



Australian Accounting Standards – Key issues in Asset Management

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A reminder of the Questions from December

- How is land valued (is it fair value and how is this determined) and is it depreciated and could you provide more information on the treatment of land under roads (a specific accounting standard in Australia)?
- Could you provide more information on heritage and cultural assets and the mechanism for valuation and calculating depreciation?
- Do the Australian accounting standards take into account the fiscal code and tax code
- Who is responsible for revaluation of assets in Australia?
- Could you please provide the list of 54 standards along with a specific example of a dual standard (Australia has dual standards for profit and not-for-profit entities)?
- How are fully depreciated assets dealt with in Australia and other countries?

Some additional responses relating to the Survey are also included



Overview of Australian Accounting Standards

- The AASB deals directly with the adoption of IFRS Interpretations as Australian Interpretations and with IFRS improvements as amendments to Australian Accounting Standards.
- The AASB considers that a unique Australian interpretation of IFRS would be warranted only in rare and exceptional circumstances.
- In the event the AASB considers that a unique Australian interpretation is warranted, it would form an Advisory Panel, constituted as a committee of the AASB, as required on a topic-by-topic basis.



Adopting and Adapting IFRS for Australian Requirements

- Australian Accounting Standards comply with IFRS except where the AASB deems it necessary to adapt the standards.
- In general these adaptations are for not-for profit reporting entities
- Paragraphs that have been added to an Australian Standard are identified with the prefix "Aus", followed by the number of the preceding IASB paragraph and decimal numbering.
- Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.
- A sample disclosure regarding compliance
 - For-profit entities that comply with AASB 116 as amended will simultaneously be in compliance with IAS 16 as amended.
 - Not-for-profit entities using the added "Aus" paragraphs in the Standard that specifically apply to not-for-profit entities may not be simultaneously complying with IAS 16.

AASB and IPSAS

- In paragraph 37 of the AASB Policies and Processes document, the AASB states:
- “The AASB contributes to the technical agenda and processes of the IPSASB in order to foster the development of IPSASs on the basis that IPSASs are expected, in due course, to become the most relevant and appropriate Standards for public sector not-for-profit entities. The AASB is pursuing this aspiration on the grounds that the IPSASB will:
 - (a) continue to base IPSASs on IFRSs, departing from IFRSs only to the extent appropriate for public sector issues; and
 - (b) develop high-quality Standards on topics affecting the public sector that are not dealt with by the IASB

Modifications for Not-For-Profit entities including government accounting entities

- The only basis for modifying an IFRS in respect of its application to not-for-profit (NFP) entities in Australia is the AASB’s assessment that the IASB’s focus on for-profit entities means that an IFRS does not appropriately address NFP issues.
- To this end, modifications may be considered to be appropriate due to differences between the NFP and for-profit sectors, user needs and cost-benefit considerations. For example, differences in user needs would be considered in terms of the following factors: the nature of transactions and events and their impact on NFP entities, the benefits to financial report users of complying with IFRSs, and the costs of such compliance.
- You would expect these modifications to also largely be reflected in IPSAS when compared to IFRS (remembering that Australia commenced implemented accrual accounting for the public sector before IPSAS were in place)

Legislative Framework

- The Finance Minister makes the *Finance Minister's Orders (Financial Statements for reporting periods ending on or after 1 July 2011)* under the relevant provisions as set out below:
 - subsection 63(1) of the *Financial Management and Accountability Act 1997* in relation to how financial statements must be prepared by agencies (*not for Profit*);
 - subsection 48(1) of the *Commonwealth Authorities and Companies Act 1997* in relation to how financial statements must be prepared by authorities (*profit*);
- Other relevant provisions under specific enabling legislation for certain bodies

The Legal Framework for Public Sector Accounting

AASB

- [Accounting Guidance Notes](#);
- [AAS issued by the AASB](#);
- [AASB Interpretations](#);
- [AASB Framework for the Preparation and Presentation of Financial Statements](#);
- [Statements of Accounting Concepts \(SACs\)](#);

Department of Finance

- [Finance Briefs](#);
- [Finance Circulars](#);
- [Finance Minister's Orders User Guide](#);
- [Financial Management Guidance](#);
- [Estimates Memoranda](#);

Legislation

- [FMA Act](#);
- [Financial Management and Accountability Regulations 1997](#);
- [CAC Act](#);
- [Commonwealth Authorities and Companies Regulations 1997](#);
- [Commonwealth Authorities and Companies \(Report of Operations\) Orders 2008](#);
- [Corporations Act 2001](#); and
- [Australian System of Government Finance Statistics](#)

Assets Initially Recognised at Cost

- An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.
- Aus15.1 Notwithstanding paragraph 15, in respect of not-for-profit entities, where an asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition.

Asset Measurement after Recognition

- An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

Cost Model

- After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation Model

- After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.



AASB117- Depreciation

Depreciation Method

- The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.
- The depreciation method applied to an asset shall be reviewed at least at the end of each annual reporting period
- If significant change in the expected pattern of consumption occurs the method of depreciation shall be changed to reflect the changed pattern.
- Such a change shall be accounted for as a change in an accounting estimate in accordance with AASB 108.



Methods of Depreciation

- The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.
- That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.

Three options for depreciation

- Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change.
- The diminishing balance method results in a decreasing charge over the useful life.
- The units of production method results in a charge based on the expected use or output.



Correcting Errors in Depreciation and the useful life

- The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.
- The residual value and the useful life of an asset shall be reviewed at least at the end of each annual reporting period and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with AASB **108 Accounting Policies, Changes in Accounting Estimates and Errors.**



Valuation – Fair Value AASB 13

- Fair value is a market-based measurement, not an entity-specific measurement.
- For some assets and liabilities, observable market transactions or market information might be available.
- For other assets and liabilities, observable market transactions and market information might not be available.
- However, the objective of a fair value measurement in both cases is the same – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions
- When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.
- Three widely used valuation techniques are the market approach, the cost approach and the income approach. An entity shall use valuation techniques consistent with one or more of those approaches to measure fair value.



Fair Value – Measurement AASB 13

- Market Approach - A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business.
- Income Approach - Valuation techniques that convert future amounts (eg cash flows or income and expenses) to a single current (ie discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost Approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).



AAS108 - Consistency of Accounting Policies

An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an Australian Accounting Standard specifically requires or permits categorisation of items for which different policies may be appropriate. If an Australian Accounting Standard requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

- ***In part answers the question as to whether you can use different measurement criteria***

Changes in Accounting Policy will be Disclosed

- In accordance with AASB 108 an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:
 - (a) residual values;
 - (b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment;
 - (c) useful lives; and
 - (d) depreciation methods.

AASB 108- Changes in Estimates

- As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information. For example, estimates may be required of:
 - (a) bad debts;
 - (b) inventory obsolescence;
 - (c) the fair value of financial assets or financial liabilities;
 - (d) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets
- The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.



AASB108

- Users of financial statements may also find the following information relevant to their needs:
 - (a) the carrying amount of temporarily idle property, plant and equipment;
 - (b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
 - (c) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with AASB 5; and
 - (d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.
- Therefore, entities are encouraged to disclose these amounts.
- Thus it is conceivable that fully depreciated assets would still be in service given that, the useful life and depreciation methods are matters of judgment, however, the reason for disclosure is to allow decision makers to see information which may provide guidance on the appropriateness of these policies.



Impairment- AAS 136

- The objective of this Standard is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognise an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.



Testing for Impairment of Intangible Assets – AAS136

- Irrespective of whether there is any indication of impairment, an entity shall also:
 - (a) test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognised during the current annual period, that intangible asset shall be tested for impairment before the end of the current annual period;
 - (The ability of an intangible asset to generate sufficient future economic benefits to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use than after it is available for use. Therefore, this Standard requires an entity to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use.)



Heritage and Cultural Assets

- **Heritage and cultural items must only be recognised as assets where they meet the asset definition and recognition criteria set out in [AASB 116](#) or [AASB 138](#).**
- **Only assets that are primarily used for purposes that relate to their cultural, environmental or historical significance can be accounted for as heritage and cultural assets.**
- Heritage and cultural items are buildings, other structures, works of art, artefacts, collectables, historical treasures, nature reserves, national parks, or similar items, which are used for their cultural, environmental or historical significance. Heritage and cultural assets will generally be:
 - used for public exhibition, education or research; and/or
 - protected, cared for and preserved.
- Buildings of historical interest that are used primarily to provide office accommodation should not be accounted for as heritage and cultural assets.

Heritage and Cultural Assets

- Assets that are:
 - used for the community’s benefit;
 - represent, in part, Australia’s cultural and historic background; and
 - are primarily used for purposes that relate to their cultural, environmental or historical significance.
 - Heritage and cultural assets do not include structures constructed to assist with the display, transport or storage of the item, unless the structure has such heritage value in its own right or is an integral part of the asset.

Heritage Assets

- **Asset recognition criteria**
 - Not all heritage or cultural items will meet the accounting definition of assets despite having intrinsic heritage value.
 - Only items that are useful to the entity in achieving its objectives and have a financial value that can be reliably measured are recognised as assets.
 - Where a heritage and cultural asset is irreplaceable and has no market price, it is unlikely that its value can be reliably measured.
- **Useful lives**
 - Once curatorial and preservation policies are established, heritage and cultural assets may be deemed to have an indefinite useful life, and as such, not depreciated - Entities should ensure they only depreciate these assets where they are determined to have a limited life.



Intangible assets – AASB13A

- Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a licence or patent) or film.
In determining whether an asset that incorporates both intangible and tangible elements should be treated under AASB 116 Property, Plant and Equipment or as an intangible asset under this Standard, an entity uses judgement to assess which element is more significant.
- For example, computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as property, plant and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.



Intangible Assets- AASB138A

- Common examples are:
 - computer software ,patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licences, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights.
- Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (e.g. a prototype), the physical element of the asset is secondary to its intangible component, that is, the knowledge embodied in it.
- To be an an intangible asset it must first meet the general definition of an asset.



Future increases in the value of many Intangible Assets is Unlikely – AASB138

- The nature of intangible assets is such that, in many cases, there are no additions or replacements beyond the initial recognition of that asset.
- Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria.
- In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the business as a whole.
- Therefore, only rarely will subsequent expenditure – expenditure incurred after the initial recognition of an acquired intangible asset or after completion of an internally generated intangible asset – be recognised in the carrying amount of an asset.



Intangible Assets Continued

- An intangible asset shall be recognised if, and only if:
 - (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
 - (b) the cost of the asset can be measured reliably.
- An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.
- An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.
- An intangible asset shall be measured initially at cost.
- **Aus24.1** in respect of not-for-profit entities, where an asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition.



Internally Generated Intangible Assets (AASB138)

- To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:
 - (a) a research phase - Research phase is expensed
 - (b) a development phase.
- An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:
 - (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
 - (b) its intention to complete the intangible asset and use or sell it;
 - (c) its ability to use or sell the intangible asset;
 - (d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
 - (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
 - (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.



AASB 138

- Initial recognition of the value of intangible assets is undertaken using the cost model
- Subsequently, an entity shall choose either the cost model or the revaluation model as its accounting policy.
- If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.
- This would generally presume an active market to determine the fair value of the assets.

Intangible Assets - Useful Life

- Assets with a finite life should be depreciated
- Assets with an Indefinite life should be test annually for impairment
- Many intangible assets such as software, are subject to short useful lives (the asset becomes redundant).
- Prudent judgment
- Choose the relevant method for depreciation - straight line is the default method
- The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at the end of each annual reporting period.
- If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly.
- Changes shall be accounted for as changes in accounting estimates in accordance with AASB 108.

Do the standards integrate Fiscal and Tax Requirements?

Income TAX- AASB 112

Income Tax Guidance – Revenues, expenses and assets shall be recognised net of the amount of goods and services tax (GST)

- Interpretations
 - 1052-** Consolidated Tax issues
 - 1031-** Goods and Services tax

Land Under Roads – A Standard Still Under Development

Background

Land under roads is land under roadways, and road reserves, including land under footpaths, nature strips and medium strips.

Land under roads acquired before 1 July 2008

AASB 1051 requires entities to make an election to recognise or not to recognise land under roads acquired before 1 July 2008, however, to ensure consistency across the Commonwealth the Department of Finance and Deregulation have elected that reporting entities will not recognise land under roads acquired before 1 July 2008.

Land under roads acquired after 30 June 2008

Land under roads acquired on or after 1 July 2008 shall only be recognised if and only if:

- i) It is probable that future economic benefits associated with the item will flow to the entity;
- ii) The cost or other value of the item can be measured reliably; and
- iii) The amount is material.



Land Under Roads

The AASB *Framework* is silent in regards to the degree of the contribution necessary to meet this requirement, therefore the future economic benefits test is satisfied. Agencies will need to assess land under roads contribution to their objectives regularly.

Reliably Measured

AASB 116 determines fair value based on highest and best possible use. Therefore, the valuation of the land under roads would be based on its potential rather than as a road.

As at 31 January 2009 it is understood that Valuer-Generals in Australia have not come to agreement on a method that both objectively and reliably measures the value of land under roads.

Given the difficulties in reliably measuring land under roads Finance requests agencies contact Finance to assist in the determination of whether the land under roads can be reliably measured. Where land under roads is acquired on 1 July 2008 or later and does not satisfy the asset recognition criteria, it shall not be recognised.

Materiality

Even where the value of land under roads can be determined, it may only be recognised as an asset when material.

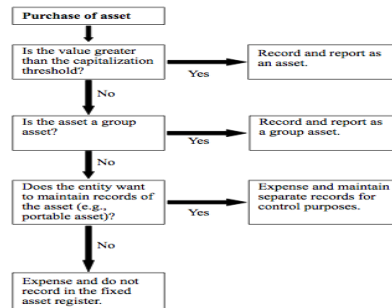


Low Value Assets - Thresholds

The use of capitalization thresholds reduces the cost of gathering data because it decreases the total number of fixed assets that have to be recorded and tracked. A decision needs to be made about the materiality of certain assets –lower value assets that the cost of recognition may be greater than the future benefits.

One method sometimes used by entities is to set an initial capitalization threshold (sometimes referred to as the de minimis level) is to require that a certain percentage (for example, at least 95%) of estimated total assets by value are reported in the financial statements.

Figure 6.3 Recording Threshold



Which Accounting entity should report Assets?

- Control is the key in relation to reporting assets
- An entity controls an asset if the entity has the power to obtain the future economic benefits from the asset and to restrict the access of others to those benefits.



Questions and Comments