



Tasmania

Guidelines for the Introduction of AASB 1041
Revaluation of Non-Current Assets

Department *of* Treasury
and Finance
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1 PURPOSE

AASB 1041 *Revaluation of Non-Current Assets* contains detailed and complex provisions and transitional arrangements in relation to the implementation of the standard. This paper provides guidance to departments on the transitional arrangements contained in that standard.

These guidelines should be read in conjunction with *Guidelines for the Recording, Valuation and Reporting of non-Current Assets in Tasmanian Government Departments*, issued in June 2002, AASB 1041 *Revaluation of Non-Current Assets*, AAS 4 *Depreciation*, AAS 10 *Recoverable Amount of Non-Current Assets*, and relevant Urgent Issues Group Abstracts.

2 HOW TRANSITIONAL ARRANGEMENTS AFFECT TASMANIAN GOVERNMENT DEPARTMENTS

Departments are currently required to value non-current assets on the deprival value basis. AASB 1041 mandates that classes of non-current assets are to be valued at historic cost or, alternatively, classes of non current assets may be revalued at fair value immediately or progressively. The Treasurer's Instructions prescribe the classes of assets which are to be valued at fair value and historic cost:

- All land, buildings, infrastructure, heritage and cultural non-current assets are to be valued on the fair value basis.
- All other classes of non-current assets are to be measured on the historic cost basis.

These guidelines provide specific guidance in respect of the following:

- the timing requirements in respect of valuation changes;
- revaluing from deprival value to historic cost;
- the application of the recoverable amount test in conjunction with valuations at historic cost;
- revaluing increments and decrements; and
- the effects of revaluations on accounting for depreciation.

3 DEPRIVAL VALUE, FAIR VALUE AND HISTORIC COST

Under 'Deprival Value' asset valuations represent the entire loss that might be expected to be incurred if the department were deprived of the service potential (future economic benefit) of those assets at the reporting date. In most cases, this is measured by the replacement costs of the services or benefits embodied in the asset.

'Fair Value' is defined in AASB 1041 as being 'the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction'. An asset's fair value is measured having regard to the highest and best use of the asset for which market participants would be prepared to pay.

'Historic Cost' means the original cost of the purchase, delivery and installation of an asset (including any post-installation capital expenditure). It may include absorption of overhead costs and, where applicable, the interest costs during construction.

4 NON-CURRENT ASSETS TO BE VALUED ON THE HISTORIC COST BASIS

Classes of non-current assets other than land, buildings, infrastructure and heritage and cultural assets are to be valued on the historic cost basis.

Assets of these classes currently valued on the deprival value basis are to be valued on the historic cost basis by deeming the carrying amount of the class of non-current asset at 30 June 2002 to be the historic cost amount.

Departments are not to make retrospective adjustments to present the class of assets as if they were always recorded at historic cost as this may require extensive adjustments to accounting records and would result in less relevant information being available.

Assets of these classes currently valued on the historic cost basis are to continue to be valued on that basis.

Assets valued at historic cost are subject to the recoverable amount test.

For non-current assets measured at historic cost, the recoverable amount test in AAS 10 *Recoverable Amount of Non-Current Assets* applies where the future economic benefits are dependent on the ability of those assets to generate net cash flows.

An asset subject to AAS 10 cannot be carried at an amount in excess of its recoverable amount ie the net amount expected to be recovered, through cash inflows and outflows, arising from its subsequent use and disposal. Recoverable amount write downs under AAS 10 are not revaluations, do not require the revaluation of any other assets and must be presented as an expense in the department's statement of financial performance.

5 NON-CURRENT ASSETS TO BE MEASURED ON THE FAIR VALUE BASIS

5.1 For non-current assets measured on the deprival value basis

Departments previously have been required to measure non-current assets on the deprival value basis. Subject to transitional provisions, departments are required to value classes of non-current assets comprising land, buildings, infrastructure and heritage and cultural assets on the fair value basis.

For the reporting period ending 30 June 2002:

- (a) these classes may be revalued immediately, in accordance with AASB 1041 ie to net fair value;
- (b) these classes may continue to be valued on the existing basis eg deprival value. However, progressive revaluations to fair value will need to be systematically undertaken:
 - any revaluation undertaken after 30 June 2002 must be done on a fair value basis.
 - once an asset has been revalued, all the other assets in that class must be revalued within a five-year period. The revaluation process must be undertaken systematically, progressively and on a consistent basis.
 - the revaluation process must be completed by 30 June 2006.

Therefore, if an asset is revalued after 30 June 2002 it must be done on the fair value basis and all other assets in that class must be revalued, progressively and consistently, by 30 June 2006; and

- (c) where a class of non-current assets continues to be measured on the deprival value basis after 30 June 2002 ie during the transition period, the carrying amount must be written down to the recoverable amount in cases where the recoverable amount is less than the carrying amount. These write downs are required to be treated as revaluation decrements.

5.2 Other issues for consideration on transition to the fair value basis

5.2.1 Revaluation Increments and Decrements

Where a department applies the fair value basis to a class of non-current assets, whether immediately or through progressive revaluation, the adjustments necessary to restate the carrying amounts of non-current assets to their fair value must be accounted for as follows:

- (a) any net revaluation increment arising from revaluing those assets to their fair value must be credited directly to the asset revaluation reserve – except to the extent that the net increment reverses a net revaluation

decrement previously recognised as an expense in net profit or loss/result in respect of that same class of non-current assets, it must be credited directly to retained profits or accumulated losses; and

- (b) any net revaluation decrement arising upon revaluing those assets to their fair value must, to the extent that a credit balance exists in the asset revaluation reserve in respect of that class of non-current assets, be debited directly to the asset revaluation reserve, and any remainder of the net revaluation decrement must be debited directly to retained profits or accumulated losses.

Where a department adopts the fair value basis for measuring a class of non-current assets:

- (a) any previous recoverable amount write-down, recognised as an expense, must be credited directly to retained profits or accumulated losses; and
- (b) conversely, any increase in the carrying amount of the assets above the carrying amount that would have been recorded had no recoverable amount or write-down or impairment loss previously been recognised, must, together with the revaluation increments or decrements for the other assets in that class of non-current assets, be credited directly to the asset revaluation reserve or debited directly to retained profits or accumulated losses.

5.2.2 Treatment of Revaluations of Depreciable Assets

Where depreciable assets are revalued, any balances of accumulated depreciation existing as at the revaluation date must be credited to the asset accounts to which they relate. The asset accounts must then be increased or decreased by the amount of the revaluation increments or decrements.