QUEENSLAND TREASURY

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Non-Current Asset Policies Tools: Illustrative Examples

Supplementary guidance on applying the Non-Current Asset Policies

Issued: June 2025

Queensland Government

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1.0 NCAP 1 RECOGNITION OF NON-CURRENT ASSETS

NCAP 1.3 Initial Recognition of Asset

Example 1.3.1 – Asset that subsequently meets the recognition criteria

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

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

Expenditure that was expensed in prior periods must not be reversed and capitalised as part of the cost of the asset, as this is not a correction of an error, rather it is similar to a revision of an accounting estimate. In line with Appendix 1.1, as there is no active market for this software, the asset is not revalued (i.e. it is recorded at cost).

Example 1.3.2 – Asset that subsequently exceeds the recognition threshold

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

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

The increase in value is treated as a revaluation of an asset recognised at zero value.

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

Example 1.3.3 – Error in value of building transferred between agencies

In June 20X8, Agency A identified an error in the valuation of a building transferred to the agency as part of a Machinery-of-Government change on 1 July 20X6 from Agency B. Agency B revalued the building at 30 June 20X6 (prior to the transfer) at which time the correct fair value was $900,000 (comprising gross replacement cost of $1,000,000 and accumulated depreciation of $100,000).

However, due to an incorrect application of material rates and indices, the gross replacement cost was erroneously recorded in the asset register and general ledger of Agency B as $2,000,000 resulting in a fair value of $1,900,000. This incorrect value formed the basis of the value agreed between Agency A and Agency B for the MOG transfer.

The building has a useful life of 50 years, and as at 30 June 20X6, a remaining useful life of 45 years. It is depreciated on a straight-line basis and the annual depreciation expense is $20,000 based on the correct valuation of $900,000.

As the transferor agency has not been abolished, both agencies have agreed to make the retrospective adjustment in their respective financial statements by correcting the comparatives reported for 20X7. For the purposes of this example, it is assumed no change in valuation occurs for the building post transfer.

Adjustments by Agency A (the Recipient)

Restatement of Comparatives for 20X7

30 June X7	Contributed Equity	Dr	1,000,000	
	Buildings	Cr		1,000,000
	(To record the building at its correct transfer value against contributed equity resulting from the MOG change)			
	Accumulated Depreciation	Dr	22,222	
	Depreciation Expense	Cr		22,222
	(To reduce overstated comparative period depreciation to $20,000, instead of $42,222 that was based on incorrect depreciable amount of $1,900,000)			

20X8 Entries

30 June X8	Depreciation Expense	Dr	20,000	
	Accumulated Depreciation	Cr		20,000
	(To record current year 20X8 depreciation based on correct asset value)			

Adjustments by Agency B (the Transferor)

Restatement of Comparatives for 20X7

30 June	Asset Revaluation Surplus	Dr	1,000,000	
	Contributed Equity	Cr		1,000,000
	(To correct the valuation error in the building transferred via MOG to Agency A on 1 July 20X6)			

20X8 Entries

Nil

NCAP 1.4 Capitalisation vs Expensing of Costs Incurred

Example 1.4.1 – Third-party costs – sewerage pipes

As part of a road construction activity, an agency must remove sewerage pipes belonging to the local council. As part of the construction process, the sewerage pipes are replaced under the road base. The agency incurs the cost to replace the sewerage pipes. The council is not a Queensland Government entity.

The agency determines that if the road was to be replaced on the same site, the cost to remove and replace the sewerage pipes would need to be incurred again.

On this basis, the costs of removing and replacing the sewerage pipes are capitalised to the agency's road asset as a directly attributable cost of construction.

Example 1.4.2 – Third-party costs – power lines and council roads

An agency is constructing a new dam and has agreed to relocate power lines and roads which would be flooded as part of the project. The power lines belong to Energex and the roads belong to the local council. The agency incurs costs to relocate (i.e. remove and reinstall) the power lines and construct new roads in a different location. Energex is a Queensland Government entity while the council is not a Queensland Government entity.

The agency assessed whether the costs of removing the existing power lines are directly attributable costs site preparation costs. It determines that the dam cannot be safely constructed with the power lines in their original locations, and thus capitalises the costs of removing the powerlines.

The powerlines and roads are being moved to a different location away from the dam and would not need to be disturbed again should the dam be replaced at the same site. The costs of reinstalling the power lines and reconstructing the roads are therefore not directly attributable costs.

The accounting treatment for the different costs is as follows:

- As the council is not a Queensland Government entity, the road construction costs are expensed as incurred.
- Costs of removing the powerlines are capitalised to the cost of the dam as site preparation costs.
- Energex is a Queensland Government entity, however if the agency only relocated Energex's existing asset rather than constructing a new one, the reinstallation costs should be expensed as incurred. No WIP is recognised as there is no new asset being constructed.

If the agency had destroyed or inundated Energex's existing powerlines and had to reconstruct new powerlines, it would recognise a WIP asset and expense the WIP as a capital grant to Energex when the construction is complete. Alternatively, the agency may decide to pay Energex cash compensation, which would be expensed.

Example 1.4.3 – Provision for restoration costs

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

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

A provision is recognised for the best estimate of 90 per cent of the eventual costs that relate to the removal of the power station and restoration of damage caused by building it. These costs are included as part of the cost of the power station. The 10 per cent of costs that arise through the

extraction of coal are recognised as a provision and expense when the coal is extracted, they are not capitalised to the power station as the obligation arises from extracting coal, and not construction of the power station.

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

Example 1.4.4 – Demolition costs of old building

ABC department has received written funding approval from the Cabinet Budget Review Committee and has an asset disposal plan approved by the Director-General to demolish Building A and replace it with Building B. The department has not created a provision for restoration costs during the life of Building A.

The current value of Building A is $100,000 with $95,000 accumulated depreciation. It will cost the department $20,000 to demolish the old asset to prepare the site for the construction of Building B. The following transactions would need to be processed:

Asset Write-off Expense	Dr	5,000	
Accumulated Depreciation - Building A	Dr	95,000	
Building A	Cr		100,000

(to write off building A)

Demolition Costs Expense	Dr	20,000	
Cash/Payables	Cr		20,000

(to record the demolition costs as an expense)

Importantly, the $20,000 demolition costs is not capitalised to the cost of Building B.

2.0 NCAP 2 COMPLEX ASSETS

Refer to NCAP 2 Appendices

3.0 NCAP 3 VALUATION OF NON-CURRENT ASSETS

NCAP 3.4 Application of Fair Value Concepts

Level 1 inputs in the fair value hierarchy in AASB 13 are unadjusted quoted prices in active markets for items identical to the asset being measured at the measurement date. As non-financial assets are rarely identical to each other, it is considered that Level 1 measurements are most unlikely to arise for non-financial assets.

LAND

Land values will be determined using level 2 and/or level 3 inputs. Where there is insufficient market evidence and/or significant adjustments are necessary to available sales data, the valuation will be categorised within level 3 of the fair value hierarchy.

Example 3.4.1 – Land used for operational purposes

An agency controls a property in a Brisbane suburb from which it is planned to build a commercial building on that land. There is an active market for property in that suburb (and surrounding locality) with sufficient available information about sales of commercial land over the past year. The highest and best use of the land is considered to be for commercial/retail activities. Therefore a market approach is appropriate.

The valuer compares the agency's property to comparable properties with similar characteristics (e.g. land area, street frontage and access, etc.) sold over the past year. The valuer derives the land value of agency's property by a direct comparison approach. This approach is based on the comparable recent land sales, and so entails some professional judgement based on observable market data. The process also reflects how a commercial investor would determine an appropriate amount to pay for that land. The resulting valuation is categorised into level 2 of the fair value hierarchy.

Example 3.4.2 – Vacant land

An agency controls a large parcel of vacant land outside a rural town. It was previously intended that a primary industry research facility be constructed on that land, but a recent change in service delivery strategies resulted in a decision to abandon that plan. Neither the agency nor the government has any other foreseeable use for the land, and there are no legislative restrictions on the land that prevent certain uses. The land has been classified as investment property as it is held for a currently undetermined use.

With the absence of a current use, the agency assesses the land's highest and best use. The land is surrounded by well-established and profitable orchards, so the highest and best use of the land is considered to be for farming purposes. Sales of farms in the area are rare. The relevant market evidence available is sales of nearby vacant land over a number of years. A market approach is used.

The valuer applies a moderate amount of professional judgement to compare the sale price for the orchards taking into account current market conditions in that area, as well as any costs that would be incurred to prepare the land for farming purposes. The judgements made by the valuer reflect the valuer's assessment of how a potential farmer (a market participant) would "price" the land, including any assumptions a potential farmer would make in that process. The resulting valuation is categorised into level 2 of the fair value hierarchy.

Example 3.4.3 – Reserve land

An agency administers reserve land on behalf of the State Government. Under the *Land Act 1994*, such reserve land is dedicated by the Minister for community purposes e.g. for cemeteries, parks, public halls, public toilets, showgrounds, travelling stock routes etc. The Minister can remove this usage restriction and publicise such removal through the Government Gazette. In fact, such removal of the restriction and the conversion of the land to freehold title must be undertaken prior to sale of such land. A similar local government town planning restriction also exists over the land.

A directly observable market and market participants are not available for reserve land while it is subject to the Minister's restriction. However, there is an active market for vacant land in that local government area, where such land is subject solely to town planning restrictions. Hence, recent data on such land sales is a reliable starting point to estimate the fair value of the agency's specific land. A direct comparison (i.e. market) approach is used for valuation purposes. The valuer gives particular consideration to those recent land sales where the land is of similar topography or in similar circumstances (e.g. town planning restrictions) to the agency's land.

Since the reserve land is not held primarily for generation of cash flows, its highest and best use is its current use, for example, as a showground. In this example, the valuer uses significant professional judgement (i.e. unobservable inputs) in extrapolating from the recent land sales, taking into account the town planning restrictions and any significant differences between the agency's land and the land recently sold. The resulting valuation is categorised into level 3 of the fair value hierarchy.

BUILDINGS

Building values are likely to be assessed at level 2 or level 3 of the fair value hierarchy, subject to the characteristics of the building and availability of market information.
Residential dwellings and general-purpose commercial buildings would normally be valued using a market approach by reference to publicly available sales data or data/multiples relating to market rentals in the particular area (i.e. level 2, but subject to the extent of any adjustments considered appropriate). Where such data is not available, however, a cost approach would be necessary, using inputs that would most likely result in a level 3 fair value.

Valuations of special-purpose buildings that have limited other uses, are likely to demand use of a cost approach due to likely limited market evidence for similar buildings. The resulting valuation would likely be categorised within level 3 of the fair value hierarchy.

Example 3.4.4 – Residential dwelling

An agency controls a 2-year-old, 3-bedroom residential dwelling in a regional city for the accommodation of temporary relief staff for its regional office. The agency's dwelling is located in a large housing estate of similar size dwellings that were all constructed around the same time.

As the dwelling is not used for generating cash flows, and the agency currently has no intention to sell it or use it for an alternative purpose, its highest and best use is its current use as temporary staff accommodation. Sufficient information is publicly available about sales of similar dwellings over the past year. Information is also available about the apportionment of the overall property sale amounts between the land and dwelling elements. Therefore a market approach is appropriate, and the net method of revaluation is used.

Due to the number of recent sales in the same estate of comparable dwellings (in terms of size, age etc), the valuer used direct comparison from the sales prices, without making any significant adjustments. There are also sufficient recent land sales to allow the valuers to apportion the value of land from the added value of the improvements. The methodology used reflects the valuer's expectations of how a private investor would determine an appropriate value for the dwelling. The resulting valuation of the dwelling is categorised into level 2 of the fair value hierarchy.

Example 3.4.5 – CBD office building

An agency controls a property in Brisbane's CBD on which it has a 20 year-old multi-storey office tower rented to a number of other Government entities for use as office space. The building has not had any significant refurbishment during its life. Many other multi-storey office towers exist in the CBD.

There is an active rental market for office space in the CBD (and adjoining suburbs). Advertisements of office space for rental in CBD buildings publish the rental rate per square metre sought by building owners. Therefore, the valuation of a CBD office building may be determined by applying normal commercial valuation methodologies such as direct comparison, capitalisation or discounted cash flow (i.e. a market or income approach as appropriate), and the net method of revaluation can be used.

The valuer establishes an applicable rental for the building based on the analysis of recent market rental evidence. The valuer then considers the age, condition and location of the agency's building. Based on the valuer's knowledge of vacancy rates for other CBD office towers, the valuer determines the vacancy rate that the agency's building is likely to experience into the foreseeable future. In preparing a valuation for the building the valuer will determine a net rental based on the lettable area of the building and the applicable market rents for the building, less any outgoings and vacancies. The valuer will establish a capitalisation rate or expected rate of return from the analysis of market sales evidence. The methodology used reflects the valuer's expectations of how a commercial investor would determine an appropriate value for the building.

Due to the availability of market evidence and absence of significant adjustments, the resulting valuation is categorised into level 2 of the fair value hierarchy.

Example 3.4.6 - Youth detention facility in remote community (buildings only)

An agency's youth detention facility has been in operation since 2008 and is intended to continue to be used into the foreseeable future. The facility's records indicate that the average occupancy of the facility over its life is 62 per cent and has never exceeded 80 per cent at any given time. The community's population and demographics have been very stable over the last 20 years, and there are no local developments that are expected to have any significant impact into the foreseeable future. Property sales in that area are very infrequent, and detention facilities are not generally operated commercially. The asset is non-cash-generating, so the current use is the asset's highest and best use. Therefore, a cost approach is used, and the gross method of revaluation is applied.

Estimated costs are determined for each element of the facility, using a combination of historical records of construction costs (labour and materials) of detention facilities in other regions in the past five years (adjusted as appropriate for varying transportation costs and design differences), and published construction rates for various standard components of buildings. Given the history of less than full occupation of the facility, costs are estimated to reproduce a facility of only 80% of the current capacity (as a market participant would not place any value on the excess capacity). The valuer also uses significant judgement to assess the remaining service potential of the building, given local climatic and environmental conditions.

The remaining service potential is reflected in restated accumulated depreciation for the building. This judgement is based on records of the current condition of the facility, along with local experience with other buildings in that community. The methodology used reflects the valuer's expectations about how a potential private operator would determine the maximum amount it would be prepared to pay for the facility. The resulting valuation is categorised into level 3 of the fair value hierarchy.

MAJOR PLANT AND EQUIPMENT

Major plant and equipment is likely to be categorised into level 2 or level 3 of the fair value hierarchy, subject to the characteristics of, and existence of markets for, the items concerned. Non-specialised major plant and equipment for which there is an active market would normally be valued using a market approach by reference to publicly available sales data (most likely resulting in a level 2 valuation).

Specialised major plant and equipment that has limited other uses is likely to demand a cost approach for their valuation, due to limited market evidence for similar equipment.
The resulting valuation would generally be categorised within level 3 of the fair value hierarchy.

Example 3.4.7 – Helicopter

A helicopter is operated by an agency for the transfer of patients between a number of small rural hospitals and major hospitals in regional cities.

Variation A

The agency's helicopter is 18 months old, and is a widely available model that has been on the market for around five years. The specialised fitout of the helicopter that has been undertaken can be readily removed (so there are no limitations on potential uses for the helicopter). There exists a reputable publicly available annual listing of recommended selling prices of used helicopters of a wide range of makes, models and ages, including the model purchased by the agency. Therefore, a market approach is appropriate, and the net method of revaluation is used.

The recommended selling prices are framed according to ranges of flight hours completed over the helicopter's life i.e. less than 2,000 hours, 2,001 - 5,000 hours, 5,001 - 10,000 hours etc. As the agency's helicopter has completed 4,500 hours, the valuer makes a notional adjustment to the recommended selling price for a helicopter of the same model that has completed between 2,001 - 5,000 hours. This adjustment is to take into account that the physical wear and tear of the agency's helicopter is likely to be slightly greater than most used helicopters in that price range. The scale of adjustment reflects what a potential buyer is likely to apply in putting forward an offer to buy the agency's helicopter.

The resulting valuation of the helicopter is categorised into level 2 of the fair value hierarchy.

Variation B

The agency's helicopter model is five years old, and that model was discontinued by the manufacturer soon afterwards, due to the manufacturer introducing substantially more fuel efficient models (with otherwise similar features). The specialised fitout of the helicopter that has been undertaken can be readily removed, so there are no limitations on potential uses for the helicopter. There exists a reputable publicly available annual listing of recommended selling prices of used helicopters of a wide range of makes, models and ages, but the model owned by the agency has not been listed for the last two years. The valuer decides to use this information as a basis for the valuation (i.e. a market approach), and the net method of revaluation is applied.

The recommended selling prices are framed according to the total flight hours completed over the helicopter's life i.e. less than 2,000 hours, 2,001 - 5,000 hours, 5,001 - 10,000 hours etc. The agency's helicopter has completed 9,400 hours, so the valuer makes a notional adjustment to the recommended selling price for the more fuel efficient model that has completed 10,000 hours. This adjustment reflects the relatively lesser physical wear and tear of the agency's helicopter. However, a substantial downwards adjustment is also applied to take account of the relatively inferior fuel efficiency of the agency's helicopter, along the lines of what a potential buyer would be expected to determine.

Due to the scale of the adjustments made to market evidence for similar helicopters, the resulting valuation of the helicopter is categorised into level 3 of the fair value hierarchy.

Example 3.4.8 – Fire engine

An agency operates a fire engine in a particular rural area. The fire engine needs to traverse a large geographical area with quite rough terrain in parts, few formed roads, and limited access to water. It is also used for rescues of people associated with traffic accidents. Hence, the agency arranged for substantial modifications to increase on-board water storage, improve the truck's suspension, and include specialised equipment needed for rescue operations. While such modifications were intended for conditions in that particular area, they don't prevent operation of that fire engine in other localities.

Due to the non-standard and extensive nature of the fit-out, there is unlikely to be an active market for similar assets. Therefore, a cost approach to the valuation is considered more appropriate, and the gross method of revaluation is applied.

The upfront purchase cost of the base fire engine is sourced from marketing material available on supplier web sites. The valuer also estimates the cost of each element of the specialised fit-out, based on the most recent records (labour and material costs) of such fit-out on other fire engines used by the agency. If such fit-out has not been undertaken for at least two years, the valuer adjusts for inflation in the meantime. The valuer also uses significant judgement to assess the remaining service potential of the fire engine, given local climatic and environmental conditions.

The remaining service potential is reflected in restated accumulated depreciation. This judgement is based on records of the current condition of the fire engine, along with experience with other fire engines operated by the agency. The methodology used reflects the valuer's expectations about how a potential buyer would determine the maximum amount it would be prepared to pay for the fire engine. The resulting valuation is categorised into level 3 of the fair value hierarchy.

INFRASTRUCTURE

A market approach is unlikely to be viable when valuing infrastructure, as such items are not usually traded between entities. In very limited situations, an income approach may be possible/appropriate if the infrastructure is capable of generating an income. In such situations, it may be possible that a minority of the data inputs for the valuation would be categorised as level 2 inputs. It would generally be expected that infrastructure is measured using a cost approach. The inputs used for a cost approach would probably be categorised as level 3, depending on the significance of adjustments made to any available relevant observable data.

Example 3.4.9 – Public transport infrastructure

An agency operates busways between Brisbane's CBD and suburbs in a number of directions. The infrastructure varies between 5 and 10 years-old. There is no market for such an infrastructure system, as the agency currently has an effective monopoly over the provision of busways. Further, there is no alternative use for the busways due to their physical characteristics and design. The agency does not directly charge for use of the busway, but is provided with appropriation funding to meet the costs of operation, maintenance and upgrade of the infrastructure. Hence, there is no evidence of sales of such infrastructure between entities or of potential revenue that could be generated from operating busways.

Under these circumstances, the agency considers a cost approach is the only appropriate approach, and the gross method of revaluation is applied.

Estimated costs are determined for each element of each busway, using as a starting point historical records of construction costs (labour and materials) of the recent busway constructed and published construction rates, adjusted as appropriate for design differences and inflationary impacts since then. The valuer also uses significant judgement to assess the remaining service potential of each busway, given current and projected bus traffic and foreseeable environmental conditions. The remaining service potential is reflected in restated accumulated depreciation for each busway. This judgement is based on records of the current condition of each busway, along with the agency's experience with responsive maintenance. The methodology used reflects the valuer's expectations about how an alternative entity (e.g. the local government) would determine the maximum amount it would be prepared to pay for (or for it to arrange construction of) the infrastructure.

The resulting valuation is categorised into level 3 of the fair value hierarchy.

HERITAGE AND CULTURAL ASSETS

A market approach may be possible for particular items such as artworks, jewellery, ornate furniture, collection, etc., provided there is observable market-based information on sales of similar items. By their nature, it is unlikely that revenue could be generated by such items, so an income approach is highly unlikely to be appropriate. It is expected that heritage and cultural assets would generally be measured using a cost approach. The inputs used for a cost approach would most likely be categorised as level 3, in light of the unique heritage and cultural properties of such items.

Example 3.4.10 – Artwork

A 10 year-old painting by a well-known and prolific artist is preserved by the Art Gallery. That artist's death around a year ago has generated considerable buyer interest in his past works. As a result, there exist publicly available records of sale prices during the last 12 months for other similar paintings by that artist (similar in terms of subject matter of the painting, size, age and standard of preservation) through private auction houses. Given the recent circumstances, a market approach is considered appropriate, and the net method of revaluation is used.

The agency engages a valuer with specific expertise in assessing paintings. Using the sales evidence of similar paintings by the same artist as a basis, the valuer determines a valuation for the Art Gallery's painting. The valuer analyses the sale prices over the last 12 months, specifically identifying the highest and lowest price and variability within that range. A cluster of the sale prices were within $1,000 of each other, so the valuer selects the median price within that cluster. That is considered to reflect how a potential buyer would price the Art Gallery's painting at present.

Due to the level of judgement exercised by the valuer, the resulting valuation is categorised as level 3.

Example 3.4.11 – Heritage structure

A stone lighthouse was constructed 100 years ago and has heritage listing due to its location on a very treacherous stretch of coastline and the role the lighthouse played in the safe passage of cargo ships between capital cities (and therefore the early development of commence between those centres). However, the lighthouse has not been fully operational for at least 20 years, with a significant decline in maritime freight, changed shipping routes, and ships these days having technology that reduces the risk of running aground. The lighthouse is simply preserved by the Government as a tourist attraction now, for which a nominal entry fee is charged.

As there is no evidence of sales of such structures, and they do not lend themselves to commercial operations, a cost approach is the only viable option to assess fair value of the lighthouse.

The estimated labour and material cost of reconstructing the lighthouse is determined, including sourcing stone that is as similar as possible to the original stone (within the specific provisions of the heritage listing) with similar internal design and features. The cost estimation demands that the valuer exercise significant professional judgement, as it is not based on modern-day materials.

Due to the restrictions imposed by the heritage listing regarding maintenance and preservation requirements, the valuer also estimates the cost burden of the heritage listing, and the magnitude of the downwards adjustment that a hypothetical market participant would apply. The remaining economic life of the lighthouse is also subject to significant judgement by the valuer, based on environmental conditions in the rugged location, past responsive maintenance, and the cumulative physical impact of tourists. The remaining life is reflected in restated accumulated depreciation. The methodology used reflects the valuer's expectations about how a market participant would determine the maximum amount it would be prepared to pay if it was to acquire the lighthouse.

The resulting valuation is categorised into level 3 of the fair value hierarchy.

NCAP 3.5 Valuation Approaches

Example 3.5.1 – Modern equivalent replacement

A bridge is constructed of wood, but a replacement bridge would be constructed of concrete. The current replacement cost would be based on the cost of a concrete bridge and adjusted for the difference in utility and the remaining useful life of the existing wood bridge.

Example 3.5.2 – Costs to restore another entity's asset

To construct a road, Agency A needs to dig up sewerage pipes and move some sheds that belong to another entity outside of Queensland Government. The agency restores the sewerage pipes in their original location as they are still required to run underneath the new road, while the sheds are rebuilt in a different location away from the road.

In assessing whether to include the costs of restoring the pipes and sheds in the CRC of the road, the agency considers the present location of the assets and concludes that in a hypothetical construction of the road:

- the sewerage pipes will need to be disturbed and restored again, and
- the sheds, which are no longer in the way of the road, will not need to be disturbed again.

In accordance with para F12(a), Agency A includes the costs to restore the pipes in the CRC of the road, and excludes the costs to restore the sheds.

Example 3.5.3 – Site preparation costs

To build a fire station, Agency B acquires a strip of land that had some unwanted derelict buildings on it and had a small sinkhole. The agency incurred costs to remove the buildings and fill up the sinkhole to make the land flat and fit-for-purpose for the intended fire station. The site preparation costs incurred would have the effect of increasing the fair value of the land, as it is now free of unwanted buildings and sinkholes.

In this situation, because the site preparation costs are reflected in the fair value measurement of the land, they would not be included in the CRC of the fire station, as per para F12(c) of AASB 13.

Example 3.5.4 – Agency processes for a reduction in service capacity/potential

If an engineer in the field determined that pipes were cracked which reduced the service capacity and remaining useful life of the asset, the documented agency framework would outline processes to ensure that:

- the field assessment is recorded in the asset management system;
- an assessment of the reduction in service capacity/potential is made and the remaining useful life;
- the determination is notified to the staff responsible for maintaining the asset register and the agency's asset accounting;
- the specific change in circumstances are communicated when instructing the valuer responsible for determining the revalued amount of that asset; and

- any revaluation decrement is recorded in line with the accounting standards and NCAPs.

NCAP 3.6 Valuation Methods and Frequency

Example 3.6.1 – Applying indexation in the context of a significant and volatile change in fair value

(i) If the average cost of raw materials has increased 20% since the last revaluation, but labour costs have only increased 2.5%, the indexation of labour input costs must not reflect the 20% increase in raw materials. Neither would it be appropriate to apply the 20% increase to the entire asset.

(ii) An agency identifies that a significant and volatile change in fair value of its infrastructure asset class due to the average cost of raw materials has increased 20% since the last revaluation undertaken earlier in the current financial year. On further analysis, the agency identifies that 3 out of 6 key raw materials used in the construction of several specialised assets have actually increased 35-40%, whereas other raw materials have only increased in the range of 10-15%. Labour costs have remained unchanged.

In this case, indexation would most likely be applied at the lowest input level to the CRC valuation model given the wide variation in different input costs. Depending upon the assets in question, indexation may be applied at the componentised level of its infrastructure assets providing the relative proportion of each input can be accurately determined and supported with appropriate evidence.

Example 3.6.2 – Identification of ‘cumulative’ percentage change (annual changes in same direction)

Year 1 - the percentage change in the relevant index from Year 0 to Year 1 for a particular type of asset is an increase of 3%; therefore the change in the index was not accounted for.

Year 2 - the percentage change in the same index from Year 1 to Year 2 for that type of asset is a further increase of 3%. As these changes are expressed in percentage (i.e. relative) terms, the cumulative change from Year 0 to Year 2 would also include the effect of compounding – in this example that would amount to an overall increase of 6.09%*. Therefore, indexation of 6.09% should be accounted for in Year 2.

* 6.09% = Year 1 % change + Year 2 % change + compounding effect between Year 1 & 2
i.e. 3% + 3% + 3% x 3%

Example 3.6.3 – Identification of 'cumulative' percentage change (annual changes in different directions)

Year 1 - the percentage change in the relevant index from Year 0 to Year 1 for a particular type of asset is an increase of 3%; therefore the change in the index was not accounted for.

Year 2 - the percentage change in the same index from Year 1 to Year 2 for that type of asset is a decrease of 2%. As the cumulative change from Year 0 to Year 2 is 0.94%P#P, no indexation was accounted for in Year 2.

P# P0.94% =P PYear 1 % change + Year 2 % change + compounding effect between Year 1 & 2
i.e. 3% – 2% + 3% x-2%

Year 3 – the percentage change in the same index from Year 2 to Year 3 for that asset is a 2% increase. As the cumulative change from Year 0 to Year 3 is now 2.96%^, no indexation will be accounted for in Year 3.

^ 2.96% = Year 1 to Year 2 cumulative compounding change + Year 3 % change + compounding effect between Year 1 & 2 and Year 3 i.e. 0.94% + 2% + 0.94% x 2%

NCAP 3.7 TIMELINESS AND TIMING OF REVALUATIONS

Example 3.7.1 – Assets measured at fair value using market value

Agency B has a portfolio of social housing buildings (including the underlying land) that are held for continuing use of their service capacity in delivering accommodation services in accordance with government policy. These assets are fair valued using a market value approach.

Subsequent to Agency B completing its annual revaluation process in February 20X8, it is discovered in May 20X8 that several properties in the portfolio are located on land contaminated with toxic chemicals and heavy metals not previously identified. The level of contamination detected is assessed as major and the market value of properties in the contaminated and surrounding areas has consequently decreased.

In this situation, a reassessment of fair value is warranted to ensure the properties' carrying amounts do not differ materially from their fair values a 30 June 20X8.

Example 3.7.2 – Assets measured at fair value using current replacement cost

Following completion of Agency A's annual revaluation process in January 20X8, a significant weather event combining destructive winds and severe flooding occurred in April 20X8 impacting coastal areas where the agency operates. As a result, a number of buildings and infrastructure assets within those regions were severely damaged or destroyed causing a reduction in the useful life and/or service capacity of those assets.

In this situation, a reassessment of fair value (current replacement cost) is warranted to ensure the assets' carrying amounts do not differ materially from their fair values a 30 June 20X8.

4.0 NCAP 4 IMPAIRMENT OF NON-CURRENT ASSETS

NCAP 4.3 Indicators of Impairment

Example 4.3.1 Impairment indicators for public sector entities

The following examples illustrate scenarios where indicators of impairment may exist, this is not an exhaustive list. Some examples are taken from IPSAS 21 *Impairment of Non-Cash-Generating Assets*.

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

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

Examples

- A school closed because of a lack of demand for school services arising from a population shift to other areas. It is not anticipated that this demographic trend affecting the demand for the school services will reverse in the foreseeable future.
- A railway line closed due to lack of patronage (for example, the population in a rural area has substantially moved to the city due to successive years of drought and those who have stayed behind use the cheaper bus service).
- A convention centre or stadium's principal lessee does not renew its lease with the result that the facility is expected to close.

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

The asset's service potential may be reduced if technology has advanced to produce alternatives that provide better or more efficient services.

Examples

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

- Software is no longer being supported by the external supplier because of technological advances and the agency does not have the personnel to maintain the software.
- Computer hardware has become obsolete as the result of technological development.

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

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

Examples

- An automobile does not meet new emission standards or a plane that does not meet new noise standards.
- A school can no longer be used for instruction purposes due to new safety regulations regarding its building materials or emergency exit procedure.
- A water treatment plant cannot be used because it does not meet new environmental standards.

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

Physical damage that is not possible or not feasible to be repaired in the short term would likely result in the asset being unable to provide the level of service that it once was able to provide.

Examples

- A building is damaged by fire or flood or other factors.
- A building is closed due to identification of structural deficiencies.
- Sections of an elevated roadway that have sagged, indicating that that segment of roadway will need to be replaced in 15 years rather than the original design life of 30 years.
- A dam's spillway has been reduced as a result of a structural assessment.
- A water treatment plant's capacity has been reduced by intake blockage and the removal of the blockage is not economical.
- A bridge is weight-restricted due to identification of structural deficiencies.
- Equipment is damaged and can no longer be repaired or for which repairs are not economically feasible.
- Cracked water pipes are unable to supply the same amount of water due to leaks

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

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

Example

- A mainframe computer that is underutilized because many applications have been converted or developed to operate on servers or PC platforms.
- The design specifications of a computer software system under development change part way through the build phase. As a result, certain modules already designed and developed (and forming part of capital work-in-progress) are no longer required.

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

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

N.B. When determining the fair value of the asset under AASB 13, the agency would ignore entity-specific factors and would also consider 'highest and best use'. Therefore, an internal change in the manner in which an asset is used may not automatically result in an asset's recoverable amount being materially less than its carrying amount (despite the apparent indicator of impairment or change in service potential to the agency).

Example

- A school building that is being used for storage rather than for educational purposes.
- Park fountains no longer being used due to water restrictions and is filled in as a garden bed

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

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

Example

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

(h) Market for the asset under construction declines

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

Example

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

NCAP 4.4 Cash-Generating Units

Example 4.4.1 – Identifying cash-generating units

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

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

5.0 NCAP 5 DEPRECIATION AND AMORTISATION

NCAP 5.1 Definitions and Concepts

Example 5.1.1 – Depreciable amount

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

Example 5.1.2 – Useful life vs economic life

An agency purchases a new motor vehicle. The car's average lifespan is expected to be about 10 years, assuming proper maintenance. The agency's standard practice with motor vehicles is to use a car for approximately 5 years before selling it and replacing with a new car. The vehicle's economic life is 10 years, and its useful life for the agency is 5 years. When calculating depreciation, the agency uses the useful life of 5 years and a residual value equal to the car's estimated sale proceeds at the end of 5 years.

Example 5.1.3 – Separate depreciation of asset components

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

NCAP 5.2 Depreciation Bases

Example 5.2.1 – Output/service basis of depreciation

An item of equipment may lose its required accuracy after the production of one million units but may still produce less accurate units for a further ten years. The agency, however, requires the

equipment to produce accurate units and the asset will therefore not be used after having produced one million units.

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

NCAP 5.3 Depreciation Methods

Example 5.3.1 – Straight line method

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

Example 5.3.2 – Reducing balance method

An asset costs $40,000, and has a useful life of five years with a residual value of $10,000. The agency depreciates the asset using the reducing balance method as this asset is expected to provide more benefits in its earlier years.

Using Excel's Goal Seek function, the agency determines that a depreciation rate of 24.21% of the opening balance per annum will give the correct residual balance of $10,000 at the end of Year 5. Depreciation expense each year is calculated as follows:

Year 1	24.21% x $40,000	=	$9,686	(Year-end balance = $30,314)
Year 2	24.21% x $30,314	=	$7,340	(Year-end balance = $22,974)
Year 3	24.21% x $22,974	=	$5,563	(Year-end balance = $17,411)
Year 4	24.21% x $17,411	=	$4,216	(Year-end balance = $13,195)
Year 5	24.21% x $13,195	=	$3,195	(Year-end balance = $10,000)

Example 5.3.3 – Units of Production/Output Method

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

NCAP 5.4 Changes in Depreciation

Example 5.4.1 – Annual reviews of asset useful lives and residual values

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

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

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

Example 5.4.2 – Change in useful life under straight-line method

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

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

In this instance, there would be no adjusting journal entry at 30 June 20X4, as this change in accounting estimate is applied prospectively. However, the depreciation expense in subsequent years would be $5,000 per year. The remaining carrying of the asset at 30 June 20X4 of $60,000 is depreciated over a remaining useful life of 12 years from the date of the change, with an unchanged residual value of nil.

Example 5.4.3 – Change in useful life under reducing balance method

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

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

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

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

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

Year 5	$12,960	@	20%	=	$ 2,592
Year 6	$10,368	@	20%	=	$ 2,073
Year 7	$ 8,295	@	20%	=	$ 1,659
Year 8	$ 6,636	@	20%	=	$ 1,327

Year 9	$ 5,309	@	20%	=	$ 1,061
Year 10	$ 4,248	@	20%	=	$ 849
Year 11	$ 3,399	@	20%	=	$ 679
Year 12	$ 2,720	@	20%	=	$ 544
Year 13	$ 2,176	@	20%	=	$ 435
Year 14	$ 1,741	@	20%	=	$ 348
Year 15	$ 1,393	@	20%	=	$ 278
Year 16	$ 1,115	@	20%	=	$ 223

The remaining carrying amount of $892 would be derecognised upon disposal of the asset. However, if proceeds are received on disposal, there is likely to be a profit or loss on disposal.

NCAP 5.5 Other Depreciation Issues

Example 5.5.1 – Revaluation increase – Market approach (net method)

An item of Major Plant and Equipment was purchased three years ago for $100,000 with a residual value of $10,000 and was to be depreciated at 10% straight line. After three years, the asset's written-down value is $73,000 after accumulated depreciation of $9,000* (based on the net method being applied since acquisition). At 30 June this year, the asset's fair value was determined to be $87,000 based on recent published buying prices for items in similar condition and with similar features.

* $9,000 is the amount of depreciation charge since the asset was revalued to $82,000 last year, with the revaluation recorded using the net method. (82,000 – 10,000) / 8 = 9,000

1. General ledger entries to recognise revaluation:

Accumulated depreciation	Dr	9,000		
PP&E - Major plant and equipment			Cr	9,000
PP&E - Major plant and equipment	Dr	14,000		

Asset revaluation surplus		Cr	14,000

(Revaluation of plant and equipment from $73,000 to $87,000, assuming no accumulated losses in this asset class from previous revaluation decrements.)

2. Annual depreciation until next revaluation:

Depreciation expense	Dr	11,000	
Accumulated depreciation		Cr	11,000

(Record annual depreciation until next revaluation)

Calculation of annual depreciation until next revaluation: (87,000 – 10,000) / 7 = 11,000

Example 5.5.2 – Revaluation decrease – Market approach (net method)

An item of Major Plant and Equipment was purchased three years ago for $100,000 with a residual value of $10,000 and was depreciated at 10% straight line. After three years, the asset's written-down value is $73,000 after accumulated depreciation of $9,000* (based on the net method being applied since acquisition). At 30 June this year, the asset's fair value was determined to be $59,000 based on recent published buying prices for items in similar condition and with similar features.

* $9,000 is the amount of depreciation charge since the asset was revalued to $82,000 last year, with the revaluation recorded using the net method. (82,000 – 10,000) / 8 = 9,000

1. General ledger entries to recognise revaluation:

Accumulated depreciation	Dr	9,000	
PP&E - Major plant and equipment		Cr	9,000
Asset revaluation surplus	Dr	14,000	
PP&E - Major plant and equipment asset#		Cr	14,000

(Revaluation of major plant and equipment from $73,000 to $59,000, adjusted against ARS if that class has sufficient credit ARS balance (to extent that ARS credit balance for class is insufficient, recognise as expense in Statement of Comprehensive Income))

Decrease/credit to the asset ($23,000) = restated gross after current revaluation ($59,000) – restated gross after previous revaluation ($82,000)

2. Annual depreciation until next revaluation:

Depreciation expense	Dr	7,000	
Accumulated depreciation		Cr	7,000

(Record annual depreciation until next revaluation)

Calculation of annual depreciation until next revaluation: (59,000 - 10,000) / 7 = 7,000

Example 5.5.3 – Revaluation increase – CRC change in gross cost (gross method)

An item of Major Plant and Equipment was purchased three years ago for $100,000 with a residual value of $10,000 and was to be depreciated at 10% straight line. After three years, the asset's written-down value is $73,000, after accumulated depreciation of $27,000. At 30 June this year, the gross replacement cost of the asset, as determined by the valuer, has increased to $120,000 with the residual value and useful life remaining the same. The asset's new fair value is determined to be $87,000 using the current replacement cost technique.

1. General ledger entries to recognise revaluation:

Major plant & equipment asset	Dr	20,000	
Accumulated depreciation		Cr	6,000
Asset revaluation surplus		Cr	14,000

(Revaluation of major plant and equipment from $73,000 to $87,000)

Calculation of restated Accumulated Depreciation:
(new gross replacement cost – residual value) / useful life x age: (120,000 – 10,000) / 10 x 3 = 33,000

2. Annual depreciation until next revaluation:

Depreciation expense	Dr	11,000	
Accumulated depreciation		Cr	11,000

(Record annual depreciation until next revaluation)

Calculation of annual depreciation until next revaluation: (87,000 - 10,000) / 7 = 11,000

Example 5.5.4 – Revaluation decrease – CRC change in gross cost (gross method)

An item of Major Plant and Equipment was purchased three years ago for $100,000 with a residual value of $10,000 and was depreciated at 10% straight line. After three years, the asset's written-down value is $73,000 after accumulated depreciation of $27,000. At 30 June this year, the gross replacement cost of the asset, as determined by the valuer, has decreased to $80,000 with the residual value and useful life remaining the same. The asset's new fair value is determined to be $59,000 using the current replacement cost technique.

1. General ledger entries to recognise revaluation:

Asset revaluation surplus	Dr	14,000		
Accumulated depreciation	Dr	6,000		
Major plant & equipment asset			Cr	20,000

(Revaluation of major plant and equipment from $73,000 to $59,000, adjusted against ARS if that class has sufficient credit ARS balance (to extent that ARS credit balance for class is insufficient, recognise as expense in Statement of Comprehensive Income))

Calculation of restated Accumulated Depreciation:
(new gross replacement cost – residual value) / useful life x age: (80,000 – 10,000) / 10 x 3 = 21,000

2. Annual depreciation until next revaluation:

Depreciation expense	Dr	7,000		
Accumulated depreciation			Cr	7,000

(Record annual depreciation until next revaluation)

Calculation of annual depreciation until next revaluation: (59,000 - 10,000) / 7 = 7,000

Example 5.5.5 – Revaluation increase – CRC change in useful life (gross method)

An infrastructure asset was acquired/constructed three years ago for $1 million with a residual value of $100,000 and was depreciated at 10% straight line based on its originally assessed total useful life of 10 years. After three years, the asset's written-down value is $730,000 after accumulated depreciation of $270,000. At 30 June this year, the valuer has determined that the asset's remaining useful life is now 9 years (i.e. a total useful life of 12 years), with its gross cost and residual value remaining the same. Due to the increase in useful life, the asset's new fair value is determined to be $775,000 using the current replacement cost method.

1. General ledger entries to recognise revaluation:

Accumulated depreciation	Dr	45,000	
Asset revaluation surplus		Cr	45,000

(Revaluation of infrastructure from $730,000 to $775,000; Note: the asset's gross cost is not adjusted because it remains unchanged at $1,000,000.)

Calculation of restated accumulated depreciation:
(gross replacement cost – residual value) / new useful life x age: (1,000,000 – 100,000) / 12 x 3 = 225,000

2. Annual depreciation until next revaluation:

Depreciation expense	Dr	75,000	
Accumulated depreciation		Cr	75,000

(Record annual depreciation until next revaluation)

Calculation of annual depreciation until next revaluation: (775,000 - 100,000) / 9 = 75,000, or alternatively (1,000,000 – 100,000) / 12 = 75,000.

Example 5.5.6 – Revaluation increase – CRC change in gross cost and useful life (gross method)

An infrastructure asset was acquired/constructed three years ago for $1 million with a residual value of $100,000 and was depreciated at 10% straight line based on its originally assessed total useful life of 10 years. After three years, the asset's written-down value is $730,000 after accumulated depreciation of $270,000. At 30 June this year, the valuer has determined that the asset's remaining useful life is now 9 years (i.e. a total useful life of 12 years), and the gross replacement cost of the asset has increased to $1.3 million. The residual value remaining the same. Due to the increase in useful life and gross cost, the asset's new fair value is determined to be $1 million using the current replacement cost method.

1. General ledger entries to recognise revaluation:

Infrastructure	Dr	300,000		
Accumulated depreciation			Cr	30,000
Asset revaluation surplus			Cr	270,000

(Revaluation of infrastructure from $730,000 to $1 million)

Calculation of restated accumulated depreciation:
(gross replacement cost – residual value) / new useful life x age: (1,300,000 – 100,000) / 12 x 3 = 300,000

2. Annual depreciation until next revaluation:

Depreciation expense	Dr	100,000		
Accumulated depreciation			Cr	100,000

(Record annual depreciation until next revaluation)

Calculation of annual depreciation until next revaluation: (1,000,000 - 100,000) / 9 = 100,000, or alternatively (1,300,000 – 100,000) / 12 = 100,000.

Example 5.5.7 – Revaluation increase – Indexation (gross method)

An item of Major Plant and Equipment was purchased three years ago for $100,000 with no residual value and was to be depreciated at 10% straight line. After three years, the asset's written-down value (based on a current replacement cost technique) is $70,000, after accumulated depreciation of $30,000. At 30 June this year, indexation is applied in year 4 using a published construction cost index. The percentage change in the index since the previous year's specific appraisal is 3.5%. The asset's residual value and useful life remains the same.

Calculation – restated Gross and Accumulated Depreciation (indexation applies consistently to both gross and accumulated depreciation):

Gross amount: 100,000 x (1+0.035) = 103,500
Accumulated depreciation: 30,000 x (1+0.035) = 31,050
Net written-down value: 103,500 – 31,050 = 72,450 (also equals $70,000 x 1.035)
1. General ledger entries to recognise revaluation using indexation:

Major plant and equipment asset	Dr	3,500	
Accumulated depreciation		Cr	1,050
Asset revaluation surplus		Cr	2,450
(Revaluation of major plant and equipment by indexation of 3.5%)			

2. Annual depreciation until next revaluation:

Depreciation expense	Dr	10,350	
Accumulated depreciation		Cr	10,350
(Record annual depreciation until next revaluation)			

Calculation of annual depreciation until next revaluation: (72,450 - 0) / 7 = 10,350, or alternatively (103,500 – 0) / 10 = 10,350.

6.0 NCAP 6 DISPOSAL OF NON-CURRENT ASSETS

No illustrative examples – refer to NCAP 6.