

Accounting Standard

AASB 1051
December 2007

Land Under Roads



Australian Government

**Australian Accounting
Standards Board**

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Australian Accounting Standard AASB 1051 *Land Under Roads* is set out in paragraphs 1 – 15 and Appendix A. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 1051 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Background

Australian Accounting Standards incorporate International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of the Standard in the Australian environment.

Some Australian Accounting Standards also include requirements that are specific to Australian entities. In most instances, these requirements are restricted to not-for-profit entities, including public sector entities, or include additional disclosures that address domestic, regulatory or other issues.

Reasons for Issuing this Standard

AAS 27 Financial Reporting by Local Governments, *AAS 29 Financial Reporting by Government Departments* and *AAS 31 Financial Reporting by Governments* were first issued in 1991, 1993 and 1996 respectively. While AASs 27, 29 and 31 had been subject to a number of limited reviews since then, the requirements in these Standards needed a comprehensive review because:

- (a) there had been significant developments in Australian financial reporting, in particular adopting IFRSs within Australian Accounting Standards, for reporting periods beginning on or after 1 January 2005. As a result of these developments, uncertainties emerged as to the application of cross-references to other Australian Accounting Standards and the override provisions in AASs 27, 29 and 31 that made the requirements in AASs 27, 29 and 31 take precedence over other requirements;
- (b) local governments, government departments and governments were subject to requirements that differed from requirements applicable to other not-for-profit entities and for-profit entities contained in Australian Accounting Standards. An objective of the Board is to put in place transaction-neutral standards that will treat like transactions and events consistently;
- (c) the Board had made significant progress in its project on the harmonisation of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) so far as it relates to the General Government Sector (GGS) and the whole of government of the federal, state and territory governments. It was therefore particularly timely to review the requirements in AAS 31;

- (d) they did not reflect contemporary accounting thought; and
- (e) they did not reflect the current style of drafting standards, which is to specify principles rather than rules, and requirements rather than encouragements.

The Board intends to continue with its policy of developing a common accounting standards framework for both for-profit and not-for-profit entities whilst acknowledging differences in some areas. The Board is committed to having a platform of topic-based transaction-neutral Standards that will apply to the public sector.

Review of AASs 27, 29 and 31

The Board initiated a project for reviewing the requirements in AASs 27, 29 and 31, divided into two phases comprising a short-term and a longer-term review.

The primary focus in the short-term has been on relocating, where necessary, the requirements in AASs 27, 29 and 31, substantively unamended (with some exceptions), into topic-based Standards.

In the longer term the focus will be on improving the requirements for each topic-based issue where necessary. The longer-term review will be carried out in stages as outlined in the AASB's Public Sector Policy Paper *Australian Accounting Standards and Public Sector Entities*.

AASB 1051 in the Context of the Review of AASs 27, 29 and 31

The Board outlined proposals for transitional requirements relating to land under roads in Exposure Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31*, which was issued in June 2007. In the light of responses to ED 156, the Board decided to make substantial changes to those proposals. The Board also decided to locate the amended requirements into a new topic-based Standard.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 July 2008. Early adoption is permitted for annual reporting periods beginning on or after 1 January 2005, but before 1 July 2008, provided there is early adoption for the same annual reporting period of the following pronouncements being issued at about the same time, as applicable:

- (a) AASB 1004 *Contributions*;
- (b) AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;
- (c) AASB 1050 *Administered Items*;
- (d) AASB 1052 *Disaggregated Disclosures*;
- (e) AASB 2007-9 *Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31*; and
- (f) AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.

Main Requirements

This Standard, which applies to general purpose financial statements of local governments, government departments, GGSs and whole of governments:

- (a) allows an entity to elect to recognise (including continue to recognise or recognise for the first time), subject to satisfaction of asset recognition criteria, or not to recognise (including continue to not recognise or to derecognise) as an asset, land under roads acquired before the end of the first reporting period ending on or after 31 December 2007. A final election is to be made effective as at the first day of the next reporting period following the end of the first reporting period ending on or after 31 December 2007;
- (b) requires that any adjustments that arise from an election be made against accumulated surplus (deficiency);
- (c) requires an entity to disclose its accounting policy for land under roads acquired before the end of the first reporting period ending on or after 31 December 2007;

- (d) allows an entity, in relation to land under roads acquired before the end of the first reporting period ending on or after 31 December 2007, to elect to adopt the fair value (as at the date of that election) or a previous revaluation under the “fair value or revaluation as deemed cost” exemptions contained in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, as if it were adopting Australian equivalents to IFRSs for the first time. This applies where an entity recognises that land under roads after the entity’s first-time adoption of Australian equivalents to IFRSs. The election must be made effective as at the first day of the next reporting period following the end of the first reporting period ending on or after 31 December 2007; and
- (e) clarifies that the principles in other Standards (including AASB 116 *Property, Plant and Equipment*) apply to land under roads, except to the extent that this Standard requires or permits otherwise, including the requirement that land under roads acquired after the end of the first reporting period ending on or after 31 December 2007 is accounted for in accordance with AASB 116.

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

AASB 1051 and International Public Sector Accounting Standards

International Public Sector Accounting Standards (IPSASs) are issued by the International Public Sector Accounting Standards Board (IPSASB).

Land under roads falls within the scope of IPSAS 17 *Property, Plant and Equipment* (issued December 2001, amended February 2007).

IPSAS 17 does not require recognition of land under roads (and other property, plant and equipment) for reporting periods beginning on a date within five years following the date of first adoption of accrual accounting in accordance with IPSASs. However, at the expiry of the transitional period, holdings of land under roads must be recognised where they satisfy the recognition criteria. The effect of the initial recognition of land under roads is accounted for as an adjustment to the opening balance of accumulated surpluses or deficits. When an entity elects to not recognise land under roads within the transitional period, certain disclosures must be made.

This Standard does not require the recognition of land under roads acquired before the end of the first reporting period ending on or after 31 December 2007. If an entity decides to recognise such land then, under this Standard, the entity may elect, in certain circumstances, to apply the fair value or a previous revaluation under the “fair value or revaluation as deemed cost” exemptions in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. In contrast, IPSAS 17 requires an entity that adopts accrual accounting for the first time in accordance with IPSASs to initially recognise land under roads at cost or fair value. For items acquired at no cost, or for a nominal cost, cost is the item’s fair value as at the date of acquisition.

Land under roads acquired after the end of the first reporting period ending on or after 31 December 2007 is accounted for under AASB 116 *Property, Plant and Equipment*. AASB 116 contains a comparison with the corresponding IPSAS 17.

AASB 1051 and International Financial Reporting Standards

Land under roads falls within the scope of IAS 16 *Property, Plant and Equipment*, which does not contain requirements or choices equivalent to this

Standard for land under roads acquired before the end of the first reporting period ending on or after 31 December 2007.

Land under roads acquired after the end of the first reporting period ending on or after 31 December 2007 is accounted for under AASB 116. AASB 116 contains a comparison with the corresponding IAS 16.

This Standard allows an entity to elect, in certain circumstances, to apply the fair value or a previous revaluation under the “fair value or revaluation as deemed cost exemptions” in AASB 1. AASB 1 contains a comparison with the corresponding IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

ACCOUNTING STANDARD AASB 1051

The Australian Accounting Standards Board makes Accounting Standard AASB 1051 *Land Under Roads*.

Dated 13 December 2007

D.G. Boymal
Chair – AASB

ACCOUNTING STANDARD AASB 1051

LAND UNDER ROADS

Objective

- 1 The objective of this Standard is to specify the requirements for financial reporting of *land under roads* by local governments, government departments, General Government Sectors (GGSs) and whole of governments.

Application

- 2 **This Standard applies to general purpose financial statements of local governments, government departments and whole of governments, and financial statements of GGSs.**
- 3 **This Standard applies to annual reporting periods beginning on or after 1 July 2008.**
- 4 **This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2008, provided there is early adoption for the same annual reporting period of the following pronouncements being issued at about the same time, as applicable:**
 - (a) **AASB 1004 *Contributions*;**
 - (b) **AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;**
 - (c) **AASB 1050 *Administered Items*;**
 - (d) **AASB 1052 *Disaggregated Disclosures*;**

- (e) **AASB 2007-9 Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31; and**
 - (f) **AASB Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities.**
- 5 The requirements specified in this Standard apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 Materiality.**
- 6 When applicable, this Standard, together with the Standards referred to in paragraph 4, supersede:**
- (a) **AAS 27 Financial Reporting by Local Governments as issued in June 1996, as amended;**
 - (b) **AAS 29 Financial Reporting by Government Departments as issued in June 1998, as amended; and**
 - (c) **AAS 31 Financial Reporting by Governments as issued in June 1998, as amended.**

Land Under Roads

- 7 Other Australian Accounting Standards (including AASB 116 Property, Plant and Equipment) apply to land under roads, except to the extent that this Standard requires or permits otherwise.**
- 8 An entity may elect to recognise (including continue to recognise or to recognise for the first time), subject to satisfaction of the asset recognition criteria, or not to recognise (including continue not to recognise or to derecognise) as an asset, land under roads acquired before the end of the first reporting period ending on or after 31 December 2007.**
- 9 An entity shall make a final election under paragraph 8 effective as at the first day of the next reporting period following the end of the first reporting period ending on or after 31 December 2007. Any adjustments that arise from a final election that is made effective as at that first day shall be made against the opening balance of accumulated surplus (deficiency) of that next reporting period.**
- 10 Adjustments arising under paragraph 9 include those relating to a revision of recognised amounts of previously recognised land under**

roads acquired before the end of the first reporting period ending on or after 31 December 2007, made to reflect a reassessment of the factors used to determine those recognised amounts. Any adjustments that arise from an election that is made effective:

- (a) before the first day of the next reporting period following the end of the first reporting period ending on or after 31 December 2007, is made against accumulated surplus (deficiency) of the earliest prior period presented, and therefore comparative data is adjusted; and
- (b) on the first day of the next reporting period following the end of the first reporting period ending on or after 31 December 2007, is made against the opening balance of accumulated surplus (deficiency) of that next reporting period, and therefore comparative data is not adjusted.

11 An entity shall disclose its accounting policy for land under roads acquired before the end of the first reporting period ending on or after 31 December 2007, in each reporting period to which this Standard is applied.

12 The nature and net amount of each adjustment made in accordance with paragraph 9 shall be disclosed.

13 Where an entity recognises land under roads in accordance with paragraphs 8 and 9, but after the entity's first-time adoption of Australian equivalents to International Financial Reporting Standards (IFRSs), the entity may, in relation to land under roads, elect to adopt the fair value (as at the date of that election) or a previous revaluation under the "fair value or revaluation as deemed cost" exemptions contained in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, as if it were adopting Australian equivalents to IFRSs for the first time.

14 Paragraph 13 enables an entity that recognises land under roads acquired before the end of the first reporting period ending on or after 31 December 2007, after its first-time adoption of Australian equivalents to IFRSs and under paragraphs 8 and 9, to elect to:

- (a) measure the fair value of land under roads as at the date of the election made under paragraph 13 and use that fair value as the deemed cost;
- (b) use an earlier revaluation of land under roads as its deemed cost; or

- (c) use an earlier deemed cost of land under roads established from an event-driven fair value measurement as its deemed cost.
- 15 Land under roads acquired after the end of the first reporting period ending on or after 31 December 2007 is accounted for in accordance with AASB 116.

APPENDIX A

DEFINED TERMS

This Appendix is an integral part of AASB 1051.

land under roads	Land under roadways, and road reserves, including land under footpaths, nature strips and median strips.
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APPENDIX B

COMPARISON OF AASB 1051 WITH AASs 27, 29 AND 31

This Appendix accompanies, but is not part of, AASB 1051.

The requirements of this Standard differ from the requirements contained in AASs 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments* (as amended), and expresses the requirements generically. The main differences between AASB 1051 and AASs 27, 29 and 31 (as amended) are:

- (a) this Standard extends indefinitely the relief from the requirement to recognise land under roads acquired before the end of the first reporting period ending on or after 31 December 2007. AASs 27, 29 and 31 provided recognition relief only for a transitional period;
- (b) AASs 27, 29 and 31 encouraged entities to recognise land under roads as an asset wherever it can be measured reliably. Consistent with the AASB's policy of not including encouragements within Standards, this encouragement has not been included in this Standard;
- (c) this Standard notes that AASB 116 *Property, Plant and Equipment* applies to land under roads acquired after the end of the first reporting period ending on or after 31 December 2007. AASs 27, 29 and 31 would have required that AASB 116 be retrospectively applied to land under roads after the end of the transitional period;
- (d) in certain circumstances this Standard allows an entity, in relation to land under roads acquired before the end of the first reporting period ending on or after 31 December 2007, to elect to adopt the fair value (as at the date of that election) or a previous revaluation under the "fair value or revaluation as deemed cost" exemptions contained in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, as if it were adopting Australian equivalents to IFRSs for the first time. AASs 27, 29 and 31 did not contain this relief;
- (e) AASs 29 and 31 did not explicitly require that, if the recognised amounts of land under roads acquired before the end of the first reporting period ending on or after 31 December 2007 are revised, up until the first day of the next reporting period, to reflect a reassessment of the factors used to determine those recognised amounts, the net amount of the resultant adjustments be made against accumulated

surplus (deficiency) in the reporting periods in which the recognised amounts are revised; and

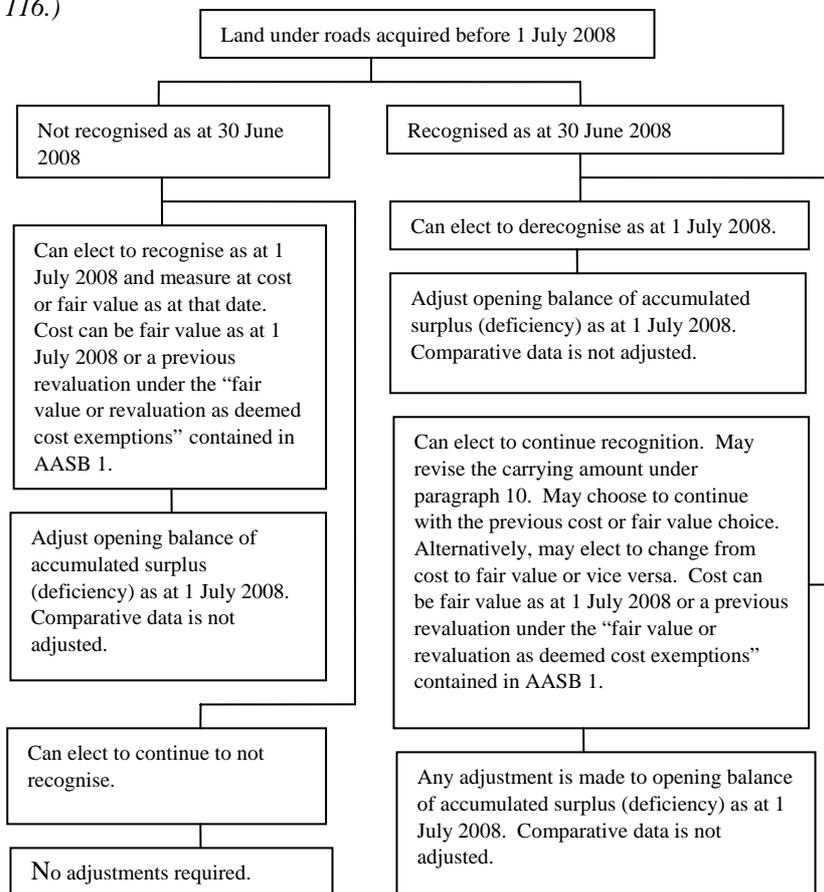
- (f) this Standard extends the requirements to General Government Sectors.

APPENDIX C

IMPLEMENTATION GUIDANCE

This Appendix accompanies, but is not part of, AASB 1051.

The following diagram illustrates the effect of the requirements in this Standard for land under roads acquired before 1 July 2008, assuming an entity with a 1 July 2008 to 30 June 2009 reporting period makes a final election under paragraphs 8 and 9 as at 1 July 2008. (Note that land under roads acquired after 30 June 2008 is accounted for in accordance with AASB 116.)



BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, AASB 1051.

Introduction

BC1 This Basis for Conclusions summarises the Board's considerations in developing this Standard in the context of the Board's short-term review of the requirements in *AAS 27 Financial Reporting by Local Governments*, *AAS 29 Financial Reporting by Government Departments* and *AAS 31 Financial Reporting by Governments*.

Background

BC2 The Board considered it timely to review the requirements in AASs 27, 29 and 31, in particular to:

- (a) review the extent to which local governments, government departments and governments should continue to be subject to requirements that differ from requirements applicable to other not-for-profit entities and for-profit entities contained in Australian Accounting Standards. The Board concluded that differences should be removed, where appropriate and timely, to improve the overall quality of financial reporting;
- (b) bring requirements applicable to local governments, government departments and governments up-to-date with contemporary accounting thought;
- (c) consider the implications of the outcomes of its project on the harmonisation of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS), in particular on the requirements in AAS 31;
- (d) decide whether the encouragements in AASs 27, 29 and 31 should be made mandatory or removed; and
- (e) remove uncertainty in the application of cross-references to other Australian Accounting Standards and the override provisions in AASs 27, 29 and 31 that made the requirements in AASs 27, 29 and 31 take precedence over other requirements.

- BC3 The Board considered the following alternative mechanisms for implementing the approach of updating and improving the requirements for local governments, government departments and governments:
- (a) review the requirements in AASs 27, 29 and 31 and where appropriate:
 - (i) amend other Australian Accounting Standards to pick up any issues that are addressed in AASs 27, 29 and 31 that are not adequately addressed in the latest Australian Accounting Standards and have them apply to local governments, government departments and governments; or
 - (ii) create public sector specific topic-based Standards; and consequently withdraw AASs 27, 29 and 31; or
 - (b) review AASs 27, 29 and 31 and re-issue them in light of the latest Australian Accounting Standards, retaining/amending where necessary any issues that are addressed in AASs 27, 29 and 31 that are not adequately addressed in the latest Australian Accounting Standards.
- BC4 The Board chose alternative (a) given the improvements in the quality of financial reporting by local governments, government departments and governments since AASs 27, 29 and 31 were first issued.
- BC5 Where the Board identified that the material in AASs 27, 29 and 31 could be improved within time and resource constraints, improvements have been made. Much of the material in AASs 27, 29 and 31 has been retained substantively unamended. Improvements will be progressed in due course in line with the AASB's Public Sector Policy Paper *Australian Accounting Standards and Public Sector Entities*.
- BC6 The first stage of the short-term review of the requirements in AASs 27, 29 and 31 was the preparation of a paragraph-by-paragraph analysis of each of AASs 27, 29 and 31, listing each paragraph of each Standard alongside corresponding Standards or other pronouncements that would apply to local governments, government departments or governments in the absence of AASs 27, 29 and 31. The Board's conclusions and rationale for the treatment of each paragraph in the context of the review were also provided in the analysis. The Board's primary focus was on dealing with the

requirements from the three Standards in such a way as to not leave a vacuum.

- BC7 Each paragraph from AASs 27, 29 and 31 was classified as being:
- (a) no longer needed or adequately dealt with in other Standards;
 - (b) more appropriately dealt with in other Standards; or
 - (c) not adequately and/or appropriately dealt with in other Standards and therefore should be retained or improved and incorporated into other Standards.

The paragraph-by-paragraph analyses considered by the AASB in developing the Exposure Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31* that gave rise to this Standard are available on the AASB website. They support, but do not form part of, this Basis for Conclusions.

- BC8 In reviewing the paragraphs, the Board noted that some material in AASs 27, 29 and 31 would, under the current style of writing Standards, be located in a separate Basis for Conclusions. Given the short-term nature of the review of AASs 27, 29 and 31, the Board concluded that explanations of technical issues that both originated in and are being relocated from AASs 27, 29 and 31 should, when appropriate, be located in the body of the Standard to which the relevant requirements are being relocated.
- BC9 The Board decided not to retain the illustrative general purpose financial reports provided in AASs 27, 29 and 31, because their purpose, which was to provide an educational tool in the initial stages of accrual reporting by local governments, government departments and governments, is no longer needed.
- BC10 The remainder of this Basis for Conclusions focuses on issues specific to land under roads.

Land Under Roads

- BC11 The Board decided to issue this Standard as part of the short-term review of the requirements in AASs 27, 29 and 31 and to amend the previous transitional relief for land under roads, to allow entities to elect whether to recognise land under roads acquired before the end of the first reporting period ending on or after 31 December 2007. This decision is in acknowledgement of the potentially onerous

demands on entities if they were to be required to retrospectively identify, assess the recognition criteria, recognise and measure land under roads previously acquired.

- BC12 The Board decided that a final election relating to the recognition of land under roads acquired before the end of the first reporting period ending on or after 31 December 2007 should be made effective as at the first day of the next reporting period. The final election can be made at any time prior to the completion of the financial statements for that next reporting period, but will be effective as at the first day of that period. The Board also decided that, to facilitate the transition to the new requirements, any adjustments arising from an election be made against accumulated surplus (deficiency); and that there would be no requirement to adjust comparative data for earlier periods when the election is made effective as at that first day. The Board noted that the extent to which an entity could change its recognition policy after that date would be constrained by the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* relating to voluntary change in accounting policy. Accordingly, subsequent changes to the accounting policy relating to the recognition of land under roads acquired before the end of the first reporting period ending on or after 31 December 2007 could only be made to recognise land under roads that it previously elected to not recognise (or, conceivably, vice versa) if that change could be justified based on paragraph 14 of AASB 108.
- BC13 Consistent with the entities that were subject to AASs 27, 29 and 31, this Standard applies to local governments, government departments (including for-profit government departments), and whole of governments. In addition, the application of this Standard extends to General Government Sectors (GGSs), which facilitates consistency in financial reporting by GGSs and whole of governments.
- BC14 In relation to GGSs and whole of governments, the Board considered the relationship between this Standard and the principle in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* that GGSs and whole of governments should adopt optional treatments in Australian Accounting Standards that align with the principles or rules in the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) Manual. The Board noted that the recognition relief provided in this Standard for land under roads is potentially inconsistent with GFS principles. However, the Board also noted that land under roads is not recognised under GFS in practice in certain circumstances, depending on the availability of information pertinent to measurement. Accordingly, the Board concluded that the impact of AASB 1049

relative to this Standard on the recognition of land under roads would be expected to be limited.

- BC15 Accordingly, the Board decided that the broad principle adopted in AASB 1049 that a GAAP option should be adopted where it aligns with GFS should be retained without an exception for land under roads. In making this decision, the Board also noted that any difference between GFS principles and practice is beyond the control of the AASB, and that land under roads does not create unique issues in a GAAP/GFS harmonisation context.
- BC16 The Board concluded that, in principle, land under roads is property and therefore falls within the scope of AASB 116. Accordingly, it is appropriate that land under roads acquired after the end of the first reporting period ending on or after 31 December 2007 is accounted for in accordance with AASB 116. In making this decision, the Board noted that AASB 116, including paragraph Aus15.1, requires:
- (a) assets acquired at no cost, or for a nominal cost, to be initially measured at fair value as at the date of acquisition where fair value can be measured reliably; and
 - (b) requires assets acquired at a cost to be initially measured at cost, but does not require adoption of the revaluation model. The Board also noted that issues relating to reliable measurement of fair value are not unique to land under roads and therefore could be dealt with in the same manner in which issues for other classes of assets are dealt with under AASB 116.
- BC17 The Board also concluded that further requirements should replicate, in certain circumstances, the fair value or a previous revaluation (in accordance with, for example, AASB 1041 *Revaluation of Non-Current Assets* or AASB 116 *Property, Plant and Equipment*) under the “fair value or revaluation as deemed cost” exemptions in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* on the basis that this would facilitate the initial recognition of land under roads under AASB 116. The requirements would be used when a local government, government department, GGS or whole of government elects to recognise and measure land under roads acquired before the end of the first reporting period ending on or after 31 December 2007 under paragraphs 8 and 9 of this Standard, after its first-time adoption of Australian equivalents to International Financial Reporting Standards.