TREASURER'S DIRECTIONS

ACCOUNTING – ASSETS

Section A2.4 : Revaluation

STATEMENT OF INTENT

The revaluation of assets to their current values allows asset performance to be accurately assessed. This Section explains the basis of measurement of non-current assets and provides requirements relating to frequency of revaluations and accounting for revaluations.

MAIN FEATURES

Section 38 of the *Financial Management Act* requires every Accountable Officer and every employee of an Agency to comply with the Treasurer's Directions.

Revaluation

- Revaluation is the act of recognising a reassessment of the carrying amount of a non-current asset to its fair value as at a particular date.

Measurement Basis

- Land, buildings, infrastructure assets, heritage and cultural assets, intangibles and biological assets are to be revalued using the revaluation model.
- Other non-current assets are to be measured using the cost model.

Revaluation Model

- Agency non-current assets that are required to be measured using the revaluation model are to be carried at fair value less any accumulated depreciation and any accumulated impairment losses.
- Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms length transaction.
- Where reliable market-based evidence is not available the fair value of an Agency asset is to be determined with reference to its current market buying price.

Frequency of Revaluations

- Agency assets subject to the revaluation model are to be revalued at least once every 5 years.

Accounting for Revaluations

- Accounting for increases in asset values (increments) and decreases in asset values (decrements) is a complex area requiring a sound knowledge of this Treasurer's Directions Section.

For authoritative instruction and guidance, reference should be made to related Treasurer's Directions and associated commentary, relevant Australian accounting standards and other authoritative interpretations.

CONTENTS

AUTHORITIES

Financial Management Act

REFERENCES

AAS 29	Financial Reporting by Government Departments
AASB 5	Non-current Assets Held for Sale and Discontinued Operations
AASB 116	Property, Plant and Equipment
AASB 136	Impairment of Assets

Related Treasurer's Directions:

A2.1	Accounting – Assets : Overview
A2.2	Accounting – Assets : Property, Plant and Equipment
A2.3	Accounting – Assets : Depreciation and Amortisation
A2.5	Accounting – Assets : Improvements and Repairs and Maintenance
A2.10	Accounting – Assets : Impairment of Assets
A2.11	Accounting – Assets : Construction (Work in Progress)
A4.1	Accounting – Equity : Overview

WHAT IS A REVALUATION ?

A2.4.1 **Revaluation is the act of recognising a reassessment of the carrying amount of a non-current asset to its fair value as at a particular date.**

(i) The revaluation process accounts for changes in the values of assets over time due to things such as technological changes and inflation and assists in assessing asset performance by providing the current value of an Agency's asset holdings. The revaluation of assets also provides a more accurate assessment of the cost of delivering outputs.

(ii) The carrying amount or written down value of an asset is the amount it is recognised in an Agency's accounting records. The carrying amount is determined after deducting accumulated depreciation (for depreciable assets) and any accumulated impairment losses. Treasurer's Directions Section A2.3 provides instruction and guidance in relation to depreciation.

(iii) This Treasurer's Directions Section and AASB 116 do not apply to certain non-current asset classes such as:

- inventories; and
- financial assets, such as investments and receivables.

MEASUREMENT BASIS

A2.4.2 **After initial recognition, assets that belong to the following asset classes are to be revalued using the revaluation model:**

- **land;**
- **buildings;**
- **infrastructure assets;**
- **heritage and cultural assets;**
- **intangible assets; and**
- **biological assets (if any).**

A2.4.3 **Other classes of non-current assets are not to be revalued and are to continue to be measured using the cost model.**

(i) Requirements relating to the initial recognition and measurement of assets are provided in Treasurer's Directions Section A2.1. Subsequent to initial recognition:

- assets that belong to the specified classes of non-current assets are subject to revaluation and the carrying amount of the assets will be measured using the revaluation model (refer to Treasurer's Direction A2.4.8). Such assets will be valued at fair value; and
- other classes of non-current assets are not revalued and are to continue to be measured using the cost model (refer to Treasurer's Direction A2.4.6).

(ii) A class of non-current assets means a category of non-current assets having a similar nature or function in the operations of the Agency. High level non-current asset classes are provided in the Standard Classifications.

(iii) As there are costs and administrative effort associated with the revaluation of assets, it is not considered appropriate to revalue all classes of non-current assets. It is also not cost effective to revalue assets that are not material individually or in aggregate.

(iv) A flowchart depicting the classes of assets that are subject to revaluation is shown at Appendix A. Each Agency should consider the materiality of the assets within these classes for the purposes of revaluations. Generally, assets greater than or equal to $50,000 will be material in aggregate for most Agencies. However, assets with a value less than $50,000 that belong to a class of assets subject to revaluation, may be revalued where:

- not revaluing these assets would result in a material misstatement in aggregate asset values for that Agency;
- underlying values for those assets change to a material extent; or
- such a valuation would otherwise be considered appropriate.

(v) Regardless of the measurement model used, there may be certain assets that cannot be reliably measured. For example, the unique nature of some heritage and cultural assets may preclude reliable and meaningful measurement. Although these assets will not be recognised, they will remain subject to appropriate asset management control arrangements.

(vi) The term 'value' for the purposes of this Section refers to the cost or other amount at which the asset is recorded in the financial records of the Agency excluding any accumulated depreciation and any accumulated impairment losses.

A2.4.4 **Assets within a class of non-current assets are to be measured consistently on the same basis, using either the cost model or revaluation model.**

(i) For financial reporting purposes, it is necessary for each Agency to separately record non-current assets measured under the cost model and those measured under the revaluation model.

(ii) A class of non-current assets will include certain new assets that are initially recognised at cost as required by Treasurer's Direction Section A2.1. In practice an Agency may decide to continue to measure such assets at cost until the next revaluation for that asset class occurs. This would be applicable where the construction cost of a newly constructed asset equates to its fair value (for assets valued at depreciated replacement cost).

(iii) For example, on 31/12/X5 construction of a new Agency building is finalised. The next revaluation for the building assets class is due in one and half years time on 30/6/X7. The Agency decides to continue to measure the new building at its construction cost until the next revaluation is undertaken, at which point the building will be subject to independent valuation using the revaluation model along with other building assets.

A2.4.5 Where an improvement to an existing asset results in the total value of the asset becoming material for revaluation purposes, the asset is to be revalued on or before the next revaluation date for that class of assets provided the asset belongs to a class of assets subject to the revaluation model.

(i) Subsequent to the initial recognition of a non-current asset, additional outlays may be incurred that enhance the usefulness of the asset in terms of its service capacity, service quality or useful life. Where material, such outlays are recognised as improvements and are added to the carrying amount of the asset. Requirements relating to asset improvements are provided in Treasurer's Directions Section A2.5.

(ii) Improvements to existing non-current assets may result in the value of the asset becoming material for revaluation purposes. For example, a $40,000 building has substantial improvement works carried out that add $50,000 to the value of the building. Where the asset belongs to a class of non-current assets subject to revaluation, the asset will be subject to revaluation on or before the next revaluation date for that class of assets. In practice, an independent valuation of such assets will be deferred until the class of assets to which the asset belongs is being revalued.

COST MODEL

A2.4.6 Agency non-current assets that are required to be measured using the cost model are to be carried at cost less any accumulated depreciation and any accumulated impairment losses.

A2.4.7 The cost of an Agency asset includes:

- cost of acquisition (including the purchase price and any costs directly attributable to bringing the asset to its operating location);
- the fair value of assets acquired by an Agency at no cost (for example, gifts of assets), for nominal consideration or where no cost information is available; or
- the carrying amount recognised by the transferring Agency for assets received as a result of administrative restructures.

(i) Cost of acquisition is the purchase consideration plus incidental costs directly attributable to the acquisition and includes other costs incurred in bringing the asset to the location and condition necessary for its intended use. Instruction and guidance in relation to the aggregation of costs associated with constructed assets is provided in Treasurer's Directions Section A2.11.

(ii) Where an asset is purchased, it should be a straightforward process to measure its cost. However, in some cases it may be necessary to estimate the cost of an asset. In these cases, the value of a non-current asset may be deemed to be 'at cost', even though the value was determined with reference to fair value (for example, the asset's current market price).

(iii) Additional information in relation to the initial recognition of assets, the depreciation of assets, and asset impairment may be found in Treasurer's Directions Sections A2.1, A2.3 and A2.10 respectively.

REVALUATION MODEL

A2.4.8 **Agency non-current assets that are required to be measured using the revaluation model are to be carried at fair value less any accumulated depreciation and any accumulated impairment losses.**

A2.4.9 **Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms length transaction.**

(i) The fair value of an asset is the best estimate of the price reasonably obtainable in the market at a certain date and equates to the asset's market price where such a price is available. Where there is limited or no market based evidence available, the fair value of an asset will be estimated based on the asset's depreciated replacement cost. Many Agency building and infrastructure assets will be valued at depreciated replacement cost.

(ii) Among other things the determination of the fair value of Agency assets assumes that:

- value is based on reliable market information that is not adversely impacted by unrealistic terms and/or conditions;
- value has been determined based on the highest and best use of the asset that is legally, financially and physically possible. In this regard, possible future changes in use are not considered until little or no doubt exists that they will occur. For example, a highly sought after parcel of land which has been rezoned from parkland to residential use would be revalued based on the highest and best use of the land (for example, residential use);
- the Agency expects to continue operations in its current form and has not been or is not expected to be subject to a major restructure that would require the disposal of Agency assets on adverse terms; and
- adequate marketing will be undertaken in order to obtain the best price for the asset (assets held for sale).

(iii) Further instruction and guidance in relation to the determination of the fair value of Agency assets is discussed in the following paragraphs. In addition a flowchart summarising the application of the fair value basis is provided at Appendix B, while Appendix C provides additional guidance on the revaluation methodology for specific classes of non-current assets that are required to be revalued at fair value.

A2.4.10 Where an active and liquid market exists for an Agency asset, the asset's fair value is to be determined by reference to market-based evidence.

(i) Where an asset is held for sale and an active and liquid market exists for an asset, the net market value represents the best evidence of the fair value of the asset. Further discussion in relation to assets held for sale is found at Treasurer's Direction A2.4.13. Where an asset is not being held for sale but an active and liquid market does exist then the quoted market price generally represents the best evidence of the fair value of the asset. In an active and liquid market, buying price will approximate selling price.

(ii) An active and liquid market is said to exist for an asset if the asset can be readily bought and sold in the market at minimum cost. Prices in an active and liquid market result from a number of factors, including an assessment by market participants of the present value of an asset's expected future cash flows. Such prices are based on an assessment of all known potential uses of the asset, given that potential buyers may have different intentions.

(iii) A quoted market price will not always be available for assets requiring revaluation. In these cases, the fair value of the asset can be determined with reference to the:

- current market price for an asset that is similar in use, type and condition;
- price of the most recent transaction for the same or similar asset, provided there has not been a significant change in economic circumstances between the transaction date and the reporting date; or
- observable market evidence, for example, valuation of a building based on current market rentals using discounted cash flow analysis.

A2.4.11 Where market-based evidence is not available the fair value of an Agency asset is to be determined with reference to its current market buying price. The best indicator of market buying price is the depreciated replacement cost of the asset's remaining future economic benefits.

(i) The determination of fair value based on market based evidence may not be possible for assets such as those that are rarely, if ever, sold or those that are specialised. This will be the case for many Agency assets.

(ii) The market buying price and market selling price may differ to a material extent in some circumstances. For example, a specialised item of health equipment may have a market buying price of $5 million, but immediately after purchase have a market selling price of $1 million. This difference could be due to the highly specialised or tailored nature of the asset or a limited secondary market.

(iii) In addition, for certain public sector assets, such as specialised equipment, roads and some buildings, a current market selling price may simply not be available. In these situations the current market buying price of the asset will be the asset's fair value. The best indicator of the market buying price of Agency assets is the depreciated replacement cost of the asset's remaining future economic benefits.

(iv) Depreciated replacement cost is the current replacement cost of an asset less, where applicable, accumulated depreciation. Replacement cost does not necessarily represent the cost of replicating the asset as new, as only the remaining future economic benefits are taken into account. For example, an item of specialised communication equipment that is 5 years old has a useful life of 10 years and an 'as new' replacement cost of $10 million. Assuming that the asset delivers economic benefits evenly over its useful life, the asset's current replacement cost would be $5 million as it would be assumed that 50% of the asset's future economic benefits have been consumed.

(v) Where it is not possible to replace an existing non-current asset with an asset having similar service potential, it can be assumed that the asset will be replaced by its most modern equivalent, unless evidence exists suggesting otherwise. Examples of such assets may include roads, bridges and dams.

A2.4.12 **The sum of the current market buying prices for all assets forming part of an asset or operation is not to exceed the fair value of the complete asset or operation taken as a whole.**

(i) Certain complex non-current assets comprise a number of separately identifiable components that may be recognised as sub-assets and depreciated separately. Market evidence may not be available for these separately identifiable components that can be sold in their present state only as part of the sale of the complex asset or operation (taken as a whole). In such situations the individual asset's fair value will be its current market buying price.

(ii) The sum of the fair values of the individual component assets cannot exceed the fair value of the complex asset taken as a whole. Any excess will be removed by reducing proportionately the fair value of each of the individual component assets.

A2.4.13 **The fair value of an Agency asset held for sale is to be its net market value.**

(i) Where an asset held for sale and an active and liquid market exists, the asset's fair value will be the amount expected to be received on disposal of the asset after deducting expected selling costs (for example, auction costs and/or other selling costs).

(ii) However, in rare cases where assets meet the strict 'held for sale' criteria in AASB 5, the assets will be valued at the lower of carrying amount or fair value less selling costs. Treasurer's Direction Section A2.2 and AASB 5 provide further instruction and guidance in relation to assets held for sale.

A2.4.14 **Revaluations of Agency assets are to be conducted by experts that may include Government officers.**

(i) Revaluations will be undertaken by appropriately qualified and experienced persons who are considered experts for the relevant class of assets. This may include external bodies such as the Australian Valuation Office and other professional valuation firms, or Government officers who have the necessary qualifications and experience.

(ii) It is preferable that a revaluation is undertaken by independent experts, such as valuers, engineers, quantity surveyors or other experts for a specific class or asset type. The use of independent experts will give an impartial opinion in relation to the asset values provided and will also reduce the risk of adverse audit comment.

(iii) Agencies may consider the use of in-house expertise to value assets but should take into account such things as:

- skills, qualifications and experience available;
- the materiality of the asset(s) being revalued;
- sensitivity to under or over valuation; and
- availability and accuracy of relevant asset valuation data in corporate systems.

(iv) The provision of fair value information by Government officers would be particularly relevant in the case of assets that are valued at replacement cost, such as infrastructure assets and certain buildings. Interim revaluations, using externally verifiable data or indices may also be undertaken by Government officers.

(v) Regardless of who undertakes the revaluation, the valuation methodology should be clear and properly documented.

FREQUENCY OF REVALUATIONS

A2.4.15 **Revaluations of Agency assets are to be made with sufficient regularity to ensure that the total carrying amount of Agency assets subject to the revaluation model does not differ materially from fair value at reporting date.**

A2.4.16 **Agency assets subject to the revaluation model are to be revalued at least once every 5 years**

(i) The frequency with which an Agency undertakes revaluations will depend on the frequency and materiality of changes in the fair value of Agency assets subject to the revaluation model. At a minimum, Agency assets subject to the revaluation model will be undertaken at least once every 5 years as asset values would have been expected to change to some extent during that time. Each Agency should determine whether revaluations of asset classes are to be undertaken more frequently than every 5 years.

(ii) Interim revaluations, using suitable indices may be performed where differences between the carrying amount of assets and their fair value is apparent. The frequency of such interim revaluations will depend on the frequency and materiality of changes in the fair values of assets.

(iii) Where interim revaluations are undertaken using indices, these indices will need to be sufficiently robust to ensure assets are reliably valued. The Consumer Price Index is generally not considered suitable given that this index is based on a parcel of consumer goods that are unlikely to be representative of a class of Agency assets.

A2.4.17 **Subject to Treasurer's Direction A2.4.18 and where practical, the entire class of Agency assets is to be revalued at substantively the same date.**

A2.4.18 **Agency assets subject to the revaluation model may be revalued on a progressive basis provided that revaluations are conducted on a systematic basis that avoids the selective revaluation of assets.**

(i) The selective revaluation of assets, within a class of assets can lead to inconsistent asset values being reported in an Agency's financial statements. However, where large numbers of assets require revaluation and/or the revaluation process is complex and time consuming, a class of non-current assets will in practice be revalued on a progressive basis provided:

- such revaluations are conducted in a systematic manner (for example, a 5 year Agency revaluation plan is determined);
- all assets within that class are revalued within a 5 year period; and
- testing for impairment indicators is conducted at each reporting date.

(ii) Where possible, each Agency should undertake revaluations 'as at 30 June'. This will assist in reducing complexities in accounting and will allow some consistency for whole of Government reporting. Valuation work associated with revaluations 'as at 30 June' can in most cases occur well prior to 30 June.

(iii) The revaluation of a class of non-current assets will involve certain costs and administrative effort. This will particularly be the case with the appointment of external valuers. Consideration of the following will assist in the conduct of an efficient and effective revaluation process:

- use of sample valuation techniques for homogeneous assets;
- application of so called 'desktop' valuations (where appropriate); and
- use of appropriate indices in conjunction with a systematic revaluation program.

(iv) The development and application of an Agency revaluation plans should ensure that assets are valued in a systematic manner. Such plans could be based on such things as the type of asset or asset location or a combination of factors. An example of a progressive revaluation plan based on a regional analysis is shown below:

Year 1 – Darwin, Palmerston and Litchfield region assets;

Year 2 – Alice Springs region assets;

Year 3 – Barkly and Katherine region assets;

Year 4 – East Arnhem region assets; and

Year 5 – Assets that has been acquired, constructed or transferred into the Agency within the last five years which have not otherwise been valued.

ACCOUNTING FOR REVALUATIONS

A2.4.19 **Subject to Direction A2.4.20, a net revaluation increment relating to a class of assets is to be credited to the Asset Revaluation Reserve.**

A2.4.20 **A net revaluation increment is to be recognised as income in the Operating Statement where it reverses a revaluation decrement previously recognised as an expense for that class of assets.**

(i) A revaluation increment is the amount by which the revalued carrying amount (new value) of a non-current asset at the revaluation date exceeds its previous carrying amount (old value). A revaluation increment is the result of recognising an increase in the value of an asset.

(ii) Net revaluation increments are credited to the Asset Revaluation Reserve unless they reverse previous revaluation decrements for that class of assets. The Asset Revaluation Reserve is an equity account in the Balance Sheet and records increments, decrements and other adjustments, such as a reversal of an impairment loss. Equity is explained in Treasurer's Directions Section A4.1.

(iii) In situations, where a net revaluation increment reverses a previously recognised revaluation decrement (expense) for the same class of non-current assets, the increment is recognised as income (gain) in the Operating Statement. The increment is recognised as income only to the extent of expenses previously recognised. Any net revaluation increment remaining will be credited to the Asset Revaluation Reserve.

(iv) Where an asset is carried at a revalued amount in accordance with the revaluation model, a reversal of an impairment loss on the revalued asset will be treated as a revaluation increment in the revaluation reserve. The exception to this is when an impairment loss in relation to the revalued asset had previously been recognised in the Operating Statement, then the reversal is recognised directly in the Operating Statement. Treasurer's Directions Section A2.10 provides further instruction and guidance on the recognition of a reversal of an impairment loss.

A2.4.21 **Subject to Treasurer's Direction A2.4.22, a net revaluation decrement relating to a class of Agency assets is to be recognised as an expense in the Operating Statement.**

A2.4.22 **A net revaluation decrement is to be debited to the Asset Revaluation Reserve where a credit balance exists in the Asset Revaluation Reserve relating to that class of assets.**

(i) A revaluation decrement is the amount by which the revalued carrying amount (new value) of a non-current asset at the revaluation date is less than its previous carrying amount (old value). A revaluation decrement is the result of recognising a decrease in the value of an asset.

(ii) In certain cases, a net revaluation decrement is recognised as an expense (loss) in the Operating Statement. However, where a net revaluation decrement reverses a revaluation increment previously credited to, and still included in, the balance of an Asset Revaluation Reserve, the decrement is debited directly to the Asset Revaluation Reserve. The decrement is recognised in the Asset Revaluation Reserve only to the extent of the remaining balance for that class of assets. Any net revaluation decrement remaining will be recognised as an expense.

(iii) Where an asset is carried at a revalued amount in accordance with the revaluation model, any asset impairment losses will be treated as a revaluation decrease. Treasurer's Directions Section A2.10 provides further instruction and guidance on the recognition of an impairment loss.

A2.4.23 **When an Agency asset is revalued:**

(a) the gross value of the asset and any related accumulated depreciation are to be separately adjusted for the revaluation increment or decrement (preferred method); or

(b) any balance of accumulated depreciation at revaluation date is to be credited to the asset account to which it relates, and the asset account will then be adjusted for the revaluation increment or decrement.

(i) As most Agency assets are revalued based on depreciated replacement cost, the preferred method when accounting for revaluation adjustments is to restate both the gross asset value and the accumulated depreciation. This is accounted for as follows:

- the asset account is increased or decreased to reflect the revised replacement cost; and
- accumulated depreciation is adjusted to reflect the present condition of the asset with reference to the current replacement cost.

(ii) The above preferred method of accounting for revaluations provides users with information that will assist in assessing the condition of the assets by disclosing the expired component of the asset's useful lives. This method also provides information relevant to the possible amount and timing of cash flows for asset replacement purposes. This information is particularly useful for asset managers assessing the condition of infrastructure assets and buildings.

(iii) The alternative method of accounting for revaluations is to eliminate the accumulated depreciation against the gross asset value as follows:

- the balance of the related accumulated depreciation existing at the revaluation date is credited to the asset account (that is, accumulated depreciation is written back to zero) ; and
- the asset account is increased (or decreased) by the amount of the revaluation increment (or decrement).

(iv) Each Agency should note that the preferred method identified in Treasurer's Direction A2.4.23 will require valuers to provide a gross asset value as well as a reassessment of the 'value' of accumulated depreciation as at the date of revaluation. Regardless of the accounting method used, the carrying amount of the asset will be the same. Agencies should advise Treasury where material revaluation adjustments are not processed using the preferred method.

(v) Examples showing various revaluation scenarios are provided at Appendix D.

A2.4.24 Agency Asset Revaluation Reserves may only be adjusted as a result of:

- revaluation increments and decrements, which are to be offset against one another within a class of Agency assets, but are not to be offset in respect of different classes of assets;
- impairment losses (and reversals of impairment losses) as explained in Treasurer's Directions Section A2.10; and
- other transfers required by Australian Accounting Standards.

(i) Amounts recorded in the Asset Revaluation Reserve are effectively quarantined and may only be adjusted in certain situations.

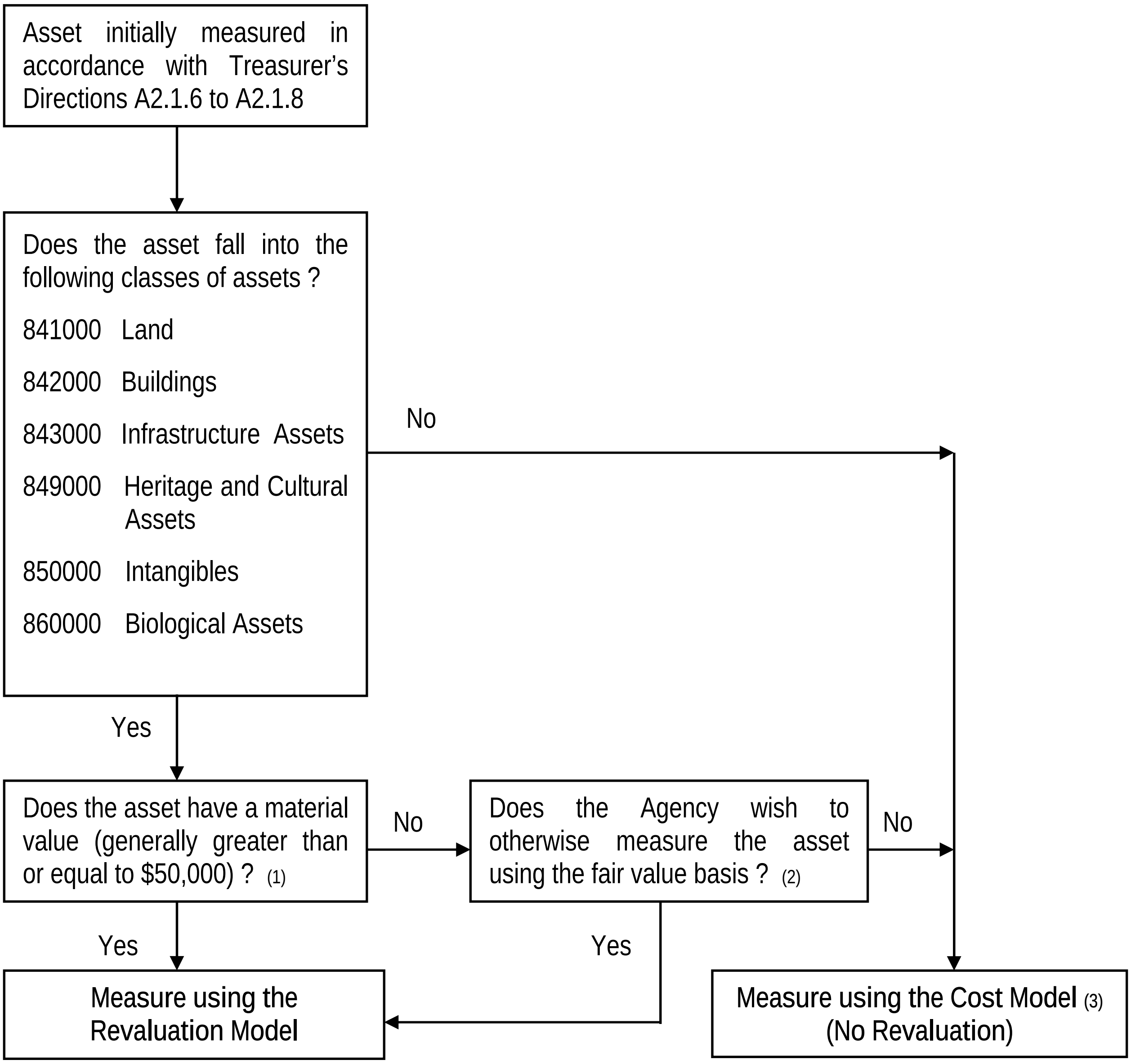
(ii) The balance in the Asset Revaluation Reserve for a class of non-current assets represents the total net revaluation increments (that is net of any revaluation decrements and/or asset impairment losses) that have been recognised for the relevant class of assets in prior periods. The increments and decrements relating to different classes of non-current assets are not to be offset.

(iii) Where an asset is carried at a revalued amount in accordance with the revaluation model, any asset impairment losses shall be treated as a revaluation decrease in accordance with Treasurer's Directions A2.4.22. That is an impairment loss on a revalued asset should be recognised directly against any revaluation reserve for the same class of asset to the extent the impairment loss does not exceed the amount in the revaluation reserve for that same class of asset.

(iv) If in future there is a reversal of the impairment loss then this reversal will be treated as a revaluation increase and recognised in the revaluation reserve for the same class of asset in accordance with A2.4.20. Agencies should be aware that restrictions exist in relation to accounting for the reversal of an impairment loss. Treasurer's Directions Section A2.10 provides further instruction and guidance on the recognition of an impairment loss and the reversal of an impairment loss.

APPENDIX A

MEASUREMENT BASIS



(1) To be reassessed if the asset's value becomes material as a result of improvements.

(2) Agencies should remain aware of the costs of revaluing assets.

(3) The following classes of non-current assets are measured using the cost model:

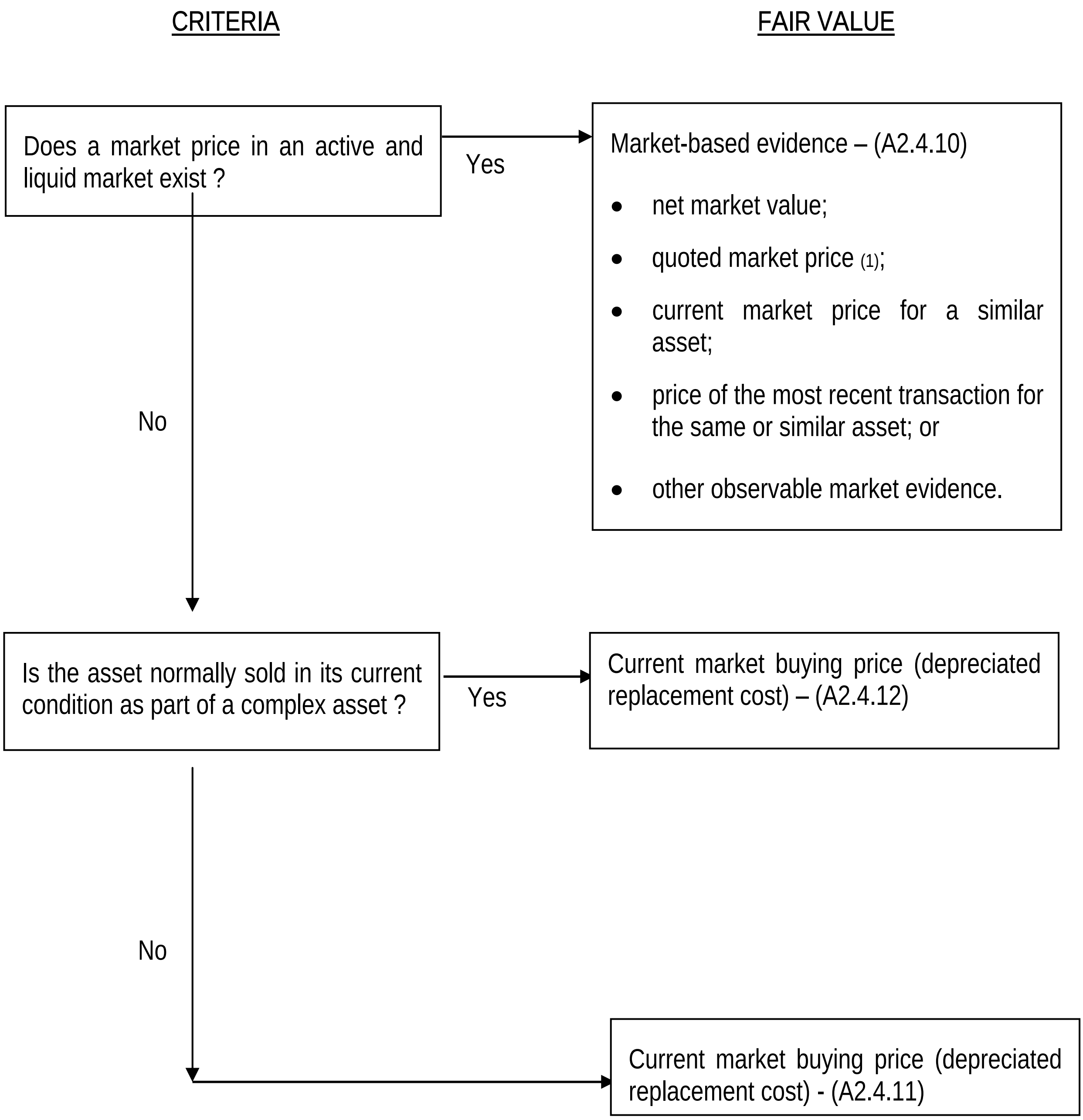
844000	Construction (Work in Progress) **	847000 Computer Hardware
845000	Plant and Equipment	848000 Transport Equipment
846000	Computer Software	

** Construction (Work in Progress) is valued at cost during construction and upon transfer to the relevant Agency asset class on completion. The relevant asset will generally become subject to the valuation basis attributable to that class of assets on the next revaluation date for that class of assets.

APPENDIX B

FAIR VALUE BASIS UNDER THE REVALUATION MODEL

The following flowchart has been developed to assist Agencies in applying the fair value basis. References to individual Treasurer's Directions are included in brackets.



(1) In an active and liquid market, buying price will approximate selling price.

APPENDIX C

GUIDANCE ON APPLYING THE FAIR VALUE BASIS

Asset Type	Fair Value Basis (in order of application)
LAND	Standard Classification Code 841000
Vacant Crown land	Current market price for a similar parcel of land considering size, location and any restrictions on existing use
Land dedicated to a specific use	1. Current market price for the parcel of land; 2. Current market price for a similar parcel of land considering size, location and any restrictions on existing use; or 3. Net present value of discounted expected future lease rentals.
Land under roads	Not recognised as an asset
Land held for sale (1)	Net market value
Parkland and reserves	Current replacement cost of remaining future economic benefits considering existing restrictions on use.

Additional factors to be considered in the measurement of land assets:

Where land is to continue to provide benefit in its existing use, for example a school building -

- location of the block of land (for example, a block of land in the Central Business District will have a greater value than a similar block of land in a rural area);
- overall size of the block of land (for example, larger blocks of land may have a higher value compared to smaller blocks of land in the same area);
- existing improvements, for example sewerage, drainage, access to power etc;
- any restrictions on the use of land, for example zoning restrictions, heritage orders, conservation orders, etc;
- sales evidence to allow market evidence to be used as an indicator of value; and
- any formal Court Determinations (for example, claims for Native Title).

Where it is known that the existing use of land is to cease or be amended, the following additional factors should be considered -

- possible alternative use of the land, including potential for subdivision or other development; and
- any other intrinsic, environmental or economic worth.

(1) For those assets that meet the strict 'held for sale' criteria in AASB 5, the assets will be valued at the lower of carrying amount or fair value less selling costs. Refer to Treasurer's Directions Section A2.2 for instruction and guidance in relation to the recognition and measurement of held for sale.

APPENDIX C (continued)

Asset Type	Fair Value Basis (in order of application)
BUILDINGS	Standard Classification Code 842000
Buildings in use such as office blocks, public buildings, rental housing, etc.	1. Current market selling price of the building; 2. Current market selling price of similar building; or 3. Current replacement cost of remaining future economic benefits, if none of the above values can be accurately and reliably determined.
Building held for sale (1)	Net market value

Additional factors to be considered in the measurement of building assets:

- location of the building;
- existing use or purpose of the building, whether commercial, residential, etc;
- condition of the building, for example the value of a well maintained building will generally be higher than a similar building in disrepair; and
- sales evidence to allow market evidence to be used as an indicator of value.

(1) For those assets that meet the strict 'held for sale' criteria in AASB 5, the assets will be valued at the lower of carrying amount or fair value less selling costs. Refer to Treasurer's Directions Section A2.2 for instruction and guidance in relation to the recognition and measurement of held for sale

APPENDIX C (continued)

Asset Type	Fair Value Basis (in order of application)
INFRASTRUCTURE ASSETS	Standard Classification Code 843000
Roads, footways, carparks	Current replacement cost of remaining future economic benefits
Bridges	Current replacement cost of remaining future economic benefits
Marine Structures – marinas, wharves, jetties	Current replacement cost of remaining future economic benefits
Hydraulic Structures – dams, reservoirs, weirs	Current replacement cost of remaining future economic benefits

Additional factors to be considered in the measurement of infrastructure assets:

- condition of the asset;
- major periodical maintenance to sustain the longevity of the asset;
- whether the asset is part of a major asset; and
- that the asset will be replaced by its modern equivalents. Refer to Treasurer's Direction A2.4.11 and associated commentary.

APPENDIX C (continued)

Asset Type	Fair Value Basis (in order of application)
HERITAGE AND CULTURAL ASSETS	Standard Classification Code 849000
Heritage buildings	Current replacement cost of remaining future economic benefits
Artworks, monuments, artefacts, historical items, etc.	1. Current market selling price of the asset; 2. Current market selling price of a similar asset; or 3. Current replacement cost of remaining future economic benefits, if none of the above values can be accurately and reliably determined.

Additional factors to be considered in the measurement of heritage and cultural assets:

- the unique nature of many heritage and cultural assets and lack of active and liquid markets may preclude reliable measurement.

APPENDIX C (continued)

Asset Type	Fair Value Basis (in order of application)
INTANGIBLES	Standard Classification Code 850000
Intangibles	1. Current market selling price of the assets; 2. Current market selling price of similar assets; or 3. Current replacement cost of remaining future economic benefits, if none of the above values can be accurately and reliably determined.

Asset Type	Fair Value Basis (in order of application)
BIOLOGICAL ASSETS	Standard Classification Code 860000
Held for the primary purpose of aesthetics, ecology, environment recreation or research (crops, cattle, etc).	1. Current market selling price of the assets; 2. Current market selling price of similar assets; or 3. Current replacement cost of remaining future economic benefits, if none of the above values can be accurately and reliably determined.
Held primarily for gain or sale, for example for sale in their own right or held to generate produce for sale	Net market value

Additional factors to be considered in the measurement of biological assets:

- the lack of active and liquid markets may preclude reliable measurement.

APPENDIX D

ACCOUNTING FOR REVALUATIONS – EXAMPLES

Example 1 – Revaluation of a Non-Depreciable Asset – (increment followed by decrement)

An Agency controls a block of land with a value of $100,000. This asset comprises the entire class of non-current assets and no revaluation increments, revaluation decrements or impairment losses have been recognised in respect of that class of assets in prior years. On 30 June X3 the block of land is revalued to $120,000.

The journal entries required to recognise the revaluation are as follows:

DR	Land Assets	*(Increase in Assets – Balance Sheet)*	$20,000	
CR	Asset Revaluation Reserve - Land	*(Increase in Equity – Balance Sheet)*		$20,000

On 30 June X7, the block of land is revalued to $90,000. The journal entries to recognise the revaluation are as follows:

DR	Asset Revaluation Reserve - Land	*(Decrease in Equity – Balance Sheet)*	$20,000	
DR	Loss on Revaluation of Land Assets	*(Increase in Expenses – Operating Statement)*	$10,000	
CR	Land Assets	*(Decrease in Assets – Balance Sheet)*		$30,000

The impact of the above journal entries on the asset account is as follows:

	30/06/X2 ($)	30/06/X3 ($)	30/06/X7 ($)
Land	100,000	120,000	90,000

APPENDIX D (continued)

Example 2 – Revaluation of a Non-Depreciable Asset – (decrement followed by increment)

An Agency controls a block of land with a value of $100,000. This asset comprises the entire class of non-current assets and no revaluation increments, revaluation decrements or impairment losses have been recognised in respect of that class of assets in prior years. On 30 June X3 the block of land is revalued to $90,000.

The journal entries required to recognise the revaluation are as follows:

DR	Loss on Revaluation of Land Assets	*(Increase in Expenses – Operating Statement)*	$10,000	
CR	Land Assets	*(Decrease in Assets – Balance Sheet)*		$10,000

On 30 June X7, the block of land is revalued to $120,000. The journal entries to recognise the revaluation are as follows:

DR	Land Assets	*(Increase in Assets – Balance Sheet)*	$30,000	
CR	Revaluation Increment	*(Increase in Income – Operating Statement)*		$10,000
CR	Asset Revaluation Reserve - Land	*(Increase in Equity – Balance Sheet)*		$20,000

The impact of the above journal entries on the asset account is as follows:

	30/06/X2 ($)	30/06/X3 ($)	30/06/X7 ($)
Land	100,000	90,000	120,000

APPENDIX D (continued)

Example 3 – Revaluation Increment for a Depreciable Asset

On 30 June X2, an Agency revalues a building with a cost of $100,000 and accumulated depreciation of 20,000. This asset comprises the entire class of non-current assets and no revaluation increments, revaluation decrements or accumulated impairment losses are associated with the asset. The building is revalued to $90,000 based on an estimate of the buildings depreciated replacement cost (current replacement cost $120,000 and accumulated depreciation $30,000).

The journal entries required to recognise the revaluation are as follows:

Scenario 1: Building is revalued by proportionately restating accumulated depreciation (refer Treasurer's Direction A2.4.23(a) – preferred method)

DR	Building Assets	*(Increase in Assets – Balance Sheet)*	$20,000	
CR	Accumulated Depreciation	*(Increase in Contra Asset – Balance Sheet)*		$10,000
CR	Asset Revaluation Reserve - Buildings	*(Increase in Equity – Balance Sheet)*		$10,000

Scenario 2: Building is revalued and accumulated depreciation is written back to 'zero' (refer Treasurer's Direction A2.4.23(b) – non-preferred method)

DR	Accumulated Depreciation	*(Decrease in Contra Asset – Balance Sheet)*	$20,000	
CR	Building Assets	*(Decrease in Assets – Balance Sheet)*		$20,000
DR	Building Assets	*(Increase in Assets – Balance Sheet)*	$10,000	
CR	Asset Revaluation Reserve - Buildings	*(Increase in Equity – Balance Sheet)*		$10,000

The impact of the above journal entries on the asset account is as follows:

	Pre-revaluation	Post-revaluation	
	30/06/X2 ($)	Scenario 1 30/06/X2 ($)	Scenario 2 30/06/X2 ($)
Buildings	100,000	120,000	90,000
Accumulated Depreciation – Buildings	(20,000)	(30,000)	-
Carrying Amount – Buildings	80,000	90,000	90,000

APPENDIX D (continued)

Example 4 – Revaluation Decrement for a Depreciable Asset

On 30 June X2, an Agency revalues a building with a cost of $100,000 and accumulated depreciation of $20,000. This asset comprises the entire class of non-current assets and no revaluation increments, revaluation decrements or impairment losses are associated with the asset. The building is revalued to $60,000 based on an estimate of the depreciated replacement cost of the building (current replacement cost $90,000 and accumulated depreciation $30,000).

The journal entries required to recognise the revaluation are as follows:

Scenario 1: Building is revalued by proportionately restating accumulated depreciation (refer Treasurer's Direction A2.4.23(a) – preferred method)

DR	Loss on Revaluation of Building Assets	*(Increase in Expenses – Operating Statement)*	$20,000	
CR	Building Assets	*(Decrease in Assets – Balance Sheet)*		$10,000
CR	Accumulated Depreciation	*(Increase in Contra Asset – Balance Sheet)*		$10,000

Scenario 2: Building is revalued and accumulated depreciation is written back to 'zero' (refer Treasurer's Direction A2.4.23(b) – non-preferred method)

DR	Accumulated Depreciation	*(Decrease in Contra Asset – Balance Sheet)*	$20,000	
CR	Building Assets	*(Decrease in Assets – Balance Sheet)*		$20,000
DR	Loss on Revaluation of Building Assets	*(Increase in Expenses – Operating Statement)*	$20,000	
CR	Building Assets	*(Decrease in Assets – Balance Sheet)*		$20,000

The impact of the above journal entries on the asset account is as follows:

	Pre-revaluation	Post-revaluation	
		Scenario 1	Scenario 2
	30/06/X2 ($)	30/06/X2 ($)	30/06/X2 ($)
Buildings	100,000	90,000	60,000
Accumulated Depreciation – Buildings	(20,000)	(30,000)	-
Carrying Amount – Buildings	80,000	60,000	60,000