

III ASSET ACCOUNTING FRAMEWORK

Re-issued: 21 May 2018

1 Introduction

Application and Operative Date
Scope
Australian Accounting Standards

2 Asset Recognition

What are assets?
When to recognise assets
Items that fail the recognition criteria
Initial recognition
Deemed Assets
Materiality Thresholds

3 Asset Valuation

Materiality Threshold
Frequency of Revaluation
Revaluation Surplus

4 Depreciation / Amortisation

Depreciation methods
Change of methods or rates
Intangible assets
Long lived assets

5 Impairment

6 Contingent Assets

7 Complex Assets

Background
Recognition of complex assets
Recognition of component assets

8 Heritage Assets

What are heritage assets?
When to recognise heritage assets
How to value heritage assets

9 Land and Improvements

Types of land use
Crown land
How to value land
Land subject to restricted use
How to value improvements
Soil remediation

10 Maintenance v Capital Expense

11 Agriculture

12 Intangible Assets

Internally Generated Intangible Assets
Retirement and Disposal

13 Interest Free Loans

What are interest free loans?
Accounting for interest free loans
Materiality thresholds for interest free loans
Discount rate

14 Explanatory notes

15 Model Letter to Valuers

1 INTRODUCTION

Application and Operative Date

This Accounting Policy Framework is re-issued on the 21 May 2018 and applies to the general purpose financial statements of each public authority for the reporting period ending on or after 30 June 2018. It replaces APF III issued in May 2015 which is hereby revoked.

Scope

The purpose of this Policy Framework is to address the issue of identification, recognition and measurement of assets for accounting purposes.

This Accounting Policy Framework mandates that all public authorities measure noncurrent assets at fair value; obtain the Treasurer's approval prior to measuring noncurrent assets using the income approach and/or discounted cash flows; and expense the value of interest-free loans provided for long periods.

It extends the ability to account for revaluations on a class basis to for-profit entities and introduces accounting thresholds for revaluation and recognition of smaller (or component) assets comprising a larger (or complex) asset.

Australian Accounting Standards

The following Australian Accounting Standards have general application in relation to the accounting for assets.

AASB 13 *Fair Value Measurement* defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurement.

AASB 116 *Property, Plant and Equipment* prescribes the accounting treatment and reporting requirements for non-current assets.

AASB 136 *Impairment of Assets* prescribes that the carrying amount of non-current assets is not to exceed their recoverable amount.

AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* prescribes the accounting and disclosure of provisions, contingent assets and contingent liabilities.

AASB 138 *Intangibles* prescribes the accounting treatment, measurement and disclosure rules for all intangible assets that are not dealt with specifically in another standard.

AASB 140 *Investment Property* prescribes the accounting treatment and disclosure requirements for investment property.

AASB 141 *Agriculture* prescribes the accounting treatment, financial statement presentation, and disclosures related to agricultural activity.

AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* prescribes the accounting treatment for assets held for sale, and the presentation and disclosure of discontinued operations.

2 ASSET RECOGNITION

What are Assets?

2.1 The *AASB Framework for the Preparation and Presentation of Financial Statements* (AASB Framework) defines assets 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.

2.2 The key features are that:

- the benefits must be controlled by the entity;
- the benefits must have arisen from a past event; and
- future economic benefits must be expected to flow to the entity.

2.3 Indicators of control:

- the ability of an entity to benefit from the asset and to deny or regulate the access of others to that benefit.
- an entity can depending on the nature of the asset, exchange it, use it to provide goods or services, exact a price for others use of it, use it to settle liabilities, hold it, or perhaps even distribute it to owners.
- possession or ownership of an object or right would normally be synonymous with control over the future economic benefits embodied in the right or object. Care needs to be taken as an entity may possess an object or right but not expect to enjoy the benefits embodied in it, e.g. under a finance lease agreement, control over the leased property owned by the lessor is transferred to the lessee.

2.4 Indicators of past event:

- the specification of a past event differentiates assets from intentions to acquire assets, which are not to be recognised.
- a transaction or event giving rise to control of the future economic benefits must have occurred.

2.5 Indicators of future economic benefits:

- distinguishable from the source of the benefit ie the particular physical resource or legal right.
- does not imply that assets necessarily generate cash flows, the benefits can also be in the form of 'service potential'.
- in determining whether a resource or right needs to be accounted for as an asset, the potential to contribute to the objectives of the entity should be the prime consideration.

- capacity to contribute to activities/objectives/programs.
- the fact that an asset cannot be sold does not preclude it from providing future economic benefits.

When to Recognise Assets

- 2.6 In accordance with the AASB Framework, assets are recognised in the Statement of Financial Position when and only when:
- it is probable that the future economic benefits will flow to the entity; and
 - the asset has a cost or value that can be measured reliably.
- 2.7 Indicators of probable:
- the chance of benefits arising is more likely rather than less likely (eg greater than 50%).
 - benefits can be expected on the basis of available evidence or logic.
- 2.8 Indicators of reliable measurement:
- valuation method is free from material error or bias.
 - faithful representation of the asset's benefits.
 - reliable information will, without bias or undue error, faithfully represent those transactions and events.
- 2.9 Recognition of an asset should be unaffected by questions of whether the asset is acquired from, or developed by, an external party or constructed or developed internally. Judgement may need to be exercised to determine whether the expenditure leads to the emergence of additional economic benefits / service potential or simply maintains existing economic benefits / service potential. In the first instance, the test for recognition of an asset is likely to be satisfied while the second instance is unlikely to satisfy the test.

Items that Fail the Recognition Criteria

- 2.10 Items that do not meet the recognition criteria will be disclosed in the explanatory notes and will not be reported in the Statement of Financial Position. For example:
- expenditure on research to extend knowledge in a field of science - fails because it is not possible to establish that it is probable that future economic benefits will arise.
 - rare paintings or books - fails because they cannot be reliably measured.
 - litigation in pursuit of a claim for damages - fails because it is not possible to measure the value of the claim.

Initial Recognition

- 2.11** Assets, other than those that are acquired at no cost or for nominal consideration, are to be initially recognised at their cost of acquisition, which includes:
- purchase price plus import duties and non-refundable/claimable taxes minus trade discounts and refundable/claimable taxes;
 - costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
 - the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

APS 2.12 Assets acquired at no cost or for nominal consideration are to be initially recognised at their fair value (DR asset and CR revenue). Assets (and liabilities) acquired as a consequence of a restructure of administrative arrangements will be recognised at book value ie the amounts recorded by the transferor public authority immediately prior to the restructure.

Deemed Assets

- APS 2.13** Funds credited by an agency to, and held in the following accounts are deemed to be assets of that agency:
- the Surplus Cash Working Account established pursuant to the Cash Alignment Policy; and
 - the Accrual Appropriation Excess Funds Account established pursuant to a Treasury Direction.

Materiality Thresholds

- APS 2.14** Government entities will control a large amount of relatively low value items which, if they were to be managed and reported in detail, would result in excessive costs for very limited benefits. Typically, these items would include furniture, office equipment, workshop tools etc.
- APS 2.15** To minimise costs, a non-current asset, or group of assets as defined in APS 2.17 and APS 2.18, with a fair value at the time of acquisition of less than \$10 000 need not be recognised (capitalised) as an asset. That is, it may be expensed in the period in which it is acquired.
- APS 2.16** Because of differing materiality levels between entities, due to their size and the nature of their operations, an individual entity may, if it wishes, adopt a capitalisation threshold lower than the general threshold.

APS 2.17 Entities may control large numbers of similar assets with individual values below the capitalisation threshold but which, when grouped together, represent a total value, which is a significant percentage of the total value of the entities' assets. In these circumstances an entity may group those assets for the purpose of capitalisation. For example, all the chairs held by an entity may be grouped as one asset. Procedures would need to be established to ascertain that the grouped asset value continues to reflect the aggregate of the individual items.

APS 2.18 Entities may also control dissimilar assets with individual values below the capitalisation threshold but which work together in the form of a group or network asset whose total value exceeds the capitalisation threshold. In these circumstances the group or network would comprise the primary asset that should be capitalised. Examples of this are a computer network, PABX system or sewerage system.

3 ASSET VALUATION

APS 3.1 Other than for intangible assets (refer to APS 12.6), subsequent to initial recognition each class of non-current assets will be measured at fair value.

Fair Value

3.2 AASB 13 *Fair Value Measurement* (AASB 13) defines fair value as

the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants [in the principal or most advantageous market] at the measurement date.

3.3 In accordance with AASB 13, key features in determining fair value are:

- taking into account the characteristic of the asset, if market participants would take those characteristics into account. This includes the condition and location of the asset and any restrictions on the sale or use of the asset.
- considering the asset's highest and best use that is:
 - physically possible – regard to the physical characteristics (eg location or size of asset) of the asset that market participants would take into account when pricing the asset.
 - legally permissible – regard to any legal restrictions (eg zoning) on the use of the asset that market participants would take into account when pricing the asset
 - financially feasible – regard to generating adequate income or cash flows to produce an investment return that market participants would required form an investment in that asset put to that use.

3.4 Characteristics of the asset and its highest and best use must consider the unique nature of many public sector assets that have few or no alternative uses, and therefore are specialised.

3.5 Fair value measurement of a particular asset is impacted by restrictions on the use or sale of an asset if market participants would take those restrictions into account when pricing the asset.

3.6 Most government reporting entities are mandated by ministerial/ government or legal/administrative requirements to provide certain services to the public and therefore, are restricted in the use and disposal of assets that assist to provide these services. This is so, because the government reporting entities remain subject to the restrictions imposed by the Government, because the

entity is not able to change the use or dispose the asset, unless approved by the Government.

APS 3.7 Fair value is measured having regard to the asset's highest and best use. An asset's current use is the highest and best use, unless other factors suggest that an 'alternative use' would maximise the value of the asset to market participants. An 'alternative use' must only be considered, if that use is physically possible, legally permissible and financially feasible within the next 5 years.

Fair value measurement techniques

APS 3.8 In determining fair value, it is acceptable to use:

- the cost approach (that is the lower of replacement cost or reproduction cost, less accumulated depreciation, ie written down current cost/depreciated replacement cost). For example, infrastructure assets.
- the market approach (that is quoted prices in an active market for the identical or similar asset in use, type and condition). For example, land with no public use restrictions, used motor vehicles.

APS 3.9 In determining fair value, of a non-financial asset, the income approach (ie discounted cash flow model) as a valuation technique, is only permitted if approved or required by the Treasurer.

3.10 AASB 13 outlines that valuation techniques are to maximise the use of relevant observable inputs and minimise the use of unobservable inputs. It also establishes a fair value hierarchy that categories into three levels the inputs to valuations techniques used to measure fair value.

- Level 1 inputs - unadjusted quoted prices in active markets for identical assets that the entity can access at measurement date. For example shares, derivatives
- Level 2 inputs - inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs - inputs are unobservable inputs for the asset or liability.

3.11 It is envisaged that generally the following input levels would be used across government:

Land that is subject to restrictions as to use and/or sale or there is not an active market - Level 3

Land that is not subject to restriction as to use and/or sale and there is an active market - Level 2

Buildings that are specialised eg limited alternative uses, substantially customised, heritage listed – Level 3

Buildings that are non- specialised eg residential, commercial or general use buildings – Level 2

Infrastructure eg road, water, electrical – Level 3

Plant and equipment that is specialised eg limited alternative uses, substantially customised – Level 3

Plant and equipment that is non-specialised eg office equipment and furniture – Level 2

Computer equipment and software – Level 3

Vehicles where there is not an active resale market - Level 3

Vehicles where there is active resale market eg state auction – Level 2

Heritage assets where there is not an active market eg museum collections – Level 3

Heritage assets where there is an active market eg paintings – Level 2

Revaluations

APS 3.12 Most government reporting entities will control assets with relatively low values and/or short economic lives. In these circumstances, periodic revaluation would result in excessive costs for very limited benefits.

APS 3.13 To minimise costs, revaluation of a non-current asset, or group of assets as defined in APS 2.17 and APS 2.18, is required only when its fair value at the time of acquisition is greater than \$1 million and its estimated useful life is greater than 3 years. Assets below the revaluation threshold are deemed to have been revalued to their fair values immediately following recognition at cost.

Frequency of Revaluations

APS 3.14 Where an asset is required to be revalued in accordance with APS 3.13, then the entire class to which the asset belongs is revalued.

APS 3.15 A class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period (ie two year period) and provided the revaluations are kept up-to-date.

APS 3.16 The frequency of revaluations depends on the materiality of changes in the fair value of assets within that class of non-current assets.

APS 3.17 There are two basic valuation procedures available for determining fair value, namely valuation appraisal by a qualified valuer, or internal estimates based on indices or recent transactions. A valuation appraisal by an internal or external professionally qualified valuer will be performed at least every 6 years.

For Example:

The Dept of SA Service Delivery revalues its non-current physical assets, using a professionally qualified valuer, for the year ending 30 June 2018.

The Department performs interim revaluations using appropriate indices and recent transactions.

The Department of SA Service Delivery will revalue its non-current physical assets again, using a professionally qualified valuer for the year ending 30 June 2024.

Revaluation Surplus

APS 3.18 To minimise costs all government reporting entities (not just not-for-profit entities) may take revaluation adjustments to the asset revaluation surplus on a class basis rather than an individual asset basis. For-profit entities will disclose their election in relation to this APS.

APS 3.19 The revaluation surplus included in equity in respect of an item of property, plant and equipment will be transferred directly to retained earnings when the asset is derecognised. Transfers from revaluation surplus to retained earnings are not made through profit or loss.

APS 3.20 AASB 116 allows two options for dealing with accumulated depreciation on revaluation, the gross method or the net method. It is DTF's preference that government reporting entities account for revaluations on a net basis; ie when an item of property, plant and equipment is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

4 DEPRECIATION/AMORTISATION

- 4.1 Depreciation and amortisation is a systematic charge that recognises the consumption of non-current assets over their useful lives. Depreciation and amortisation begins when the non-current asset is available for use by the entity.
- 4.2 Residual value and useful life of asset classes will be reviewed annually.
- 4.3 Estimation of an asset's useful life requires professional judgement based on the use of similar non-current assets in a similar environment. The following useful lives are provided for consistency purposes across government:
- Buildings
 - Residential 40 – 50 years
 - Commercial 70 – 80 years
 - Specialist These are unique to the business of the agency and can be assessed separately
 - Office equipment 5 – 7 years
 - Computer equipment and software 3 – 5 years
 - Furniture and fittings 3 – 10 years
 - Vehicles
 - Passenger 2 – 4 years
 - Commercial 20 – 25 years
 - Specialist These are unique to the business of the agency and can be assessed separately
 - Plant and equipment 5 – 15 years
 - Specialised assets These are unique to the business of the agency and can be assessed separately
- 4.4 Depreciation expense over the useful life of the asset is the difference between the cost and the residual value (resale price) expected at the end of the asset's "useful life" to the authority.
- 4.5 Depreciation rates must be reviewed at least annually, and, if necessary, adjusted so that they reflect the most recent assessment of the useful life and residual value of the depreciable asset, having regard to such factors as asset usage and the rate of technical and commercial obsolescence.

Depreciation Methods

- 4.6 The three most common methods used for calculating depreciation expense are:
- 4.6.1 *Straight-Line Method* - the straight-line method allocates the cost of consumption of an asset equally per period over its useful life. For example, office furniture may provide future economic benefits over a ten-year period.
 - 4.6.2 *Diminishing Balance Method* - the diminishing or reducing balance method is used where the service yield of an asset is expected to be higher in earlier reporting periods than in subsequent periods. The earlier periods bear a greater portion of the cost of consumption than later periods.
 - 4.6.3 *Units of Production Method* - the overall output or service that an asset is expected to yield may be the basis for estimating the useful life of the asset. Examples of output or service include production units, operating hours, and distance travelled.

Change of Methods or Rates

- 4.7 When depreciation rates or depreciation methods are changed, the change must be accounted for as a change in accounting estimate in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The effect must be recognised in the reporting period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both. Depreciation recognised in prior reporting periods must not be changed either by an adjustment via the Statement of Comprehensive Income or via retained surplus.

Intangible Assets

- 4.8 In relation to intangible assets it is necessary to assess whether the useful life is finite or infinite.
- 4.9 An intangible asset is regarded as having an infinite life where, based on analysis of all the factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the entity.
- 4.10 The useful life of an intangible asset that arises from a contractual or other legal right will not exceed the period of the contract or right, but may be shorter depending on the period over which the entity expects to use the asset.
- 4.11 The residual value of an intangible asset with a finite useful life will be assumed to be zero unless there is a commitment from a third party to purchase the asset at the end of its useful life or there is an active market for the asset and the residual value can be determined by reference to that market.

4.12 An intangible asset with an infinite life will not be amortised.

Long Lived Assets

4.13 Depreciation on long lived assets, such as infrastructure assets, is to be accounted for in accordance with UIG 1030 *Depreciation of Long-Lived Physical Assets, including Infrastructure Assets: Condition-based Depreciation and other Related Methods*.

5 IMPAIRMENT

- 5.1 The following provides a guide to the provisions of AASB 136 *Impairment of Assets*. In practice, DTF considers AASB 136 will not generally impact on asset valuations for the majority of government assets. AASB 136 applies to assets valued at revalued amounts under AASB 116 and AASB138 but does not apply to:
- investment properties revalued under AASB 140; and
 - non-cash-generating specialised assets that are regularly revalued to fair value under the revaluation model in AASB 116 and AASB 138.
- 5.2 An asset is impaired when its carrying amount exceeds its recoverable amount.
- 5.3 At the end of each financial year, agencies must determine whether there is any indication or evidence that an asset or group of assets are impaired based on the impairment indicators.
- 5.4 There are two groups of indicators – external and internal. External indicators that may be applicable to entities:
- a significant decline in an asset’s market value as a result of time or usage;
 - significant changes which will have an adverse effect on the entity, have taken place or are expected to take place in the near future, in the technological, market, economic or legal environment; and
 - an increase in market interest rates that are likely to increase the discount rate included in the cash flow calculation when determining value in use (this is not relevant for government reporting entities as the Discounted Cash Flows (DCF) valuation method is generally not permitted under APS 5.11, unless otherwise approved by the Treasurer).
- Internal indicators that may be applicable to entities:
- evidence of obsolescence or physical damage to an asset;
 - significant changes which will have an adverse effect on the entity, have taken place or are expected to take place in the near future, regarding the way an asset is used or expected to be used; and
 - evidence from internal reporting that indicates that the economic performance of an asset is or will be worse than expected.
- 5.5 Examples of impaired assets include: building damaged by fire or flood; a building that is closed due to identification of structural deficiencies; a bridge that is weight-restricted due to the identification of structural deficiencies; computer hardware that has become obsolete; an oversupply of second hand motor vehicles resulting in a decline in the market price.

- 5.6 An indicator is only relevant if the recoverable amount of the asset or group of assets is sensitive to the indicator. If there is no evidence of impairment the entity does not have to make a formal estimate of recoverable amount.
- 5.8 Where there is an indication of impairment, an agency will need to determine the recoverable amount.
- 5.8 Recoverable amount is the higher of an asset's fair value less costs of disposal (Refer to APS 3.8 in relation to fair value measurement) and value in use.
- 5.9 AASB 136 defines VIU as the present value of the future cash flows expected to be derived from the asset or cash-generating unit.
- 5.10a However, the meaning of the term cash-generating operation is problematic in a public sector context. The Government generally provides goods and services for the purpose of meeting policy objectives rather than for the sole purpose of generating cash flows.
- 5.10b User charges are intended to recover the whole, or part, of the cost of providing some goods and services from users rather than the population at large. Where user charges are insufficient to fully fund the provision of the goods or services, indirect funding will be provided which could include grants, appropriations, cross-subsidies and community service obligation payments. User charges are generally set by Cabinet or other regulatory mechanisms. They do not have the same information content relevant to asset valuation as prices obtained by a private sector business in a competitive market.
- 5.10c Therefore APS 5.11 only permits the present value of future cash flows as the valuation basis if approved or required by the Treasurer.
- 5.10d In relation to non-cash-generating specialised assets of not-for-profit entities, under AASB 136 the recoverable amount is the fair value of such assets as determined by application of the cost approach under AASB 13. The cost approach plays a similar role as a measure of fair value when the market and income approaches to valuation are not applicable due to the specialised nature of the asset.

APS 5.11 The value-in-use of a cash-generating operation, and the assets comprising the operation, will be estimated by the sum of the written-down current costs of the assets comprising the operation unless otherwise approved or required by the Treasurer.

- 5.12 An impairment loss (recoverable amount is less than the carrying amount) relating to:
- a revalued asset is treated as a revaluation decrement ie offset against an asset revaluation surplus for that asset or class of assets.
 - an asset measured at cost is recognised in the Statement of Comprehensive Income.

- 5.13 After the recognition of an impairment loss, an entity will revise the assets' carrying amount and future depreciation and amortisation charges will be based on the revised carrying amount.
- 5.14 An impairment loss is recognised for a cash-generating unit when the recoverable amount of the unit is less than the unit's combined carrying amount. Entities need to reduce the carrying amount of each asset within the unit on a pro rata basis, based on the carrying amount of each asset in the unit.
- However, assets in the unit cannot be reduced below the highest of:
- (a) the assets' fair value less costs of disposal (if determinable);
 - (b) value in use (if determinable); and
 - (c) zero.
- 5.15 At the end of each reporting period, entities are required to assess whether impairment losses previously recognised need to be reversed. A reversal of an impairment loss for an individual asset cannot exceed the amount that asset would have been carried at had the asset not been impaired and written down. For a cash-generating unit the amount allocated to each asset cannot exceed the lower of the carrying amount had no impairment loss been recognised in the prior period and recoverable amount.
- 5.16 The following disclosures are required:
- For each class of asset:*
- The amount of the impairment loss and the reversals of any impairment loss recognised in the Statement of Comprehensive Income and the respective line items; and
 - The amount of the impairment loss and the reversals of any impairment loss on revalued assets recognised directly in equity.
- For each material impairment loss (or reversal) for an individual asset or cash-generating unit:*
- The events/circumstances that led to the impairment loss;
 - The amount of the impairment loss recognised or reversed (recognised by class of asset if it forms part of a cash-generating unit);
 - The nature of the asset or cash-generating unit;
 - The reportable segment to which the asset belongs; and
 - Where the aggregation of assets for identifying the cash-generating unit has changed, a description of the current and former method and the reasons for the change.

If impairment losses in aggregate are material:

- The main classes of assets affected; and
- The main events/circumstances that led to the losses.

In addition, segment disclosures are required.

6 CONTINGENT ASSETS

6.1 Contingent assets are:

- possible assets that may arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- assets that fail the asset probability recognition criteria.

6.2 Assessing whether an entity has contingent assets will be a matter of fact and degree and involve management judgement and in some cases, reports from independent experts.

6.3 Contingent assets usually arise from unplanned and/or unexpected events that give rise to the possibility of future economic benefits eg a legal claim where the outcome is uncertain. If the realisation of income (eg from the legal claim) is virtually certain then an asset is recognised.

6.4 The probability test in 2.7 is applied where the existence of future economic benefits relates to a past event. The virtually certain test is applied where the existence of possible future economic benefits will be confirmed by the occurrence of one or more uncertain future events.

APS 6.5 Where the inflow of possible future economic benefits is dependent on future uncertain events and is:

- not probable or probable but not virtually certain, the asset is a contingent asset and is not recognised in the Statement of Financial Position. Rather, the asset is disclosed in the explanatory notes. For example, receivables that are subject to disputes or claims that are subject to assessment.
- virtually certain and capable of reliable measurement, the asset is recognised in the Statement of Financial Position, ie is not a contingent asset.

7 COMPLEX ASSETS

Background

7.1 Where major components of non-current assets are replaced at regular intervals, the components are accounted for as separate assets because they have useful lives different from those of the non-current assets to which they relate. It is appropriate to account for component parts of an asset separately when the component assets have different useful lives or provide benefits to an entity in a different pattern from that of the complex asset. Where the major components of complex assets are accounted for as separate assets, the requirements of AASB 116 will be applied to those component assets.

Recognition of complex assets

APS 7.2 Assets will be classified as complex assets if the definition and recognition criteria for an asset in the AASB Framework are met, providing the fair value at time of acquisition is greater than \$5 million for infrastructure assets and \$1 million for other assets, and the estimated useful life is greater than 3 years. Government reporting entities may also elect to classify an asset as complex where its value is below these thresholds and/or is significant to the entity.

Recognition of component assets

APS 7.3 Assets will be classified as component assets when they:

- can be identified separately from the complex asset/structure of the asset to which they belong;
- can be measured reliably;
- have useful lives significantly different from the structure of the asset to which they belong; and
- are considered by the government reporting entity to be material and therefore the effort in separately tracking these components is justified.

The extent of componentisation is generally dependent on the nature and functions of the asset itself.

Separately identifiable

7.4 The identification, recognition and valuation of an asset requires clear specification of its economic benefits. This requires specification of the asset's service capacity, service quality and expected useful life.

7.5 These are important aspects of an asset's 'future economic benefits'. Without such specification, it is not possible to determine whether a particular item of expenditure represents, say, an asset replacement, an enhancement, or simply asset maintenance. The specification of the asset needs to be determined at the

commencement of the asset's life to enable the proper accounting and management of that asset.

- 7.6 The separate recognition of material components is important in distinguishing between replacement and maintenance of assets. It also allows separate depreciation to reflect the useful life of the component, as well as the removal and replacement of the components in accounting terms.

Measured Reliably

- 7.7 Reliability is promulgated in the AASB Framework as one of the qualitative characteristics of financial statements. To be reliable, information must:

- be free from material error and bias;
- represent faithfully the transactions and other events; and
- be complete within the bounds of materiality and cost.

A reliable value can be attributed either separately or by apportioning the value of the asset.

Useful lives

- 7.8 An assessment of the useful life of a complex asset would include an assumption that repairs or maintenance would be carried out to allow the asset to continue to function in its current state, hence maintenance expenditure does not extend an asset's useful life but allows the asset to realise its expected service level and estimated useful life. However, asset enhancements could materially increase the asset's pre-determined useful life.

Materiality/Thresholds

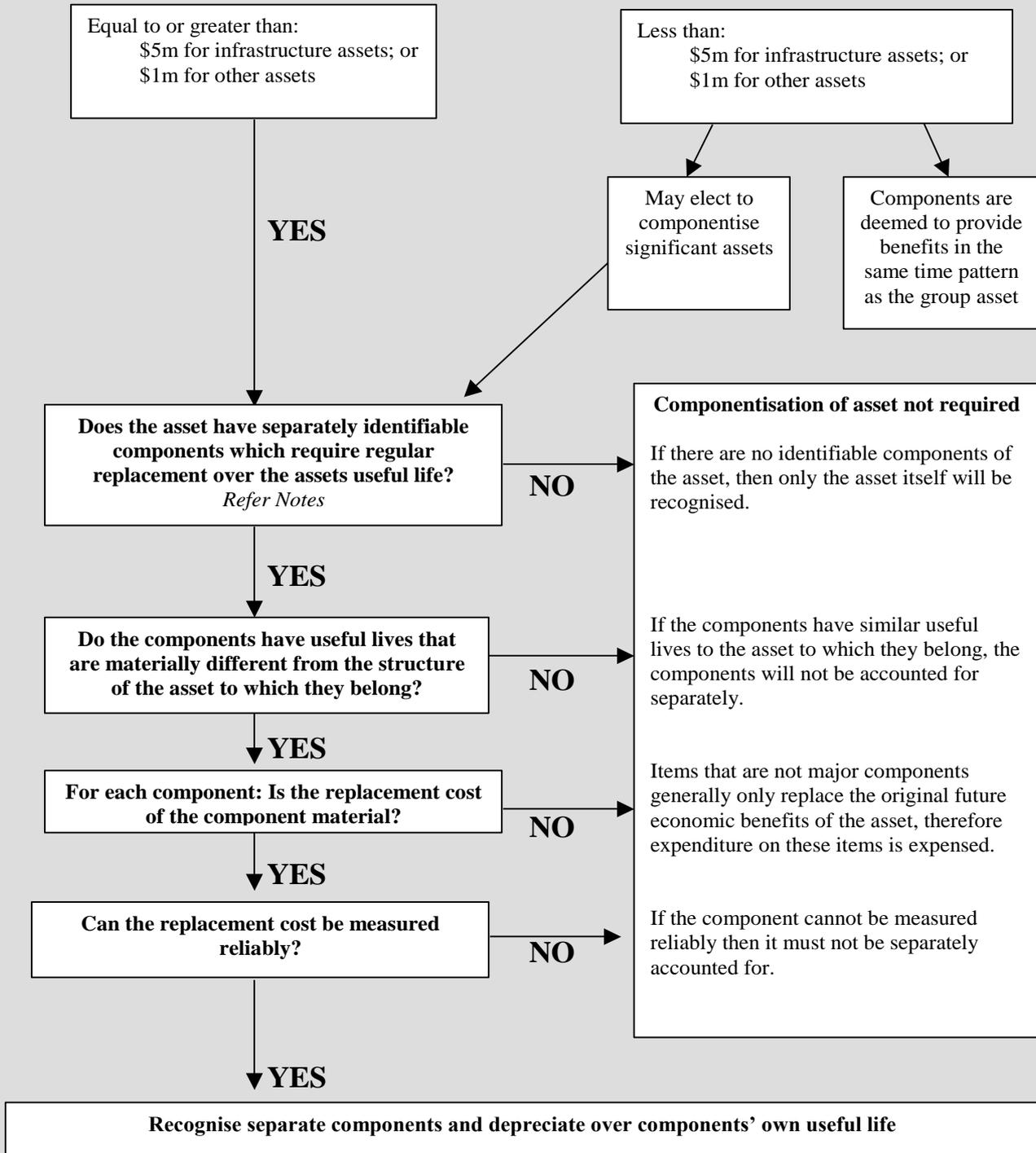
- 7.9 Decisions about which components are accounted for separately usually reflect the systems put in place to ensure that the service delivery capabilities of infrastructure and other complex assets are monitored, managed and maintained on an appropriate basis.

APS 7.10 For the purposes of this policy:

- a complex asset with a fair value at the time of acquisition of less than \$5 million for infrastructure assets and \$1 million for other assets, need not be componentised.
- component assets of a complex asset valued below the threshold are deemed to provide benefits in the same pattern as the structure of the asset to which they belong.

COMPLEX ASSETS DECISION TREE

Does the asset have a fair value:



Notes:

AASB 116 paragraph 43-49 whether an asset is accounted for as a complex asset, depends on whether or not the components have different useful lives to the asset to which they relate. AASB 116 provides examples engine and fittings of an aeroplane; and lining and housing of a blast furnace.

8 HERITAGE ASSETS

What are Heritage Assets?

8.1 Heritage assets can be described as items that are held for their unique historical, geographical, cultural or environmental significance rather than their operational attributes. Examples of heritage assets are monuments, historical buildings, works of art, parks and gardens, library collections, and other cultural collections.

When to Recognise Heritage Assets

8.2 The recognition and measurement of heritage assets is a contentious issue. Some jurisdictions have adopted a policy that, as the asset has no alternative use, there should be no valuation other than a nominal \$1 in order to recognise it in the financial statements. Some administrators of heritage assets do not consider their collections can be represented in financial terms, others maintain that it would be too costly to value collections and still others are unsure as to an appropriate valuation methodology.

8.3 Practical difficulties likely to be encountered in the valuation of heritage assets will involve the size of collections, which may number many thousands of items, the difficulty and cost of conducting skilled appraisals where appropriate skills are difficult to obtain and 'thin' market demand for items.

How to Value Heritage Assets

APS 8.4 Heritage assets are to be carried at fair value. Refer to APS 3.8

- Where a heritage asset is unique and of such a specialised nature that market prices cannot be directly observed, its fair value may be measured using the cost approach ie lower of replacement cost or its reproduction cost less accumulated depreciation.
- Where market prices can be directly observed for heritage assets, its fair value may be measured using the market approach. For example: works of art; coin collections.

APS 8.5 There may be some instances where heritage assets are so unique that they are not capable of reliable measurement and will not be recognised. Where heritage assets are not recognised in the financial statements, relevant information on those items should be disclosed in the explanatory notes.

APS 8.6 Certain heritage assets will have very long and indeterminate useful lives due to their historical or cultural interest (for example works of art, numismatics, philatelic and other heritage collections). As their service potential has not, in any material sense, been consumed during the reporting period, no amount of depreciation is to be recognised in respect to these heritage collections.

APS 8.7 Reproducible heritage assets (for example buildings, monuments restored or reproduced) are similar to other non-current assets and do have limited useful lives.

9 LAND AND IMPROVEMENTS

Types of Land Use

- 9.1 There are two types of land held for their service potential:
- Site land - where the land has buildings or other structures on it. This would include land under roads, railway tracks, car parks and any other type of structure.
 - Land only holdings - where the land is held for heritage purposes such as national parks, or where it is held for productive purposes such as agriculture, horticulture or forestry.

Crown Land

- 9.2 Crown land is land that is not freehold in which the Crown has full interest and enjoys the majority of benefits and bears the majority of the risks associated with ownership. While ownership remains with the Crown, Crown land can be controlled and reported by an entity.
- 9.3 Crown land can be made available to government reporting entities in the following ways:
- Crown grant - refers to land that has been alienated from the Crown and title granted to a government reporting entity. By definition, this is no longer Crown land.
 - Reservation, dedication and vesting - Crown land can be reserved, dedicated or vested for the activities of a government reporting entity (eg. water supply). In South Australia Crown land is usually dedicated. Dedication is a procedure by which Crown lands are appropriated for specific purposes and is effected by notice in the Gazette by the Minister. Dedication has the effect of transferring day-to-day control to the receiving government reporting entity.
 - Special arrangement - may have been made for a government reporting entity to occupy a particular parcel of Crown land or to share a parcel of land with another government reporting entity. For example, easements can be made available to utilities to run distribution systems across Crown land. This is not common in South Australia, the more usual procedure being to issue a licence for short-term occupation and to dedicate the land for long-term usage.
 - Lease/licence - Crown land can be made available to any individual or entity under a licence or lease agreement. The charge for the use of Crown land will depend on the nature of the entity's activities. Common arrangements in South Australia are perpetual leases, pastoral leases, miscellaneous leases (for example, holiday shacks along the banks of the Murray), irrigation leases and

war service leases. Perpetual leases have some similarities to fee simple (freehold title) but are nevertheless distinct. Licences are granted for a term not exceeding one year and authorise persons to enter onto and occupy Crown lands for specified purposes.

How to Value Land

APS 9.4 Land is to be valued separately from any structures or improvements residing on it. In the case of land used for productive purposes such as agriculture, horticulture or forestry, the land will be valued separately from the crop or the orchard.

9.5 The valuation of land will depend on whether it was acquired with the intention of resale or for its continued use.

9.5.1 Land held principally for the purpose of being traded will be valued at the lower of cost and net realisable value. Estimates of net realisable value are to take into account the purpose for which the inventory is held and past and future sales eg any future contracts for the sale of land.

9.5.2 Land held for resale (not trading stock) will be valued at the lower of its carrying amount and fair value less costs to sell.

APS 9.5.3 Land acquired and held principally for continued use will be valued at fair value. Refer to APS 3.8.

APS 9.6 Government reporting entities must not recognise any land under roads acquired before 1 July 2008 as an asset. Land under roads includes land under roadways, land under road reserves, and land under footpaths, nature strips and medium strips.

APS 9.7 Government reporting entities must either recognise all land under water and infrastructure (excluding road infrastructure) as an asset or recognise no land under water and infrastructure (excluding road infrastructure) as an asset.

APS 9.7.1 Where a restructure of administrative arrangements results in land under water/infrastructure (other than land under roads) that is recognised by the transferor being transferred to an entity that does not recognise land under water/infrastructure, the transferee must not recognise the land under water/infrastructure. Where a transferee has a policy of recognising all land under water/ infrastructure, all transferred land must be recognised.

APS 9.7.2 Where a government reporting entity can only reliably measure some land under water/infrastructure, the entity will disclose the land that can be reliably measured in the notes to the accounts.

APS 9.8 An easement held over land meets the definition of an asset in that it confers control of future economic benefits related to right of entry. Easements will be treated as intangible assets and will be measured at cost.

Land Subject to Restricted Use

9.9 Land may be subject to restrictions on its use. For example restrictions may apply to parklands, land under roads, railway and tram tracks, land containing heritage-listed buildings, national parks and other encumbrances. The degree to which a restriction can be lifted depends on the powers available to the holder of the land and the likelihood of any change in use being successful. Restrictions on use are likely to lower the market value of the land compared with land not subject to the same restrictions.

How to Value Improvements

APS 9.10 Where land is used for the production of biological assets, those assets will be valued in accordance with AASB 141 *Agriculture*.

APS 9.11 All other improvements are to be valued at fair value. Refer to APS 3.8

APS 9.12 Land is considered to have an unlimited useful life and no depreciation is to be recognised in respect of land.

Soil Remediation

9.13 Expenses associated with land can include the remediation of contaminated soil where the soil must be returned to its original state.

9.14 Soil remediation means the clean up of polluted soil including the removal and treatment of source material, disposal and destruction of waste material and contamination.

9.15 Remediation costs may relate to:

- Site characterisation
- Engineering and project management
- Valuation and taxation issues
- Transaction costs

9.16 AASB 116 requires that property values include the initial estimate of site restoration/dismantling costs when there is an obligation to restore the site ie an agency may be obliged to remediate the land before use or on disposal.

9.17 If soil remediation costs meet the definition and recognition criteria of assets then the soil remediation would be capitalised and depreciated. However, this would be rare.

Treatment of costs on Disposal of Land

- 9.18 AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations* states that assets held for sale should not be depreciated, therefore soil remediation costs incurred to enable an entity to sell land would not be depreciated.

Treatment of costs on Purchase of Land

- 9.19 If soil remediation occurs before the land is purchased, it would be anticipated that the fair value of the land (ie the purchase price) would reflect the remediation.
- 9.20 If the land is remediated following purchase and the land is revalued after remediation, the value of the remediation will be reflected in the land's fair value (ie through the asset revaluation surplus).

APS 9.21 In accordance with APS 9.12, land will not be depreciated. However, AASB 116 requires that where the cost of land includes site restoration costs, these costs are to be depreciated over the expected time period that the restoration investment benefits are to be received. These benefits will be depreciated over a period that does not exceed three years.

APS 9.22 On the other hand, where costs of restoration or remediation are designed to return the acquired asset to its original state, (ie there is no additional future economic benefits flowing or present obligation to the agency) those costs are to be expensed.

Treatment of costs on land in use

- 9.23 Generally where the property is held for use, the definition and recognition criteria of assets and/or liabilities would not be met and therefore soil remediation costs would be expensed. Specifically, soil remediation expenditure does not meet the criteria of:
- an asset as there are no future economic benefits being received from the remediation ie the land is being returned to its original condition; or
 - a liability as there is not a present obligation ie there is no obligation to a third party to restore the site to its original state.
- 9.24 In line with the principles outlined in AASB 116 paragraph 11, if soil remediation is required for safety reasons and without the remediation the entity would be denied full use of the land, such remediation costs may qualify for recognition as an asset as they enable an agency to derive future economic benefits from related assets (land) in excess of what could be derived had the remediation not been undertaken. An example would be remediated lands used for crops/ plantations or livestock grazing.

9.25 An example in contrast would be where in replacing sleepers and ballast, DPTI identifies soil damage and decides to remediate the soil via transportation, dumping and replacement with uncontaminated soil in order to prevent the contaminated soil from blowing onto nearby residential properties. In this scenario, these remediation costs would be expensed as the land is being returned to its original state ie there are no additional future economic benefits flowing to the agency, no present obligation to a third party to carryout the remediation and remediation does not affect how the land is used.

10 MAINTENANCE V CAPITAL EXPENDITURE

Maintenance Expenditure

10.1 Expenditure on a non-current asset that does not meet the capitalisation criteria in paragraph APS 10.3, is maintenance expenditure and must be expensed as incurred. In general, maintenance expenditure (sometimes referred to as capital renewal) will allow the asset to realise its expected service levels and estimated useful life and does not:

- extend the expected useful life of the asset; or
- augment the expected service potential of the asset.

Capital Expenditure

10.2 Capital expenditure can relate to new assets or existing assets. Capital expenditure on existing assets is often referred to as capital expansion or upgrade expenditure.

APS10.3 Capital expenditure on a non-current asset will be recognised as an increase in the asset (capitalised) where considered by the government reporting entity to be material and:

- where the expenditure results in an effective increase in the future benefits that are expected to be derived from using the asset and the increase in future benefits will be utilised; or
- there has been an effective increase in the quality of the services provided by the asset beyond that previously determined; or
- there has been an effective extension to the asset's useful life as a result of the expenditure.

Where these criteria are not met the expenditure is classified as maintenance and is expensed.

11 AGRICULTURE

- 11.1 Agriculture is described in AASB 141 *Agriculture* as the management of the transformation of biological assets (living animals or plants) for the purpose of sale, agricultural produce and/or the creation of additional biological assets.
- 11.2 Biological transformations include growth, degeneration, production and procreation. Examples include sheep, forests and dairy cattle. Examples of agricultural produce include wool, logs and milk.
- 11.3 A biological asset and agricultural produce (harvested from an entity's biological assets) will be measured on initial recognition and at each reporting date at its fair value less estimated costs to sell at the point of harvest, not at reporting date.
- 11.4 Costs to sell include commission to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. It excludes costs to get assets to a market ie transport costs.
- 11.5 Where fair value cannot be measured reliably, that biological asset will be measured at its cost less any accumulated depreciation and any accumulated impairment losses
- 11.6 A gain or loss arising on initial recognition of a biological asset or agricultural produce will be included in profit or loss for the period in which it arises in accordance with AASB 141 paragraph 26.

12 INTANGIBLE ASSETS

12.1 Entities may incur costs in acquisition, development, maintenance or enhancement of intangible assets such as technical knowledge, licences or intellectual property. Common examples of items include in-house developed computer software, copyrights, customer lists, rights and licences.

APS 12.2 Software that is integral to the related hardware (eg operating software) is to be classified as plant and equipment. All other software is to be classified as an intangible asset (eg application software).

12.3 Intangible assets are only recorded when both the definition (that is, identifiability, control and the existence of future economic benefits) and recognition criteria are met.

12.4 The definition criteria for an intangible asset differ from an asset in that the element 'identifiability' is required rather than the 'past event or transaction' element.

12.5 If an item does not meet the definition and recognition criteria it is expensed.

APS 12.6 Intangible assets will be measured at cost unless the asset is acquired for no cost or for a nominal amount and then the asset's fair value is deemed to be its cost.

12.6.1 For externally acquired intangible assets, cost comprises the purchase price plus any directly attributable costs of preparing the asset for its intended use.

12.6.2 For internally generated intangible assets, cost is defined in the guidance contained within paragraph 12.10 to 12.14.

APS 12.7 To minimise costs, an intangible asset, or group of intangible assets as defined in APS 2.17 and APS 2.18 with a cost of less than \$10 000 need not be recognised (capitalised) as an asset. That is, it may be expensed in the period in which it is externally acquired or if internally generated when the asset first meets the recognition criteria.

12.8 Because of differing materiality levels between entities, due to their size and the nature of their operations, an entity may, if it wishes, adopt a capitalisation threshold lower than the general threshold.

APS 12.9 Generally any subsequent expenditure by government reporting entities on intangible assets such as the replacement of a part or additions to the asset will be expensed as the expected future economic benefits will only be maintained.

Internally Generated Intangible Assets

- 12.10 In addition to the normal intangible asset definition and recognition criteria, internally generated intangible assets are subject to the requirements relating to project research and development.
- 12.11 All research expenditure and borrowing costs are to be expensed.
- 12.12 The cost of an internally generated intangible asset comprises all direct costs necessary to create, produce and prepare the asset for use and may include the costs of materials and services used or consumed, employee costs, legal fees etc. Overhead costs are not to be included such as, administration and staff training.
- 12.13 Development expenditure will be recorded as an intangible asset, if and only if, all of the following elements are satisfied:
- Technically feasible;
 - Intention to complete the asset;
 - Ability to use or sell the asset;
 - Existence of a market for the output of the intangible asset, or for the asset itself, or if it is to be used internally, the usefulness of the asset;
 - Availability of adequate technical, financial and other resources to complete the development; and
 - Ability to reliably measure the expenditure attributable to the intangible asset during development.
- 12.14 Cost of an internally generated intangible asset is the sum of expenditure incurred from the date the intangible asset first meets the recognition criteria. Expenditure previously recognised as an expense cannot be reinstated.

Examples of costs that should be capitalised or expensed for Internally Developed Software

The following table provides a practical example of costs that should be capitalised (where the capitalisation limit is met) and those that should be expensed. The table specifically refers to internally developed software.

Project Activity 1 (in the table below) represents the research phase while Project Activities 2, 3 and 4 represent the development phase, referred to in the 'Recognition' section above.

Project Activity/Item	Activity/Cost Item Description	Expenditure type
1. Initiation Stage (scoping, evaluation and business case)	<ul style="list-style-type: none"> • Project Scoping tasks including, <ul style="list-style-type: none"> • Conceptual formulation of alternatives, evaluation of alternatives, determination of the existence of the necessary technology. 	Expense

	<ul style="list-style-type: none"> • Technology evaluation • Selection of alternatives • Business case analysis and the management and planning functions for the project • Developing standards and architectural designs 	
2. Analysis, Design and Development	<ul style="list-style-type: none"> • Detailed analysis of user requirements • Detailed design and specification • Software development configuration and interfaces • Coding • Installation of software 	Capitalise
3. Testing and Implementation	<ul style="list-style-type: none"> • Testing up to the point where the system is live • Implementation of the software 	Capitalise
4. Enhancement of existing applications	<ul style="list-style-type: none"> • Detailed design and specification • Software configuration • Development of interfaces • Coding • Installation of software • Testing • Parallel processing 	Capitalise
5. Recurring maintenance and Infrastructure support	<ul style="list-style-type: none"> • Management costs associated with ensuring the project is completed, including the provision of accommodation, office supplies and corporate services for the project team • Data conversion from old systems into the new system • Post implementation review • Training of staff in the use or administration of the software (training room set up, organising, delivering and attending training, fees paid to vendor to attend a training course) • Ongoing support and system administration • Applications maintenance, including maintenance for software licences which includes provision for delivery of software upgrades • Management of infrastructure resources and cost of infrastructure support • Minor projects where an asset will be acquired or developed but the total expenditure will not exceed the threshold amount 	Expense

Retirements and Disposals

APS 12.15 An intangible asset will be derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss on sale or disposal of an intangible asset will be disclosed in the Statement of Comprehensive Income

13 INTEREST FREE LOANS

What Are Interest Free Loans?

APS 13.1 Interest free loans are all loan agreements with a zero percentage interest rate implicit in that agreement.

Accounting for Interest Free Loans

APS 13.2 All interest free loans will be recorded at the present value of expected repayments, being expected future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate, and other factors) with a similar credit rating at the time of the loan's initiation. The remaining balance (that is, the difference between the amount lent and the present value) will be expensed.

Example: An interest free 10 year loan receivable with a single repayment to be made after 10 years. The 10 year bond rate at the date of origination (1 July) is 7% and the calculation of the present value of the repayment is:

	YR 1	YR 2	YR 3	YR 4	YR 5	YR 6	YR 7	YR 8	YR 9	YR 10
Face Value	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000
Book Value	5 439	5 820	6 227	6 663	7 130	7 629	8 163	8 734	9 346	10 000

Accounting entry for Yr 1

DR	Loan Receivable	5 439
DR	Expense	4 561
CR	Cash	10 000

(recognise loan receivable at fair value in accordance with APS 13.2)

Accounting entry for Yr 2

DR	Loan receivable	381
CR	Interest income	381

(record amortisation of loan)

Accounting Entry for Yr 10

DR	Cash	10 000
CR	Loan Receivable	10 000

(record receipt of the loan repayment)

Materiality Thresholds for Interest Free Loans

13.3 Government reporting entities may control interest free loans that have been provided/ received for a very long period of time that, if they were to be accounted for in accordance with APS 13.2, would result in excessive accounting effort for very limited benefits. These would include, for example, government assistance loans provided for 99 years.

APS 13.4 To minimise the administrative burden, interest free loans provided/received for a very long period of time should have a carrying value of zero.

Discount Rate

APS 13.5 In the absence of a relevant prevailing interest rate (refer APS 13.2), the appropriate discount rate will be equal to the market yield on long-term Commonwealth bonds at the time the loan was provided plus an average risk margin of 2.5%.

13.6 For the purposes of APS 13.2 the discount rate first used (i.e. at the time the loan was initiated) remains the appropriate discount for the remainder of the loan term.

14 EXPLANATORY NOTES

APS 14.1 The general purpose financial statements will include in the explanatory notes (if applicable):

General

- those assets controlled by the entity, which have not met the criteria for recognition in the financial statements. The information to be disclosed will include the nature of the assets, the purpose for which they are held, how they contribute to generating economic benefits and why they have not been recognised.

Contingent Assets

- where an inflow of economic benefits is not probable or probable but not virtually certain: a brief description of the nature of the contingent assets at the reporting date and where practicable an estimate of their financial effect ie when the realisation of income is virtually certain.

Land

- the value of Crown land (where material) and information on the nature and extent of restrictions placed on its use and disposal;
- the disaggregated value of land and improvements recognised in the financial statements and separately the gross amount of site land and land only holdings; and
- where infrastructure assets are disclosed as part of the aggregate value of major asset classes, a note or supplementary schedules will (where material) disaggregate the major asset classes into the specific infrastructure types and disclose, for each infrastructure type, the gross amount of the assets and related accumulated depreciation.

Other

- as required by AASB 13 *Fair Value Measurement* AASB 116 *Property, Plant and Equipment*; AASB 140 *Investment Property*; AASB 141 *Agriculture*; AASB 136 *Impairment of Assets*; AASB 138 *Intangibles*.

15 MODEL LETTER TO VALUERS

Model Letter of Instruction to Valuers

1 January 201X

Assess, Measure and Evaluate Pty Ltd
Qualified Valuers
King William Street
Adelaide SA 5000

Dear Sir/Madam

ASSET VALUATION

You are invited to provide a quote (including GST) for the valuation of (name of entity) property, plant and equipment assets for financial reporting purposes in accordance with the current Australian Accounting Standards for the period ended 30/6/201X.

The [name of entity] general purpose financial statements will be audited by the Auditor-General's Department and it is intended that the financial statements will provide information to a range of users to assist them in:

- making and evaluating decisions about the allocation of resources by the entity;
- assessing the financial performance of the entity; and
- discharging managerial accountability.

Attached are details of those assets to be valued, separately identifying assets that are surplus to requirements. This list is provided as a guide for quotation purposes only and should not be seen as a complete list.

The approach to valuation should be in accordance with the Department of Treasury and Finance's Accounting Policy Frameworks available at www.treasury.sa.gov.au

The Valuer(s) undertaking this valuation must have relevant experience in undertaking valuations for financial reporting purposes and be a Certified Practising Valuer (CPV) of the Australian Property Institute. The Valuer(s) should also have a thorough understanding of International Valuation Standard Council's Standard 300 (IVAC 300) *Valuations for Financial Reporting* and Australian Accounting Standard Board's Standards (AASB) 116 *Property, Plant and Equipment*, 13 *Fair Value Measurement*, 136 *Impairment of Assets* and 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The valuation is required to be completed by XX/X/201X with a draft copy provided by XX/X/201X. A report (in both soft and hard format) will be required for the (name of entity) and will include:

- a copy of the instructions and the purpose of the valuation;
- a detailed description of the basis for valuation of each class consistent with the requirements of AASB 116 and AASB 13;
- provision of information to allow for the detailed disclosure of the measurement techniques employed for valuing assets in each class and their corresponding level input to the fair value hierarchy;
- detailed disclosures relating to level 3 assets as required by AASB 13;
- gross value, useful lives (total & remaining), fair value and residual value for each individual asset;
- tenure of assets and classification of rights value;
- date of the valuation and inspection (if appropriate);
- identification and description of the structural assets (appropriately componentised) and their locations, including digital photographs; and
- special assumptions and/or limiting conditions.

Fair Value

In accordance with APF III *Asset Accounting Framework*:

- The valuation basis will generally be fair value. Fair value is defined in AASB 13 and 116 as the *price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date*.
- Fair value is measured having regard to using the asset at its highest and best use (ie exit price), which is a use that is physically possible, legally permissible and financially feasible. This includes taking into account the unique nature of many public sector assets have few or no alternative uses therefore deeming them as specialised. .

In accordance with APF III *Asset Accounting Framework* complex assets will be componentised when they:

- can be identified separately from the complex asset/structure of the asset to which they belong;
- can be reliably measured;
- have useful lives significantly different from the structure of the asset to which they belong; and
- are considered by the agency to be material.

Restrictions on the use or sale of an asset

Fair value measurement of a particular asset is impacted by restrictions on the use or sale of an asset if market participants would take those restrictions into account when pricing the asset.

Most government reporting entities are mandated by ministerial/ government or legal/administrative requirements to provide certain services to the public and therefore, are restricted in the use and disposal of assets that assist to provide these services. This is so, because the government reporting entities remain subject to the restrictions imposed by the Government, because the entity is not able to change the use or dispose the asset, unless approved by the Government.

As a result, in most circumstances, restrictions imposed by the Government regarding the use and disposal of assets in the public sector are a characteristic of the asset which a market participant would take into account when pricing the asset. It is probable then, that most assets will be valued on current (restricted) use.

In many cases, current market prices cannot be directly observed. Accordingly, the best indicator of the asset's fair value may be the replacement cost of the asset's remaining future economic benefits/replacement of the asset's service capacity (which is the lower of its replacement cost or its reproduction cost, less accumulated depreciation, ie its written-down current cost). The cost approach is used on an "optimised" basis, thereby excluding the cost of replacing or reproducing excess capacity or over-engineering of the asset.

In limited circumstances, market or other factors may suggest that a different use (ie alternative use) by market participants would maximise the value of the asset. It is important that adequate evidence to support the feasibility of this use is obtained, taking into account the cost of achieving this alternate use and the existing natural, legal and socio-political environment in which the government reporting entity operates.

Assets with a feasible alternative use, are valued at the greater of the current use and any alternative use - where it can be demonstrated that the alternative use can be achieved in the near future (ie within five years).

Land and heritage assets should be valued in accordance with APF III *Asset Accounting Framework*

Surplus Assets

Surplus assets that will be disposed of within twelve months of the next reporting date should be valued in accordance with AASB 5. That is an entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

Thank you for your cooperation in providing a quote by XX/X/201X.

If you have any queries in regard to this matter, please contact (name of officer) on (direct phone number).

Yours sincerely

AB Smith
Chief Executive