decrement and recognised in accordance with the general provisions • Various disclosures are applicable (as per paragraphs 8.14, 8.15 to 8.16 of AASB 1041)
Reporting period ending 30 June 2006 and beyond	
<ul style="list-style-type: none"> • Progressive revaluations over more than one reporting period is no longer permitted • All assets within a class of progressively revalued property must be measured at their fair value as at the end of the first reporting period beginning after 30 June 2005 • Must ensure that at the reporting date, the fair value of an asset does not differ materially to its carrying amount • Various disclosures are applicable 	

Reversion to cost basis on initial adoption/application

- 8.8** The requirement to measure the class of plant, equipment and vehicles at cost will necessitate a reversion to the cost basis where those assets have previously been measured using fair value or at a basis other than cost, such as deprival value.
- 8.9** Entities that have not previously adopted the provisions of AASB 1041, reversion to the cost basis can be treated as an election on the initial application of the standard and would be accounted for in accordance with the transitional provision in paragraph 8.7 of AASB 1041 and 8.10 of this Policy.
- 8.10** On the initial application of this Policy, the entity must measure the class of non-current physical assets at cost, which is deemed to be the carrying amount of the asset.
- 8.10.1 The carrying amount of the asset that is deemed to be cost as per paragraph 8.10 would not require adjustments on the initial application of this Policy. The gross carrying amounts and the balances of accumulated depreciation and accumulated recoverable amount write-downs will continue to be used as the basis for the disclosures on depreciation.
- 8.10.2 Under the approach in paragraph 8.10, any balance remaining in the asset revaluation reserve for that class can either be transferred to the retained profits/surplus or the balance continues to remain in the asset revaluation reserve. Where the balance continues to remain in the asset revaluation reserve, it is no longer available for recoverable amount write-downs. The requirements of AAS 1 *Statement of Financial Performance* prohibit any net revaluation increments previously recognised in the asset revaluation reserve being subsequently recognised as revenue within the net profit or loss/result.
- 8.10.3 Detailed below is an example that illustrates the requirements of paragraph 8.10 of this Policy. The example relates to a situation, where immediately prior to the application of this Policy, the class was measured on a mixed basis including cost and valuation:

Asset	Asset Value	
	Immediately preceding initial application of Policy	Resulting from initial application of Policy and reversion to cost
Plant, equipment and vehicles at valuation	\$12,000,000	
Accumulated depreciation	(\$7,000,000)	
Carrying amount	<u>\$5,000,000</u> ⁽¹⁾	
Plant, equipment and vehicles at cost	\$20,000,000 ⁽²⁾	
Accumulated depreciation	(\$13,000,000) ⁽³⁾	
Carrying amount	<u>\$7,000,000</u>	
Plant, equipment and vehicles at cost		\$25,000,000 ⁽¹⁾⁺⁽²⁾
Accumulated depreciation		(\$13,000,000) ⁽³⁾
Carrying amount		<u>\$12,000,000</u>
Asset revaluation reserve	\$2,000,000 ⁽⁴⁾	
Accumulated surpluses	\$40,000,000 ⁽⁵⁾	\$42,000,000 ⁽⁴⁾⁺⁽⁵⁾

The carrying amount of the items of plant, equipment and vehicles within the class measured at valuation at the commencement of the period in which this Policy first applies is deemed to be the cost of the assets. This would result in the accumulated depreciation of the assets being credited against the carrying amount of the related assets in order to arrive at the carrying amount of the assets. The carrying amount of the assets is in turn deemed as the measurement of the assets at cost.

- 8.10.4 Where the balance of the asset revaluation reserve is transferred to the accumulated surplus, this transfer would be disclosed in the statement of financial performance as a direct movement in equity and would not be disclosed in the operating result for the reporting period.
- 8.10.5 Where an entity already uses the cost basis to measure the class of plant, equipment and vehicles because the class was previously deemed to be immaterial, no adjustment to the carrying amount is required.

9 Recoverable Amount Test

9.1 Consistent with AAS 10, each asset in the class of plant, equipment and vehicles that are measured on a cost basis must be written down to its recoverable amount when its carrying amount is greater than the recoverable amount.

- 9.1.1 AAS 10 defines 'recoverable amount' as 'the net amount that is expected to be recovered, through the cash inflows and outflows arising from its continued use and subsequent disposal (paragraph 9.1). Where a group of assets works together in the generation of net cash inflows, the recoverable amount test must be applied to the carrying amount of that group of assets rather than the individual assets within the group.
- 9.1.2 Where an asset is being measured at fair value, it is unlikely that the fair value will exceed its recoverable amount. Accordingly, the recoverable amount test does not apply to non-current physical assets that are measured at fair value. Consequently, the recoverable amount test will only apply to the plant, equipment and vehicles class of non-current physical assets that are measured at cost. The recoverable amount test is also applicable to the plant, equipment and vehicles class of assets that have reverted from a revaluation basis to a cost basis upon the initial application of this Policy.

Accounting for recoverable amount write-downs

9.2 Where the carrying amount of an asset or group of assets is written down to its recoverable amount, the decrement in that carrying amount must be recognised as an expense in the net profit or loss/result for the reporting period in which the recoverable amount write-down occurs.

- 9.2.1 AAS 10 (paragraph 5.1.2) and AASB 1041 (paragraph 5.1.5) specifically states that the recoverable amount write-downs do not represent revaluations. Additionally:
- (a) a recoverable amount write-down of an asset in a class does not trigger the need to revalue the class to fair value, and
 - (b) all recoverable amount write-downs must be recognised as expenses in the net profit or loss/result for the reporting period, even if the asset was previously revalued and a balance remains in the asset revaluation reserve in respect of the class of assets.

Not-for-profit entities

9.3 The recoverable amount test does not apply to plant, equipment and vehicles of not-for-profit entities, where the future economic benefits of the assets are not primarily dependent on the asset's ability to generate net cash inflows.

- 9.3.1 For the purposes of applying paragraph 9.3, AAS 10 defines a 'not-for-profit entity' as 'an entity whose financial objectives do not include the generation of profit' (paragraph 9.1). The future economic benefits of the assets of non-for-profit entities are indicated by the goods and services that they provide, rather than the ability of the assets to generate net cash inflows. Accordingly, the assets' carrying amount should reflect their remaining ability to provide services, measured at an amount consistent with the measurement model applied.
- 9.3.2 The non-current physical assets of an entity providing arts and cultural events to the public may be an example of assets that are exempt from the recoverable amount test. That is, despite the fact that the entity receives cash inflows from consumers in the form of admission fees or tickets, their continued operation is dependent on government subsidy and not driven by the generation of a profit.
- 9.3.3 This Policy considers that the general government sector entities meet the definition of not-for-profit entities. Accordingly, general government sector entities are not required to apply the recoverable amount test to plant, equipment and vehicles that are required to be measured on a cost basis, where the future economic benefits comprising the assets are not primarily dependent on the assets' ability to generate net cash inflows.
- 9.3.4 In circumstances where the future economic benefits comprising non-current physical assets of not-for-profit entities are primarily dependent on the assets' ability to generate net cash inflows, the carrying amount of such assets should not exceed their recoverable amount.

Community service obligations

- 9.3.5 AAS 10 acknowledges that some entities, while not qualifying as not-for-profit entities, are required to meet community service obligations. These entities discharge their obligations by employing the non-current physical assets to provide goods or services at no charge, or at less than full cost recovery. These entities may also receive government support in the form of grants and capital or other contributions in meeting their obligations.
- 9.3.6 In determining the recoverable amount of these assets, the assets should be grouped with other assets that depend on the provision of those goods or services to enable it to generate net cash inflows. The total net cash inflows must be estimated for that group of assets and the recoverable amount applied on that basis. Consequently, the recoverable amount of the assets should not be determined solely by examining the amounts expected to be recovered directly from the goods and services produced by those activities.

10 Disposal of Assets

- 10.1 The gain or loss on disposal of a non-current physical asset must be measured as the difference between the carrying amount of the asset as at the time of disposal and the net proceeds, if any, from disposal. The gain or loss on disposal must be recognised in the net profit or loss/result for the reporting period in which disposal of the assets occurs.**
- 10.1.1 The disposal of an asset can occur through a number of ways including sale or scrapping of the asset.

- 10.1.2 While AASB 1041 deals with the measurement of gains or losses on disposal of an asset, the disclosure requirements are prescribed by the following accounting standards:
- (a) AAS 15 *Revenue* requires the separate disclosures of the proceeds from sale of non-current physical assets, and
 - (b) AAS 1 *Statement of Financial Performance* requires the disclosure of the net gain or loss on the disposal of assets that are not measured at fair value. Disposal of property, plant and equipment are therefore required to be disclosed on a net basis in the note to the financial statements.
- 10.1.3 Where a fair value measurement basis is adopted, it is unlikely that there will be material gains or losses upon the disposal of the asset, as the fair value should reflect the current exchange value for that asset.
- 10.1.4 AASB 1041 does not address the treatment of the portion of the asset revaluation reserve that relates to an asset that has been disposed of. AASB 1041 however, refers to AAS 1, which prohibits the reversal and recognition as revenue, within net profit or loss/result, any net revaluation increments that have been recognised in the asset revaluation reserve in a previous reporting period. Consequently, the balances in the asset revaluation reserve for an asset, which is subsequently disposed of cannot be recognised as revenue.
- 10.1.5 The balance of the asset revaluation reserve for the assets being disposed of may be transferred into accumulated profits/surplus, provided that such a transfer does not result in a deficit in the balance of the asset revaluation reserve. This transfer would be disclosed as a direct equity transfer in the statement of financial performance.
- 10.1.6 In circumstances where the balance of the asset revaluation reserve is transferred to accumulated profits/surplus, detailed records needs to be maintained for the movements in the reserve, and the individual assets to which these movements relate. Such records will enable the amount, if any, of the reserve is available for transfer on disposal of an asset.
- 10.1.7 Revaluation increments and decrements must be offset against one another on a class of assets basis. Accordingly, a revaluation increment on one asset may offset a decrement on the same or different asset in that class that relate to a subsequent reporting period. Consequently, it cannot be assumed that the revaluation increments that have been recognised for an asset still exist in the asset revaluation reserve when the asset is disposed of. As such, the only amount available for transfer to retained profits/surplus when the asset is disposed of is the amount that had not already been applied against decrements. This may necessitate pro-rating a decrement against the other increments in the reserve or applying it against a particular increment.
- 10.1.8 The provisions of AASB 1041 restrict the types of transactions that can be credited to the asset revaluation reserve. This restriction implies that where a non-current physical asset is disposed of, which previously recorded a revaluation decrement and was included in a class which had a net revaluation increment, the revaluation decrement cannot be credited against the asset revaluation reserve upon the disposal of the asset.

Appendix 1 Change in Accounting Policy Disclosure

Section 7 of AASB 1041 provides the disclosure requirements for the revaluation of non-current physical assets. This appendix provides a sample disclosure relating to the change in accounting policy for the reversion to cost basis of measurement on the initial application of this Policy.

Note 1 Summary of significant accounting policies

In the previous reporting period, up to 31 December 2000 plant, equipment and vehicles was measured using the deprival value basis and was revalued every five years.

For the reporting period ending 31 December 2001, the entity reverted to the cost basis for measuring all plant, equipment and vehicles. This change in measurement basis is to comply with the Victorian Government Policy *Revaluation of Non-Current Physical Assets*. In changing from a deprival basis to a cost basis, the carrying amount of plant, equipment and vehicles at valuation as at 1 January 2001, was deemed to equal the cost of the assets. Accordingly, the change in accounting policy has had no impact on either the current year's statement of financial performance or opening accumulated profits (surplus)/ losses (deficit). Given the treatment of the opening carrying amount, it is not appropriate to restate the comparative position.

Appendix 2 Summary of Applicable Transitional Provisions of AASB 1041

The transitional provisions of AASB 1041 *Revaluation of Non-Current Assets* is outlined in section 8 of the standard. The requirements of the transitional provisions are complex and difficult to apply. Accordingly, a summary of the applicable transitional provisions has been incorporated in this appendix to assist entities in the application of these provisions. This summary is included on the next page.

In interpreting the summary, please note the following:

- **Paragraph references to AASB 1041** – Each “text box” in the summary contains numbers in brackets at the end of the box. These numbers represent the relevant paragraph numbers in AASB 1041.
- **Abbreviations** – Abbreviations for common terminologies used in the summary are contained in the text box located on the top left hand corner.
- **RA writedown/loss** – Reference to “RA writedown/loss” is taken to mean recoverable amount write-downs or impairment losses.

In addition, the summary has excluded the following transitional provisions of AASB 1041, as these provisions are not relevant, nor applicable to the public sector entities that fall within the scope of this Policy.

- **Entities that have Already Applied AASB 1041 or AAS 38** – paragraphs 8.6 to 8.6.2,
- **Public Sector Entities: Existing Revaluation Basis**– paragraphs 8.10 to 8.11, and
- **Public Sector Borrowing/Financing Entities** – paragraph 8.17.

Summary of Applicable Transitional Provisions of AASB 1041 *Revaluation of Non-Current Physical Assets*

ARR = Asset revaluation reserve
 CA = Carrying amount
 Cr = Credit
 Depn = Depreciation
 Dr = Debit
 FV = Fair value
 NCAs = Non-current physical assets
 NMV = Net market value
 PSE = Public sector entity
 RA = Recoverable amount
 Reval = Revaluation
 RP = Reporting period

On initial adoption, must apply AASB1041 for RP on or after 30/9/01 (8.1)

Previously measured at cost (8.2)

Apply FV* (8.2b) Continue with cost* (8.2a)

Transition to FV

Where:
 a) Entity elects to initially apply FV,
 b) PSE not governed by Corporations Act initially applies FV & ceases to apply existing revaluation basis during RP beginning on or before 30/6/03 as per para 8.10(b), or
 c) PSE (other than listed corporation) progressively revalues property over more than 1 RP under para 8.13 and during RP beginning no later than 30/6/05, revalues portion of class to FV, adjustments must be made to restate CA of NCAs to FV (8.4)

Adjustments to restate CA to FV(8.5)

If RA writedown/loss previously recognised as expense:
 - Cr retained profit/ accumulated loss with increase in CA, **up to** amount had no previous writedown/ loss been recognised, and
 - Cr ARR or Dr retained profit/accumulated loss with increase in CA, **above** CA had no writedown/loss been recognised (8.5a)

Where para 8.5(a) does not apply ie. if RA writedown/loss not previously recognised as expense:
 - Cr ARR with net reval increment, except where increment reverses decrement previously recognised as expense, then Cr retained profit/ accumulated loss, and
 - Dr ARR with net reval decrement to extent of existing credit balance in ARR, Dr retained profit/accumulated loss with remainder (8.5b)

Previously measured on basis other than cost (8.3)

Revalue assets to FV* after making initial adjustments as per para 8.5(b) if necessary (8.3a) Reversion to cost (8.3b)

Where previously carried at revalued amount (8.7)

Deem CA to be cost (8.7a)

Make retrospective adjustments to measure NCAs at cost as if always measured at cost (8.7)
PROHIBITED BY POLICY

On initial application or during RP where progressive revaluation applies as per para 8.12 and 8.13 (ie. for RP beginning no later than 30/6/05):
 a) Any balance of accumulated depn & accumulated RA writedown/loss must be used to disclose gross amount and related accumulated depn separately as per AASB1021/ AAS4, and
 b) No para 8.5(d) of AASB 1001/AAS 6 disclosure required (ie. no disclosure of financial effect of change in policy in current RP required) (8.8)

PSEs: Progressive revaluation within class of property

For RP beginning no later than 30/6/05, regarding frequency of revaluations of property**, PSE other than listed corporation must either (8.12):

Apply fair value as per para 5.1(b) (8.12a)

Apply para 8.13 to 8.16, where applicable (8.12b)

Progressive revaluation over more than 1 RP allowed, provided:
 a) Revaluations conducted in systematic manner,
 b) All assets in class revalued within 5 year period, and
 c) Any asset in class written down to RA when CA exceeds RA (except for non-for-profit entity) (8.13)

Where assets revalued to amount other than FV, FV must be applied to revaluations of assets in class occurring during any RP beginning after 30/6/02 (8.14)

Writedown must be accounted for as revaluation decrement as per para 5.4 & 5.5 (8.15)

Where, at reporting date, class of property is progressively revalued as per para 8.13, disclosures are required as per para 8.16

Writedown must be accounted for as revaluation decrement as per:
 - para 5.4 (ie. offset only against other increments in same class), and
 - para 5.5 (ie. recognise as expense in net profit/loss, except where credit balance exists in ARR, then Dr directly to ARR to extent of existing credit balance for same class)

* Basis on which entity elected on first application of AASB 1041.

** AASB 1041 permits PSE progressive revaluation for the class of property, plant and equipment. This Policy limits this class of progressive revaluation to property, as plant and equipment must be measured at cost.