



3 July 2015

## What is residual value? AASB finalises Agenda Decision in relation to infrastructure assets

Accounting for infrastructure assets by some not-for-profit public sector entities may change as a result of an [Agenda Decision](#) issued by the AASB today. If applicable, there could be increased depreciation and lower reported profits. The common practice in the sector of measuring infrastructure assets at fair value will also add an additional level of complexity to understanding the overall impact of the Agenda Decision.

The AASB was asked to consider the practice of including, as part of an infrastructure asset's residual value, 'cost savings' from the re-use of part of the asset. The AASB concluded that such practice is not an appropriate interpretation of residual value, as a portion of the asset in use during the period is not depreciated, contrary to the requirements of AASB 116 *Property, Plant and Equipment*. The Agenda Decision explains the Board's rationale for its conclusion and for not adding this issue to its agenda.

AASB Chair, Ms Peach said "When the residual value of a public sector asset that will be substantially consumed through use rather than through sale comprises more than an insignificant portion of the asset's carrying amount, this is suggestive that the amounts included in 'residual value' should be re-evaluated for their appropriateness. Today's Agenda Decision serves as a reminder to preparers to revisit their accounting for infrastructure assets for material consistency with the requirements of AASB 116. We recommend early consultation with auditors to determine the impact, if any, on 30 June 2015 financial statements."

The Board also concluded that 'parts' are not limited to physically distinguishable components. Accordingly, entities may need to update asset registers to capture further components of assets to reflect the shorter useful lives of some parts compared to other parts of the asset (the "re-used" parts). Depending on the extent of infrastructure assets held, this task may require a significant effort by some entities.

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