



NCAP 6 Disposal of Non-Current Assets

OVERVIEW

This Non-Current Asset Policy (NCAP) discusses the principles underlying the disposal of non-current assets.

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6.1. ASSET REVALUATION SURPLUS ON DISPOSAL OF NON-CURRENT ASSETS

When assets sold or otherwise disposed of have been subject to a revaluation, the net increment contained in the asset revaluation surplus relating to those assets may be moved to accumulated surplus/deficit. For a not-for-profit agency accounting for revaluations on a class basis, this is appropriate when the value of assets remaining under the control of the agency is disproportionate to the asset revaluation surplus for that class e.g. as a result of machinery-of-Government (moG) changes.

Any transfers from the asset revaluation surplus to accumulated surplus/deficit should be limited to the amount of the asset revaluation surplus for that class of assets (or the particular asset for for-profit agencies) and must not exceed the amount of the net revaluation increments attributable to the assets disposed of.

Where assets are transferred between agencies, it is Queensland Treasury policy that net asset revaluation increments recorded in the asset revaluation surplus relating to those assets are not transferred, but remain with the transferring agency. The transferring agency may move the net revaluation increment recorded for those assets to the accumulated surplus/deficit within equity.

Once amounts are transferred from an asset revaluation surplus to other equity accounts, they generally cannot be transferred back to the asset revaluation surplus and are not available to be applied against revaluation decrements for other asset classes of the agency. If an agency encounters exceptional circumstances where it believes there is justification for past transfer(s) to accumulated surplus/deficit being reversed, Queensland Treasury support must be obtained (via fmcsupport@treasury.qld.gov.au).

Correction of Error

The asset revaluation surplus must not be used to recognise assets not previously recognised due to error. These shall be treated under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

6.2. DISPOSAL OF NON-CURRENT ASSETS

AASB 116 *Property, Plant and Equipment* specifies that an item of property, plant and equipment is to be derecognised either on disposal; or when no future economic benefits are expected from its use or disposal. The disposal of an asset may occur in a variety of ways, including:

- by sale;
- by donation;
- by scrapping or demolition; or
- by equity transfer to another agency, including as part of a moG change.

Whether a transfer of an asset(s) is voluntary (i.e. at the discretion of an agency) or involuntary (e.g. arising from a moG change), is irrelevant when determining the appropriate accounting treatment. As with all transactions, such transfers should be accounted for according to the substance of the transaction, and the requirements of relevant accounting standards and FRRs.

6.2.1. Gain or Loss on Disposals of Non-Current Assets

When an asset is sold and its selling price varies from the carrying amount (adjusted for depreciation and any impairments for the period between the beginning of the financial year and the date of sale), a gain or loss occurs which must be recognised in the Statement of Comprehensive Income. A loss on disposal as a result of an intent by the agency to grant a benefit to the buyer, e.g. a below-market sale to provide assistance to a buyer, should be classified as grant expense.

If an asset is scrapped for no consideration before it is fully depreciated the carrying amount of the asset i.e. the gross asset value less its accumulated depreciation and accumulated impairment losses, represents a loss on disposal which must be expensed. If material costs are incurred in the disposal, such expenses are to be added to the loss on disposal.

6.2.2. Disposal Where 'Proceeds from Sale' are returned to Consolidated Fund

Where the proceeds from the disposal of a non-current asset are returned to the Consolidated Fund, whether or not voluntarily, the transfer must be treated as an equity withdrawal and adjusted against contributed equity or, to the extent that this would result in negative contributed equity, accumulated surplus/deficit.

6.2.3. Equity transfers to other agencies

Provided it meets the criteria in FRR 4F Equity, Contributions by Owners and Distributions to Owners, the transfer of an asset, without payment or other consideration, between wholly-owned State Government agencies as a result of a moG change or as otherwise approved/directed by the 'owners' (i.e. Cabinet, CBRC, Executive Council or portfolio Ministers) does not constitute a sale and no gain or loss on sale is to be recognised. In lieu, the transfer is to be treated as a non-appropriated equity injection/withdrawal.

Refer to FRR 4F for further guidance.