QUEENSLAND TREASURY

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Non-Current Asset Policies for the Queensland Public Sector

For reporting periods beginning on or after 1 July 2024

Issued: June 2025

Queensland Government

Contents

1.0 Overview

This Introduction to the Non-Current Asset Policies for the Queensland Public Sector (NCAP) discusses the purpose and scope of the NCAPs.

2.0 Background

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

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

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

The policies apply both to assets controlled by agencies and those administered on a whole-of-Government basis.

3.0 Scope

Section 18(1) of the *Financial and Performance Management Standard 2019* (FPMS) requires departments and statutory bodies to manage assets in accordance with the asset management system established under section 11(1) of the FPMS.

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

Departments and all statutory bodies (including for-profit statutory bodies) must apply the policies set out in this document, as per section 18(3) of the FPMS.

These policies also apply to **controlled entities** of the above agencies to the extent necessary to ensure consistency in accounting policies in accordance with AASB 10 *Consolidated Financial Statements* and AASB 127 *Separate Financial Statements*.

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

4.0 Purpose

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

In particular, the policies aim to:

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

5.0 Prescribed Requirements

Under section 61 of the *Financial Accountability Act 2009*, each accountable officer and each statutory body is responsible for managing the agency efficiently, effectively and economically. Agencies are to develop linkages between the asset management systems and financial reporting processes to ensure assets are appropriately valued, managed and recorded in agency financial statements. Section 18 of the FPMS requires each department and statutory body to establish an asset management system that provides for identifying, acquiring, managing, disposing of, valuing, recording and writing off assets.

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

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

The *Non-Current Asset Policies for the Queensland Public Sector* contains both Queensland Treasury specific policy and guidance in unison with some of the pertinent requirements of the Australian Accounting Standards and pronouncements. All requirements of applicable accounting standards, however, are not repeated within these policies, Accordingly, these policies must be read and

interpreted in conjunction with the relevant Australian Accounting Standards and are not intended to be read in substitution for them.

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

- the Financial and Performance Management Standard 2019;
- the Framework for the Preparation and Presentation of Financial Statements (the Framework);
- AASB 5 Non-Current Assets Held for Sale and Discontinued Operations;
- AASB 13 Fair Value Measurement;
- AASB 16 Leases;
- AASB 101 Presentation of Financial Statements;
- AASB 116 Property, Plant and Equipment;
- AASB 120 Accounting for Government Grants and Disclosure of Government Assistance;
- AASB 136 Impairment of Assets;
- AASB 138 Intangible Assets;
- AASB 140 Investment Property;
- AASB 1059 Service Concession Arrangements: Grantors; and
- relevant AASB Interpretations.

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

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NCAP 1 Recognition of Non-Current Assets

OVERVIEW

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

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1.1. DEFINITION OF AN ASSET

For not-for-profit entities, the Framework for the Preparation and Presentation of Financial Statements (the Framework) defines an asset as *"a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity*".

For for-profit entities, the Conceptual Framework for Financial Reporting defines an asset as *"A present economic resource controlled by the entity as a result of past events"*, and *"an economic resource is a right that has the potential to produce economic benefits"*.

The key features are that:

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

1.1.1. Control

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

Control is demonstrated, on balance, by the ability of the agency to:

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

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

- access to the asset may be more relevant than mere possession or ownership; and
- ownership of an asset does not necessarily equate to control over the benefits derived from the asset e.g. assets that are finance leased to another party.

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

In rare instances, no one agency may have exclusive control of an asset(s) i.e. 'shared control' exists. Shared control exists when decisions about the asset require unanimous consent of the

agencies sharing control (e.g. decisions about how to use the asset, when to dispose/replace the asset, etc.) and all future economic benefits associated with the asset (e.g. fulfilment of business objectives, proceeds from sale, etc.) are shared between these agencies. Such shared control may be contractual or implied. In this case, both agencies must recognise their 'share' of the future economic benefits of the asset on a proportional basis, subject to satisfaction of the recognition criteria contained in the Framework.

1.1.2. Past Transaction or Event

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

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

1.1.3. Future Economic Benefits

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

In the case of not-for-profit agencies, the future economic benefits may be in the form of providing goods and services in accordance with the agencies' objectives. The fact that not-for-profit agencies do not charge, or do not fully charge, their customers for the goods and services they provide does not deprive those outputs of utility or value. For example, assets such as monuments, museums, and historical treasures enrich the community. These assets benefit the agencies by enabling them to meet their objectives of providing needed services to the community.

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

Instead, such a transaction results in the recognition of an expense in the Statement of Comprehensive Income. This treatment does not imply either that the intention of management in

incurring expenditure was other than to generate future economic benefits for the agency or that management was misguided. The only implication is that the degree of certainty that economic benefits will flow to the agency beyond the current accounting period is insufficient to warrant the recognition of an asset.

1.2. ASSET RECOGNITION PRINCIPLES

Non-current assets are recognised in accordance with the applicable accounting standards. For not-for-profit entities, the Framework states that assets are recognised on balance sheet when:

- it is probable that future economic benefits will flow to the entity; and
- the asset has a cost or value that can be measured reliably.

1.2.1. Probability that Future Economic Benefits will Eventuate

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

1.2.2. Reliable Measurement

The value of assets can usually be measured reliably using a number of methods. These include:

- For purchased assets this would be the price charged by the supplier.
- For constructed or manufactured assets, the value can be derived using information from labour and other costing systems.
- The agency obtaining expert advice or a value from the market place.
- In certain circumstances the agency may need to make an estimation of a cost or value (the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability).

In the rare circumstance that the value cannot be measured reliably but it is probable that future economic benefits will flow to the agency, an asset is not to be recognised. In this situation, the agency must disclose in the notes to its financial statements the reason for why a reliable measure of value could not be determined.

The flowchart on page 5 sets out the key considerations in recognition of an asset.

1.3. INITIAL RECOGNITION OF ASSET

Circumstances resulting in the initial recognition of assets include:

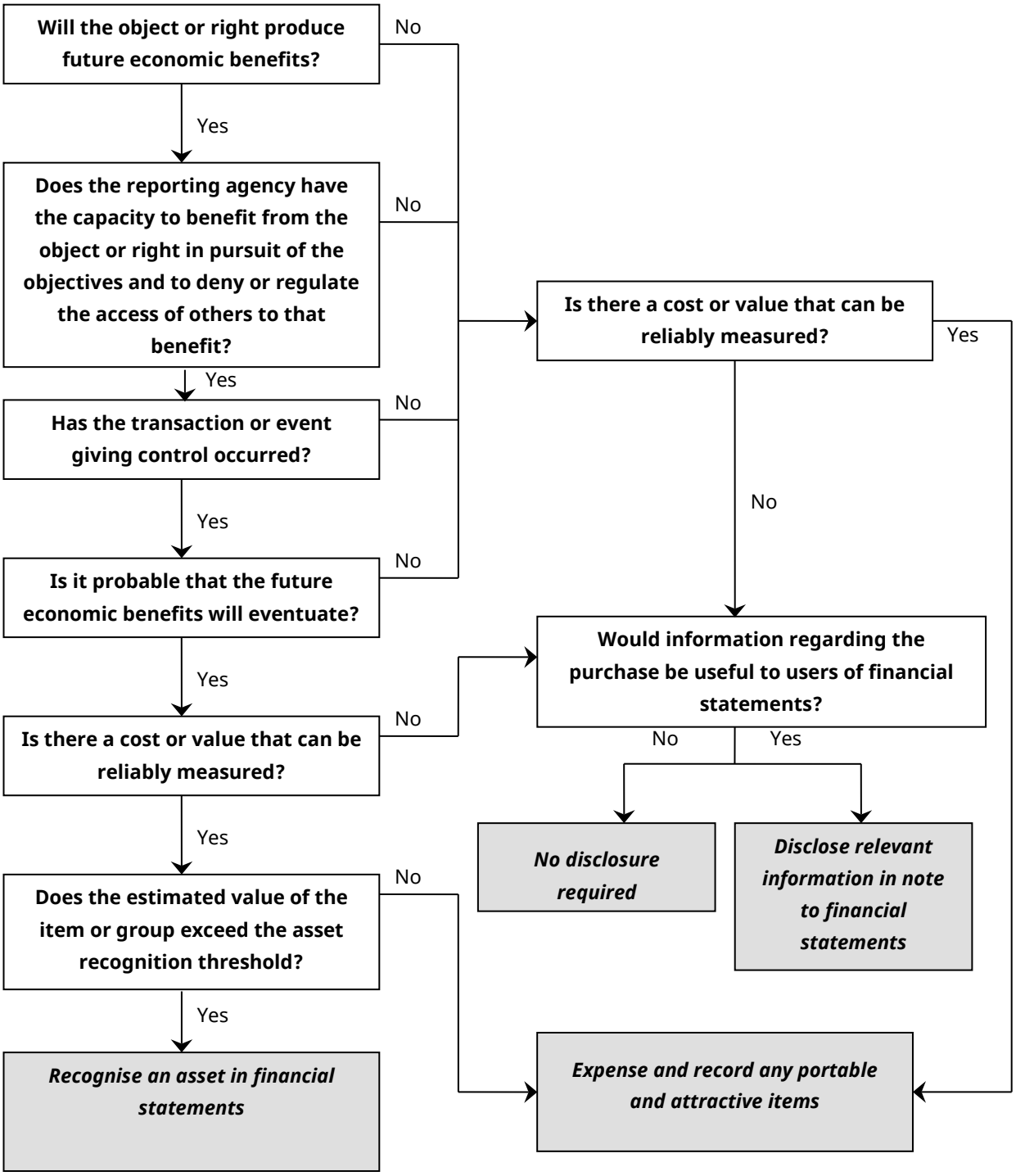
- acquisition involving consideration;
- assets acquired at no cost or for nominal consideration, including those acquired as a result of machinery-of-Government changes; and
- assets not previously recognised.

A flowchart relating to Initial Asset Valuation is contained in the Implementation Guidance.

1.3.1. Acquisition Involving Consideration

AASB 116 requires that an item of property, plant and equipment that qualifies for recognition as an asset shall initially be measured at its cost. (The cost of the right to use an item of property, plant and equipment held by a lessee under a lease is determined in accordance with AASB 16 Leases.)
Where the consideration paid is significantly below fair value principally to enable the agency to further its objectives, the asset's cost is measured as the asset's fair value and treated similarly to assets acquired at no cost or nominal consideration.

Flowchart: Key Considerations in Recognition of an Asset.



1.3.2. Initial Acquisition of Assets at No Cost or for Nominal Consideration

Assets acquired at no cost or for a nominal consideration, other than those acquired through machinery-of-Government changes, must be recognised initially at fair value as at the date of acquisition (refer to NCAP 3 *Valuation of Non-Current Assets*). In such cases, the initial recognition is as "assets received below fair value" (a revenue item classified under 'Grants and Other Contributions'), not as a credit to an asset revaluation surplus.

Further guidance regarding assets acquired at no cost or for nominal consideration is provided in paragraphs Aus15.1 to Aus15.3 of AASB 116.

In the case of any intangible assets acquired at no cost or for a nominal consideration, fair value must only be recognised where there is an active market for the asset(s) concerned. Agencies should also refer to guidance in NCAP 1.7 Guidance on Particular Asset Types and NCAP 3.10 Specific Valuation Issues in regard to intangible assets.

For heritage and cultural assets, agencies should refer to the guidance about heritage, artworks and cultural assets in NCAP 3.10.

For assets acquired through machinery-of-Government changes, refer to FRR 4F Equity, Contributions by Owners and Distributions to Owners and FRR 2F Machinery-of-Government Changes for treatment and disclosure of these assets (refer also NCAP 3).

Subsequent measurement requirements are explained in NCAP 3.

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

(a) the exchange transaction lacks commercial substance; or

(b) the fair value of neither the asset received nor the asset given up is reliably measurable.

1.3.3. Assets Provided Under Government Grants (for-profit entities only)

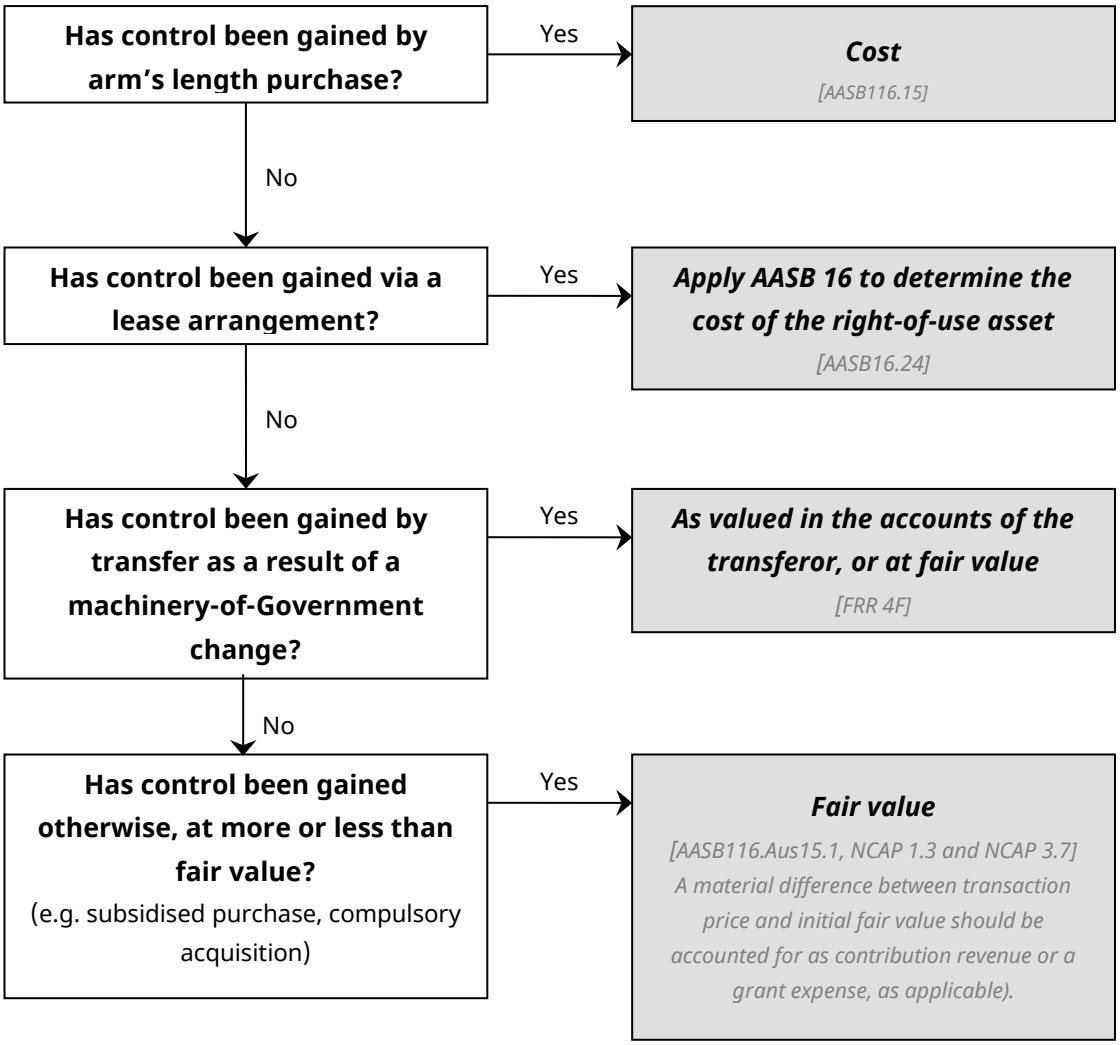
It is Queensland Treasury policy that when a for-profit agency receives a non-monetary asset free of charge, or for nominal consideration, by way of a government grant, the agency shall recognise both the asset and the grant at fair value, in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. Although permitted under AASB 120, it is Queensland Treasury policy that agencies shall not recognise such assets at a nominal amount.

It is Queensland Treasury policy that Government grants are not to be deducted from the carrying amount of the related asset.

Government grants related to assets (including non-monetary grants at fair value) are to be presented in the Statement of Financial Position as deferred income, recognised as income on a systematic and rational basis over the useful life of the asset.

1.3.4. Decision Chart – Value at Initial Recognition

The following decision chart illustrates the value to be recorded at initial recognition for non-current assets acquired via different means.



1.3.5. Assets Not Previously Recognised

Changes in accounting estimates

Assets not recognised in previous periods that subsequently meet the recognition criteria (not as a result of an error) shall be recognised from the date that the criteria are met.

Refer to NCAP Tools Illustrative Example 1.3.1.

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

Refer to NCAP Tools Illustrative Example 1.3.2.

Errors

Where assets are identified that have not been previously recognised due to error e.g. during asset verification, this is treated as the correction of an error under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Refer also to FRR 2C Changes in Accounting Policies and Estimates. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretation of facts, and fraud.

Refer to NCAP Tools Illustrative Example 1.3.3.

1.4. CAPITALISATION VS EXPENSING OF COSTS INCURRED

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

On initial recognition, all costs incurred in purchasing or constructing the asset and getting it ready for use (including work in progress) are capitalised to the value of the asset. Examples of these costs are provided below. Costs incurred initially to purchase or construct an asset must be distinguished from costs incurred subsequently to add to, or replace part of, a completed asset, or to purchase or construct a separately identifiable asset.

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

This can occur through:

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

1.4.1. Initial Purchases – Costs capitalised

Refer to AASB 116 para 16 to 19 for costs included in the cost of an item of property, plant and equipment upon initial purchase or construction

In the case of work in progress, agencies must ensure they assess the suitability of costs for capitalisation at the time they are incurred, to reduce the need for a subsequent impairment write-down.

Once the item of property, plant and equipment is in the location and condition necessary for it to be capable of being operated in the manner intended, the capitalising of costs must cease. Refer also to AASB 116 para 20 to 21.

1.4.2. Initial Purchases – Costs expensed

All training, administration and general overhead costs are to be expensed in accordance with AASB 116 para 19 or AASB 138 para 29.

1.4.3. Incidental Operations

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

1.4.4. Third-Party Costs

In the course of constructing assets, particularly infrastructure assets, it may be necessary for an agency to relocate or replace assets belonging to another entity, e.g. removing and replacing pipes, relocating roads, relocating power lines, etc. An agency may also construct new assets for other entities. Such costs may relate to assets which are controlled by another reporting entity (i.e. a third party). That third party might include another Queensland Government entity or local government entity (e.g. council or utility company).

Third party costs that are directly attributable to, not just associated with, bringing the constructing agency's asset to the location and condition necessary for its intended operation, may be capitalised by the constructing agency, as per AASB 116 paragraph 16(b).

Directly attributable costs also need to be distinguished from costs incurred in connection with the acquisition of an asset but which are not necessary to bring the asset to the location and condition necessary for it to operate as intended. Examples of costs that are not considered to be directly attributable costs that should be expensed include:

- Ex gratia or special payments such as compensation for relocation costs paid to land occupants who are not legal owners of the land.
- Payments of a compensatory nature made to individuals, community groups or other organisations to ensure they are not disadvantaged by the construction work.
- Compensation paid to local businesses for loss of trade as a result of changes to the roads resulting in traffic being diverted around the location of their business are not be considered directly attributable costs and, therefore, should be expensed when incurred.

It is Queensland Treasury policy that, subject to the exceptions below, the cost of reconstructing third party assets disturbed or relocated in the process of constructing an agency asset, including the construction of new assets controlled by a third party, shall be expensed where the agency determines that the construction costs would not be incurred again when the asset is replaced in the same location. The expense classification is to reflect the nature of the costs (most commonly a capital grant).

- For example, the third-party asset has been moved in a different location and will no longer need to be disturbed or relocated or, in the case of a newly constructed asset, where the third party will become responsible for the ongoing operation and/or maintenance of the item (ordinarily where the item resulting from these costs is situated on land controlled by that other entity) and those costs will not be incurred again when the asset is replaced in the same location.

However, it is Queensland Treasury policy that capitalisation of costs incurred on constructing a third-party asset is permitted in the following situations:

(a) If the third party is a Queensland Government entity consolidated into the whole-of-government financial statements, and it is agreed the costs incurred by the agency will be subsequently transferred to the third party via a complying equity transfer mechanism, the costs are to be capitalised during construction and subsequently derecognised at the time of transfer.

- In some circumstances, the agency may be directed to construct an asset on behalf of another wholly-owned Government entity/agency and be funded to achieve that objective. In order to ensure appropriate accounting outcomes for whole-of-government reporting, it will be necessary for those costs to be capitalised during the construction phase as work-in-progress and be subsequently transferred through equity transfer on the asset's completion.

(b) Where there is genuine uncertainty regarding who has ultimate ownership and control of an asset being constructed, the constructing agency is permitted to capitalise the third party construction costs as work-in-progress pending a future decision around ownership and control being made.

- In some situations, decisions around ultimate ownership or control may not be made until the assets are partially or wholly constructed, such that expensing the construction costs may be premature if the potential exists that government may control the asset on completion.

(c) Where the agency is constructing an asset for an external third party, and is expecting to receive consideration for the work performed, the agency should apply AASB 15 and assess whether a contract asset should be recognised.

(d) Where the recipient entity who controls the asset is not a Queensland Government entity consolidated into whole-of-government financial statements, but the agency has obtained approval from Queensland Treasury to capitalise construction costs as work-in-progress.

- An agency may construct an asset, or assets, that are ultimately controlled by a third party outside the Queensland whole-of-government reporting entity. Prima facie, such circumstances typically indicate that the State may not control the future economic benefits

embodied in those assets, especially where the asset is constructed on land owned by that external third party.

- However, it is recognised there may be certain circumstances that warrant capitalisation of these construction costs as work-in-progress. This could include policy reasons or where government has accepted certain responsibilities or obligations during the construction phase that would make capitalisation appropriate. Queensland Treasury may, where appropriate, permit these costs to be capitalised. Agencies should contact Queensland Treasury's whole-of-government reporting team via fmcsupport@treasury.qld.gov.au to seek this approval.

Where construction (or reconstruction) of third party assets occurs, agencies should have regard to the information requirements of the third party for the asset, even where costs are expensed by the agency. This may include technical specifications and a breakdown of construction costs incurred in the asset's construction to enable the recipient to account for the asset upon receipt.

NCAP Tools Illustrative Examples 1.4.1 and 1.4.2 illustrate the treatment of third-party costs incurred in construction of infrastructure.

1.4.5. Demolition/Restoration Costs

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

In the rare cases where a Provision for Restoration is justified (due to there being a legal or constructive obligation to restore the site), the estimated costs of dismantling and removing the asset are included in the initial provision and are charged against the provision when they are incurred, with any costs over and above the amount of the provision expensed.

It is Queensland Treasury policy that amounts credited to the provision (to establish or increase it) are debited to the original asset and are therefore not capitalised as site preparation costs of the new asset. In all other cases, demolition and/or restoration costs should be recognised as an expense.

(Legal and constructive obligations are each defined in paragraph 10 of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. Reference should also be made to AASB 116 paragraphs 16 and 18 regarding capitalisation of such costs to an asset.

The *Financial and Performance Management Standard 2019* (FPMS) requires agencies to develop asset management systems for efficiently, effectively and economically managing assets of each agency (including disposal of assets). Agencies are to develop linkages between the asset management systems and financial reporting processes to ensure assets that are appropriately valued, managed and recorded in agency financial statements.

NCAP Tools Illustrative Examples 1.4.3 and 1.4.4 illustrate situations where demolition and restoration costs should be capitalised or expensed.

1.4.6. Parts

Parts are generally classified as inventory and are recognised in the Statement of Comprehensive Income when consumed. However, major parts may be capitalised into the cost of the item of property, plant and equipment if the recognition principles as outlined in NCAP 1.4 are satisfied and either:

- the agency expects to use the major parts or stand-by equipment during more than one period; or
- spare parts are purchased specifically for a particular asset or class of assets and would become redundant if that asset or class were discontinued.

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

1.4.7. Expenditure subsequent to Initial Purchase

Repairs and Maintenance

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

Replacement of Components

For some complex assets, significant components with different estimated useful lives are separately identified for accounting purposes. Deciding whether expenditure on asset components should be capitalised follows the same process outlined for assets above, i.e. does the expenditure increase the service potential or useful life of the component beyond the originally assessed standard. (Refer also to NCAP 2 Complex Assets)

Day-to-Day Servicing

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

Overhauls/Refurbishments

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

In other instances, items of property, plant and equipment may be renewed on an unplanned or ad hoc basis, such as replacing the interior walls of a building. In these instances, an agency recognises the cost of replacing part of such an item in the carrying amount of the item of property, plant and equipment when that cost is incurred only if the asset recognition criteria are met. The carrying amount of those parts that are replaced must be derecognised (refer to AASB 116 paragraphs 13 and 14).

Regular Major Inspections

As a condition of continuing to operate an item of plant and equipment, some agencies will be required to undertake regular major inspections for faults, regardless of whether faults are indicated or parts of the item are replaced. For example, some aircraft must have a major inspection every 5,000 flying hours (this may equate to approximately every five years).

When each major inspection is performed, its cost is recognised as a replacement in the carrying amount of the item of property, plant and equipment if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection must be derecognised.

Costs of performing every-day inspections are not to be capitalised.

No Provisions for Future Maintenance

The creation of a provision for future maintenance of non-current assets is not permitted as such action would be inconsistent with the principles for the recognition of provisions as detailed in

AASB 137 *Provisions*, *Contingent Liabilities and Contingent Assets.* A provision is a liability and for a liability to be recognised, a past event must have occurred.

1.4.8. Special Purpose Vehicles

There are occasions when agencies need to establish special purpose vehicles (SPVs) (e.g. a proprietary company established under the *Corporations Act 2001*) for the sole purpose of constructing a significant infrastructure asset.

SPVs preparing general purpose financial statements are required to comply with the Australian accounting standards. On this basis, SPVs cannot assume that all expenditure incurred can be capitalised as part of the cost of constructing an asset. Therefore, in deciding what costs form part of the cost of construction of the asset and therefore should be capitalised, and what costs should be expensed, SPVs are to refer to the Australian accounting standards. In particular, AASB 116 *Property Plant and Equipment*, which states that only those costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by the SPV management can be capitalised. Any administration and other general overhead costs incurred by the SPV must be expensed, this ensures the correct treatment of these costs for whole-of-government reporting.

1.4.9. Capitalise vs Expense Examples

Physical assets

Example Costs Incurred	Treatment
Cost to purchase an asset (including import duties, non-refundable purchase taxes) minus any trade discounts and rebates	Capitalise – this represents initial cost to acquire the asset
Initial delivery and handling of an asset	Capitalise – these costs are directly attributable in bringing the asset to the location necessary for it to be capable of operating in its intended manner
Installation and assembly of an asset	Capitalise – directly attributable in bringing the asset into the condition necessary for it to be capable of operating in its intended manner
(Initial) testing of whether the asset is functioning properly	Capitalise – directly attributable in bringing the asset into the condition necessary for it to be capable of operating in its intended manner
Removing and replacing pipes owned	Capitalise – necessarily incurred in completing the

Example Costs Incurred	Treatment
by another entity in the process of constructing a dam	project of building the dam (i.e. unavoidable in constructing the dam)
Major refurbishment of a floor in a building resulting in increased capacity (accommodates more staff after refurbishment)	Capitalise – improves the condition of that floor of the building beyond its originally assessed standard of capacity through increased service potential
Costs incurred in training staff	Expense – not directly attributable in preparing the asset for use
Minor works done to maintain the asset to ensure it continues at the current level of service until the end of its useful life	Expense – does not improve the condition of the asset beyond its originally assessed standard of performance or capacity i.e. it does not increase the service potential nor does it increase its useful life
Property searches in preparation of selling property (currently not yet in “held for sale” class)	Expense – does not improve the condition of the property beyond its originally assessed standard of performance or capacity i.e. it does not increase the service potential nor does it increase its useful life
Repainting walls in a building	Expense – maintaining the condition of the building and does not improve the condition of the building such that it increases its service potential or its useful life

Intangible assets

Example Costs Incurred	Treatment
Purchase price (including import duties, non-refundable purchase taxes, minus any trade discounts and rebates)	Capitalise – this represents initial cost to acquire the asset
Material and services in generating the asset	Capitalise – directly attributable in preparing asset for its intended use
Fees to register a legal right	Capitalise – directly attributable in preparing asset for its intended use
Costs incurred in testing a system in pre-production	Capitalise – this exercise forms part of the development phase (AASB 138 paragraphs 57 and 59)
Systems configuration for a system	Capitalise – this is part of building/developing the

Example Costs Incurred	Treatment
recognised as an intangible asset	system and is directly attributable in preparing the system for its intended use
Costs incurred in examining a viable option for replacing a system	Expense – investigation undertaken and is part of the research phase – unable to demonstrate that an intangible asset exists that will generate probable future economic benefits
Training	Expense – not directly attributable in preparing the asset for use
40 (annual) Software user licences costing $2,500 each	Expense – these individual licences do not meet the recognition threshold for intangible asset. They should not be grouped together for capitalisation as they do not satisfy the definition of a network
Costs incurred in documenting policies and guidelines	Expense – these activities are in connection with the development of an asset but are not necessary in preparing it for use

1.5. MANDATED ASSET CLASSES

It is Queensland Treasury policy that agencies must adopt the asset classes specified for Property, Plant and Equipment and Intangibles in Appendix 1.1 (with 'Major Plant and Equipment' being an optional class).

A 'class' of non-current assets is a grouping of assets of a similar nature and use in an entity's operations, which, for the purposes of disclosure, is shown as a single item in the financial report without supplementary dissection. That is, a class is the lowest note level disclosure in the financial statements. Appendix 1.1 also sets out the measurement method prescribed for each class for all not-for-profit agencies consolidated into the whole-of-Government financial statements.

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

See Appendices 1.2 and 1.3 for asset class descriptions.

1.5.1. Details of Particular Asset Classes

Infrastructure

For the purposes of this policy, the definition of infrastructure is as follows:

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

An infrastructure asset is primarily stationary in nature, purpose built, with a long useful service life, and associated with a network or system. Although not an exhaustive list, the following are examples of items included in the definition of *Infrastructure*:

- Water and Waste Systems
- Street Lighting Systems
- Dams
- Bridges
- Electricity Supply Systems
- Gas Supply Systems / Networks
- Pipelines
- Rail Network
- Harbour and Port Facilities
- Wharves
- Bus Stations
- Road Networks[1]
- Hangers
- Runways
- Sewerage Systems

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

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

[1] All government gazetted roads (e.g. under the *Land Act 1994*) are considered part of road networks and are infrastructure, while non-gazetted roads are land improvements.

Land Improvements

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

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

The above examples are not an exhaustive list. Agencies can choose to record and depreciate Land Improvements assets as part of the main asset otherwise they are to be recorded and depreciated separately from the main asset.

Land Improvements are to be recognised in the same class as the main asset to which they are attached (e.g. Buildings).

1.5.2. Major Plant and Equipment

This is not a mandatory class. This asset class may be used at management discretion. For instance, an agency may wish to consider using Major Plant and Equipment where some assets within the class have potential for high price volatility and/or valuations (e.g. foreign exchange fluctuations, high incidence of obsolescence, exposure to market forces, etc).

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

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

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

First Time Adoption of the Major Plant and Equipment Class

Upon initial adoption, the non-current assets transferred to the new class are required to be transferred from the existing plant and equipment class into the Major Plant and Equipment asset class. On transfer to Major Plant and Equipment, the gross and accumulated depreciation amounts should be retained initially. The assets are to be revalued immediately after transfer to the new class, and any revaluation increments or decrements treated as follows:

- revaluation increments are to be credited directly to an asset revaluation surplus; and
- revaluation decrements are to be recognised in accumulated surplus/deficit.

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

Disclosure

The agency's accounting policy notes must disclose:

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

In the period of initial recognition of the Major Plant and Equipment class, and thus the reclassification of items in the financial statements and comparative amounts, the agency is to disclose:

- the nature of the reclassification
- the amount of each item or class of items that is reclassified
- the reason for the reclassification

1.5.3. Intangible Assets

Descriptions of classes of intangible assets are contained in Appendix 1.3.

Software

When determining whether computer software is to be classified as property, plant and equipment or as an intangible, the agency must use judgement to assess whether the tangible or intangible element is more significant. For example, computer software for a computer-controlled

machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as property, plant and equipment. The same applies to the operating system of a computer.

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

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

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

1.6. ASSET RECOGNITION THRESHOLDS

It is Queensland Treasury policy that not-for-profit agencies that are consolidated into whole-of-Government must adopt the asset recognition thresholds for Property, Plant and Equipment and Intangibles set out in Appendix 1.1. A non-current asset with a cost (or where an asset is acquired at no or nominal cost, its fair value) at the time of acquisition that is less than the mandated asset recognition threshold must be expensed in the period of acquisition.

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

Exception: *For-profit* statutory bodies and agencies *not consolidated* into the whole-of-Government financial statements have the discretion to determine alternative asset recognition thresholds in consultation with their internal and/or external auditors. Any change in recognition threshold must facilitate the financial statements providing reliable and more relevant information (as per AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*). A change in recognition threshold should be accounted for as a change in accounting policy in accordance with AASB 108, including the requirement for retrospective application.

1.7. GUIDANCE ON PARTICULAR ASSET TYPES

1.7.1. Easements

For the purposes of this policy easements are defined as "*an 'interest' in land or property – a right to use land or property of an external entity for a limited purpose (as right of passage)*." By their nature, easements are intangible and are to be accounted for in accordance with AASB 138 *Intangible Assets*.

1.7.2. Land under Roads

It is Queensland Treasury policy that all land under roads (to which the *Land Act 1994* applies) acquired on or before 30 June 2008 must be recognised at fair value. Land under roads acquired on or after 1 July 2008 must be recognised in accordance with AASB 116 *Property, Plant and Equipment*.

Land under roads is defined in AASB 1051 *Land Under Roads* as *"Land under roadways, and road reserves, including land under footpaths, nature strips and median strips."* For the purposes of this policy, land under roads only relates to land to which the *Land Act 1994* applies. It does not capture land under internal roads such as those on TAFE or hospital sites.

On adoption of AASB 1051, Queensland agencies were instructed to elect to recognise all land under roads acquired on or before 30 June 2008. The election was effective from 1 July 2008. Land under roads is part of the asset class 'Land' and therefore subject to the asset recognition threshold of $1 and measurement at fair value. Consequently, all agencies holding land at 30 June 2008 that met the definition of 'land under roads' were required to recognise that land at fair value in accordance with AASB 1051 para 8-9 and Appendix 1.1.

1.7.3. Leased Assets

Right-of-use assets from leases are to be accounted for in accordance with AASB 16. Agencies should refer to FRR 4B for Treasury policies on lease accounting. Note that the asset recognition thresholds in section 1.6 and Appendix 1.1 are not applicable to right-of-use assets.

1.7.4. Intangible Assets

Internally Generated Intangible Assets - Software

The cost of an internally generated intangible asset is determined as the sum of expenditure incurred from the date when the intangible asset first meets the development recognition criteria until the asset is "capable of operating in the manner intended by management". Therefore, regardless of the type of activity, costs incurred before the development recognition criteria are met need to be directly expensed. It is important to note that AASB 138 prohibits the capitalisation of any amounts that have previously been expensed.

In some cases, technical design costs for the asset may be incurred and expensed in the research phase under AASB 138. Although such costs may ultimately relate to the final software asset constructed, subsequent capitalisation is not permitted. Therefore, it is imperative agencies determine the appropriate accounting treatment including identifying the research and development phases under AASB 138 prior to commencing the software development project.

The following costs should be expensed in the reporting period in which they are incurred:

- all research costs (refer comments below);
- selling, administrative and other general overhead expenditure (unless in rare circumstances certain project administration costs can be clearly demonstrated to be directly attributable in preparing the asset for use);
- any identified cost inefficiencies/overruns and initial operating losses;
- expenditure on training activities;
- data cleansing activities and data conversion/migration preparation;
- minor modifications after system is operational.

Costs incurred in the early planning phase (e.g. feasibility studies, formulating preliminary design requirements, evaluating alternative design specifications) in the lead up to the actual technical design, development and configuration of the new system would be considered research activity.

Similarly, while implementation planning is required to establish the resources, project activities/milestones, roles/responsibilities and governance arrangements for the project, such implementation planning costs are typically not included in the cost of the asset as they do not represent future economic benefits embodied in the software, nor enhance the long-term value of the software asset itself.

Activities that would typically qualify for capitalisation once the development phase of AASB 138 commences include:

- Technical Design (unless incurred and expensed in the research phase)
- System Build
- Testing of new system
- Development of system documentation
- System configuration

Assets Acquired For No or Nominal Cost

For not-for-profit agencies, intangible assets acquired at no cost or for a nominal consideration, other than those acquired through machinery-of-Government changes or other inter-agency transfers, must be recognised initially at fair value as at the date of acquisition in line with AASB 138 para Aus24.1, provided there is an active market for the asset(s) concerned. If there is no active market and the asset's fair value cannot be measured reliably, they are not to be recognised on the Statement of Financial Position but rather disclosed in a note to the financial statements, if such items are material in a qualitative sense.

When a for-profit agency receives an intangible asset free of charge, or for nominal consideration, by way of a government grant, the agency is to recognise both the asset and the grant at fair value (where fair value can be measured reliably), in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. Although permitted under AASB 120, agencies must not recognise such intangible assets at their nominal values.

Measurement After Recognition

NCAP 3 *Valuation of Non-current Assets* specifies that where there is an active market, intangible assets are to be carried at fair value, and where there is no active market, intangible assets are to be carried at cost.

If an active market that once existed ceases to exist, such intangibles must be held at cost, with the fair value that was last determined by reference to an active market being deemed to be "cost" from that time until such time as an active market exists again.

The reinstatement and capitalisation of costs previously recognised as an expense is prohibited.

1.7.5. Software Configuration / Customisation Costs in Cloud Computing Arrangements

The term *"Cloud-Computing"* covers a broad range of IT delivery models including Software-as-Service (SaaS), Infrastructure-as-a-Service (IaaS) or Platform-as-a-Service (PaaS) arrangements. Depending upon the specification of the cloud-computing arrangement, these models may be delivered as a stand-alone solution or as a combination of services.

Software-as-a-Service (SaaS)

Particular attention is required when accounting for SaaS arrangements. Agencies entering a SaaS contract should refer to the following IFRIC agenda decision published in April 2021 when accounting for the transaction. https://www.ifrs.org/content/dam/ifrs/supporting-implementation/agenda-decisions/2021/configuration-or-customisation-costs-in-a-cloud-computing-arrangement-mar-21.pdf

The agenda decision outlines that a customer often does not control the software being configured or customised under the SaaS arrangement**.** This is due to the arrangement conveying to the customer the right to receive access to the supplier's application software over the contract term, not control of the actual application software asset itself. Consequently, the access to the software is a service that the customer receives over the contract term. In addition, the customer will often incur costs of configuring or customising the supplier's application software to which the customer receives access. This may involve modifying the software code or setting various 'flags' or 'switches' to set up the software's existing code to function in a specific way.

Where the configuration or customisation activities do not create a resource controlled by the entity that is separate from the supplier's software, the criteria for recognising an intangible asset will not be met. However, costs to configure or customise the agency's existing software or IT environment in order to integrate with the new cloud software can be capitalised in line with general software capitalisation principles where the related software code is controlled by the agency.

Accounting for software configuration and customisation costs that are ineligible for capitalisation

Configuration and customisation costs that do not qualify for recognition as an intangible asset are to be expensed as supplies and services expenses. To determine the timing of expense recognition, the agenda decision directs entities to apply the concepts in AASB 15 paragraphs 27 to 29 to assess whether the configuration or customisation activities performed by the supplier are distinct from the right to receive access to the supplier's software.

*Note that this assessment is only relevant when **the same supplier** is providing both the configuration or customisation services and the access to the cloud software. Where a different supplier (who is not acting as an 'agent' for the software supplier) or the agency's own staff are doing the configuration/customisation, the costs should be expensed as incurred.*

➔ If the configuration/customisation service is *a distinct service* from the right to receive access to the supplier's software, the costs are expensed upfront when the configuration or customisation is performed.

➔ If the configuration/customisation service is *not a distinct service* from the right to receive access to the supplier's software, the costs are recognised as expenses as/when the supplier provides access to the cloud software over the contract term. This usually means the agency recognises a prepayment asset upfront, which unwinds over the contract term.

The following guidance is provided to assist agencies to decide whether the configuration/customisation activities performed by the supplier are a distinct service from the right to receive access to the supplier's cloud software.

1. Can the agency benefit from the configuration/customisation activities either on its own or together with other resources that are readily available to the customer?

Generally, the agency cannot benefit from the configuration/customisation on its own, so it would depend on whether the access to the cloud software is a resource that is "readily available" to the agency. The cloud software service would be a readily available resource if, for example, the agency can readily purchase it separately from the supplier or other vendors without any configuration or customisation services attached.

2. Is the supplier's promise to perform the configuration/customisation activities separately identifiable from its promise to provide access to the cloud software?

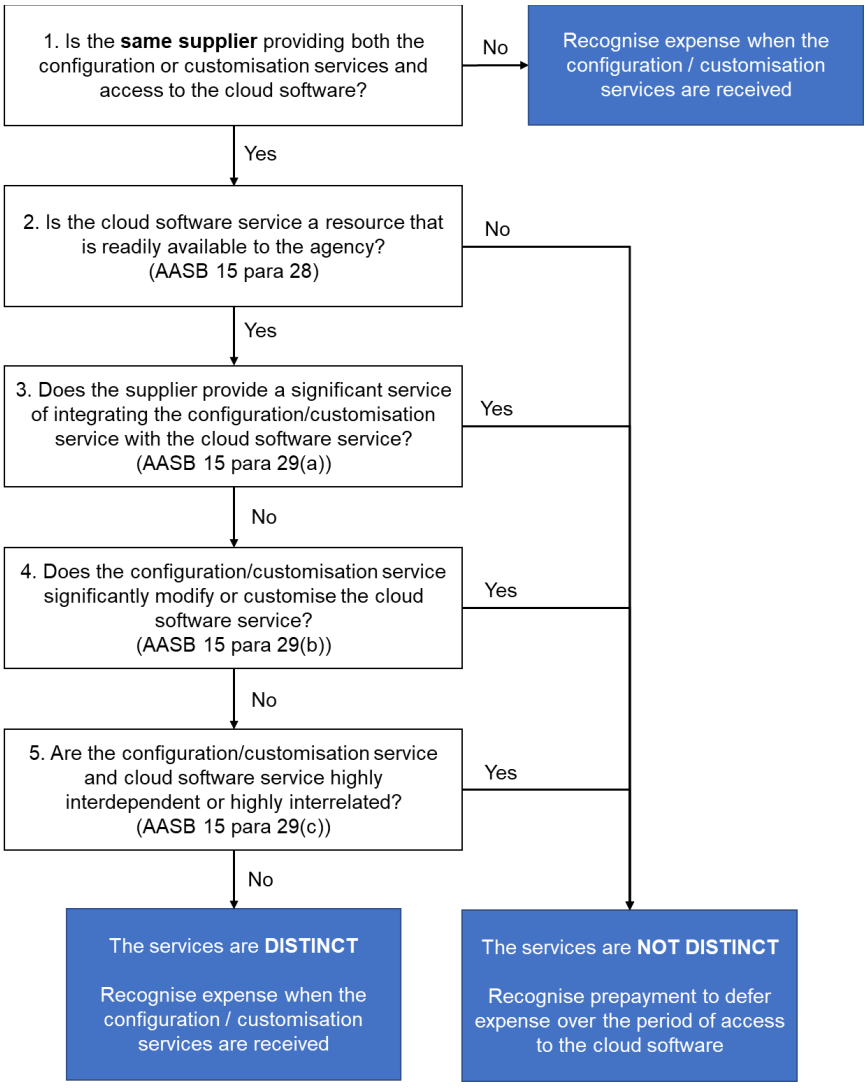
AASB 15 paragraph 29 lists factors that indicate when the promises are not separately identifiable and hence the services being not distinct.

a) The supplier provides a significant service of integrating the configuration/customisation service and the cloud software service into a bundle – This is unlikely to be relevant for SaaS or cloud software arrangements as the level of integration of different goods and services here is unlikely to be considered significant.

b) The configuration/customisation service significantly modifies or customises the cloud software service – This is likely to be the case for customisation activities, but is unlikely for configuration activities.

c) The configuration/customisation service and cloud software service are highly interdependent or highly interrelated – This is likely to be met where the supplier will not be able to provide the agency with access to the cloud software without first performing the configuration or customisation activities.

The assessment of whether the configuration/customisation and cloud software services are distinct is summarised in the following decision tree below.



1.7.6. Investment Property

It is Queensland Treasury policy that buildings that are leased principally to other Queensland Government agencies are not to be classified as investment property in the agency's financial statements, unless the asset is surplus to requirements and held specifically to earn income.

1.7.7. Assets in Public-Private Partnerships (including Service Concession Arrangements)

Agencies should refer to FRR 5D Service Concession Arrangements and Other Public-Private Partnerships for policies and guidance on accounting for service concession assets under AASB 1059 *Service Concession Arrangements: Grantors* and for assets in public-private partnerships (PPPs) that are not service concession arrangements.

Service concession assets are required to be recognised at current replacement cost. They are subsequently accounted for in the same way as property, plant and equipment (or intangible asset) with the exception that all references to fair value shall instead be read as current replacement cost.

Where the asset in a PPP is accounted for as property, plant and equipment under AASB 116, it is subject to all the recognition and measurement requirements in the NCAPs applicable to PP&E. Where the PPP contains a lease, the right-of-use asset is subject to the requirements of FRR 4B.

1.7.8. Portable and Attractive Items

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

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

1.8. LIBRARY COLLECTIONS

1.8.1. Classification of Library Collections

It is Queensland Treasury policy that, for financial reporting purposes, library collections are to be classified into the following three categories, and documented accordingly:

Common use collections - A common use collection is usually comprised of a large number of low value items which are used in the day-to-day operations of the library e.g. undergraduate text books and technical publications. These items, in most instances, may be borrowed. Due to a pattern of declining use, obsolescence and of physical deterioration over time, library materials in these collections generally have a short period of service potential (e.g. the greatest usage is within the first year). Individual items are continually being updated and replaced.

Reference collections – Reference collections usually include both general and specialised items. These items are usually not able to be borrowed, but are available for use, even if archived. Generally, these items have variable uses (e.g. undergraduate and research purposes), and have a longer useful life than common use collections, but are not held indefinitely. If possible, these items would generally be replaced if lost or damaged.

Heritage collections – A heritage collection is a permanently retained collection which has heritage, cultural or historic value that is worth preserving indefinitely and to which sufficient resources are committed to preserve and protect the collection and its service potential. The collection is generally held for public exhibition, education, or to provide a service to the community. Heritage collections are not usually available for sale, for redeployment or for an alternative use.

Professional judgement will be required to assess the characteristics of each item to determine its correct classification. In determining the correct classification, considerations may include:

- the useful life of the material – is it limited, long term or indefinite?
- how the items are stored and used; and
- the nature of library expenditure within that category – regular replacement of holdings, expenses related to controlling the environment in which the asset is used, etc.

1.8.2. Recognition and Presentation Requirements

Guidance for particular types of library collections is contained in the following table. **The following Queensland Treasury policies apply to both physical and digital library collections.**

Category	Accounting treatment
Common use collections	In recognition of their limited life and the cost/benefit of valuing collections with a high turnover of material, common use items are to be expensed on acquisition.
Reference collections	Based on their longer periods of service potential to the library, material reference collections are to be capitalised and recognised at fair value where the value exceeds the recognition threshold of $1,000,000. Items in this category should be presented in the financial statements as 'Library Reference Collection', unless a better descriptor is determined by the agency. If the library purchases multiple copies of the same item, only one of the items, per location (for example, one per university campus) is to be capitalised. Further, the fair value determined during revaluation will be applied to only one copy of multiple holdings per location.
Heritage collections	Heritage collections are to be capitalised and recognised at fair value where the value exceeds the recognition threshold of $5,000. Items in this category will form part of the existing Heritage and Cultural Assets class in the financial statements. If it is not possible to determine a fair value for the heritage collection at the outset, it is not to be recognised on the Statement of Financial Position but rather disclosed as a note to the financial statements, if it is material in a qualitative sense. This disclosure should state: • a description of the nature of the collection; • the purposes for which it is held; • the reason why its heritage value cannot be reliably estimated; and • to the extent practicable, the annual costs of maintenance/preservation.

1.8.3. Transfers Between Collections

The following accounting treatments apply when library items are transferred between collections:

Old Category	New Category	Accounting Treatment
Common use	Reference / Heritage	Recognise the item in the new collection at fair value, as a revaluation increment – subject to the recognition threshold for the new library collection (if the item does not meet the threshold, it is not recognised)
Reference / Heritage	Common use	Remove the item from the collection, effectively expensing the item's carrying amount
Reference	Heritage	Transfer the item to heritage and cultural assets and obtain an updated fair value
Heritage	Reference	If the item meets the higher recognition threshold for reference collections, transfer the item to reference collections and obtain an updated fair value (if the item does not meet the higher threshold, it is to be expensed)

1.8.4. Guidance on Specific Types of Library Collections

Periodicals and Subscriptions

Generally, periodicals and subscriptions would be regarded as common use and expensed on acquisition. However, it may be appropriate for some of these items to be included in either the reference or heritage collections. Therefore, the library must determine the correct classification for individual items and account for them accordingly.

Electronic Media

Access to electronic media is generally obtained by either outright purchasing of the information or through a licence agreement. Under either method, the issue of control, as well as expected economic benefits, must be considered when determining whether capitalising or expensing is appropriate.

When electronic media is purchased outright, control over the asset is generally obtained to partially satisfy the asset recognition criteria. Assuming the other asset recognition criteria are satisfied, the agency must determine the correct classification of the individual items of electronic media, and account for them accordingly.

When information is accessed through a licence agreement, there is no access to the information unless the licence fee is paid and other terms of the agreement are met e.g. access rights and copyright clauses apply. Where this occurs, the agency does not have control of the information. Consequently, the annual licence fee must be expensed, and not recognised as an asset. However, where the agency has archival access, capitalising this electronic media may be appropriate, as the benefit lasts for more than one year.

Internally Developed Information

Some agencies, particularly universities, may hold internally developed information (e.g. theses or staff articles/books) in hard copy or digital repositories. These are to be considered as in-house intellectual property, and accounted for under AASB 138 *Intangible Assets*.

Digital Library Collections

The mandatory policies for Library Collections also apply to digital collections of self-generated and purchased library items in a digital/electronic format. A digital reference or heritage collection is to be accounted for as an intangible asset.

The recognition thresholds for digital collections are set out in Appendix 1.1 and are the same as their physical counterparts. These recognition thresholds apply to costs incurred to:

- acquire digital/electronic items from an external source; and
- create digital/electronic copies of physical items already controlled by the agency.

As it is uncommon for an active market to exist for digital library collections, it is likely that a digital collection would be subsequently measured using the cost model.

Where multiple copies of an identical digital item exist, for example, the digitisation of reformatted and restored collections, costs incurred in creating any duplicate digital copies are to be expensed.

1.8.5. Disclosure Requirements

It is Queensland Treasury policy that, in addition to the standard disclosures required for PP&E or intangible assets, agencies must disclose:

- **the basis on which library collections are classified;**
- **whether their collections are capitalised or expensed, and the basis for this;**
- **if capitalised, how the fair value of the collections is determined;**
- **if capitalised, whether their collections are depreciated, and the basis for this; and**
- **if fair value for a heritage collection cannot be determined, the reasons for this.**

In addition, the insured value of the expensed common use collection must be disclosed in the notes to the financial statements, along with how this value was derived. While the insured value does not necessarily equate to the replacement cost, it provides an indication of the replacement cost of the collection.

1.9. GROUPING OF ASSETS

For the purpose of applying the asset recognition thresholds in Appendix 1.1, it is Queensland Treasury policy that agencies are not to group similar or like-natured assets, including personal computers, which do not meet the definition of a network.

Only assets that form a network or part of a network are to be grouped for capitalisation. For the purposes of this policy, a network is defined as "*A chain of interconnected but dissimilar assets connected for the provision of the one simultaneous service.*" Examples of a network of assets include:

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

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

1.10. STOCKTAKES

It is Queensland Treasury policy that:

- **Stocktakes of assets (also known as asset verifications) are to be undertaken on a regular basis.**
- **For the purposes of this policy, 'regular' means, as a minimum, all assets are physically verified at least once every 3 years, on a rolling basis.**
- **Assets not located during this process are to be written off in that year, subject to materiality, in accordance with the agency's accounting policies and procedures, and authorised by an appropriately delegated officer.**

The existence of assets, including inventories, are to be verified on a regular basis. In undertaking the asset verification process, it is expected that the assets are sighted.

The frequency of the asset verification procedure should be decided after considering the risk profile and materiality of each class of asset, subject to the 'once every 3 years' requirement.

The existence of land, building and infrastructure assets are generally verified during condition assessments or revaluations which are undertaken by an independent professional valuer or internal expert.

Expensed library collections

A formal stocktake of expensed collections may not be necessary. However, sufficient controls must be implemented to allow proper management of the holdings and to ensure security of the collections. This may involve a stocktake over an extended period combined with adequate security over the holdings e.g. electronic protection, reviews of cataloguing, borrowing systems and procedures.

APPENDIX 1.1 – NON-CURRENT ASSET CLASSES AND ASSET RECOGNITION THRESHOLDS

	Asset Class	Asset Recognition Threshold *	Measurement Method**
Property, Plant and Equipment	• Land	$1 (all land)	Revaluation
	• Buildings	$10,000	Revaluation
	• Infrastructure	$10,000	Revaluation
	• Major Plant and Equipment (optional class)	≥$5,000 (at discretion of agency management)	Revaluation
	• Plant and Equipment	$5,000	Cost***
	• Library Reference Collections	$1,000,000	Revaluation
	• Heritage and Cultural Assets	$5,000	Revaluation
	• Work in Progress	n/a	Cost
Intangibles	• Software Purchased • Software Internally Generated • Intellectual Property • Other Intangibles	$100,000	No active market – Cost Active market – Revaluation (per AASB 138)
	• Digital Library Reference Collections	$1,000,000	No active market – Cost Active market – Revaluation (per AASB 138)
	• Digital Library Heritage Collections	$5,000	No active market – Cost Active market – Revaluation (per AASB 138)
	• Software Work in Progress • Intellectual Property	n/a	Cost

	Asset Class	Asset Recognition Threshold *	Measurement Method**
	work in Progress		
Other	• Right-of-use assets (from leases)	n/a – apply the low value asset threshold instead	Cost

** These recognition thresholds apply only to not-for-profit agencies that are consolidated into the whole-of-Government financial statements, and only upon initial recognition. For-profit statutory bodies and agencies not consolidated into the whole-of-Government financial statements have the discretion to determine alternative asset recognition thresholds in consultation with their internal and/or external auditors. This policy may be early-adopted by eligible agencies where possible (e.g. where an eligible agency has a 31 December financial year end).*

*** For-profit statutory bodies and agencies not consolidated into the whole-of-Government financial statements have the discretion to choose either the cost or revaluation model for property, plant and equipment as per AASB 116. This policy may be early-adopted by eligible agencies where possible (e.g. where an eligible agency has a 31 December financial year end). Where a for-profit statutory body consolidated into the whole-of-Government financial statements chooses the cost model, it is still required to provide fair values to Queensland Treasury for whole-of-Government reporting purposes. Refer to NCAP 3.3 Application of Fair Value Basis for more guidance.*
******** *As this class is designed to capture items of stable value and/or frequent turnover, carrying amount is considered to approximate fair value.*

APPENDIX 1.2 – DESCRIPTIONS OF CLASSES OF PROPERTY PLANT AND EQUIPMENT

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

** Land improvements are to be included in the class Buildings or Infrastructure based on their proximity to the asset to which they relate. See NCAP 1.5.1 for details of what is to be included in Land Improvements.*

APPENDIX 1.3 – DESCRIPTIONS OF CLASSES OF INTANGIBLE ASSETS

Asset Classes	Examples of Assets Forming the Asset Class
Software Purchased	Software predominantly purchased from external providers; Purchased software transferred from another Queensland government agency
Software Internally Generated	Software predominantly built within the agency; Internally generated software transferred from another Queensland government agency
Software Work in Progress	Software being built which is not yet in location and ready for use
Intellectual Property	Patents, Copyrights
Intellectual Property Work in Progress	Intellectual property being developed which is not yet patented or copyrighted
Other Intangibles	Licences
Digital Library Reference Collections	General and specialised library items in digital/electronic format, usually not able to be borrowed, but available for use, even if archived. Generally, have variable uses, but not held indefinitely. If possible, would generally be replaced if lost or damaged.
Digital Library Heritage Collections	Library items of cultural or heritage significance in digital/electronic format, usually not able to be borrowed, but available for use, even if archived.

NCAP 2 Complex Assets

OVERVIEW

This Non-Current Asset Policy (NCAP) discusses the accounting for complex assets and significant components.

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2.1. INTRODUCTION

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

The requirement to separately identify and depreciate significant components of assets is provided for in AASB 116 *Property, Plant and Equipment*. The term *"component"* in NCAP 2 has the same meaning as *"part"* in AASB 116 paragraph 43.

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

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

A flowchart to assist in the identification of significant components is in **Appendix 2.1.**

2.2. DEFINITION OF A COMPLEX ASSET

For the purposes of this policy a complex asset is defined as "*a physical asset capable of disaggregation into separate and identifiable significant components.*"

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

- *Special Purpose Building* (e.g. hospitals and correctional facilities): A special purpose building may have components including cooling systems, electronic security systems and elevators.
- *Road Infrastructure*: The components may include: initial earthworks, formation, pavement, seal, kerb and channelling, road furniture and footpaths.

- *Water Distribution Network*: The components of this type of network may include water reservoirs (dams), water treatment works, major delivery pipes and water distribution systems.
- *Aircraft*: The aircraft body, the interiors such as seats and galleys and engines of the aircraft would be components of the aircraft.

Each identifiable component should be tested against the following criteria to determine whether it constitutes a significant component for accounting and reporting purposes.

2.3. SIGNIFICANT COMPONENTS OF A COMPLEX ASSET

To satisfy the definition of a significant component of a complex asset, it is Queensland Treasury policy that the component must meet all of the following criteria. The component must:

- **be separately identifiable and measurable and able to be separated from the complex asset; and**
- **require *replacement at regular intervals* during the life of the complex asset to which it relates i.e., its life differs in duration from another component of the complex asset; and**
- **exceed the asset recognition threshold for the agency (N.B. agencies must not establish an additional mandatory threshold for identifying whether a component is significant); and**
- **have a *significant value* in relation to the total cost of the complex asset; and**
- **have a different estimated useful life from the complex asset so that failure to depreciate it separately would result in a *material difference* in the annual depreciation expense for that asset.**

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

2.3.1. Replacement at Regular Intervals

Regular interval suggests a system of organisation or planned timeframe, generally occurring more than once. While not conclusive evidence of the regular replacement of assets, the following may demonstrate a planned replacement schedule is in place:

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

2.3.2. Significant Value

Each agency will need to consider its own circumstances when making a decision on when a component has a significant value compared to the total fair value, or cost of the complex asset (in the case of a *for-profit* statutory body or agency *not consolidated* into the whole-of-Government financial statements). For the purposes of this policy, 'significant' denotes considerable amount or effect. On this basis, a component that has a value within the range of 5 - 10% compared to the total cost of the complex asset will be a matter of judgement for the agency, but a component with a value greater than 10% will generally be considered significant.

2.3.3. Material Difference in Depreciation

Each agency will need to consider its own circumstances when making a decision on what is material having regard to FRR 2B and AASB Practice Statement 2 *Making Materiality Judgements*, and in consultation with audit. Dissimilar components of a complex asset must not be combined to test for materiality, e.g. a communication system should not be added to an air conditioning system. However, where multiple similar units/parts exist and are treated as one component e.g. multiple air conditioning units within a single complex asset, it would be appropriate to group these parts in testing whether the impact on depreciation expense is material.

2.3.4. Measurement

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

2.3.5. Recognition

In line with assessing relevance for financial reporting purposes, a further test by asset class may be undertaken. The normal materiality principles shall be adopted.

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

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

2.4. DEPRECIATION OF COMPLEX ASSETS

Where a significant component is identified (i.e. it meets both the definition criteria and the depreciation expense is material against the class of asset), it is Queensland Treasury policy that the agency is to account for the significant component as a separate asset and depreciate it separately from the complex asset.

It is Queensland Treasury policy that the remaining components (which do not meet the criteria of a significant component) of a complex asset are to be depreciated over the estimated useful life of the complex asset itself.

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

2.5. REVIEWS OF COMPLEX ASSETS

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

2.6. REPLACEMENT OF SIGNIFICANT COMPONENTS

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

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

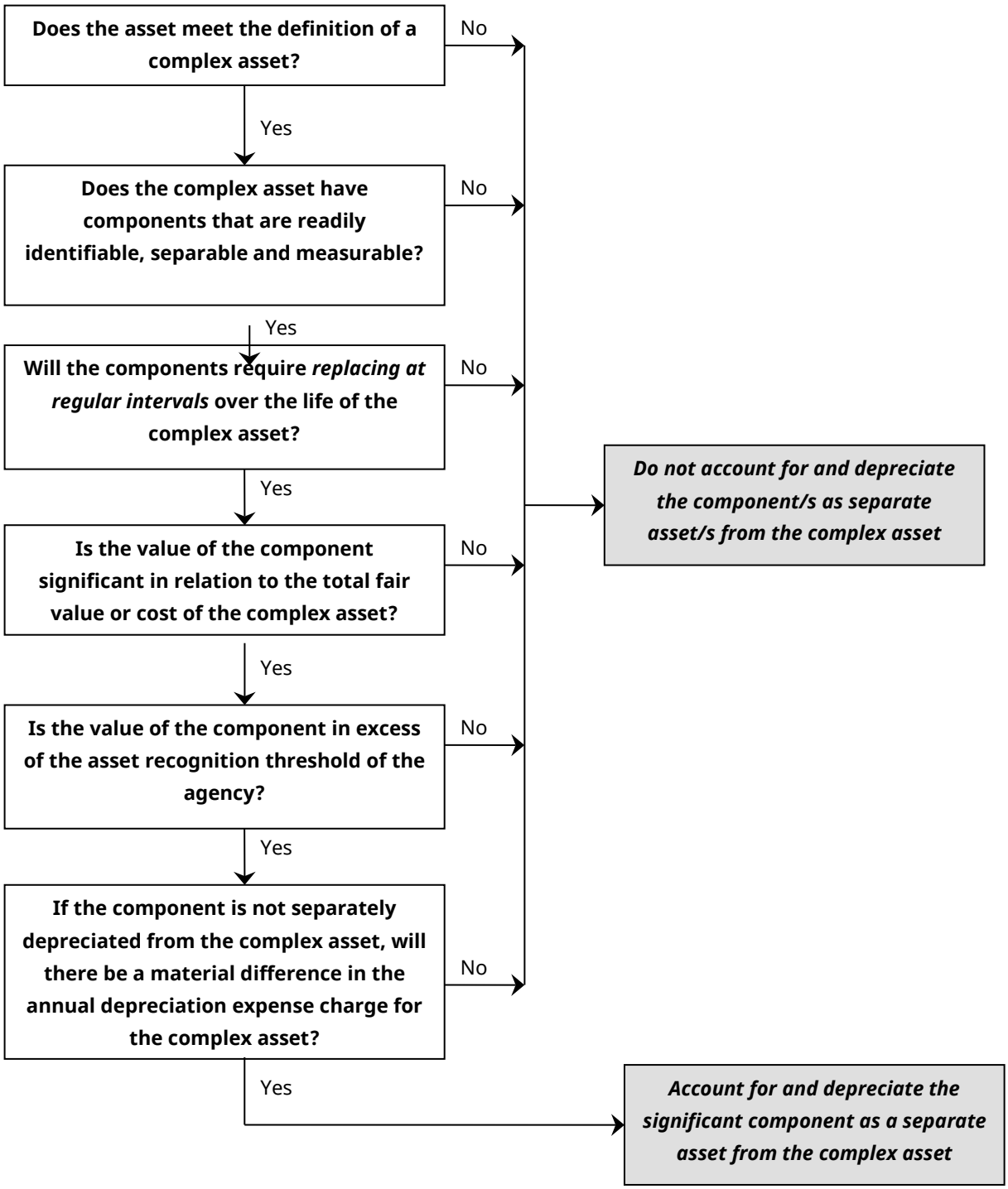
2.7. DISCLOSURE REQUIREMENTS

It is Queensland Treasury policy that significant components shall be disclosed in the same class as the complex asset to which they relate. Significant components of a complex asset are not to be separately disclosed in the financial statements.

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

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

APPENDIX 2.1 IDENTIFYING SIGNIFICANT COMPONENTS OF A COMPLEX ASSET



EXAMPLE A One Significant Component of a Complex Asset

Worked Examples

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

Complex Asset A

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

Assumptions

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

Conclusion

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

EXAMPLE B Multiple Significant Components of a Complex Asset

Complex Asset B

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

Assumptions

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

Conclusion

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

EXAMPLE C Complex Assets within a Class

Class: Complex Assets

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

Assumptions

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

Conclusion

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

Queensland Government

Queensland Treasury
Non-Current Asset Policies for the Queensland Public Sector

NCAP 3 Valuation of Non-Current Assets

OVERVIEW

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

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3.1. INTRODUCTION

The *Framework for the Preparation and Presentation of Financial Statements* (the Framework) describes the fundamental characteristics that make the information provided in financial reports useful to users as *relevance* and *faithful representation*. This policy takes the position that, for the most part, the characteristics of *relevance* and *faithful representation* will be met by valuing non-current physical assets at their fair value, as defined in AASB 13 *Fair Value Measurement* rather than at cost.

AASB 13 outlines how to measure fair value when fair value measurement is permitted or required by other Australian accounting standards, subject to Queensland Treasury policies for departments and statutory bodies. This chapter provides additional guidance and examples to help agencies apply such requirements. All such guidance and examples must be read in conjunction with AASB 13.

3.2. APPLICATION OF COST BASIS

As set out in Appendix 1.1 of NCAP 1, it is Queensland Treasury policy that the following assets are to be subsequently measured using the cost model:

- **plant and equipment, other than major plant and equipment;**
- **work in progress; and**
- **intangible assets for which there is no active market.**

While all property, plant and equipment are generally to be recorded at fair value, assets belonging to the class plant and equipment will usually have relatively short useful lives to the entity, and fair values will not differ significantly from its written down value. On this basis agencies are to record plant and equipment at cost, in lieu of fair value. Assets measured at cost are never to be revalued. The annual review of estimated useful life should ensure the assets are not fully depreciated while they retain some service potential. Even after being fully depreciated, assets carried at cost cannot be revalued.

3.3. APPLICATION OF FAIR VALUE BASIS

As set out in Appendix 1.1 of NCAP 1, it is Queensland Treasury policy that, subject to the exception below, the following asset are to be subsequently measured using the revaluation model:

- **land;**
- **buildings;**

- **infrastructure;**
- **major plant and equipment;**
- **library reference collections;**
- **heritage and cultural assets;**
- **intangible assets that have an active market; and**
- **investment property, including investment property under construction (except where fair value cannot be measured reliably – see AASB 140 paragraph 53).**

***Exception: For-profit* statutory bodies and agencies *not consolidated* into the whole-of-Government financial statements have the discretion to measure property, plant and equipment and investment property at fair value or cost.** Any change in measurement policy must facilitate the financial statements providing reliable and more relevant information (as per AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* paragraph 14(b)). If an agency changes its asset measurement policy, it must comply with AASB 108, including the requirement for retrospective application.

Where a for-profit statutory body consolidated into the whole-of-Government financial statements chooses the cost model, it must provide supplementary fair value information to Queensland Treasury to ensure the reported asset values materially reflect fair value in the whole-of-Government financial statements.

3.4. APPLICATION OF FAIR VALUE CONCEPTS

The term 'fair value' is defined in AASB 13 as being *"the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."*

The 'fair value' concept in AASB 13, and the fair value guidance throughout the Non-Current Asset Policies, reflect an 'exit price' approach. Appendix 3.1 Determination of Fair Value Hierarchy Level sets out the process for identifying the fair value inputs and corresponding fair value hierarchy levels. To calculate a fair value pursuant to AASB 13, information must be obtained, and/or assumptions made, about a range of factors, including but not limited to:

- the characteristics e.g. the condition and location of the asset;
- which market a sale of that asset would take place in;
- who would buy the asset and what they would take into account;
- what is the highest and best use for the asset; and
- which costs are to be taken into account (e.g. transaction costs are not to be included, see AASB 13).

In most situations, the data used for the fair value calculation should reflect the information and assumptions that market participants would use when pricing the asset, not necessarily how the agency currently uses, or intends to use, the asset.

3.4.1. Market and market participants

Fair value measurement assumes that the transactions are taking place in either the principal market or, in the absence of a principal market, the most advantageous market for the asset. The agency must have access to the relevant (i.e. either the principal or the most advantageous) market at the measurement date. The concepts of principal market and most advantageous market are defined and explained in AASB 13.

There may be situations where specific markets and/or market participants are not readily apparent. In such circumstances, agencies should approach this by considering:

- what the asset can be used for;
- who would use it for those purposes; and
- what would those parties take into account in determining a price to pay for the asset.

Valuers are generally in the best position to determine these, in consultation with agencies. Agencies are responsible for assessing whether the valuer's assumptions are reasonable, relevant and complete because when those assumptions are used by management, they become management's assumptions. As per the definition, fair value is not an entity specific value; it is based on a market participant's perspective, assuming they act in their economic best interest. The term "market participants" is defined in Appendix A of AASB 13.

Some specialised assets are rarely if ever sold and there are no identifiable market participants or observable market data. For such assets, the agency assumes the existence of a hypothetical market participant buyer who steps into the shoes of the agency in determining how much it would pay to acquire the asset, and accordingly the amount the agency would receive in a hypothetical sale.

Appendix F of AASB 13 explains that various non-financial assets of not-for-profit public sector entities not held primarily for generating cash flows do not have observable market data because they are seldom sold. Where the market selling price of a comparable asset and market participant data required to measure fair value are not observable, the agency shall use its own assumptions as a starting point and adjust those assumptions where reasonably available information indicates that other market participants would use different data. Exhaustive efforts need not be

undertaken to identify information about potentially different market participant assumptions, but where such information is reasonably available, it cannot be ignored.

3.4.2. Highest and best use

Under AASB 13, the fair value of a non-financial asset is determined by reference to its "highest and best use". However, in respect of assets of not-for-profit agencies that are not held primarily for generation of cash flows:

- The asset's current use is presumed to be its highest and best use unless the asset is classified as held for sale (under AASB 5) or it becomes highly probable that the asset will be used for an alternative purpose. Agencies are only required to consider whether the asset's highest and best use differs from its current use when this assumption is rebutted, and should refer to AASB 13 para Aus29.2 and the asset held for sale criteria in AASB 5 when assessing whether this presumption is rebutted for a particular asset or assets.

- 'Financially feasible' for these non-cash-generating assets refers to whether market participants (including not-for-profit government agencies) would be willing to invest in the asset's service capacity, considering both the capability of the asset to be used to provide needed goods or services and the resulting cost of those goods or services.

Due to the requirements of AASB 13 para Aus29.1, it is expected that the majority of non-cash-generating assets held by not-for-profit agencies would have a highest and best use that's the same as their current use.

For-profit agencies need to be aware that the highest and best use of an asset should be determined from the perspective of market participants, regardless of how the asset is currently used or the agency's present intentions or preferences. There may be evidence suggesting that a different (highest and best) use would maximise the economic benefits of the asset and that use is legally permissible, financially feasible and physically possible.

3.4.3. Fair value hierarchy

It is Queensland Treasury policy that where an agency has an asset that it believes should be categorised differently to what is suggested in Appendix 3.2, that agency should consult with Queensland Treasury (via FMC Support) stating their preferred categorisation and justification for that.

Agencies should refer to Appendix 3.2 for the fair value level Queensland Treasury recommends for various types of assets, for consistency across agencies.

Regardless of which valuation technique is used (refer to the heading 'Valuation approaches' under NCAP 3.5 Valuation Approaches), the data inputs used for the calculation (and the resulting fair value) must be categorised into one of the three levels of the fair value hierarchy described in AASB 13 – refer to paragraphs 72 – 90 of AASB 13. Appendix 3.1 depicts how this hierarchy applies in light of valuation inputs, and how agencies should approach the valuation of assets.

The term "quoted" means there are publicly available prices for a particular item in a market. In contrast, the term "observable" is broader than "quoted" and encompasses other publicly available data which, in some cases, may only be accessible via a subscription service.

Examples of "observable" data would include prices for past property sales, advertised rental rates, reputable lists of recommended selling prices for particular items, published indices, published interest rates and yield curves etc. Examples of "unobservable" data would include past transaction prices between an entity and a supplier (where such prices are not advertised publicly), an entity's own historical data on costs incurred, and the subjective judgements applied in determining fair values.

The term "identical" is to be interpreted as meaning having exactly the same physical, financial and legal characteristics.

In measuring fair value, highest priority is given to quoted prices in active markets for identical assets and lowest priority is given to unobservable inputs. In light of this, determining fair value with reference to values of identical assets would be rare for non-current physical assets. Therefore, it is unlikely that any agency non-current physical assets would have level 1 fair values.

Valuation inputs that are observable are more reliable than inputs that are unobservable, as often unobservable inputs are derived by an entity rather than reflecting market evidence. Observable inputs used must be relevant, reliable, verifiable and appropriate to the asset's circumstances. In using observable data, agencies should identify the recency of such data, to judge its relevance to fair value, and the extent to which any adjustment needs to be made in using it.

Where the use of level 2 inputs alone does not materially reflect the fair value of an asset, an adjustment to level 2 inputs may be required. An adjustment of a level 2 input using unobservable inputs that are significant to the entire fair value measurement may result in the entire fair value measurement being categorised as level 3.

The word "significant" is not defined in AASB 13, so agencies should use normal materiality guidance to judge significance. Also refer to NCAP 3.5 Valuation Approaches and NCAP 3.6 Revaluation Methods and Frequency.

Subject to that, agencies should have a documented accounting policy about how they determine the significance of adjustments to observable inputs using unobservable data, and apply that policy consistently. A reasonable starting point to determine the effect of any adjustments using unobservable data on the resulting fair value would be to:

- determine the overall fair value;
- attempt to determine a fair value based only on the observable inputs (if practicable); and
- identify the numerical difference between those two values.

Agencies should ensure they have given appropriate consideration to the existence of available observable inputs. Even in an inactive market, it should not automatically be presumed that the transactions do not represent fair value, or that the market is not orderly. Agencies will need to consider the relevant facts and circumstances in making their judgements.

In some instances, however, there will be no observable inputs available. This is expected to be the case for specialised assets such as infrastructure (e.g. roads, harbours and dams) and specialised buildings such as hospitals and prisons. In those situations, agencies must use unobservable inputs to the extent that relevant observable inputs are not available. Like the use of observable inputs, the unobservable inputs used must reflect the assumptions market participants would use when pricing the asset. An example of unobservable data is internal data on past construction costs for a particular asset. Regardless of whether or not an external party has been engaged, agencies must review and understand the inputs and other assumptions used in valuations to determine the appropriate categorisation of the overall fair value measurement in the fair value hierarchy.

For assets that have not yet been revalued by specific appraisal (due to either purchase or construction), the fair value level should reflect the fair value level for similar assets within the same class, taking into account the recommendations in Appendix 3.2.

NCAP Tools Illustrative Examples 3.4.1 to 3.4.11 provides examples that demonstrate the application of the fair value hierarchy for different types of assets.

Transfers between levels

From year to year, agencies must review the fair value levels assigned to their assets in light of changed asset characteristics (e.g. age, condition etc.), changes in market conditions and/or valuation techniques and changes in the nature/quality and significance of data inputs used in determining fair value.

If, as an outcome of this review, an agency believes the fair value level for any assets should be different to what is recommended in Appendix 3.2 for the particular type of asset, they are to consult with Queensland Treasury (via FMC Support).

Transfers of asset values between fair value levels are otherwise expected by Queensland Treasury to be rare. Any necessary transfers of asset values between fair value levels are to take effect in conjunction with the recognition of the associated revaluations.

3.5. VALUATION APPROACHES

Appendix 3.1 demonstrates how agencies are to approach valuations under AASB 13. In the absence of quoted prices for an identical asset, fair values are to be determined using valuation techniques that are appropriate in the circumstances and for which sufficient data is available. Valuation techniques used to calculate fair value fall into either the *market approach*, the *income approach* or the *cost approach*. Each of these approaches is defined in AASB 13, and further explained in paragraphs B5 – B30.

No matter which valuation technique is used, the aim is to determine a fair value that a market participant would place on the asset. This should be achieved by using a valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Agencies should therefore strive to use a valuation technique that is relevant and reflects the characteristics and assumptions about the asset and uses data inputs that are as observable as possible, provided sufficient reliable data can be obtained for that technique, and the data is relevant to the asset being valued. Even where fair values are determined by external parties, agencies must assess whether, and be satisfied that, the techniques and methodologies used are reasonable, relevant and complete.

Once a valuation technique has been selected, it should be applied consistently to assets within that class. For example, the fair value of buildings may be able to be derived from observable market-based information, in which case that approach would generally be appropriate for all assets in that class.

A change in valuation technique is only appropriate if the change would result in a measurement that is equally or more representative of fair value in the circumstances. Any such change would need to be accounted for as a change in accounting estimate in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Appendix 3.2 provides guidance on the expected valuation approaches and expected fair value hierarchy categorisation for various types of non-current physical assets.

3.5.1. Market approach

When observable data for similar assets is available, that data is likely to represent the best indicator of the asset's fair value. For that reason, some land and general non-specialised buildings could be valued using a market approach.

Where an asset is rarely traded and reliable comparisons with similar assets do not exist, other valuation approaches such as the income approach (if the highest and best use of the asset is to generate net cash inflows) or cost approach may be more appropriate.

Land zoned for public service purposes that are non-cash-generating

Certain land held by agencies may be zoned for public service purposes – such as land under roads, hospitals, schools, and prisons. These types of properties used for public services are rarely sold "as is" in the market. For land with such public service zoning restrictions that are not held primarily to generate cash flows:

A not-for-profit agency is to assume that the property's current use (e.g. as a hospital, school, etc) is it highest and best use unless it is highly probable that it will be used for an alternative purpose – see AASB 13 para Aus29.1.

The market and cost approaches are likely to result in similar fair values for the land, because if the agency needs to replace the service capacity of the land, it will typically need to acquire land on the market (since land cannot be 'constructed' like buildings or infrastructure). This may not be the case for land raised from below sea level.

The market price of nearby freehold land should be a reliable indicator of the fair value of the land. Agencies should only adjust the market price of freehold land for zoning restrictions (e.g. the land's zoning as a road corridor, hospital site, etc) if there is recent market evidence from sales of land with a similar zoning restriction in the nearby region to support the adjustment. Arbitrary discounts for land zoning restrictions that are not supported by recent market sales evidence should not be applied.

The fair value of the land should also be adjusted for physical properties or restrictions that makes it different from nearby freehold land, where such features would be passed on to a market participant buyer, including for example:

- the land's location, elevation and topography;
- other positive features such as if the land contains particular earthworks that makes it fit for purpose for its current use; and
- other negative features such as if the land is contaminated or legally requires rehabilitation, or it was used as a cemetery and may have human remains buried within.

3.5.2. Income approach

Discounted cash flow technique

The income approach will generally be more relevant to assets where their highest and best use is primarily dependent on their ability to generate net cash inflows, such as commercial or general office buildings. The discounted cash flow (DCF) technique is a commonly used technique under the income approach. Paragraphs B12 – B30 of AASB 13 contain guidance on the application of present value techniques.

When using the DCF technique to determine fair value, agencies should develop a (post-valuation) quality assurance framework to ensure the validity and reliability of the asset values determined under this approach. Agencies should consider obtaining external, independent, expert advice in the development of this framework. The quality assurance framework should address such issues as (but not be limited to) the following:

- regular testing of the assumptions used in the cash flow model against actual outcomes in subsequent periods, and;
- ensuring the cash flow model is based on reasonable and supportable assumptions which have been founded on objective evidence and rational judgement.

The DCF technique involves estimating the future cash inflows, outflows and appropriate terminal value to be derived from the asset(s) (or cash-generating unit), and applying an appropriate discount rate to those future cash flows. In applying the DCF technique, agencies must have regard to the guidance contained in Appendix A of AASB 136 *Impairment of Assets,* subject to fair value principles, including the following key consideration points:

- Subject to data availability for the asset(s) being measured, the timeframe for cash flows should be five years unless cash flows for a longer period can be reliably determined. Cash flows beyond five years should be extrapolated at a steady or declining growth rate.

- Cash flows estimates should be consistent with the principle of highest and best use, reflecting market participants' assumptions about future performance and potential of the asset. Regard should be had to past evidence of actual cash flows, to test the reasonableness of future cash flow estimates.

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

- Estimated future cash flows arising from entity specific circumstances, such as future restructuring to which an entity is not yet committed, or improving or enhancing the assets' performance (as opposed to maintenance and planned capital expenditure), are not to be included in the estimates of future cash flows unless evidence suggests that a market participant would take these factors into account.

- A disposal cash flow/terminal value for the asset(s) or cash generating unit (whether or not they have an indefinite useful life) should be included in the calculation i.e. the expected cash flows, adjusted for future price changes, that will be realised on scrapping or selling the asset(s) at the end of the discrete period for which the cash flow projections are prepared.

- The discount rate should reflect characteristics of the asset being measured, the likely rate a market participant would use, and assumptions inherent in the cash flows (e.g. the risks specific to the asset for which the future cash flow estimates have not been adjusted, and the time value of money – AASB 136 para 55). The discount rate used must be reasonable and supportable. Where an agency does not have its own specialised financial expertise for this purpose, it is strongly encouraged to seek advice from an appropriately skilled external party, such as Queensland Treasury Corporation's Treasury Services Team.

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

If an agency adopts the income approach for an asset group, this total value is to be allocated across the individual assets in the group in a manner as determined and documented by the

agency. Where the value of the individual assets cannot be reliably determined, the value attributable to the group is apportioned to the individual assets. The ratio of the value of an asset to the value of the group may be an appropriate basis for such an apportionment.

Agencies must disclose in the notes to the financial statements all significant assumptions underpinning the results of the DCF calculations in accordance with disclosure requirements contained in AASB 13 and AASB 101 *Presentation of Financial Statements*. Also refer to the heading 'Valuation of Asset Groups or Complex Assets' under NCAP 3.10 Specific Valuation Issues.

Existence of a Regulated Asset Base

For financial reporting purposes, it is Queensland Treasury policy that the value of the RAB, as assessed by the regulator, is not to be assumed by an agency to be the measure of fair value for the asset group. However, agencies should consider whether any of the inputs and assumptions used in determining RAB might be an appropriate basis for determining fair value using an income approach.

A number of Queensland public sector agencies operate in a price-regulated industry, such as those operating in the water and electricity sectors. It is generally accepted that assets owned by these entities are held to generate cash inflows.

Where there is no market price for identical or similar assets, fair value may be determined using either a cost approach or an income approach. In Queensland, it is generally accepted that little or no active market exists for price-regulated activities undertaken by public sector agencies. Indicators of a lack of an active market for price-regulated assets include situations where the assets are:

- complex in nature requiring specialist expertise to design and construct;
- unique to a particular market; and
- rarely sold.

In price-regulated industries, the regulator uses the value of the group of assets (known as the asset base) employed in the delivery of the services subject to regulatory requirements for determining prices for the services and products delivered and supplied by the agency. The value of the asset base is known as the Regulatory Asset Base (RAB) and is defined as *"the 'market value' of the business based on its potential to earn revenue under existing Regulatory arrangements*."

In Australia there is no consistent, or generally accepted, methodology to determine the value of the RAB across the different price-regulated industries. In some price-regulated industries, the 'building-block approach' has been adopted to determine the RAB value. This approach includes

quantifying the cost components of service provision and a revenue target sufficient to meet those costs for each regulatory period, usually five years. The cost components include:

- quantification of the required rate of return (return on capital);
- allowance for return of capital (depreciation based on existing assets); and
- operating costs (both recurrent and capital).

In some instances, the regulator allows inclusion of costs in the RAB value that are not allowed for inclusion in the value of an asset under AASB 116, for example, indirect overheads.

When using a DCF technique for determining the fair value of regulated assets, management should consider the following points:

- the reliability of inputs and assumptions used to calculate the RAB i.e. are these the assumptions and inputs that a market participant is likely to use to value the asset?;

- the appropriateness of RAB valuation inputs in relation to capitalisation requirements under AASB 116. Adjustments to the cash flows used by the regulator to determine RAB may be necessary where the estimated cash flows generated by the CGU/assets do not include the expenditure necessary to maintain the performance of the existing assets i.e. replacement of components of the CGU/assets assuming their replacement is required to maintain the performance of the CGU as a whole. The inclusions of such additional expenditure should be evidenced by the entity's asset management plan and or capital expenditure budgets etc;

- the appropriate discount rate to use (assessed annually), for example the Weighted Average Cost of Capital (WACC) approach used by the regulator based on extensive industry participation consultation may be used with adjustments made for market participant assumptions regarding risk, gearing, imputation credits and cost of debt, if appropriate;

- whether the set regulatory period (e.g. five years) is the appropriate period for discounting cash flows;

- the relevance of using CPI to inflate cash flows - even though this is the factor generally used by the regulator;

- a terminal value (i.e. expected net cash flows that will be realised on scrapping or selling the CGU/assets at the end of their useful life) may need to be included in the DCF

calculation due to the longevity of public sector infrastructure assets. It will be necessary to demonstrate that the value used is relevant and reliable for the assets being valued. In this instance, the RAB value may not always be appropriate. Inclusion of a terminal value for the asset, e.g. a terminal value based on the RAB, would be reasonable notwithstanding that the form of future regulation is uncertain given that a market participant is in the same position;

- use cash flows generated from the smallest identifiable group of assets that produce the cash inflows;

- a post-tax discount rate should be used as this reflects what market participants would use; and

- the cash flows should include modelling of cash flows arising from the Goods and Services Tax (GST).

3.5.3. Cost approach

Current replacement cost (CRC) is the most common valuation technique under the cost approach. CRC reflects the cost to acquire the service potential embodied in an asset, adjusted to reflect the asset's present condition/physical deterioration, functionality (technological) obsolescence and economic obsolescence.

Where the remaining service potential from the asset is assessed as having changed, this is to be taken into account in the revaluation. Adjustments to the useful life of the asset also results in a revaluation adjustment, to reflect a straight line depreciation profile over the asset's new useful life. Sufficient knowledge of the asset circumstances is required in order to properly assess the asset's remaining service potential and physical/economic/functional obsolescence.

Under AASB 13, CRC for a subject asset is determined by calculating an equivalent 'reference asset', which typically occurs in one of two ways:

- as the cost per unit of service potential of the most appropriate modern replacement facility, adjusted for any differences in future service potential (i.e. quality and quantity of outputs, useful life and over-design/over-capacity) of the asset being valued – see *NCAP Tools Illustrative Example 3.5.1*; or

- as the cost of reproducing or replicating the future service potential of the asset itself.

The application of CRC should capture all of the costs (i.e. materials, labour, design etc) that would be incurred at the date of valuation by a market participant seeking to construct an asset with comparable service potential at the subject asset's existing location. In most cases, public sector assets measured using CRC are not held for generating cash flows and do not have observable market selling prices.

As such, in accordance with AASB 13 paragraphs F5 and F11(b), then agency uses its own assumptions as a starting point when developing unobservable inputs to measure the replacement costs, and adjust those assumptions to the extent that reasonably available information indicates that other market participants would use different data.

Where an agency has records of actual construction costs for a new asset, those costs are relevant to the asset being valued, and the agency is confident there is no significant change in those costs between the date of completion and date of valuation, those actual cost of construction may be used as an appropriate starting point for CRC.

When estimating the replacement cost of an asset, agencies should refer to AASB 13 paragraphs F11 to F15, which provide guidance regarding -

- costs of restoring another entity's asset that would be disturbed when replacing the asset – *see NCAP Tools Illustrative Example 3.5.2;*
- other disruption costs, such as redirecting traffic;
- site preparation costs, such as earthworks and disposal of unwanted existing structures – *see NCAP Tools Illustrative Example 3.5.3*;
- costs to replicate heritage assets.

Particular attention is drawn to paragraph F12(c) of AASB 13 which provides specific guidance on avoiding double counting of site preparation costs for a reference land asset where the subject asset's land parcel is already fit-for-purpose for the subject asset and the subject asset's fair value already takes this fact into account.

Further commentary is found in paragraphs BC171 to BC 173 in the AASB 2022-10 Basis of Conclusion.

Where the valuer determines that site preparation costs for a reference asset should be included, the valuation report should explicitly say why the fair value of subject asset's land parcel does not already take these in account.

Indicators of Change in an Asset's Service Potential/Capacity

Indicators of a reduction in future service potential/capacity in the public sector include: physical deterioration, functional (technological) obsolescence and economic obsolescence.

As part of the annual revaluation process for such assets, agencies are to have a framework in place to ensure that any changes in an asset's service capacity are identified and reflected in an agency's annual valuation process (see also NCAP 3.5 on indicators of change in an asset's service potential/capacity).

Refer to NCAP Tools Illustrative Example 3.5.4.

Identification of economic obsolescence does not require a formal decision to have been made by the agency to reduce the physical capacity of the asset. Agencies should also consider whether the surplus capacity is designed for stand-by or safety purposes, such as to deal with contingencies, in which case economic obsolescence may not exist despite the presently unused capacity.
Some examples indicators impacting on future service potential are outlined in the following table. Agencies will note that these indicators of change in service capacity/potential are similar to the indicators of impairment for assets within the public sector identified in *NCAP Tools Illustrative Examples 3.4.1 to 3.4.11.*

Indicator of Change in Service Potential / Capacity	Potential Impact on Service Potential
1. Cessation of the demand or need for services provided by the asset	The asset still maintains the same service potential embodied within, but demand for that service has ceased.
2. Significant long-term changes in the technological environment with an adverse effect on the asset	The service utility of an asset may be reduced if technology has advanced to produce alternatives that provide better or more efficient service.
3. 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.
4. Evidence is available of physical damage or deterioration of an asset	Physical damage/deterioration would likely result in the asset being unable to provide the level of service that it once was able to provide.
5. Changes in environmental conditions	An asset's service potential may be reduced as a result of environmental changes.

Indicator of Change in Service Potential / Capacity	Potential Impact on Service Potential
6. Significant long-term changes in the extent to which an asset is used, or is expected to be used.	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 service capacity of the asset may be reduced. 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.
7. Significant long-term changes in the manner in which an asset is used, or is expected to be used.	If the asset is not being used in the same way as it was when originally put into service, the asset's service capacity may require reassessment or reduction.
8. 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.

3.6. REVALUATION METHODS AND FREQUENCY

It is necessary that regular revaluations be performed to ensure the carrying amount of the assets do not differ materially from their fair value at the end of each reporting period, as required by AASB 116 *Property Plant and Equipment*. Therefore, in all circumstances, agencies must have reasonable, robust and supportable evidence that the resulting asset class values materially represent fair value at reporting date.

AASB 116 states that the frequency of revaluations will depend upon the changes in fair values of the items of property, plant and equipment being revalued. AASB 116 further states that for property, plant and equipment assets that experience significant and volatile changes in fair value, annual revaluation will be required.

3.6.1. Methods of Revaluation

To ensure the carrying amounts of an agency's asset classes reflect their fair value at reporting date, subject to materiality, it is Queensland Treasury policy that each agency is to annually revalue the asset classes measured using the revaluation model as identified in NCAP 3.3 and Appendix 1.1 of NCAP 1 (subject to the exception for *for-profit* statutory bodies and agencies *not consolidated* into whole-of-Government financial statements).

It is Queensland Treasury policy that *specific appraisals* are required:

(a) to the extent that it has been more than five years since the individual asset has been subject to a specific appraisal;

OR

(b) in circumstances where indicators exist that the asset class has experienced a significant and volatile change in value since the last revaluation requiring all assets in that class to be revalued (and regardless of how recent that was and whether it was a specific appraisal or indexation); AND EITHER

(i) the significant and volatile change results wholly or partially from a change in the service potential / capacity of the asset (e.g. a reduction in service potential due to physical damage or economic obsolescence); OR

(ii) the application of an indexation method to the individual asset would not result in a materially correct estimation of fair value.

Revaluation of an asset class incorporates either or both of the following methods:

- *specific appraisals* undertaken by an independent professional valuer (or other relevant professional) or internal expert – see also section 3.8 below; and

- use of appropriate and relevant indices (*indexation*).

Indexation should be undertaken:

(a) to the extent the individual asset has been subject to specific appraisal within the previous five years; AND
   (i) the cumulative percentage change (refer below examples) in the relevant index has been more than 5% since the last revaluation (either by specific appraisal or indexation); AND
   (ii) indicators do not exist that the asset class has experienced a significant and volatile change in value since the last revaluation.

OR

(b) may be undertaken in lieu of a specific appraisal in circumstances where:

   (i) indicators exist that the asset class has experienced a significant and volatile change in value since the last revaluation (regardless of how recent that was, and regardless of whether it was a specific appraisal or indexation) requiring all assets in that class to be revalued; AND
   (ii) the significant and volatile change does not result wholly or partially from a change in the service potential / capacity of the asset; AND
   (iii) the application of the indexation method to an individual asset will result in a materially correct estimation of fair value.

The sole use of indexation would NOT be appropriate under this policy where the significant and volatile change in value results wholly or partially from a change in service capacity/potential of the asset (e.g. a reduction in service potential due to natural disaster or other damage). In such circumstances, a specific appraisal would be required.

3.6.2. Materiality

For asset classes that are required to be carried at fair value, the concept of materiality should be considered by agencies. On that basis:

- where the total value of an agency's assets in a mandatory asset class is immaterial compared to the total balance of Property Plant and Equipment - that agency has discretion about whether or not to revalue (by any method);

- where the change in the total value of an asset class, since the last revaluation, can be demonstrated by the agency to be immaterial, that agency has discretion about whether or

not to account for that change (agencies are expected to monitor for factors that would indicate potentially material valuation changes for their assets); and

- agencies can exercise their discretion in determining whether only those material assets within a class (rather than all assets in that class) should be revalued. In such situations, agencies must ensure they have an appropriately robust policy for identifying those assets to be included in or excluded from the revaluation process.

When assessing whether an asset or asset class is material, controlled assets should be compared to the total controlled PP&E balance while administered assets should be compared to the total administered PP&E balance. If an agency chooses to revalue assets despite their immateriality, the fair value and revaluation requirements in AASB 13, AASB 116 and the Non-Current Asset Policies still apply.

3.6.3. Significant and Volatile Change in Fair Value

In terms of AASB 116, it is Queensland Treasury policy that a 'significant' change in value has occurred when there are indicators to suggest that the value of the asset class has changed by 20% or more.

(In the absence of a definition of 'significant' in the accounting standards, this policy position is based on the concept of 'significant influence' in accordance with AASB 128 *Investment in Associates* which provides that if an investor holds 20% or more of the voting power of the investee, it is presumed that the investor has 'significant influence', unless otherwise demonstrated not to be the case.)

Examples of indicators that the fair value of an asset class may have experienced a 'significant' change include (but are not limited to):

- increases in interest rates;
- rapidly deteriorating property markets;
- changes in prices of raw materials (if applicable) by more than 10%; or
- rapid wage growth in the construction industry (if applicable).

For the purposes of this policy, an asset class is deemed to be 'highly volatile' if the upward or downward movement in the value of that class is rapid over a short period of time. An asset class is perceived to have 'low volatility' if the value of the class changes steadily and slowly over the medium to long term.

Specific appraisal may be the only valid method of revaluation where a significant and volatile change in fair value occurs. However, as outlined above, Queensland Treasury policy permits the use of indexation for individual assets where the revaluation of the asset class is triggered by a significant and volatile change in value, on the condition that the use of indexation must result in a materially correct estimation of fair value. This will most typically occur where the significant change in value occurs in relation to an asset measured using current replacement cost because of significant and volatile increases solely in the cost of raw material and labour inputs.

In order to apply indexation to determine a materially correct estimation of fair value in such circumstances, it must be applied in a manner consistent with that used in the last specific appraisal. To meet this objective, indices may need to be revised at the lowest possible input level used in the CRC valuation model – *see NCAP Tools Illustrative Example 3.6.1*. In other cases, indexation may achieve a materially correct estimation of fair value where appropriate indices can be applied at the componentised level of an asset.

Agencies who apply indexation where significant and volatile changes in fair value occur must be able to provide supporting evidence to justify why the chosen index is appropriate and how it is applied to the assets within the asset class to achieve a materially correct fair value. The same principles, policies and restrictions apply as outlined under the "Use of indices" section below .

If the asset's fair value is unable to be reliably determined after the indexation method is applied, or it is inappropriate to use for a particular asset, then a specific appraisal must be undertaken.

3.6.4. Use of indices

It is Queensland Treasury policy that agencies must ensure that the application of indices would result in a valid estimation of the asset's fair value at reporting date. This requires that an agency ensure there is sufficient evidence that the index used is robust, valid and appropriate to the assets to which it is being applied.

To ensure consistency in fair value hierarchy categorisation between specific appraisals and indexation, it is Queensland Treasury policy that the application of indices not change the fair value level that applied as at the last specific appraisal (e.g. if a valuation at the last specific appraisal was categorised as level 2, subsequent indexation of that value would also be level 2).

Queensland government organisations available to provide advice on relevant and appropriate indices include (but are not limited to): the *State Valuation Service (SVS)* and the *Economic Statistics Section, Queensland Government Statistician's Office, Queensland Treasury*. The Queensland

Government Statistician's website is located at:
http://www.qgso.qld.gov.au/subjects/economy/prices/index.php

However, agencies must assess the suitability of the indices recommended by these sources for the assets concerned. Reasons for adjustments made to observable/industry indices must be clearly documented and approved by management.

For the purposes of audited financial statements, CPI is not an appropriate index for the revaluation of non-current physical assets.

The use of indices may be limited by the availability and timeliness of an index appropriate to a particular type of asset. As far as possible, indices used must maximise the use of observable data and minimise the use of unobservable data. Indices applied to asset values should ideally be consistent with the underlying data inputs used for the last specific appraisal.

For example:

- if the last specific appraisal was based on market selling prices for similar assets, subsequent indices should also reflect changes in market selling prices for similar assets. SVS can provide an 'individual factor change' per property, derived from the review of market transactions. Such market movements are determined having regard to the review of land values undertaken for each local government area as issued by the Valuer-General; and

- if the last specific appraisal used a current replacement cost technique, subsequent indices should also reflect changes in construction costs for similar assets. In this respect, specialised buildings may be indexed using a Building Price Index (BPI) based on recent tenders for typical specialised buildings. For residential buildings, the Cordell Housing Price index may be useful.

The process of ensuring there is evidence should include, but not necessarily be limited to:

- seeking assurances from an expert, e.g. an independent professional valuer or other relevant professional (internal or external to the agency), with the skills and experience considered appropriate to provide such assurances to management) that the index used is robust, valid and appropriate to the assets to which it is being applied;

- testing, and periodic reviews, of the appropriateness of the index to an asset (or sample of assets) for reasonableness, including (but not limited to) comparing the results to similar

assets that have been valued by an independent professional valuer (or other relevant professional) or internal expert;

- ensuring any significant trends or short-term volatility are reflected in the determination of the index, and assessing whether any further procedures (e.g. a specific appraisal) are warranted; and

- documenting this process of assurance, the assumptions and findings from the assurance process.

An independent professional valuer (or other relevant professional) is not required to certify that the application of the index to the assets within the particular class results in the value of the class reflecting fair value. An agency has the option of choosing only to account for the impact of indexation if the cumulative change in the index results in a 5% or greater (either positive or negative) change in the reported asset balances.

Cumulative change refers to the movement in the relevant index compared to the base year, i.e. the year when the asset was last revalued. *NCAP Tools Illustrative Examples 3.6.2 and 3.6.3* illustrate how the cumulative change can be calculated using annual percentage changes in the relevant index.

AASB 13 requires disclosures about any changes in valuation techniques during the reporting period and information about new valuation techniques. For the purpose of this disclosure, the application of indices between specific appraisals should not be regarded as a change of valuation technique.

Where an agency does not believe this is appropriate, that agency should consult with Queensland Treasury (via FMC Support), stating their preferred categorisation and justification for that. Agencies will also need to negotiate this with their auditors.

3.7. TIMELINESS AND TIMING OF REVALUATIONS

Agencies are encouraged to obtain and recognise asset revaluations well prior to financial year end, to allow early external audit review and to reduce work in finalising financial statements after year end. Accordingly, it is acceptable for the date of recognition of revaluations to be earlier than year end.

As revaluations are likely to be recognised well before the end of the reporting period, agencies must adhere to a process to identify subsequent changed circumstances that would cause the recognised fair values to differ materially from their fair values at the end of the reporting period. Asset values recognised still need to materially reflect fair value as at year end (refer to paragraph 31 of AASB 116). For this reason, agencies are expected to take reasonable steps (possibly by subsequent liaison with valuers etc) to ensure fair values recognised earlier in the financial year remain reliable at year end.

Refer to NCAP Tools Illustrative Example 3.7.1.

3.7.1. Reassessment of service capacity at the end of the reporting period (for assets measured at CRC)

Where indicators exist at year end that the asset has experienced a material reduction in service capacity, a material change in remaining useful life, or other circumstances that that would influence the asset's valuation subsequent to the last CRC valuation completed, agencies must arrange for the fair values concerned to be reviewed and revised accordingly.

Refer to NCAP Tools Illustrative Example 3.7.2.

3.7.2. Relationship Between AASB 13 *Fair Value Measurement* and AASB 136 *Impairment of Assets*

Agencies are reminded that under AASB 136, the identification of impairment indicators and determining recoverable amount for property, plant, equipment and intangible assets measured at fair value is effectively incorporated into the fair value measurement (i.e. revaluation) process under AASB 13.

Not-for-profit agencies should refer to paragraph Aus5.1 of AASB 136 and sections 4.1 and 4.5 of NCAP 4 which specifically address the interaction between fair value measurement under AASB 13 and determining recoverable amount under AASB 136.

3.8. ENGAGEMENT AND APPOINTMENT OF VALUERS

3.8.1. Independent professional valuer (or other relevant professional) or internal expert

It is Queensland Treasury policy that, for the purpose of issuing valuation instructions, agencies must ensure their correspondence with the valuer (or other relevant professional), at a minimum, includes the content in Appendix 3.3 Content Required from Valuers (or Other Relevant Professionals).

All non-current physical assets to be measured at fair value must be revalued by a suitably qualified person at least once every five years. Where indicators exist that the asset class has experienced a significant and volatile change in value since the last reporting period, all assets in that class should be considered for specific appraisal, if practicable. In the case of land valuations, valuers registered in Queensland are required. For other assets, depending on the valuation approach (refer to later in this section), quantity surveyors or engineers may have appropriate expertise.

An agency officer may be a suitably qualified person if they meet the following criteria:

- qualifications and experience - formal qualifications and/or significant practical experience in valuations; and
- ability to exercise professional judgement in:
- applying all relevant fair value measurement principles in AASB 13 *Fair Value Measurement*;
- identifying the highest and best use of the assets;
- selecting an appropriate valuation technique; and
- determining reasonable and supportable assumptions based on objective evidence and rational judgement.

Agencies should have regard to the NCAP Tool - Better Practice Guidelines for Valuation Instructions.

3.9. ACCOUNTING FOR REVALUATIONS – GROSS VS NET METHOD

It is Queensland Treasury policy that:

- **the net method of revaluation be used for specific appraisals using a market or income approach (e.g. discounted cash flows), where the assets so valued comprise a material proportion of the relevant class;**

- **the gross method of revaluation be used for specific appraisals using a cost approach (e.g. current replacement cost), where the assets so valued comprise a material proportion of the relevant class; and**

- **subsequent indexation should not cause a change in the method of revaluation used in the last specific appraisal.**

Paragraph 35 of AASB 116 and paragraph 80 of AASB 138 describe two methods allowed for dealing with accumulated depreciation/amortisation at the time of accounting for revaluations (i.e. the 'gross method' and the 'net method').

It is important that valuers (or other relevant professionals) are instructed as to the method of revaluation that applies under the circumstances. For example, for assets valued using a current replacement cost approach, for the purpose of restating accumulated depreciation under the gross method agencies should explicitly request both the gross replacement cost and new fair value (i.e. carrying amount).

Subsequent to initial application of the above policies, where an agency needs to change the broad valuation approach (e.g. from a market valuation to current replacement cost or vice versa) for an asset (which is expected to be rare), this will necessitate a change between the net and gross methods of revaluation. Such a change in revaluation method should be treated as a change in accounting estimate, as explained in paragraphs 65 - 66 of AASB 13. Therefore, such a change is to be applied prospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, but agencies should note the guidance in paragraph 66 of AASB 13 (regarding the disclosure requirements in AASB 108).

Depreciation subsequent to the revaluation continues to be accounted for in accordance with applicable requirements under AASB 116. NCAP 5.5 Other Depreciation Issues provides guidance on the recognition of subsequent depreciation.

3.10. SPECIFIC VALUATION ISSUES

3.10.1. Asset Revaluation Thresholds

Neither the Non-Current Asset Policies nor the *Financial and Performance Management Standard 2019* mandate a generic asset revaluation threshold.

3.10.2. Acquisition Other Than Fair Value

Transaction prices are generally presumed as the best evidence of fair value of an asset at initial recognition. However, there might be situations where this presumption can't be supported, and such circumstances include where:

- the transaction was not entered into on commercial or arm's length terms;
- no or nominal consideration was provided by the recipient;
- there is evidence that the transaction price does not materially reflect the underlying value of the asset; or
- the situations detailed in AASB 13 paragraph B4 exist.

Except for asset acquisitions subject to FRR 4F *Equity, Contributions by Owners and Distributions to Owners*, assets acquired by way of a gift, bequest, subsidised purchase, compulsory acquisition etc. must be valued initially at their fair value, consistent with the fair value principles in AASB 13 and guidance earlier in this chapter. Usual AASB 13 principles should be applied for dealing with transaction costs and transportation costs for such asset acquisitions (refer to paragraphs 25 – 26 of AASB 13, as well as the AASB 13 definitions for those terms).

A material difference between the transaction price and the fair value of an asset at that time should be accounted for as revenue (contribution revenue) or an expense (grant expense), according to the circumstances.

3.10.3. No Reliable Value Available

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

3.10.4. Heritage, Artworks and Cultural Assets

It is Queensland Treasury Policy that, in cases where the values of heritage and cultural assets cannot be measured reliably, the assets are not to be recognised in the Statement of Financial Position but disclosed as a note to the financial statements.

For-profit **statutory bodies and agencies** ***not consolidated*** **into the whole-of-Government financial statements have the discretion to choose the cost or revaluation model for heritage, artworks and cultural assets as explained in NCAP 3.3 Application of Fair Value Basis.**

This disclosure should state the reason why the asset cannot be reliably valued and include the nature of the asset, the purposes for which it is held and, to the extent practicable, the annual costs of maintenance/preservation. Instances of this nature should be rare and agencies are required to make every effort to value heritage and cultural assets at their fair value.

Some agencies control assets of significant heritage and cultural "value". These may be preserved solely for these attributes, or used in agency operations. It is important to distinguish between the heritage characteristics of such assets and their functional or operational value. The fact that an asset is not included on an official 'heritage listing' does not prevent it from having heritage characteristics.

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

Agencies should also refer to AASB 116 paragraphs G1 to G4 for implementation guidance about heritage and cultural assets.

3.10.5. Intangible Assets

The revaluation model must be applied if the fair value of an intangible asset can be determined by reference to an active market. Due to the limited circumstances when fair value can be used under AASB 138 *Intangible Assets*, only a market approach or income approach can be used for intangible assets.

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

If the fair value of a revalued intangible asset can no longer be determined by reference to an active market, the asset is carried at cost (with its revalued amount at the date of the last revaluation by reference to the active market being its "deemed cost") less any subsequent accumulated amortisation and impairment losses. In such a situation, it is expected that an explanation be disclosed in the notes.

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

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

3.10.6. Investment Property

Investment property is to be initially recognised at cost, including transaction costs as per AASB 140 *Investment Property*.

After initial recognition, a not-for-profit agency consolidated into the whole-of-Government financial statements must measure all of its investment property, including investment property under construction, at fair value except where fair value cannot be measured reliably. However, *for-profit* statutory bodies and agencies *not consolidated* into the whole-of-Government financial statements are permitted to choose either the cost or revaluation model for investment property – refer to NCAP 3.3 Application of Fair Value Basis.

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

There may be exceptional circumstances when an agency first acquires an investment property (or when an existing property first becomes an investment property following the completion of construction or development or after a change in use) when the fair value of the investment property is not reliably measurable on a continuing basis. This only occurs when comparable market transactions are infrequent, and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available.

In such cases, the cost model under AASB 116 is to be applied to that property until the disposal of the investment property or a reliable fair value can be determined, whichever is the earliest. The requirements that apply where fair value cannot be determined reliably are contained in

paragraphs 53 – 55 of AASB 140. In all other circumstances, investment properties for which reliable fair values can be obtained must be measured at fair value.

3.10.7. Valuation of Asset Groups or Complex Assets

If an agency undertakes a valuation for a complex asset (refer to NCAP 2 Complex Assets) or an entire asset group, it may be difficult to identify a fair value for each individual asset/significant component. Where the value of individual assets/significant components cannot be reliably determined, the total value is to be allocated across the individual assets/components on a consistent and rational basis as determined and documented by the agency. The ratio of the original cost of an asset/significant component to the original cost of the whole may be an appropriate basis for such an apportionment.

3.10.8. Leased Assets

Agencies should refer to FRR 4B.9 for Treasury's lease accounting policies.

3.10.9. Service Concession Assets

The measurement methods prescribed in Appendix 1.1 of NCAP 1 for classes of PP&E and intangibles also apply to classes of service concession assets.

In accordance with AASB 1059 paragraph 9(b), service concession assets that are measured under the revaluation model must be valued at current replacement cost, i.e. using the cost approach.

3.10.10. Assets Withdrawn Permanently from Use

An idle asset or a permanently retired asset exists where:

- a physical or intangible asset has not been employed and/or has been unoccupied for 12 months or more;
- the carrying amount of the idle/permanently retired physical or intangible asset(s) is/are material to the relevant asset class; and
- no plans exist to reinstate the asset to use.

In contrast, a temporarily idle physical or intangible asset is intended to be re-employed by the agency in future reporting periods.

Where an asset is to be withdrawn permanently from use, for example, because it has been replaced or because it is surplus to requirements, an agency must review the carrying value of that asset. Where the asset is to be withdrawn permanently from use, it is to be valued at selling price or scrap value.
Where an asset is revalued at fair value, AASB 116 requires that asset's entire class to be revalued (effectively preventing selective revaluation of assets). However, two situations need to be considered in relation to the permanent withdrawal of an asset:

1. Sale - where the asset is to be sold, the provisions of AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations* may apply.

2. Abandonment - an *abandoned* asset is one which has been decommissioned or scrapped. Assets of this type are normally at the end of their useful life or are used until they are closed down. The write-off of the old asset is treated according to the provisions of AASB 116.

3.10.11. Renewals Accounting

It is Queensland Treasury policy that the 'renewals accounting' approach, where all expenditure on an asset is recognised as an expense in the period in which it is incurred, without consideration of whether increases in future economic benefits have resulted, is <u>not permitted</u>.

3.10.12. Library Collections

If valuations of library collections are conducted in-house, it is Queensland Treasury policy that the methodology and assumptions underpinning the valuation are to be independently reviewed (e.g. by an expert valuer or by the in-house expert of another entity with a similar library collection) at least once every five years to ensure the appropriateness of the valuation approach.

For library collections, it is preferred that revaluations be undertaken by independent, professionally qualified experts. This helps ensure fair, 'arm's length' valuations of the collections. However, particularly for heritage collections, there may be few independent valuers with the expertise to value certain collections. In these instances, employees with relevant expertise/knowledge may undertake an in-house review.

<u>Reference collections</u>
Where market prices can be obtained for a library reference collection, a market approach should be used.

Where market prices are not available, a cost approach may be used. An average replacement cost may be used, based on the average cost of purchases over a period considered to most closely provide an accurate average value for the reference collection. Using this method, the average cost is to be applied to all capitalised materials in the collection at year-end.

Generally, a maximum rolling five-year period is considered appropriate for determining average replacement cost on the basis that five years should provide a smoothing of any peaks and troughs experienced in the cost of books. For example, there may be one year when a large number of high value law textbooks are purchased. If this average cost was applied to all items in the collection, over-inflation of the fair value may result. Using a five-year rolling average cost should result in this peak being effectively managed. However, a longer or shorter period may be used at management discretion where this is justified.

The basis for determining the appropriate 'averaging' period is to be documented. Once determined, this period should be consistently applied.

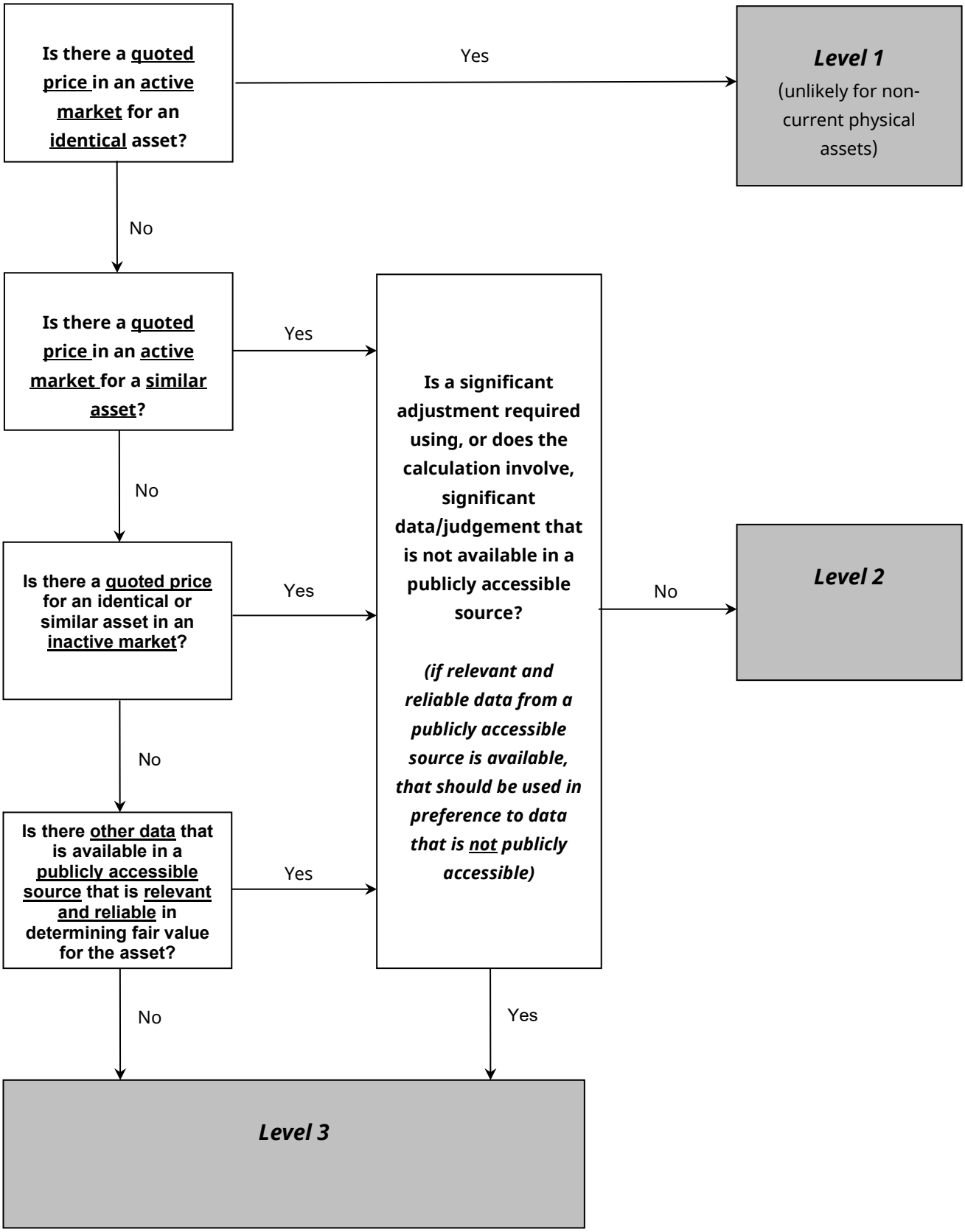
The formula to calculate replacement cost of the library reference collection would be as follows:

	opening number of items held at start of the financial year
+	number of purchases and other acquisitions during financial year (including transfers in)
–	number of disposals and write-offs during financial year (including transfers out)
=	closing number of items held at year end
x	average cost over the relevant period applied (i.e. total value of purchases/number of items purchased)
=	total replacement cost for the reference collection at year end

Note: Per NCAP 1, where multiple copies of an item are held, only one copy (per location) is to be included in the calculation.

In calculating average cost, agencies should determine any identifiable sub-collections and calculate the average cost of all items purchased over the previous five years according to these sub-collections e.g. medical textbooks or periodicals. This average cost should then be applied to all capitalised items within that sub-collection including material acquired for no cost, ensuring these are assigned a replacement value. If the agency determines that differentiating by sub-collections is not providing an accurate fair value, then the agency should consider stratifying the sub-collections e.g. into value bands, to calculate fair value.

APPENDIX 3.1 – DETERMINATION OF FAIR VALUE HIERARCHY LEVEL



APPENDIX 3.2 – FAIR VALUE MEASUREMENT EXPECTATIONS

Asset class/category	Examples of types of assets	Expected fair value level *	Likely valuation approach	Net vs gross revaluation method ^
Land	In areas where there is an active market – vacant land land not subject to restrictions as to use or sale	Level 2	Market or income approach	N/A – as land is not depreciated
Land	Land subject to restrictions as to use and/or sale Land in areas where there is not an active market	Level 3	Market or income approach	N/A - as land is not depreciated
Buildings	General office/ commercial buildings	Level 2 or 3, according to significance of adjustments using unobservable data/ judgements	Market or income approach	Net method
Buildings	Specialised buildings with limited alternative uses and/or substantial customisation e.g. prisons, hospitals	Level 3	Cost approach	Gross method
Infrastructure	Any type except as below	Level 3	Cost approach	Gross method
Infrastructure	Assets where the highest and best use would be to generate net cash inflows	Level 3	Income approach	Net method

Asset class/category	Examples of types of assets	Expected fair value level *	Likely valuation approach	Net vs gross revaluation method ^
Major Plant and Equipment	Non-specialised	Level 2 or 3, according to significance of adjustments using unobservable data/ judgements	Market or income approach	Net method
Major Plant and Equipment	Specialised items with limited alternative uses and/or substantial customisation	Level 3	Cost approach	Gross method
Heritage and Cultural Assets	Items for which there is no active market and/or for which there are limited uses	Level 3	Cost approach	Gross method
Heritage and Cultural Assets	Items for which there is an active market and there are operational uses for the item	Level 3 (due to significant judgement expected to be required)	Market approach	Net method
Intangibles	Where there is an active market for that intangible (otherwise, intangibles must not be revalued)	Level 2	Market approach	Net method

* Queensland Treasury must be consulted (via fmcsupport@treasury.qld.gov.au) if an agency believes the expected fair value level is inappropriate in individual cases by stating its preferred fair value categorisation and justification for that. That agency will also need to negotiate this with its auditors.

^*Refer to NCAP 3.9 'Accounting for revaluations – gross vs net method'.*

APPENDIX 3.3 – CONTENT REQUIRED FOR VALUERS (OR OTHER RELEVANT PROFESSIONALS)

This Appendix outlines the minimum information required from parties who have been engaged to provide a fair value for financial reporting purposes. This Appendix should be read in conjunction with the information provided in NCAP 3 (including NCAP Tools - Better Practice Guidelines for Valuation Instructions)

VALUATION INSTRUCTIONS - Correspondence to external parties setting out instructions for the determination of fair value, at a minimum, must include the following requirements:

- conformity with the fair value principles and guidance in Queensland Treasury's *Non-Current Asset Policies* and AASB 13, including the principles about the market and/or the most advantageous market, market participant assumptions, and highest and best use is the asset's current use (unless the asset is classified as held for sale under AASB 5 or it becomes highly probable that the asset will be used for an alternative purpose, in which case the instructions should be suitably varied);

- the valuation approach expected to be used, and the method of revaluation to be used (i.e. net method or gross method – refer to NCAP 3.9 Accounting for Revaluations - Gross vs Net Method and Appendix 3.2 Fair Value Measurement Expectations). For example, where the gross method of revaluation is used, both the gross replacement cost and new fair value (i.e. carrying amount) should be requested;

- conformity with Australian Accounting Standard AASB 136 *Impairment of Assets* ***(if applicable);***

- in the case of complex assets, provision of fair values for individual components or parts;

- usage of defensible and consistent methodologies to determine valuation assumptions and techniques when there is insufficient relevant observable data to determine a fair value (e.g. a cost approach may be used in the latter circumstances and/or if sale/transfer will never be possible/permissible);

- maximum usage of relevant observable data inputs, and minimum usage of unobservable data inputs, as far as possible;

- calibration of the valuation technique, where appropriate, to ensure the technique results in a reliable fair value. Where there are significant valuation uncertainties, the valuer should use more than one valuation technique and compare the results before a final valuation is determined;

- in respect of all assets valued, provision of information for the relevant disclosure requirements to comply with AASB 13; and

- a statement that all data supplied to the valuer and the report and data provided by the valuer to the agency is the property of the Queensland Government should be included, and that the agency should have full access to any supporting documentation for verification of reports, if required.

INFORMATION REQUIRED FROM VALUERS (OR OTHER RELEVANT PROFESSIONALS) - At a minimum, the following information must be obtained, applicable to each asset valued:

- the effective date of the valuation;

- a statement that the valuers have complied with the relevant accounting standards (e.g. AASB 13) and Queensland Treasury's *Non-Current Asset Policies*. In respect of land valuations, the valuer must be registered under the Queensland *Valuers Registration Act 1992*;

- whether or not the asset was physically inspected;

- significant assumptions used (e.g. whether the principal or most advantageous market was used, restrictions that exist, who the market participants would be, and what they would take into account);

- highest and best use has been determined based on current use, and if not, the alternate basis;

- the proposed fair value hierarchy level of valuation;

- the valuation technique (including whether more than one valuation technique was used, and justification for the technique chosen in terms of the AASB 13 principles) and details of the calculations;

- data inputs used and their sources (e.g. whether they are observable or not, and whether or not transportation costs have been included and why), and methods used to develop and substantiate unobservable data;

- where significant unobservable data inputs (or significant unobservable adjustments made to observable data) are used – the rationale for doing so, nature and possible variation in

such data inputs, and changes in fair values if an alternative amount is applied to the unobservable inputs;

- reason(s) for any changes in valuation technique/methodology or inputs used;

- for valuations undertaken using a cost approach - the gross replacement cost and new fair value (i.e. carrying amount);

- other relevant information regarding how the valuation was conducted and how the fair values were derived, including provision of support for the reasonableness of the valuations, whether there is an increase, decrease or no change. This should include relevant information about past and predicted future trends in fair values for the type of assets valued, and comparisons to other fair values obtained during the reporting period.

NCAP 4 Impairment of Non-Current Assets

OVERVIEW

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

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4.1. APPLICATION OF AASB 136 AND NCAP 4 TO NOT-FOR-PROFIT AGENCIES

Under AASB 136 *Impairment of Assets* (paragraph Aus5.1), many assets of not-for-profit agencies are not held primarily for their ability to generate net cash inflows and are rarely sold – rather they are typically specialised assets held for continuing use of their service capacity / service delivery.

Specialised assets will have very limited or no alternative use and/or be substantially customised to facilitate the delivery of particular public services. Specialised assets would ordinarily include various types of infrastructure, specialised buildings (e.g. prisons, hospitals, schools), and major plant and equipment that is substantially customised.

AASB 136 *Impairment of Assets* (paragraph Aus5.1) specifies that because such specialised assets of not-for-profit entities are rarely sold, their cost of disposal is typically negligible. Consequently, the recoverable amount of such specialised assets is expected to be materially the same as fair value, determined under AASB 13 *Fair Value Measurement*. Consequently, in respect of not-for-profit agencies, AASB 136:

- DOES NOT APPLY to specialised assets measured AT FAIR VALUE under AASB 116 and AASB 138. However, not-for-profit agencies must continue to assess every year at reporting date whether there are any indicators that the service capacity of its assets have changed since the last revaluation was completed. Where indicators exist that the asset has experienced a material reduction in service capacity or remaining useful life since the effective date of the last valuation, the fair value of the asset should be reviewed and, if required, revalued downwards (refer to NCAP 3.5);

- APPLIES to specialised assets measured AT COST under AASB 116 and AASB 138; and

- APPLIES to all other non-specialised assets (including work-in-progress) that have a sales market and assets held for generating cash flows (in the rare circumstances cash-generating assets are held by not-for-profit agencies) under AASB 116 and AASB 138. For non-specialised assets measured at fair value (or an amount that approximates fair value), impairment would only arise in rare circumstances such as where the costs of disposal are material. Similar to specialised assets measured at fair value, any 'impairment' of these assets is also effectively captured through the revaluation process.

The requirements of AASB 136 Aus5.1 are not applicable to for-profit agencies. For-profit agencies must apply the relevant requirements of AASB 136 to all non-current assets, including work in progress assets (but excluding investment property measured at fair value).

4.2. IMPAIRMENT OVERVIEW

In general, an asset is impaired when its recoverable amount is less than its carrying amount (refer to NCAP 4.4 Recoverable Amount). If an asset is materially impaired, it must be written-down to its recoverable amount and an impairment loss recorded.

A review for impairment indicators must be performed and documented annually for all material asset classes. For specialised assets of not-for-profit agencies measured at fair value (refer to NCAP 4.1), this review will form part of the annual revaluation process (refer to NCAP 3.5). Agencies only need to test an asset for impairment if there are indicators of impairment.
At reporting date, agencies should examine all work in progress (WIP) assets to determine the likelihood of the project continuing to completion in the original manner intended in order to assess the validity of expenditure capitalised into WIP to date. This is in addition to the original assessment of the ability to capitalise costs into WIP when the expenditure was first incurred.

The requirements of AASB 136 apply subject to the notion of materiality. For example, where the total value of an agency's assets in a class is immaterial, compared to the total balance of Property, Plant and Equipment, that agency has discretion about whether or not to assess for impairment indicators for those assets. Also, where assets are tested for impairment and the total change in the written down value for the class of assets or the total impact on depreciation for the class of assets is material, then the impairment loss must be brought to account.

However, there may be circumstances where other adjustments may be more applicable than impairment adjustments or a revaluation decrement. For example, it may be more appropriate to derecognise an asset that is damaged so severely in a natural disaster that no future economic benefit will be derived from the asset. Another example is where management makes a decision to, and undertakes, a demolition during a reporting period – this is likely to reflect an asset write-off rather than an impairment.

Refer to Appendix 4.1 Flowchart 1 for an overview of the decision-making process around asset impairment.

4.3. INDICATORS OF IMPAIRMENT

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

Agencies are to have a framework in place to ensure that, at each reporting date, any impairment indicators are identified and if material impairment of an asset exists, that this is reflected in an agency's asset records and financial statements (refer to process in Appendix 4.1 Flowchart 2).

For intangible assets with an indefinite useful life or an intangible asset not yet available for use, the agency must test for impairment annually (testing to ensure carrying amounts of assets do not exceed recoverable amounts), irrespective of whether there are any indicators of impairment, and whenever there is an indication that the intangible asset may be impaired.

The events or circumstances that may indicate the impairment of an asset will generally be significant and will often have prompted discussion by a management group or similar, or the media. Agencies should use judgement in identifying indicators of impairment. Agencies should refer to AASB 136 (paragraph 12) for a list of minimum considerations for indicators of impairment. The list in the Standard is not exhaustive.

NCAP Tools Illustrative Example 4.3.1 provides some examples of indicators of impairment or changes in service potential which may be applicable in the public sector.

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

For assets to which impairment does not apply (i.e. specialised assets of not-for-profit agencies that are not held primarily for generating cash flows and are measured at fair value), there is no need to assess impairment indicators annually. Nevertheless, if the agency becomes aware of an impairment indicator, it is likely evidence of a significant change in the asset's fair value, which would warrant a specific appraisal to be performed in the current financial year in accordance with NCAP 3.6.

4.4. CASH-GENERATING UNITS

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

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

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

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

Refer to NCAP Tools Illustrative Example 4.4.1.

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

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

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

A cash-generating unit is not a separate asset for reporting purposes. A cash-generating unit is used solely for the determination of impairment losses. Refer to AASB 136, paragraphs 100-102 for the treatment of impairment of corporate assets that relate to cash-generating units.

4.5. RECOVERABLE AMOUNT

Recoverable amount is determined under AASB 136 as the higher of an asset's fair value less costs of disposal (i.e. net selling price) and its value-in-use.

4.5.1. Fair Value less Costs of Disposal

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense. Refer to NCAP 3 Valuation of Non-Current Assets for guidance on determining fair values.

4.5.2. Value-in-use

Value-in-use is the present value of the future cash flows expected to be derived from an asset. Value-in-use is calculated applying the requirements of paragraphs 30-57 of AASB 136 *Impairment of Assets.*

It is Treasury policy that where a for-profit agency receives Community Service Obligations (CSOs), these are to be included in the calculation to determine value-in-use.

When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale.

4.5.3. Recoverable Amount and Not-for-Profit Considerations

As outlined in NCAP 4.1, many assets of not-for-profit entities not held primarily for their ability to generate net cash inflows and are specialised assets held for continuing use of their service capacity. Where such specialised assets are measured at fair value, the recoverable amount of these assets is expected to be materially the same as fair value determined under AASB 13 *Fair Value Measurement*. Consequently, AASB 136 does not apply to those assets as any impairment losses are effectively captured through the revaluation process.

Where such assets are measured at cost, and indicators of impairment exist, the recoverable amount must be determined. Since the value in use of a primarily non-cash generating asset would ordinarily be zero (or close to zero), the recoverable amount should be first assessed by considering the asset's fair value under AASB 13. In these circumstances, not-for-profit agencies should firstly consider the current replacement cost or market value approaches before concluding the income method is the appropriate fair value determination of recoverable amount. This is because the income approach is likely to result in a fair value similar to the value-in-use calculation in the previous section.

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

For non-specialised property, plant and equipment measured at fair value, impairment will only arise in rare circumstances such as where the costs of disposal are material. Similar to specialised assets measured at fair value, any 'impairment' of these assets is also effectively captured through the revaluation process.

Unused assets

Where an agency is not using an asset and a formal decision has been made not to re-use or replace the service potential/capacity of the asset (either in its current location, another location or with another agency), then the recoverable amount would ordinarily be equal to the present value of the net disposal proceeds. An example would be a policy decision to cease delivering a particular service that renders the asset surplus to requirements. In this scenario, the fair value may correlate with the market value or the scrap value on disposal. (Agencies should also refer to NCAP 3.10 on the subject of assets withdrawn permanently from use.)

Where the agency is not using an asset but the service potential/capacity of the asset will be replaced (including in another location or with another agency), the recoverable amount would ordinarily be the asset's fair value determined by a current replacement cost approach or market value approach under AASB 13. (Agencies should also refer to NCAP 3.10 on the subject of temporary idle assets intended to be re-employed.)

Where the agency is not using the asset and no decision has made regarding re-use, replacement or redeployment of the service potential/capacity of the asset, agencies will need to assess the appropriate fair value/recoverable amount applicable in those circumstances.

By way of illustration, if the asset had severely limited / restricted service capacity/potential due to physical damage, or required substantial repairs to return to service, or the prospects for alternate use by another agency or third party are minimal/remote, it may be determined that the fair value under AASB 13 is zero until such time as a formal decision is made. Alternatively, if the asset had no indicators of reduced service capacity and the potential to be re-used (including by another agency), then it may be treated in the same manner as a temporarily idle asset (as identified above). Consequently, the fair value determined by a current replacement cost approach or market value approach under AASB 13 reflecting its highest and best use to market participants may be more appropriate.

4.6. RECORDING AN IMPAIRMENT LOSS

An impairment loss is recognised immediately in the Statement of Comprehensive Income, unless the asset is carried at a revalued amount.

When an asset is measured at a revalued amount, the impairment loss is to be treated in the same way as a revaluation decrement, i.e. offset against the asset revaluation surplus to the extent

available for that same asset (for-profit agencies) or same class of assets (not-for-profit agencies). Refer to the decision tree in Appendix 4.1 Flowchart 2.

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

4.6.1. Cash Generating Unit – allocating an impairment loss

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

In allocating an impairment loss of a cash-generating unit across all assets in the unit, an agency must not reduce the carrying amount of an asset below the highest of:
(a) its fair value less costs of disposal (if determinable);
(b) its value-in-use (if determinable); and
(c) zero.

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

4.6.2. Revaluations and Accumulated Impairment Losses

It is Treasury policy that when an asset is revalued using either a market or income valuation approach, the balance of accumulated impairment losses at the date of recognition of the revaluation shall be eliminated at that date against the gross amount of the asset. This is consistent with Treasury's policy to account for accumulated depreciation using the 'net method' for assets revalued using a market or income approach (refer NCAP 5.5 Other Depreciation Issues).

Agencies are reminded that any impairment of assets measured at fair value is ordinarily already captured by the revaluation process, as outlined in NCAP 4.1 and NCAP 4.5.

4.7. REVERSING AN IMPAIRMENT LOSS

An impairment loss recognised under AASB 136 can be reversed for all assets other than goodwill.

At each reporting date, an agency must assess whether there is any indication that a previously recognised impairment loss may no longer exist or may have decreased. If an indication exists, the agency must again determine recoverable amount. The indicators for potential reversal of prior year impairment are outlined in paragraph 111 of AASB 136. To the extent that such indicators exist, agencies are to consider adjustments to the asset's remaining useful life, the depreciation/amortisation method or the residual value (if any), even if no impairment reversal is recognised.

An impairment loss can only be reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. AASB 136 provides examples of changes in estimates in paragraph 115. In reversing an impairment loss, the same rules apply as to those when impairment losses are initially recognised, in that the reversal is recognised immediately in the Statement of Comprehensive Income, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

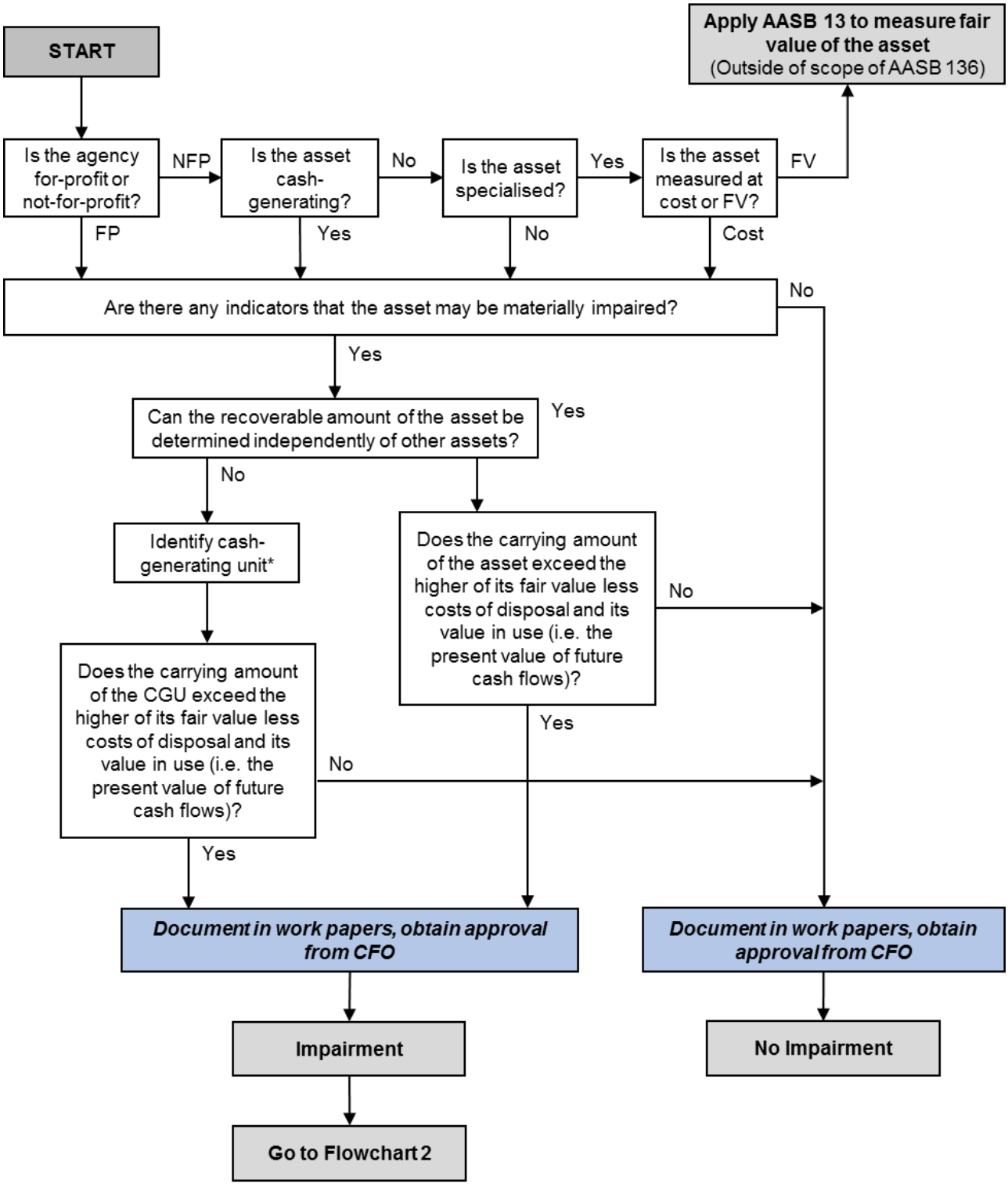
In relation to for-profit agencies, a reversal of an impairment loss on a revalued asset can only be offset against a prior decrement to the extent available for the same asset. In respect of not-for profit agencies, a reversal of an impairment loss on a revalued asset can only be offset against a prior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

When reversing the impairment loss of a (completed) asset that was impaired when the asset was work in progress, the reversal is to go through the Statement of Comprehensive Income. This is because the reversal relates to that particular asset, of which the initial impairment would have been recognised immediately in the Statement of Comprehensive Income as WIP assets are carried at cost.

When reversing the impairment loss of an individual asset, the increased carrying amount must not exceed the carrying amount that would have been determined had no impairment loss been recognised. As a result, agencies must ensure that they maintain a record of the value of the asset exclusive of the impairment loss. A reversal of an impairment loss for a CGU is to be allocated on a pro rata basis according to the relative carrying amounts of the assets of the unit (apart from goodwill).

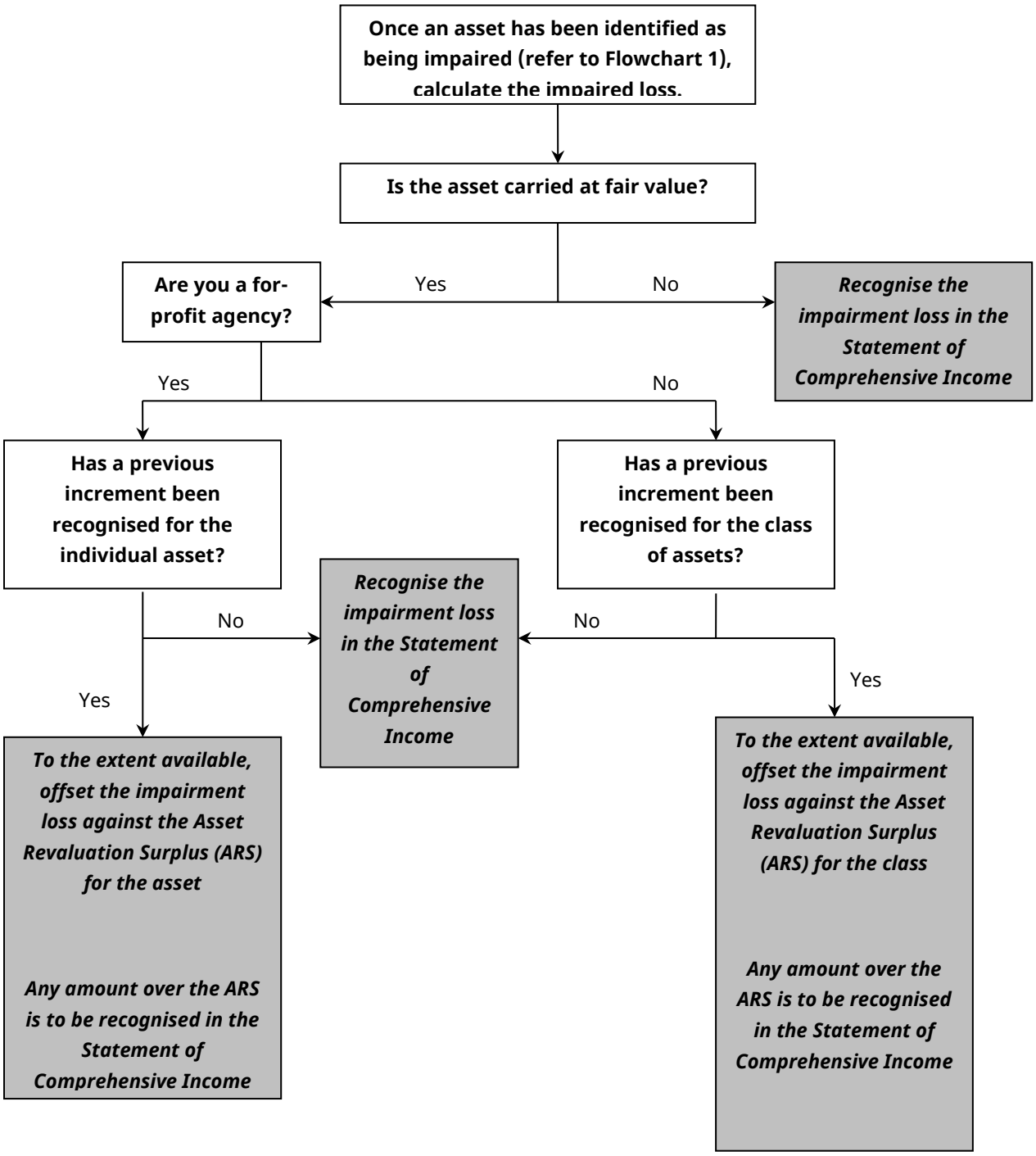
APPENDIX 4.1 IMPAIRMENT DECISION MAKING

Flowchart 1 - Is an Asset Impaired?



* Would be rare to have cash-generating unit in a not-for-profit entity

Flowchart 2 - How is an Impairment Loss Recognised?



Queensland Government

Queensland Treasury
Non-Current Asset Policies for the Queensland Public Sector

NCAP 5 Depreciation and Amortisation

OVERVIEW

This Non-Current Asset Policy (NCAP) discusses the principles underlying the depreciation of property, plant and equipment and amortisation of intangible assets.

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5.1. DEFINITIONS AND CONCEPTS

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

AASB 116 defines depreciation as "*the systematic allocation of the depreciable amount of an asset over its useful life.* AASB 138 defines amortisation as "*the systematic allocation of the depreciable amount of an intangible asset over its useful life.*"

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

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

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

5.1.1. Exclusions from Depreciation and Amortisation

The following assets are not depreciated or amortised:

- inventories, as they are held at lower of cost and net realisable value;
- non-current assets whilst classified as held for sale or while they are part of a disposal group classified as held for sale (Refer AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations*, paragraph 25);
- an intangible asset with an indefinite useful life (Refer AASB 138 paragraph 107);

- investment property accounted for under the fair value model (refer AASB 140 *Investment Property* paragraphs 76 and 79);

- land, where its service potential is not expected to diminish with time or use (refer AASB 116, paragraph 58);

- heritage and cultural assets (e.g. works of art, objets d'art, rare books and manuscripts, library collections, museum pieces and unique historical objects) with indefinite lives i.e. where their service potential is not expected to diminish with time or use, for which curatorial and preservation policies are demonstrated to be in place, and where the agency can demonstrate that it has the operational and financial commitment and capacity to adhere to such policies into the foreseeable future (refer also to AASB 116, Implementation Guidance paragraphs G3 and G4);

- biological assets carried at fair value, the accounting for which is covered by AASB 141 *Agriculture* (paragraphs 10-30); and

- work in progress assets, as depreciation only begins when an asset is available for use i.e. in the location and condition necessary for it to be capable of operating in the manner intended by management (refer AASB 116, paragraph 55).

Reasons for the non-depreciation of library heritage collections must be documented and included in the notes to the financial statements.

5.1.2. Recognition of Depreciation Expense

The depreciable amount of an asset is depreciated over the asset's useful life.

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

Depreciable Amount

AASB 116 defines '*depreciable amount*' as "*the cost of an asset, or other amount substituted for cost, less its residual value*" and '*residual value*' as *"the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were*

already of the age and in the condition expected at the end of its useful life". For the avoidance of doubt, residual value does not include expected cost savings from reuse of part of an asset.

Refer to NCAP Tools Illustrative Example 5.1.1.

Useful Life

AASB 116 defines useful life as "*the period over which an asset is expected to be available for use by an agency*" or "*the number of production or similar units expected to be obtained from the asset by an agency.*"

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

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

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

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

The useful life of an asset to an agency may be shorter than its *economic life*, which is defined in AASB 16 as *"Either the period over which an asset is expected to be economically usable by one or more users or the number of production or similar units expected to be obtained from an asset by one or more users".*

Refer to NCAP Tools Illustrative Example 5.1.2.

Where an asset is planned to be sold to another entity, such an intention should not itself impact on existing estimates of remaining useful life and residual value. This is consistent with the cessation of depreciation when an asset becomes classified as 'held for sale' - there is an expectation that there should be a carrying amount for assets classified as 'held for sale'. For example, if the remaining useful life was re-assessed to fully depreciate the asset by the date of sale, the carrying amount would probably be reduced to zero by sale date. This is not considered logical, as it would likely result in a sudden large increase in depreciation together with a potentially large profit on sale.

5.1.3. Commencement and Cessation of Depreciation

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

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

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

5.1.4. Disaggregation of Assets for Depreciation

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

Some assets, for example a power station, may consist of a number of integral components that will function only when all components are combined. Discrete components of the asset may have

different useful lives and different methods and rates of depreciation. NCAP 2 Complex Assets contains detailed criteria for the identification of significant components.

Refer to NCAP Tools Illustrative Example 5.1.3.

5.2. DEPRECIATION BASES

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

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

5.2.1. Time Basis

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

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

The useful life of an asset is normally the shortest of the applicable alternatives. As an example, computer hardware may have a physical life of ten years but become technically obsolete within five years. In this case the appropriate life is five years provided replacement is based on technical obsolescence. Should an agency decide to use a non-current physical asset beyond the ideal or optimum replacement timeframe, then the depreciable amount should be allocated over the longer period.

5.2.2. Output/Service Basis

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

Refer to NCAP Tools Illustrative Example 5.2.1.

5.3. DEPRECIATION METHODS

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

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

5.3.1. Time Based Methods

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

Straight-Line Method

The straight-line method allocates the depreciable amount in approximately equal amounts in each accounting period over the useful life of the asset being depreciated. The method would be suitable for use in depreciating assets which deliver their embodied economic benefits in approximately equal quantities in each accounting period over their useful lives.

Refer to NCAP Tools Illustrative Example 5.3.1.

Reducing Balance Method

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

Refer to NCAP Tools Illustrative Example 5.3.2.

For assets with nil residual value, a reducing balance method calculated using a percentage of the asset's written down value (e.g. 20% of asset carrying amount per year) would not reduce the asset to nil at the end of its useful life. Agencies should either adjust the asset's depreciation method in its final years, or fully depreciate the asset in the year it is scrapped if the accumulated depreciation is not material.

Other Methods

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

5.3.2. Units of Production/Output Method

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

$$\frac{\text{Actual units of output during reporting period}}{\text{Estimated total units of output expected from asset}} \times \text{Depreciable amount}$$

The units of production basis requires a systematic basis for measuring the service potential consumed.

Refer to NCAP Tools Illustrative Example 5.3.3.

5.3.3. Non-Complying Methods of Depreciation

Interpretation 1030 *Depreciation of Long-Lived Physical Assets: Condition-Based Depreciation and Related Methods* does not permit the adoption of condition-based depreciation or any other method of depreciation that includes any of the characteristics detailed in paragraph 8 of the Interpretation. Condition-based depreciation can be used only where its characteristics conform to the criteria detailed in AASB 116 for the recognition of depreciation.

The 'renewals' approach, that assumes subsequent expenditure on the asset does not increase the future economic benefits of the asset but will maintain the future economic benefits at existing levels, is not permitted (refer paragraph 8(d) and 19 of Interpretation 1030).

5.4. CHANGES IN DEPRECIATION

5.4.1. Annual Reviews of Useful Life and Residual Value

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

Refer to NCAP Tools Illustrative Example 5.4.1

Adjustments to the estimated useful life must be made in the earliest year in which a change is deemed necessary. This will achieve an allocation of cost that most closely aligns with the consumption of the asset. Delaying adjustments to estimated useful life to when the asset is close to becoming fully depreciated are to be avoided, wherever possible.

A change in depreciation method e.g. from units of production to straight line, will be a change accounting estimate requiring prospective adjustment in accordance with the requirements of AASB 108.

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

A change to the useful life of an asset that is revalued at current replacement cost would also necessitate a revaluation adjustment to the asset's accumulated depreciation, in addition to prospectively adjusting future depreciation charges. *Refer to NCAP Tools Illustrative Examples 5.5.5 and 5.5.6.*

Corrections of errors are distinguished from changes in accounting estimates. Where depreciation has been incorrectly calculated in a prior year, this should be treated as an error and corrected retrospectively in accordance with AASB 108. Judgements about estimates that should have been (but weren't) made in a prior year must not be used for the purpose of 'error correction'.

Refer to NCAP Tools Illustrative Examples 5.4.2 and 5.4.3.

5.4.2. Re-Lifing Fully Depreciated Assets

Where an asset is carried at cost, should it transpire that the asset still has some useful life after it has been fully depreciated, it is Queensland Treasury policy that re-lifing or revaluation of the asset is not permitted.

Where an asset is carried at fair value, the revaluation process should ensure an asset will not still have some useful life after it has been fully depreciated. Where large numbers of assets are fully depreciated and are still in use, a review of the depreciation rate or annual review processes may be warranted. Annual reviews of non-current physical assets should ensure that a situation will not arise where fully depreciated assets are still in use.

5.5. OTHER DEPRECIATION ISSUES

5.5.1. Subsequent Costs

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

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

5.5.2. Spares

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

5.5.3. Treatment of Accumulated Depreciation/Amortisation on Revaluation

Agencies should note paragraph 35 in AASB 116 and paragraph 80 in AASB 138 that describe the application of the gross and net methods of revaluation.

Consistent with Treasury's policy in NCAP 3.9:

- the net method of revaluation be used for specific appraisals using a market or income approach (e.g. discounted cash flow), where the assets so valued comprise a material proportion of the relevant class;
- the gross method of revaluation be used for specific appraisals using a cost approach (e.g. current replacement cost) , where the assets so valued comprise a material proportion of the relevant class; and
- subsequent indexation should not cause a change in the method of revaluation used in the last specific appraisal.

It is important that valuers (or other relevant professionals) are instructed as to the method of revaluation that applies under the circumstances (refer also to the last section of NCAP 3.6 Revaluation Methods and Frequency, and Appendix 3.3 Content Required from Valuers (or Other Relevant Professionals).

Net method

Under the net method, accumulated depreciation/amortisation as at the date of recognition of the revaluation is eliminated against the gross amount of the asset. Accumulated depreciation/amortisation then "recommences" subsequent to the date of recognition of the revaluation. Hence, as agencies are encouraged to recognise revaluations well prior to financial year end, it is expected that there will be a balance in accumulated depreciation/amortisation at year end, according to how early the revaluation was recognised. Agencies are not expected to recognise a further elimination of such a balance at year end.

Refer to NCAP Tools Illustrative Examples 5.5.1 and 5.5.2.

Gross method

Under the gross method, which is used for current replacement cost valuations, the asset's gross amount and accumulated depreciation are restated to achieve the new carrying amount. Where the asset is depreciated using a straight-line basis, the new depreciation charge determined after the revaluation should also reflect a consistent rate of depreciation throughout the entire useful life of the asset, i.e. the overall depreciation profile (or line chart) should remain a straight line.

Refer to NCAP Tools Illustrative Examples 5.5.3 to 5.5.7.

5.5.4. Investment Property

AASB 140 provides for a fair value model or a cost model to be used for valuing an investment property. **Queensland Treasury policy mandates the use of the fair value model by all not-for-profit agencies that are consolidated into the whole-of-Government financial statements** (except in the rare and exceptional circumstances where fair value is not reliably determinable on a continuing basis – refer to the section titled 'Investment Property' under NCAP 1.7 Guidance on Particular Asset Types).

However, *for-profit* statutory bodies and agencies *not consolidated* into the whole-of-Government financial statements are permitted discretion to choose either the cost or revaluation model for investment property (refer to NCAP 3.10 Specific Valuation Issues for further information about this).
Depreciation charges are not applicable in respect of these types of assets valued under the fair value model but are applicable, in accordance with the requirements of AASB 116, where the asset is measured at cost.

5.5.5. Leased assets

Lessee

Right-of-use assets of the lessee are depreciated from lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. However, if the lease transfers ownership of the asset to the lessee at the end of the lease term, or if the lessee is reasonably certain to exercise a purchase option, then the right-of-use asset is depreciated over the useful life of the underlying asset.

Lessor

For operating leases, the lessor retains the assets on its books and continues to depreciate them by applying the agency's normal depreciation policy for similar assets. For finance leases, the leased asset is derecognised and depreciation no longer applies.

5.5.6. Leasehold Improvements

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

5.5.7. Amortisation of Intangible Assets

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

An intangible asset with an indefinite useful life is not amortised. The term 'indefinite' does not mean 'infinite'. It is unlikely that an agency would have an intangible asset with an infinite useful life. On the other hand, an agency may well have an intangible asset which, at the time it is developed, has an indefinite useful life e.g. the intellectual property associated with a vaccine that brings a significant disease under control. Such an intangible asset would not be amortised but would be tested for impairment at each reporting period.
Similar to depreciation, amortisation is usually recognised in profit or loss but may be absorbed into the carrying amount of other assets e.g. amortisation of intangible assets used in the production process could be included in the carrying amount of inventories.

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

5.5.8. Heritage and Cultural Assets

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

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

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

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

5.5.9. Road Earthworks

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

It is necessary for an entity to assess which of its road earthwork assets have indefinite useful lives and which have limited useful lives.
The depreciation or non-depreciation of road earthworks assets are to be reviewed at least at each reporting date to ensure that the accounting policy applied reflects the most recent assessment of the useful lives of the assets.

Queensland Government

Queensland Treasury
Non-Current Asset Policies for the Queensland Public Sector

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 <u>not</u> 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).

<u>Correction of Error</u>

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.

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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 <u>Recipient</u>)

<u>Restatement of Comparatives for 20X7</u>

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)

<u>20X8 Entries</u>

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 <u>Transferor)</u>

<u>Restatement of Comparatives for 20X7</u>

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)

<u>20X8 Entries</u>

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.