



Tasmania

**Guidelines for the Recording, Valuation and Reporting of
Non-Current Physical Assets in Tasmanian Government
Departments**

*Department of Treasury
and Finance
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1 INTRODUCTION

1.1 Purpose of Guidelines

These guidelines replace the *Guidelines for the Recording, Valuation and Reporting of Non-Current Physical Assets in Tasmanian Government Departments*, issued in June 1995. The guidelines are being revised, primarily to take account of the changes to valuation methodologies mandated by the introduction of AASB 1041 *Revaluation of Non-current Assets*.

These guidelines provide a policy framework for the recording and valuation of non-current physical assets controlled by departments.

In particular, the guidelines:

- 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.

The guidelines should be read in conjunction with AAS 4 *Depreciation*, AAS 10 *Recoverable Amount of Non-Current Assets*, AAS 13 *Accounting for Research and Development Costs*, AAS 18 *Accounting for Goodwill*, AASB 1041 *Revaluation of Non-Current Assets* and relevant Urgent Issues Group Abstracts.

1.2 Policy Objectives

Asset recording, valuation and reporting systems across the public sector has three key objectives:

- to facilitate efficient and effective asset management;
- to enhance accountability for the physical resources controlled by departments; and
- to assist in determining the full cost of departmental outputs (goods and services).

1.3 Asset Management

Departments are accountable for the management and stewardship of assets, which they control.

Relevant, reliable and timely information concerning non-current physical assets, is necessary to:

- assess the levels and maintenance requirements of assets held by departments;
- assess the appropriateness of the stock of assets held by departments for meeting their objectives;

- assist in planning the replacement of assets necessary to achieve the objectives of the department;
- facilitate the management of risk associated with the holding and control of assets;
- assist in the identification of surplus and under utilised assets; and
- determine the cost of Outputs, products and services of the department.

2 SCOPE

These guidelines apply to departments specified in Schedule 1 of the *Financial Management and Audit Act 1990*.

The guidelines provide guidance on identifying, valuing, recording and writing-off non-current physical and intangible assets. It applies both to assets controlled and administered by departments.

The guidelines do not deal with financial assets, tax assets, self-generating and regenerating assets or inventories.

These guidelines mandate the valuation basis to be applied by departments for particular classes of non-current assets. Land, buildings, infrastructure, heritage and cultural assets are to be valued on the fair value basis and other classes of non-current assets are to be valued on the historic cost basis.

3 DEFINITION AND RECOGNITION OF ASSETS

3.1 Recognition

An asset must be *recognised* if it satisfies the criteria specified in Statement of Accounting Concepts SAC 4 *Definition and Recognition of the Elements of Financial Statements*, namely:

- it is probable, i.e. more likely than less likely, that the future economic benefits embodied in the asset will eventuate;
- the department has control over such future economic benefits to the extent that it has the capacity to benefit from the asset in the pursuit of its objectives or deny or regulate the access of others to these benefits;
- the transaction, or event enabling the department to control the future economic benefits, has occurred; and
- the cost, or other value of the asset, is capable of being measured reliably.

The term ‘recognised’ is defined in SAC 4 as ‘reported on, or incorporated in amounts reported on, the face of the financial statements of the department’.

3.2 Definition of Assets

Assets are future economic benefits, controlled by the department, as a result of past transactions or other past events.

Under this definition, an asset must embody three essential characteristics:

- future economic benefits (utility);
- control by a particular department; and
- occurrence of a past transaction or past event.

3.3 Future economic benefits

The definition of an asset in SAC 4 as ‘future economic benefits controlled by the department’ reflects the fact that it is the *future economic benefits* attaching to the asset that must be measured and accounted for in departmental financial statements. These future economic benefits are distinguishable from the source of the benefit i.e. the particular physical object or legal right.

This requirement does not imply that assets necessarily need to generate cash flows. Economic benefits also can equate to ‘service potential’ i.e. the capacity of an asset to provide benefits other than cash to the department that controls it.

The future economic benefits of many assets in the public sector are derived from their capacity to contribute to the ability of the department to meet its service objectives and outputs. Examples include hospitals and schools, which permit departments to meet their corporate goals by providing community services.

The fact that some departments do not charge, or do not charge fully, for the goods and services they provide, does not deprive them of future economic benefits or value, nor does it preclude them from benefiting from the assets used to provide the goods or services, even where the assets cannot be sold.

In determining whether a resource, or right, needs to be accounted for as an asset, the potential to contribute to the objectives of the department should be the prime consideration. These objectives can be commercial or non-commercial.

If a resource, or right, cannot provide any future economic benefits to a department, there is no asset eg a disused road surface that no longer meets the need of the department and has no material scrap value.

3.4 Control of assets

The term ‘control’ is defined in SAC 4 as ‘the capacity of a department to benefit from an asset or to deny, or regulate, the access of others to that benefit’.

Departments are not separate legal entities and, for the most part, do not themselves own assets. However, all departments control assets that they use in meeting their objectives, such control being demonstrated by the ability of the department to:

- use the asset to achieve its objectives;
- obtain a benefit from the sale of the asset;
- charge for the use of the asset; or
- 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 may not be necessary to control access to the benefits derived from the asset eg assets that are the subject of a finance lease.

In order to *recognise* an asset in its financial statements, the department must *control* the asset to such an extent that it becomes *probable* that it will obtain the *future economic benefits* embodied in that asset.

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

In some instances, no one department may have exclusive control of an asset ie it shares the right to the future economic benefits associated with the asset with another department. In this case, both departments 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 SAC 4.

It is possible that a department may own an asset but not control it. In these instances, the department must not recognise an asset but provide an explanation in the notes to its financial statements.

3.5 Past transaction or event

Before an asset can be recognised, the transaction or event giving rise to control of the future economic benefits embodied in the asset must have occurred. This criterion separates a department's existing assets from items that are only potential assets. For example, an announced intention to purchase land does not of itself give rise to the recognition of an asset. It is only when the transfer of control has taken place that the department can obtain and control the benefits it anticipates from the asset.

A transaction or event giving rise to control need not be one where equal value is exchanged between parties. Where an asset is given free of charge to a department, the gifting is the event that gives rise to control of future economic benefits.

3.6 Probability that future economic benefits will eventuate

For an asset to be recognised, it must be probable that the service potential or future economic benefits will eventuate, which means that the future economic benefit is more likely, rather than less likely, to arise or occur, based on available evidence or logic.

An asset which, at a particular time, fails the test of future economic benefit, may qualify for recognition as an asset at a later date as a result of other transactions or events.

3.7 Reliable measurement

An asset must not be recognised by a department unless its value can be measured reliably. However, in most instances it should be possible to determine a reliable value for financial reporting purposes, even if that value is a conservative one. This particularly applies to heritage assets. Reliability in this context depends on the underlying measurement assumptions. Careful professional judgement is required on a case-by-case basis. Disclosure of these assumptions will assist user understanding of the valuation and its relative reliability.

It also may be difficult to estimate accurately the useful life of some assets. However, this should not preclude recognition of the asset.

Comprehensive asset valuations normally should be undertaken by independent, professionally qualified experts acting at 'arms length', eg qualified valuers, engineers or quantity surveyors. Valuations based on in-house expertise may be undertaken where sufficient controls are in place to ensure the integrity and independence of the valuations, and the probability of over or under valuation also is small. In either case, the valuation methodology must be documented clearly. Where in-house valuations are used, the notes to the financial statements must disclose that those assets are recorded at management valuations.

3.8 Recognition Threshold

Different threshold levels, below the maximum, can be set for different classes of assets if variation in the levels provides more relevant information. A 'class of assets' is defined as the lowest sub-classification of assets reported in the financial statements of a department.

When setting asset recognition thresholds, the following factors must be taken into account:

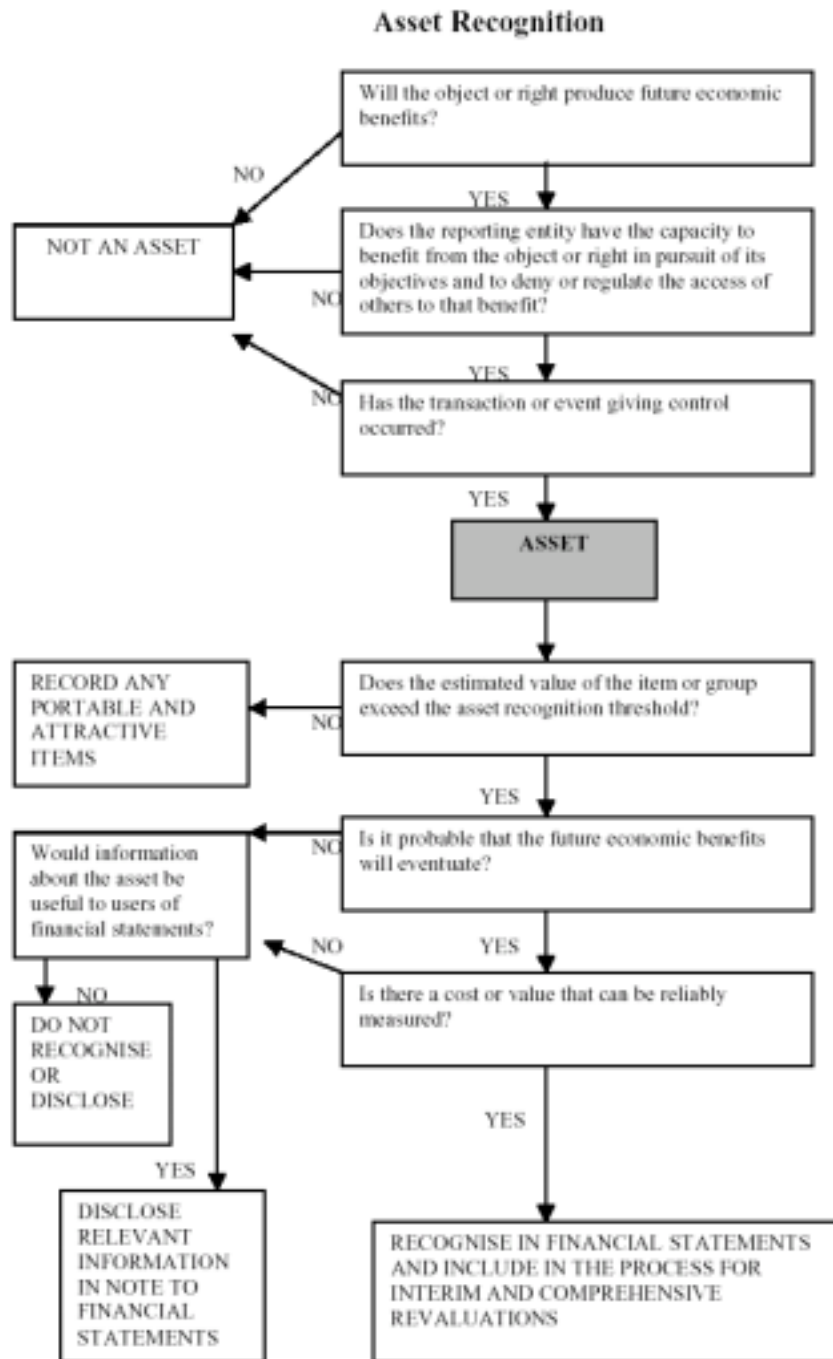
- for a small department with relatively few or low-valued assets, an appropriate threshold would be lower than that of a larger department with many high-valued assets;
- if the threshold is set too low, the cost of accounting for a large number of low-value items may exceed the benefit of having that information. Alternatively, if the threshold is set too high, the data will not be complete and the quality of the information will suffer; and
- whether the asset forms part of a group (refer section 4.1.2 Grouped Assets).

The asset recognition threshold of each department must be disclosed in the accounting policy notes of its financial statements. Changes to the asset recognition threshold are changes in accounting policy and must be disclosed, together with the cumulative financial effect of the change, in the notes to the financial statements.

As a default it is recommended that the asset recognition threshold be \$5 000.

The asset recognition principles are illustrated in Flowchart 1.

Flowchart 1



4 RECORDING OF ASSETS

Each department is to maintain a register of assets under its control, classified under the following headings:

- Infrastructure (includes roads, bridges, airports, water supply systems etc.);
- Land (vacant);
- Land and Buildings;
- Plant, Equipment and Vehicles (Operating/Support);
- Heritage assets including antiques and works of art; and
- Other.

The register should be capable of providing the following information:

- Asset description;
- Asset value and valuation policy;
- Location;
- Date of acquisition or assumption of control;
- Expected useful life;
- Assets subject to lease; and
- Funding source (State/Commonwealth/Other).

4.1 Asset Identification

The following principles are to be adopted in recognising assets for recording and reporting purposes.

4.1.1 Individual Basis

In general, assets are to be recognised and valued on an individual item basis. However, there will be instances where it is more appropriate to account for assets on a group basis, or account for material segments of an asset separately.

4.1.2 Grouped Assets

Many assets, particularly system assets, consist of a number of components. In principle, each component is capable of providing future economic benefits and could be accounted for as an asset separately. However, where the components operate as a cohesive whole to provide a common service, these 'grouped assets' are generally accounted for as one asset. It will therefore be more appropriate to value these items as a group rather than as individual assets. For example, it may be more appropriate to value a computer network as a group and record this as a single asset, rather than valuing and recording the network components separately.

Similarly, library and museum collections and other items of a similar nature may be more appropriately recorded, valued and reported as a group asset.

Where possible, consideration should be given to separate recording of individual components with a greater value than \$5 000.

4.2 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, 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 listed and recorded at 'nil' value in the Assets Register of the department.

5 REPORTING

Disclosure of asset values in departmental financial statements should be in accordance with applicable Australian Accounting Standards, in particular the requirements of AAS 4 *Depreciation*, AAS 10 *Recoverable Amount of Non-Current Assets*, AAS 36 *Statement of Financial Position*, AAS 29 *Financial Reporting in Government Departments* and AASB 1041 *Revaluation of Non-current Assets*.

Departmental reporting requirements, including model financial statements, are contained in Treasurer's Instructions 701 to 709.

6 MAINTENANCE, DEPRECIATION AND DISPOSAL OF NON-CURRENT ASSETS

6.1 Maintenance

Expenditure on assets must be capitalised (ie 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 annual service potential provided by the asset; or
- increasing the useful life of the asset.

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

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, ie does the expenditure increased the annual service potential or useful life of the component beyond the originally assessed standard.

Under UIG Abstract 26 *Accounting for Major Cyclical Maintenance*, a provision for future maintenance must no longer be recognised either as a liability or as a reduction in the carrying amount of the asset.

6.2 Depreciation

All non-current assets with limited useful lives, including intangibles, must be depreciated in accordance with AAS 4 *Depreciation*. Assets whose service potential does not diminish with time or use (eg many works of art) must not be depreciated.

Accurate depreciation rates are critical in correctly determining a department's financial performance. Departments should adopt the method of depreciation that reflects most closely the pattern of consumption or loss of the service potential embodied in their assets. Given the wide range of operating conditions and the geographic dispersion of assets, methods of depreciation, or depreciation rates are not prescribed in these guidelines. This is a matter for the professional judgement of each department based on its operational experience.

Where the loss of service potential can be objectively and verifiably measured on a systematic basis in each reporting period, depreciation may be calculated on this basis. For example, kilometres traveled could be used as the basis for depreciation of motor vehicles. This depreciation method must not be used where there is an element of subjectivity in the measurement of lost service potential. For example, it may not be possible to objectively gauge the loss of service potential of an office building in any given year.

When depreciating using this method, departments should still have reference to technological and commercial obsolescence and other constraints on the useful life of the

asset. Where loss of service potential cannot be objectively and verifiably measured, the depreciable amount of the asset should be allocated evenly over its estimated useful life ('straight-line' depreciation). The estimated useful life of an asset is the estimated useful life to the department.

Estimated useful lives must be as accurate as possible and take into account physical wear and tear, technical obsolescence and commercial obsolescence. Commercial obsolescence is the process of an asset becoming redundant through a fall in demand for the goods or services the asset is used to produce.

It is essential that departments develop realistic strategic asset management plans, with strategies for analysing the appropriateness of existing assets and for asset disposals. These aspects of the plans should be a major input to estimates of the useful lives of departmental assets. In some instances, the useful life of an asset may be difficult to determine accurately. In such cases, departments should make an estimate of the useful life of the asset based on past experience.

Useful life estimates must be determined in the year of acquisition and should be reviewed at least annually.

When a department becomes aware that the estimated useful life of an asset is likely to vary significantly, the department must adjust the useful life and the depreciation rate of the asset. Revision of the useful life must not be deferred until the remaining useful life of the asset is certain, eg when the asset is disposed of or retired.

Variations to useful life estimates are not in themselves revaluations for the purposes of AASB 1041 *Revaluation of Non-Current Assets*. However, departments must ensure that changes to estimates of useful life are consistent with asset revaluation decisions. For example, if the useful life of an asset measured at fair value is changed from 40 to 30 years, this implies a significant reduction in future economic benefits. To reflect this, the asset should be revalued as soon as possible afterwards.

Prior years' depreciation must not be adjusted following a change in the estimated useful life of an asset.

Incorrect estimation of the useful lives of assets can result in the following:

- incorrect annual depreciation expense resulting in invalid annual operating results;
- incorrect reported asset values; and
- significant gains and losses on disposal of assets, resulting in distorted operating results in the year of disposal.

Some assets will comprise a number of components with differing useful lives. Departments should depreciate these components separately over their useful lives where this would have a material impact on the total reported depreciation expense.

6.3 Disposal of non-current assets

The gain or loss on disposal of a non-current asset must be measured as the difference between the carrying amount of the asset as at the time of disposal and the net proceeds, if any, from disposal, and must be recognised in the net profit/loss result for the reporting period in which disposal of the asset occurs.

7 VALUATION OF ASSETS

AASB 1041 applies from the reporting period ending on 30 June 2002. Except for transitional provisions, the standard no longer permits use of the deprival value methodology. All classes of non-current assets are now required to be valued at fair value or at historic cost.

7.1 Application of Historic Cost Basis

Departments are to record at historic cost, all classes of non-current assets other than land, buildings, infrastructure, heritage and cultural assets.

AASB 1041 permits departments to record classes of assets at historic cost, in lieu of fair value. Where assets have relatively short useful lives, fair values may not differ significantly from depreciated historic cost. The cost of carrying out revaluations, in such cases, outweighs the benefits of obtaining asset valuations. Therefore, departments are to record, at historic cost, all classes of non-current assets other than land, buildings, infrastructure, heritage and cultural assets.

Where the historic cost basis is used, the carrying amount of the asset, on adoption of AASB 1041, should be recorded as the cost of the asset. Departments are not to revert to the original historic cost of the asset, even though this treatment is permitted by AASB 1041. To do so would reduce the relevance of reported asset figures.

Assets measured at historic cost should never be revalued upwards, even if they retain some service potential after being depreciated to nil value. Compliance with AAS 4 should prevent this situation arising.

7.1.1 Application of Recoverable Amount Test

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

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

Assets subject to AAS 10 cannot be carried at amounts in excess of their 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.

7.2 Application of Fair Value Basis

Departments are to record at fair value all land, buildings, infrastructure and heritage and cultural assets.

Fair value is not necessarily the market-selling price of the asset. Rather, it is the maximum value that a department would rationally pay to acquire the asset if it did not currently hold it, taking into account:

- quoted market price in an active and liquid market eg listed shares;
- the current market price of the same or similar asset eg land;
- the cost of replacing or reproducing the asset, if management intend to replace the asset;
- the remaining useful life and condition of the asset; and
- cashflows from future use and disposal.

Application of fair value to individual assets requires different approaches for different assets. An important distinction is that between:

- assets for which a market price for the asset in its current type and condition exists, or is able to be inferred, from market activity; and
- assets for which no such price exists or can be inferred.

For the former, the market price is the fair value. For the latter, fair value may be estimated by reference to the best available market evidence of the price at which the asset could be exchanged between knowledgeable, willing parties in an arms length transaction. This evidence includes current market prices for assets that are similar in use, type and condition (similar assets) and the price of the most recent transaction for the same or similar asset.

Fair value can be equated to the cost of replacing the future economic benefits contained in the asset. Future economic benefits from an asset can be any of the following:

- cashflows from future use;
- cashflows from disposal; and
- future service potential to the department.

7.2.1 Assets For Which a Market Price Can be Determined

Where there is an active and liquid market for assets similar in type and condition, the fair value of an asset is its price in that market eg land, houses and office accommodation. The market price should exclude any incidental costs of acquisition and any GST input tax credits that would accrue to the department if it acquired the asset.

Where a market price can be derived from market information, that price is regarded as the fair value of the asset eg discounting projected market rentals for similar buildings in the same location can be used to derive the value of an office building.

In some cases, an asset will comprise several components, for each of which it may be difficult to identify a market price (refer Section 6.1).

In some circumstances, the market buying price and the market-selling price of an asset differ materially because the asset could only be sold for its residual value (often the case with specialised assets where there is no market evidence of its market selling price). In this circumstance, the asset's fair value is the replacement cost of the asset's remaining future economic benefits, which is not necessarily the cost of replicating the asset.

Where assets belong to a cash generating operation, and the sum of the market buying prices of the assets forming that cash generating operation exceeds the fair value of that operation, the fair values of the assets would be determined after deducting that excess. The excess is:

- (a) first applied against the carrying amount of any purchased goodwill forming part of the cash generating operation; and
- (b) for any remainder, eliminated by reducing proportionately the market buying prices of each of the other assets forming part of the cash generating operation. In performing this process, no asset's fair value is measured at an amount less than its market-selling price.

The fair value of a cash generating operation would be estimated, in the absence of other market evidence, as the present value of the net cash inflows that market participants would expect the highest and best use of the operation to generate.

7.2.2 Assets where No Market Price Exists – Service Potential not Dependent on Generating Cash Flows

In some instances, there will be no market information on which fair value can be based. This is particularly the case where there is no active market for the asset in its current form eg infrastructure assets such as roads, harbours and dams and specialised buildings such as hospitals.

Assets in this category are those where:

- there is no market price for assets similar in type and condition;
- the service potential of the asset is not dependent on generating net cash inflows; and
- that service potential would rationally be replaced.

In these circumstances, the asset should be valued at the cost of replacing the future economic benefits from that asset. This value is the lower of the cost of a modern equivalent (depreciated current replacement cost) or the cost of reproducing the asset's future economic benefits (depreciated current reproduction cost).

Where the service potential represented by an asset would *not* rationally be replaced if the department were deprived of the asset, it should be measured instead at the higher of its market selling price or the net present value of future cashflows from its highest and best use.

7.2.3 Depreciated Current Replacement Cost

Depreciated current replacement cost is the cost per unit of future economic benefit of the most appropriate modern replacement facility, adjusted for any differences in production capacity and useful life. For example, a modern power station might generate twice the annual megawattage of an existing station. The existing station would be valued at one-half the cost of a new station, adjusted for the remaining useful life.

7.2.4 *Depreciated Current Reproduction Cost*

This is the cost of reproducing or replicating the future economic benefits of the asset.

Where the remaining future economic benefits from the asset are assessed as having changed, this should be taken into account in the revaluation. For example, if an asset has been damaged, or its estimated useful life is revised, an adjustment should be made to the asset's value to reflect the reduction in future economic benefits.

Reproduction cost should exclude, where feasible, the cost of reproducing features of the asset that do not contribute to its service potential. Similarly, where the existing asset is being only partially used, and the current service delivery could be delivered with assets of a lower size or cost, the severable excess capacity should be valued at its market selling price, if feasible, rather than its reproduction cost.

When an asset is revalued by reference to its current replacement/reproduction cost, the gross value of the asset should be restated at its current replacement/reproduction cost (as determined above) and accumulated depreciation should be restated on the basis of this new gross value.

Flowchart 2 on page 22 of these guidelines contains additional guidance on the processes to be followed in determining fair value.

7.3 Assets where No Market Price Exists – Service Potential Dependent on Cash Flows

Some departments, even though not established as commercial operations, may hold an asset for the purpose of generating cash inflows. Where there is no market price for such an asset, its value normally is estimated by reference to the best available market evidence of the price that could be exchanged between knowledgeable, willing parties in an arms length transaction. This evidence includes current market prices for assets that are similar in use, type and condition and the price of the most recent transaction for the same or a similar asset.

7.4 Application of the Discounted Cash Flow Approach

Where there is no market-buying price for a non-current asset, the discounted cash flow (DCF) method may be used to obtain a fair value for that asset. The DCF will estimate the present value of the net cash inflows that market participants would expect to receive from the highest and best use of the asset.

All significant assumptions underpinning the results of DCF analysis should be disclosed in notes to the financial statements. It should also be disclosed if there is a high probability that the results are unreliable, or are dependent on factors outside the department's control.

8 FREQUENCY OF REVALUATION

The frequency of revaluations for classes of non-current assets measured on the fair value basis depends on the frequency and materiality of changes in the fair values of the assets within that class of non-current assets.

8.1 Comprehensive Revaluations

Revaluation is necessary where the fair value of an asset in the class of non-current assets differs materially from its carrying amount. Some non-current assets may experience frequent and material movements in fair value, thus necessitating revaluation each reporting period. Such frequent revaluations are unnecessary for non-current assets that experience only immaterial movements in fair value. However, departments should undertake more frequent comprehensive revaluations where significant fluctuations in fair value are likely.

Comprehensive revaluations may be conducted progressively over more than one year, provided that all assets in a class are revalued within a five-year period. All assets not comprehensively revalued in a given year may be subjected to an interim revaluation.

8.2 Interim Revaluations

To maintain the value of assets in current terms, interim revaluations of assets measured at fair value may be performed on an annual basis. Indexation of the most recent valuation, which may be the acquisition cost, is a useful approach to updating values between comprehensive valuations. However, its use may be limited by the availability and timeliness of an index appropriate to a particular type of asset. A general price index may take account of the effects of inflation on asset prices, but not of obsolescence. Departments should ensure that sampling techniques are statistically valid.

Interim revaluations also should take into account any other changes that have a material impact on the value of the asset.

8.3 Valuation of Assets Acquired for no Cost or Nominal Consideration

Where control of an asset has been gained by way of a gift, bequest, subsidised purchase or compulsory acquisition, at less than its fair value, it may be valued at the amount at which the asset was recognised by the transferor immediately prior to the transfer.

Where the asset is included in a class of non-current assets measured on the fair value basis, the asset need not be revalued until the class of non-current assets is next revalued. If the transferred asset is in a class of assets, which are valued at historic cost, the pre-transfer value becomes the historic cost.

9 REVALUATION INCREMENTS AND DECREMENTS

Generally, increases and decreases in asset values on revaluation should be aggregated on an asset class basis. Net increases reflect an increase in the asset revaluation reserve of the department for that class, unless reversing a previous decrement that was recognised as an expense. In that case, the amount should be recognised as revenue. Net decreases should be shown as an operating expense unless a credit balance exists in the asset revaluation reserve for that class of asset. Where there is a credit balance, the revaluation decrement should be debited to the asset revaluation reserve.

When assets that are sold or disposed of have been subject to a revaluation increment that is still included in the balance of the department's asset revaluation reserve for that class of asset, this increment may be transferred from the reserve to the accumulated surplus/(deficit) section of equity with appropriate disclosure in the notes to the accounts.

Where assets are transferred between departments, asset revaluation increments, recorded in the asset revaluation reserve relating to those assets, are not transferred, but remain with the transferring department. The transferring department may transfer the revaluation increment, recorded for those assets, to the accumulated surplus/deficit section of equity.

Once amounts are transferred from an asset revaluation reserve to other equity accounts, they cannot be transferred back to the asset revaluation reserve and are not available to be applied against revaluation decrements for any other assets of the department.

Asset revaluation reserves must never have a negative balance.

10 OTHER VALUATION ISSUES

10.1.1 Discontinuation of the Application of the Fair Value Basis

As these guidelines mandate the valuation basis to be used, there should be little, if any, reason for a department to discontinue the application of the fair value basis.

10.1.2 Goods and Services Tax

All assets should be valued at amounts that are net of any tax payable, or input tax credits receivable, under goods and services taxation legislation. Where no GST is payable or input tax credits receivable, as in the case of most residential accommodation, no adjustment should be made.

10.1.3 Valuations on Acquisition

Assets that come under the control of a department within a financial year initially should be recognised at the cost of acquisition, in accordance with the provisions of AAS 21 *Accounting for the Acquisition of Assets (including Business Entities)*.

10.1.4 No Reliable Value Available

There may be instances when it is impossible to obtain a reliable value for an asset because of its unique nature or because its future economic benefits cannot be measured. In such a case, the department should disclose details of that asset in the notes to its financial statements, giving reasons why a reliable value is not available. These instances should be rare and every effort should be made to obtain a realistic valuation.

10.1.5 Renewals Accounting

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 not permitted under these guidelines.

Determination of Fair Value

