Accounting Standard

AASB 1041
July 2001

Revaluation of Non-Current Assets

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Defined words are *italicised* each time they appear. The definitions are in Section 9. Standards are printed in **bold** type and commentary in light type.

MAIN FEATURES OF THE STANDARD

The Standard:

(a) requires the use of either the cost basis or the fair value basis to measure a class of non-current assets subsequent to initial recognition. Any of the following measures constitutes the use of the cost basis to measure assets within a class of non-current assets:

   (i) their cost of acquisition, less any accumulated depreciation and accumulated recoverable amount write-downs or impairment losses;

   (ii) in respect of non-monetary assets contributed to the entity, their fair value as at the date of the contribution, less any subsequent accumulated depreciation and subsequent accumulated recoverable amount write-downs or impairment losses; and

   (iii) their carrying amounts as at the time that revaluation of that class was discontinued, less any subsequent accumulated depreciation and subsequent accumulated recoverable amount write-downs or impairment losses;

(b) requires that, where the fair value basis is applied, revaluations be kept up to date;

(c) specifies that a revaluation of non-current assets to fair value in consolidated financial statements required by Accounting Standard AASB 1024 “Consolidated Accounts” and Australian Accounting Standard AAS 24 “Consolidated Financial Reports”, applied in conjunction with Accounting Standard AASB 1013 and Australian Accounting Standard AAS 18 “Accounting for Goodwill” and Accounting Standard AASB 1015 and Australian Accounting Standard AAS 21 “Acquisitions of Assets”, does not give rise to a requirement to subsequently revalue those assets in the consolidated financial statements;

(d) permits entities to change from the cost basis to the fair value basis, or to discontinue applying the fair value basis, to measure a class of non-current assets at any time in the future, only if such a change satisfies the criteria for a voluntary change in accounting policy in Accounting Standard AASB 1001 and Australian Accounting Standard AAS 6 “Accounting Policies”;

(e) prescribes the method of accounting for revaluation increments and decrements;

(f) requires the gain or loss on disposal of a non-current asset to be measured as the difference between the carrying amount and the net proceeds from disposal; and

(g) requires various disclosures about non-current assets, including a reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the reporting period.

ACCOUNTING STANDARD AASB 1041

The Australian Accounting Standards Board makes Accounting Standard AASB 1041 "Revaluation of Non-Current Assets" under section 334 of the *Corporations Act 2001*.

Dated 17 July 2001

F. K. Alfredson
Chair – AASB

ACCOUNTING STANDARD

AASB 1041 "REVALUATION OF NON-CURRENT ASSETS"

1 Application

1.1 This Standard applies to:

(a) each *entity* that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a *reporting entity*;

(b) *general purpose financial reports* of each other *reporting entity*; and

(c) financial reports that are, or are held out to be, *general purpose financial reports.*

2 Scope

2.1 For *registered schemes,* undertakings to which prescribed interests relate, and *public sector borrowing/financing entities,* this Standard does not apply to *financial assets,* provided that:

(a) the *financial assets* are measured at *net market value* as at the *reporting date*; and

(b) any changes in *net market value* are *recognised* as *revenues* or *expenses* in *net profit or loss/result* in the reporting period in which the changes occur.

2.2 This Standard does not apply to:

(a) *inventories*;

(b) foreign currency *monetary assets*;

(c) *goodwill*; or

(d) investments in *associates* and interests in *joint venture entities* accounted for by the use of the equity method of accounting.

2.2.1 *Inventories* are accounted for in accordance with Accounting Standard AASB 1019 and Australian Accounting Standard AAS 2 "Inventories", which prohibit the carrying of *inventories* at amounts greater than cost.

2.2.2 *Monetary assets* are defined in paragraph 9.1 as "money held, and *assets* to be received in fixed or determinable amounts of money". When prices change, the nominal amount of *monetary assets* will not change as a consequence, but the future economic benefits comprising such *assets* will. The *carrying amounts* of foreign currency *monetary assets* are restated as a result of changes in relevant exchange rates. Accounting Standard AASB 1012 "Foreign Currency Translation" requires changes in the *carrying amounts* of foreign currency *monetary assets* to be accounted for, except in the case of certain hedge transactions, as *revenues* or *expenses* in *net profit or loss/result* in the reporting period in which they are *recognised*.

2.2.3 *Goodwill* is accounted for in accordance with Accounting Standard AASB 1013 and Australian Accounting Standard AAS 18 "Accounting for Goodwill", which prohibit the *revaluation* of purchased *goodwill*.

2.2.4 Accounting Standard AASB 1016 and Australian Accounting Standard AAS 14 "Accounting for Investments in Associates", and Accounting Standard AASB 1006 and Australian Accounting Standard AAS 19 "Interests in Joint Ventures" require that, in applying the equity method of accounting to each investment in an *associate* or each interest in a *joint venture entity*, the investor or venturer:

(a) does not measure its investment or interest on the *fair value* basis; but

(b) *recognises* its share of certain post-acquisition movements credited or debited to the asset revaluation reserve of the *associate* or *joint venture entity*.

Materiality

2.2.5 The standards specified in this Standard apply to the financial report where information resulting from their application is material in accordance with Accounting Standard AASB 1031 and Australian Accounting Standard AAS 5 "Materiality".

3 Operative Date

3.1 This Standard applies to *annual reporting periods* ending on or after 30 September 2001.

3.2 This Standard may be applied to *annual reporting periods* ending before 30 September 2001. An *entity* that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act may apply this Standard to *annual reporting periods* ending before 30 September 2001, where an election has been made in accordance with subsection 334(5) of the Corporations Act.

3.3 When applied or operative, this Standard supersedes:

(a) Accounting Standard AASB 1041 "Revaluation of Non-Current Assets", as approved by notice published in the *Commonwealth of Australia Gazette* No. S 664 on 30 December 1999; and

(b) Australian Accounting Standard AAS 38 "Revaluation of Non-Current Assets", as issued in December 1999.

3.3.1 Notice of this Standard was published in the *Commonwealth of Australia Gazette* on 19 July 2001.

4 Purpose of Standard

4.1 The purpose of this Standard is to prescribe the manner in which *non-current assets* are measured subsequent to initial *recognition* and require various disclosures about *non-current assets*.

5 Applying a Measurement Basis to a Class of Non-Current Assets

Cost or Fair Value Basis

5.1 Subsequent to initial *recognition* as *assets*, each *class of non-current assets* must be measured on either:

(a) the cost basis; or

(b) the *fair value* basis, under which *revaluations* must be made with sufficient regularity to ensure that the *carrying amount* of each *asset* in the class does not differ materially from its *fair value* at the *reporting date*, subject to paragraphs 5.2 and 5.3.

5.1.1 *Entities* choose between measuring all of the *assets* in a *class of non-current assets* on the cost basis or the *fair value* basis. This Standard permits some *classes of non-current assets* to be measured on the cost basis and other classes to be measured on the *fair value* basis.

5.1.2 Where consolidated financial reports are prepared, the definition of "class of non-current assets" is applied to the *economic entity* as a single *entity*. Commentary paragraph 9.1.2 provides further guidance on the meaning of "class of non-current assets".

Cost Basis

5.1.3 For the purposes of paragraph 5.1(a), any of the following measures constitutes the use of the cost basis to measure *assets* within a *class of non-current assets*:

(a) their *cost of acquisition*, less any accumulated depreciation and accumulated *recoverable amount* write-downs or impairment losses;

(b) in respect of non-monetary *assets* contributed to the *entity*, their *fair value* as at the date of the contribution, less any subsequent accumulated depreciation and subsequent accumulated *recoverable amount* write-downs or impairment losses; and

(c) their *carrying amount* as at the time that *revaluation* of that class was discontinued under paragraph 6.1, less any subsequent accumulated depreciation and subsequent accumulated *recoverable amount* write-downs or impairment losses.

5.1.4 Measuring at *fair value* the *purchase consideration* of *assets* acquired in order to measure the *assets' cost of acquisition*, as required by Accounting Standard AASB 1015 and Australian Accounting Standard AAS 21 "Acquisitions of Assets", does not, of itself, constitute applying the *fair value* basis to measure *assets*.

5.1.5 Accounting Standard AASB 1010 and Australian Accounting Standard AAS 10 "Recoverable Amount of Non-Current Assets" require a *non-current asset* measured on the cost basis (including a previously *revalued asset* that now is measured on the cost basis) to be written down to its *recoverable amount* when its *carrying amount* is greater than its *recoverable amount*. *Recoverable amount* write-downs or impairment losses and reversals of *recoverable amount* write-downs or impairment losses are not *revaluations*. Under AASB 1010 and AAS 10, *recoverable amount* write-downs or impairment losses *recognised* in respect of *assets* within a *class of non-current assets* are not debited against any balance of the asset revaluation reserve remaining in respect of that class.

Fair Value Basis

5.1.6 "Fair value" is defined in paragraph 9.1 as "the amount for which an *asset* could be exchanged, or a *liability* settled, between knowledgeable, willing parties in an arm's length transaction". Underlying the definition of "fair value" is a presumption that the *entity* is a going concern without any intention or need to liquidate or otherwise wind up its operations or undertake a transaction on adverse terms. Similarly, to determine the *fair value* of an *asset*, it is assumed that the *asset* is exchanged after an adequate period of marketing to obtain its best price. An *asset's fair value* is measured having regard to the highest and best use of the *asset* for which market participants would be prepared to pay.

5.1.7 Where a quoted market price in an active and liquid market is available for an *asset*, that price represents the best evidence of the *asset's fair value*. When a quoted market price for the *asset* in an active and liquid market is not available, its *fair value* is estimated by reference to the best available market evidence of the price at which the *asset* could be exchanged between knowledgeable, willing parties in an arm's length transaction. This evidence includes current market prices for *assets* that are similar in use, type and condition ("similar *assets*") and the price of the most recent transaction for the same or a similar *asset* (provided there has not been a significant change in economic circumstances between the transaction date and the *reporting date*). Current market prices for the same or similar *assets* usually can be observed for land, non-specialised buildings, used motor vehicles, and some forms of plant and equipment. For land and buildings, these prices can also be derived from observable market evidence (for example, observable current market rentals) using discounted cash flow analysis.

5.1.8 In some circumstances, the market buying price and market selling price of an *asset* differ materially because the *asset* usually is bought separately in the new *asset* market but if sold separately, could only be sold for its residual value. This is often the case for specialised *assets*. In some other circumstances, an *asset* is so specialised that there is no market evidence of its market selling price. In either circumstance, an *asset* may be acquired separately and included in a cash-generating operation, and would only be sold in its current condition as a part of a sale of that cash-generating operation.

5.1.9 In the circumstances described in paragraph 5.1.8, the *asset's fair value* is measured at its market buying price. (The best indicator of an *asset's* market buying price is the replacement cost of the *asset's* remaining future economic benefits, which is not necessarily the cost of replicating the *asset*, that is, its reproduction cost). However, where *assets* belong to a cash-generating operation, and the sum of the market buying prices of the *assets* forming that cash-generating operation exceeds the *fair value* of that operation, the *fair values* of the *assets* would be determined after deducting that excess. The excess is:

(a) first applied against the *carrying amount* of any purchased *goodwill* forming part of the cash-generating operation; and

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

5.1.10 For the purpose of paragraph 5.1.9, the *fair value* of a cash-generating operation would be estimated, in the absence of other market evidence, as the present value of the net cash inflows that market participants would expect the highest and best use of the operation to generate.

Frequency of Revaluations

5.1.11 Where a *class of non-current assets* is measured on the *fair value* basis, the frequency of *revaluations* depends on the frequency and materiality of changes in the *fair values* of the *assets* within that *class of non-current assets*. Where the *fair value* of an *asset* in the *class of non-current assets* being *revalued* differs materially from its *carrying amount*, a *revaluation* is necessary. Some *non-current assets* may experience frequent and material movements in *fair value*, thus necessitating *revaluation* each reporting period. Such frequent *revaluations* are unnecessary for *non-current assets* that experience only immaterial movements in *fair value*. In these circumstances, *revaluation* every three years may be sufficient. The requirement in paragraph 5.1(b) may be met by indexing the *carrying amounts* of *non-current assets* in reporting periods between more comprehensive valuations.

5.1.12 *Assets* within a *class of non-current assets* are *revalued* as at substantially the same date in order to measure those *assets* at amounts that can meaningfully be aggregated. However, a *class of non-current assets* may be *revalued* on a progressive basis within a reporting period provided the *carrying amount* of each *asset* within the class does not differ materially from its *fair value* at the *reporting date*.

Local Governments and Government Departments: Pre-Transfer Carrying Amounts

5.2 Where a local government or government department elects to measure *non-current assets* transferred to it for no *cost of acquisition* or for nominal consideration at the amounts at which the *assets* were *recognised* by the transferor immediately prior to the transfer under paragraph 72 of Australian Accounting Standard AAS 27 "Financial Reporting by Local Governments" (as issued in June 1996) or paragraph 7.4 of Australian Accounting Standard AAS 29 "Financial Reporting by Government Departments" (as issued in June 1998), and the *assets* are included in a *class of non-current assets* measured on the *fair value* basis, those *assets* need not be *revalued* until the *class of non-current assets* is next *revalued.*

5.2.1 For *assets* acquired at no cost or for nominal consideration:

(a) by a local government from another local government by virtue of legislation, ministerial directive or other externally imposed requirement; or

(b) by a government department as a consequence of a restructuring of administrative arrangements;

AAS 27 and AAS 29 provide an option for local governments and government departments to measure these *assets* at the amounts at which the *assets* were *recognised* by the transferor immediately prior to the transfer. Paragraph 5.2 modifies the application of paragraph 5.1(b) so that it extends this option under AAS 27 and AAS 29 where transferred *assets* are included within a *class of non-current assets* measured on the *fair value* basis and their *carrying amounts* differ materially from their *fair value.* Instead, those *assets* would need to be *revalued* to *fair value* when the *class of non-current assets* is next *revalued*.

5.2.2 When the *carrying amounts* of transferred *assets* within a *class of non-current assets* measured on the *fair value* basis differ materially from their *fair value*, as permitted by paragraph 5.2, separate disclosure of the *assets* measured at *fair value* and at the transferor's *carrying amount* is required by paragraph 7.4 of this Standard.

Consolidated Financial Statements

5.3 A *revaluation* of *non-current assets* to *fair value recognised* in consolidated financial statements on the acquisition of an *equity* interest in a *subsidiary* as required by other Accounting Standards does not give rise to a requirement to subsequently *revalue* those *assets* in the consolidated financial statements under paragraph 5.1(b).

5.3.1 Accounting Standard AASB 1024 "Consolidated Accounts" and Australian Accounting Standard AAS 24 "Consolidated Financial Reports", applied in conjunction with AASB 1013 and AAS 18, and AASB 1015 and AAS 21, require the *carrying amounts* of the *non-current assets* of a *subsidiary* to be measured at *fair value* or, where applicable, *fair value* less discount on acquisition, in the consolidated financial statements as at the date the *parent entity* acquires a controlling interest in the *subsidiary* or as at the date of acquiring a subsequent *equity* interest in the *subsidiary*.

5.3.2 Such a transaction may involve the acquisition of a part of the *equity* of the *subsidiary* (which occurs either where a share of the *equity* of the *subsidiary* has previously been acquired by the *entity*, or there exists an outside *equity* interest), in which case the identifiable *assets* representing the remainder of the *equity* of the *subsidiary* are required by AASB 1024 and AAS 24 to be *revalued* in the consolidated financial statements. Under paragraph 5.3, such a *revaluation* does not give rise to a requirement to subsequently *revalue* those *assets* in the consolidated financial statements. Where those *assets* are not subsequently *revalued* through the adoption of the *fair value* basis, they are treated as being measured on the cost basis.

5.3.3 However, where identifiable *non-current assets* are *revalued* in the accounting records of the *subsidiary*, and not just in the consolidated financial statements, paragraph 5.1(b) applies to the financial statements of the *subsidiary*.

Net Revaluation Increments and Decrements

Offsetting of Revaluation Increments and Decrements

5.4 Subject to paragraph 6.2, *revaluation increments* and *revaluation decrements* must be offset against one another within a *class of non-current assets,* but must not be offset in respect of different *classes of non-current assets.*

Recognition of Net Revaluation Increments and Decrements

5.5 Where *non-current assets* are *revalued,* the net *revaluation increment* or net *revaluation decrement* arising in the reporting period (determined in accordance with paragraph 5.4) must be accounted for as follows:

(a) a net *revaluation increment* relating to a *class of non-current assets* must be credited directly to an asset revaluation reserve - except that, to the extent that the net increment reverses a net *revaluation decrement* previously *recognised* as an *expense* in *net profit or loss/result* in respect of that same *class of non-current assets,* it must be *recognised* immediately as *revenue* in *net profit or loss/result*; and

(b) a net *revaluation decrement* relating to a *class of non-current assets* must be *recognised* immediately as an *expense* in *net profit or loss/result* - except that, to the extent, and only to the extent, that a credit balance exists in the asset revaluation reserve in respect of that same *class of non-current assets,* the net *revaluation decrement* grossed up for any related *recognised current tax* and *deferred tax* must be debited directly to the asset revaluation reserve.

5.5.1 This Standard requires that, in respect of a *class of non-current assets*, reversals of previous *revaluations* are, as far as possible, to be accounted for by entries which are the reverse of those by which the previous *revaluations* were *recognised*. This policy is applied in conjunction with the requirements of Accounting Standard AASB 1020 and Australian Accounting Standard AAS 3 "Income Taxes" that *current tax* and *deferred tax* that arise in a reporting period are debited (credited) to an asset revaluation reserve if the tax relates to a *revaluation increment (decrement)* that is or was credited (debited) to the balance of the asset revaluation reserve in respect of a *class of non-current assets* during the current or a previous reporting period, except to the extent that this treatment of *current tax* and *deferred tax* would cause the balance of the asset revaluation reserve in respect of that *class of non-current assets* to be a debit balance.[1] The Appendix to this Standard provides examples illustrating the accounting treatment of *revaluations* of *non-current assets* and their associated income tax effects in accordance with paragraph 5.5, and with AASB 1020 and AAS 3.

5.5.2 An example of applying the policy prescribed in paragraph 5.5 is where a net *revaluation decrement* in respect of a *class of non-current assets* reverses a previous *revaluation increment* or cumulative *revaluation increment* in respect of that same class. The credit balance existing in the asset revaluation reserve in respect of a *class of non-current assets* prior to *recognising* the *revaluation decrement* would be net of any *current tax* and *deferred tax recognised* in respect of the cumulative *revaluation increments* and *revaluation decrements* giving rise to that balance. In accordance with paragraph 5.5(b), the amount of the *revaluation decrement* would be debited to the asset revaluation reserve and, in accordance with AASB 1020 and AAS 3, any related *current tax* and *deferred tax* would be credited to the asset revaluation reserve, to the extent that a credit balance exists in the asset revaluation reserve in respect of that *class of non-current assets*. Any excess over that credit balance would then be *recognised* as an *expense* in *net profit or loss/result* for the reporting period in accordance with paragraph 5.5(b), and any *current tax* and *deferred tax* related to that excess would be *recognised* as *revenue* in *net profit or loss/result* for the reporting period in accordance with AASB 1020 and AAS 3. Paragraph 5.5(b), AASB 1020 and AAS 3 prohibit debiting net

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1 References in this Standard to Accounting Standard AASB 1020 and Australian Accounting Standard AAS 3 "Income Taxes" are to the revised AASB 1020 and AAS 3 issued in December 1999. Until adoption of the revised AASB 1020 (which is operative for half-years ending on or after 31 December 2002 and financial years ending on or after 30 June 2003, but may be adopted early) or AAS 3 (which is operative for reporting periods beginning on or after 1 July 2002, but may be adopted early), the *entity* would not *recognise deferred tax assets* or *deferred tax liabilities* in respect of *revaluations* of *non-current assets*.

revaluation decrements (after taking into account any related *recognised current tax* and *deferred tax*) to the balance of the asset revaluation reserve in respect of a *class of non-current assets* to the extent that this would result in a debit balance for the reserve in respect of that class.

5.5.3 Another illustration of the policy prescribed in paragraph 5.5 is where the earlier net *revaluation increment* or cumulative increment credited to the asset revaluation reserve (less any related *recognised current tax* and *deferred tax*) in respect of a *class of non-current assets* has been partly or fully utilised by transferring a part or all of it to another reserve such as retained profits (surplus). In this circumstance, under AASB 1020 and AAS 3 the amount transferred to the other reserve is net of any related *recognised current tax* and *deferred tax*. Under paragraph 5.5(b), the amount of the subsequent net *revaluation decrement* (less any related *recognised current tax* and *deferred tax*) which is debited to the asset revaluation reserve is limited to the cumulative balance of prior net *revaluation increments* remaining in that reserve for the particular class of *assets*. Once an amount has been transferred from an asset revaluation reserve to another reserve, it is not available for offsetting against future *revaluation decrements*. That is, a transfer from an asset revaluation reserve is not merely a matter of display; and an amount transferred from an asset revaluation reserve does not retain its character as a balance of an asset revaluation reserve.

5.5.4 A further example of the policies prescribed in paragraph 5.5 is when the earlier net *revaluation increment* or cumulative net *revaluation increment* credited to the asset revaluation reserve (less any related *recognised current tax* and *deferred tax*) in respect of a *class of non-current assets* has been partly utilised by debiting against it a net *revaluation decrement* (and crediting against it any related *recognised current tax* and *deferred tax*) for an *asset* within that *class of non-current assets*. For example, a *class of non-current assets* comprises two holdings of land, described below as Assets A and B. For the purpose of applying AASB 1020 and AAS 3, the income tax rate on capital gains and losses is assumed to be 30 per cent, and the tax base of the *assets* is assumed to be their cost. It is also assumed that the *deferred tax asset* arising in respect of the *revaluation decrement* satisfies the recognition criteria for *deferred tax assets* in AASB 1020 and AAS 3 regardless of whether a *deferred tax liability* is *recognised* in respect of the earlier *revaluation increment*. The details of these *assets* are:

Details	Asset A $'000	Asset B $'000	Class $'000	Tax Effect $'000	Asset Reval'n Reserve $'000
Cost at 30-6-20X1	1,000	800	1,800	–	–
Revaluation increment for year ended 30-6-20X2	250	–*	250	(75)	175
Carrying amount as at 30-6-20X2	1,250	800	2,050	(75)	175
Revaluation decrement for year ended 30-6-20X3	–*	(150)	(150)	45	(105)
Carrying amount as at 30-6-20X3	1,250	650	1,900	(30)	70

* The *fair value* of these *assets* was reassessed, but found not to have changed.

The cumulative balance remaining in the asset revaluation reserve in respect of the *class of non-current assets* as at 30-6-20X3 is $70,000. If Asset A were sold for net proceeds of $1,250,000 during the reporting period ending on 30-6-20X4, thereby "realising" all of the $250,000 *revaluation increment* (and all of the related income tax effect of $75,000) originally *recognised* in respect of that *asset*, it would not conform with paragraph 5.5(b) to transfer an amount of $175,000 from the asset revaluation reserve to retained profits (surplus), because it would result in a debit balance of the asset revaluation reserve being *recognised* in respect of that *class of non-current assets*. The amount of any transfer to retained profits (surplus) [net of any related *recognised current tax* and *deferred tax*] would be limited to the cumulative balance of $70,000 in the asset revaluation reserve in respect of that *class of non-current assets*.

5.6 The balance of an asset revaluation reserve in respect of a *class of non-current assets* must only be credited with:

(a) **net *revaluation increments recognised* for *assets* within the same *class of non-current assets* in accordance with paragraph 5.5; and**

(b) **amounts required to be credited to the balance of the asset revaluation reserve in respect of that class in accordance with another Standard.**

5.6.1 Amounts are not transferred to an asset revaluation reserve from another reserve, for example, from retained profits (surplus). This rule applies regardless of the extent to which amounts have previously been transferred from the asset revaluation reserve to other reserves. In the example in paragraph 5.5.4, if Asset B were disposed of, this Standard would not permit an amount equal to the *revaluation decrement* (net of any related *recognised current tax* and *deferred tax*) previously debited against the asset revaluation reserve ($105,000) in respect of the *class of non-current assets* to be transferred to the asset revaluation reserve from another reserve in order to "restore" the *revaluation increments* that related to Asset A.

5.6.2 Where the boundaries of a *class of non-current assets* are redefined (for example, because of a change in the functions of particular *assets* in the *entity's* operations), a consequential reclassification of a balance of an asset revaluation reserve between *classes of non-current assets* is not a transfer of that balance between *classes of non-current assets.* Accordingly, paragraph 5.6 does not prohibit the reclassification of a balance of the asset revaluation reserve in respect of a *class of non-current assets* where the underlying *non-current assets* have been reclassified.

5.6.3 AASB 1020 and AAS 3, and AASB 1024 and AAS 24 require amounts to be credited to the balance of the asset revaluation reserve in specified circumstances.

Treatment of Revaluations of Depreciable Assets

5.7 **Subject to paragraph 5.8, where *depreciable assets* are *revalued*, any balances of accumulated depreciation existing as at the *revaluation* date in respect of those *assets* must be credited to the *asset* accounts to which they relate. The *asset* accounts must then be increased or decreased by the amount of the *revaluation increments* or *revaluation decrements*.**

5.8 **Where an *entity revalues depreciable assets* by reference to current prices for *assets* newer than those being *revalued*, and adjusts those amounts to reflect the present condition of the *assets*, it may restate separately the gross amounts and related**

accumulated depreciation of the *assets* comprising the class of *revalued assets.*

5.8.1 An *entity revaluing* a *non-current asset* may need to estimate its *fair value* because of, for example, the absence of a market in the relevant second-hand *non-current assets*. In these circumstances, an estimate of *fair value*, based on the replacement cost of the *asset's* remaining future economic benefits, may be made by reference to the market buying price of components used to produce the *asset* or the indexed price for the *asset* based on a price from a previous reporting period. Where such estimates have been used, the separate display of gross amounts and related accumulated depreciation may provide users with relevant information which will assist in assessing the condition of the *assets* by disclosing the expired component of their useful lives, and the possible amount and timing of cash outflows for their replacement.

5.8.2 Regardless of whether *non-current assets* are disclosed at gross or net amounts upon *revaluation*, future *depreciation expenses* are required to be based on the *revalued* amounts of the *assets* (refer to the definition of "depreciable amount" and related commentary in Accounting Standard AASB 1021 and Australian Accounting Standard AAS 4 "Depreciation"). *Depreciation expenses* based on the gross amount of a *revalued depreciable asset* are determined by reference to the total useful life of the *asset* to the *entity*. Alternatively, *depreciation expenses* based on the *carrying amount* of a *revalued depreciable asset* are determined by reference to the remaining useful life of the *asset* to the *entity*. Accordingly, the amount of *depreciation expense recognised* is identical irrespective of which method of presentation is applied.

Disposal of Non-Current Assets

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

5.9.1 Paragraph 5.9 deals with the measurement, but not display, of the gain or loss on disposal of *non-current assets*. Accounting Standard AASB 1004 and Australian Accounting Standard AAS 15 "Revenue" require the proceeds from the sale of *assets* other than goods, including *non-current assets*, to be disclosed separately as *revenue*. In addition, Accounting Standard AASB 1018 and Australian Accounting Standard AAS 1 "Statement of Financial Performance" require disclosure of the net gain or loss on disposal of *non-current assets* that are not measured at *net market value*. AASB 1018 and AAS 1 prohibit reversing and *recognising* as *revenue* within *net profit or loss/result* any net *revaluation increments* recognised in the asset revaluation reserve in a previous reporting period. This prohibition is also pertinent to *entities* that discontinue application of the *fair value* basis for a *class of non-current assets* (see paragraph 6.3).

6 Changing the Measurement Basis for a Class of Non-Current Assets

6.1 An *entity* may elect to change from the cost basis to the *fair value* basis to measure a *class of non-current assets*, or may elect to discontinue *revaluing* a *class of non-current assets*, when and only when the change meets the criteria for a voluntary change in *accounting policy* in paragraph 6.1(c) of Accounting Standard AASB 1001 and Australian Accounting Standard AAS 6 "Accounting Policies", as issued in March 1999. Such a change must be applied as at the beginning of the *annual reporting period* in which the change is made.

6.1.1 AASB 1001 and AAS 6 require that, when a Standard permits alternative *accounting policies*, a change from one permitted *accounting policy* to another permitted *accounting policy* must be made only when particular criteria are satisfied. The criteria for a voluntary change in *accounting policy* in AASB 1001 and AAS 6 would rarely be satisfied in respect of the discontinuation of the application of the *fair value* basis. An example of a circumstance under which the discontinuation of the application of the *fair value* basis for a *class of non-current assets* may satisfy the criteria in AASB 1001 and AAS 6 is where there has been a change in the *parent entity* of the *entity* or of an *entity* that controls that *parent entity*.

Changing from the Cost Basis to the Fair Value Basis

6.2 Where an *entity* changes from the cost basis to the *fair value* basis to measure a *class of non-current assets* that includes an *asset* for which a *recoverable amount* write-down or impairment loss previously has been *recognised* as an *expense*, any increase in the *carrying amount* of that *asset*, up to the *carrying amount* that would have been determined for it had no *recoverable amount* write-down or impairment loss previously been *recognised*, must be accounted for as a reversal of the *recoverable amount* write-down or impairment loss (that is, it

must be *recognised* as a *revenue* in *net profit or loss/result* for the reporting period in which the reversal occurs). Any increase in the *carrying amount* of the *asset* above the *carrying amount* that would have been determined had no *recoverable amount* write-down or impairment loss previously been *recognised* must, together with any *revaluation increments* or *decrements* for the other *assets* in that *class of non-current assets*, be accounted for as a net *revaluation increment* or *decrement* in accordance with paragraphs 5.4 and 5.5.

6.2.1 Where an *entity* changes from the cost basis to the *fair value* basis to measure a *class of non-current assets*, and a *recoverable amount* write-down or impairment loss has not previously been *recognised* in respect of that class, the change is accounted for under paragraphs 5.4 and 5.5.

Discontinuation of the Application of the Fair Value Basis

6.3 Where an *entity* discontinues *revaluing* a *class of non-current assets* under paragraph 6.1:

(a) it must subsequently measure the *assets* comprising the class at the date of the discontinuation of *revaluation* at their *carrying amount* as at that date less any subsequent accumulated depreciation and subsequent accumulated *recoverable amount* write-downs or impairment losses; and

(b) any balances of accumulated depreciation in respect of that *class of non-current assets* as at the date of the discontinuation of *revaluation* must be used as the basis for disclosing the gross amount and any related accumulated depreciation separately in accordance with AASB 1021 and AAS 4.

6.3.1 Where *revaluation* of a *class of non-current assets* is discontinued, paragraph 6.3 prohibits the making of retrospective adjustments to measure the *assets* comprising the class as if they had always been measured using the cost basis. This prohibition is a departure from AASB 1001 and AAS 6, which require the cumulative financial effect of a voluntary change in *accounting policy* to be calculated as if the new *accounting policy* had always been applied. Those retrospective adjustments are only permitted under paragraph 8.7(b), where *revaluation* of a *class of non-current assets* is discontinued on initial application of this Standard.

6.3.2 For *assets* referred to in paragraph 6.3, as at the date of the discontinuation of *revaluation*, any balances of accumulated depreciation in respect of those *assets* are not credited to the *asset* accounts to which they relate. These balances may have arisen upon the *revaluation* of a *class of non-current assets* under paragraph 5.8.

6.3.3 *Assets* acquired after *revaluation* of the *class of non-current assets* is discontinued are measured at their *cost of acquisition*, less any accumulated depreciation and accumulated *recoverable amount* write-downs or impairment losses.

7 Disclosures

Non-Current Assets Measured at Fair Value

7.1 The financial report must disclose in respect of each *class of non-current assets* measured on the *fair value* basis:

(a) the method(s) used in determining *fair values*; and

(b) whether the *revalued carrying amount* has been determined in accordance with an *independent valuation.*

7.1.1 Where an *asset* has previously been *revalued* based on a valuation conducted by an independent valuer, and is subsequently measured at the same amount because the management or governing body decides that the *fair value* of that *asset* is not materially different from the amount previously determined by the independent valuer, such a valuation is deemed not to be an *independent valuation* for the purposes of the disclosure required by paragraph 7.1(b).

7.1.2 Where the *revalued carrying amounts* of some of the *assets* within a *class of non-current assets* have been determined in accordance with an *independent valuation*, disclosure of the *carrying amount* of the *assets* within the class that have been determined in accordance with an *independent valuation* is necessary for compliance with paragraph 7.1(b).

7.1.3 In respect of investments quoted on a stock exchange, the description "at current market value" would be sufficient for compliance with paragraphs 7.1(a) and (b).

7.2 Where the *fair value* basis is applied for measuring a *class of non-current assets*, and the replacement cost of the *asset's*

remaining future economic benefits calculated using an index has been used to determine the *fair value* of an *asset* within that class, the financial report must disclose the nature of the index used.

7.3 The financial report must disclose the balance of the asset revaluation reserve for the *entity* as at the *reporting date* and, if the *entity* is a *profit-seeking entity*, disclose any restrictions on the distribution of the balance to owners.

7.3.1 Restrictions on distributions of the balance of the asset revaluation reserve to owners that arise from case law or, in the case of trusts, the trust deed, may qualify for disclosure under paragraph 7.3.

Local Governments and Government Departments: Pre-Transfer Carrying Amounts

7.4 Where a local government or government department *recognises* a *class of non-current assets* that is measured on the *fair value* basis and that class includes *assets* that are not measured at *fair value*, its financial report must disclose:

(a) the aggregate *carrying amount* of each of the following:

(i) *assets* within that class which are carried at *fair value* less, where applicable, any accumulated depreciation; and

(ii) *assets* within that class which are not carried at their *fair value* less, where applicable, any accumulated depreciation; and

(b) the basis or bases of valuation applied in respect of the amount disclosed in accordance with paragraph 7.4(a)(ii).

7.4.1 The disclosures required by paragraph 7.4 need to be made where the *fair value* basis has been applied by a local government or government department for measuring a *class of non-current assets*, and that *entity* has acquired further *assets* included in that class and carries them at an amount other than *fair value*. This can occur in the circumstances described in paragraph 5.2.1.

Discontinuation of Revaluations of a Class of Non-Current Assets

7.5 Where an *entity* discontinues *revaluation* of a *class of non-current assets* during the reporting period, it need not apply paragraph 8.5(d) of AASB 1001 and AAS 6, as issued in March 1999.

7.5.1 Where, under paragraph 6.1, an *entity* discontinues applying the *fair value* basis, that change in *accounting policy* could materially affect the amount of *expenses* (for example, *depreciation expense*) *recognised* in the next reporting period, without necessarily affecting the *expenses recognised* in the reporting period in which the change in *accounting policy* is made. Where an *entity* elects to make that change in *accounting policy,* paragraph 7.5 sets aside the requirement to disclose the financial effect of the change in the next reporting period specified in paragraph 8.5(d) of AASB 1001 and AAS 6, as issued in March 1999. Paragraph 8.5 of AASB 1001 and AAS 6 requires that where a change in an *accounting policy* did not have a material effect in the reporting period in which the change was made, but has a material effect in the next reporting period, disclosure of the change (including its financial effect) is made in the next reporting period. However, where the change in *accounting policy* has an effect in the reporting period in which the change occurs, the entity complies with the disclosure requirements in paragraph 8.4 of AASB 1001 and AAS 6.

Other Disclosures

7.6 The financial report must disclose, for each class of *property, plant and equipment,* a reconciliation of the *carrying amount* at the beginning and end of the reporting period, showing:

(a) additions;

(b) disposals;

(c) acquisitions through acquisitions of *entities* or operations;

(d) the net amount of *revaluation increments* less *revaluation decrements*;

(e) *recoverable amount* write-downs or impairment losses *recognised* in accordance with AASB 1010 or AAS 10;

(f) **reversals of *recoverable amount* write-downs or impairment losses;**

(g) ***depreciation expense*;**

(h) **the net foreign currency exchange differences arising on the translation of the financial statements of a self-sustaining foreign operation; and**

(i) **other movements.**

7.6.1 The *entity* discloses those items in paragraph 7.6 that are applicable to the class of *property, plant and equipment*, according to whether the cost basis or the *fair value* basis is applied to that class.

7.7 Comparative information is not required for the reconciliation specified in paragraph 7.6.

8 Transitional Arrangements

General

8.1 The *accounting policies* required by this Standard must be applied as at the beginning of the reporting period to which this Standard is first applied.

8.2 For a *class of non-current assets* that was measured on the cost basis as at the immediately preceding *reporting date*, an *entity* may elect to apply either of the following policies on first applying this Standard:

(a) **continue to apply the cost basis to that *class of non-current assets* in accordance with this Standard; or**

(b) **apply the *fair value* basis in accordance with this Standard, after making initial adjustments in accordance with paragraph 8.5 if necessary.**

8.3 For a *class of non-current assets* that was measured on a basis other than cost as at the immediately preceding *reporting date*, an *entity* may elect to apply either of the following policies on first applying this Standard:

(a) **revalue the *assets* in that *class of non-current assets* in accordance with this Standard, after making initial**

adjustments in accordance with paragraph 8.5(b) if necessary; or

(b) **revert to the cost basis in accordance with paragraph 8.7.**

Transition to the Fair Value Basis

8.4 **Where paragraph 8.6 does not apply and:**

(a) **as at the date of first applying this Standard, an *entity* elects to initially apply the *fair value* basis of measuring a *class of non-current assets*;**

(b) **a public sector *entity* not required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act initially applies the *fair value* basis of measuring a *class of non-current assets* when it ceases to apply paragraph 8.10(b) during a reporting period beginning on or before 30 June 2003; or**

(c) **a public sector *entity* (other than a listed corporation) is progressively revaluing a class of *property, plant and equipment* over more than one reporting period under paragraph 8.13, and during a reporting period no later than the first reporting period beginning after 30 June 2005 *revalues* a proportion of that class of *assets* to its *fair value*;**

the adjustments necessary to restate the *carrying amounts* of *non-current assets* to their *fair value* must be *recognised* in accordance with paragraph 8.5.

8.5 **The adjustments arising under paragraph 8.4 must be accounted for as follows:**

(a) **if the *entity* is changing from applying the cost basis to that *class of non-current assets*, and the class includes an *asset* for which a *recoverable amount* write-down or impairment loss previously has been *recognised* as an *expense*, any increase in the *carrying amount* of that *asset*, up to the *carrying amount* that would have been determined for it had no *recoverable amount* write-down or impairment loss previously been *recognised*, must be credited directly to retained profits (surplus) or accumulated losses (deficiency). Any increase in the *carrying amount* of the *asset* above the *carrying amount***

that would have been determined had no *recoverable amount* write-down or impairment loss previously been *recognised* must, together with the net amount of any *revaluation increments* or *decrements* for the other *assets* in that *class of non-current assets*, be credited directly to the asset revaluation reserve or debited directly to retained profits (surplus) or accumulated losses (deficiency); and

(b) where paragraph 8.5(a) does not apply:

(i) any net *revaluation increment* arising upon *revaluing* those *assets* to their *fair value* as at that date must be credited directly to the asset revaluation reserve – except that, to the extent that the net increment reverses a net revaluation decrement previously *recognised* as an *expense* in *net profit or loss/result* in respect of that same *class of non-current assets*, it must be credited directly to retained profits (surplus) or accumulated losses (deficiency); and

(ii) any net *revaluation decrement* arising upon *revaluing* those *assets* to their *fair value* as at that date must, to the extent that a credit balance exists in the asset revaluation reserve in respect of that *class of non-current assets*, be debited directly to the asset revaluation reserve, and any remainder of the net *revaluation decrement* must be debited directly to retained profits (surplus) or accumulated losses (deficiency).

8.5.1 Where the *fair value* basis initially is applied for a *class of non-current assets*, under the transitional arrangements for initial application of the Standard, amounts are credited or debited directly to retained profits (surplus) or accumulated losses (deficiency) in circumstances in which they would be recognised as *revenues* or *expenses* under the requirements for subsequent application of the Standard (set out in paragraphs 5.5 and 6.2).

8.5.2 Because paragraph 8.1 requires the *accounting policies* required by this Standard to be applied as at the beginning of the reporting period to which this Standard is first applied, the net *revaluation increment* or *decrement* credited or debited directly to the asset revaluation reserve or to retained profits (surplus) or accumulated losses (deficiency) under paragraph 8.5 is the net increment or decrement needed to adjust the *carrying amounts* of the *non-current assets* to their *fair value* as at the beginning of the reporting period. Accordingly, net *revaluation increments* and *decrements* arising during the reporting period are treated in accordance with paragraphs 5.4 and 5.5.

8.5.3 Paragraph 8.4(c) excludes progressive revaluations made on the existing revaluation basis under paragraph 8.10(b) by public sector *entities* that are not required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act. Net revaluation increments and decrements for these revaluations are treated in accordance with paragraphs 5.4 and 5.5 for the transitional period.

Entities that have Already Applied AASB 1041 or AAS 38

8.6 Where an *entity* applied AASB 1041 or AAS 38 as issued in December 1999 and changed from a revaluation basis to the cost basis for a *class of non-current assets*, and elects to apply the *fair value* basis for that *class of non-current assets* on first applying this Standard, it must make adjustments that result in the *carrying amounts* of the *class of non-current assets*, the asset revaluation reserve and retained profits (surplus) or accumulated losses (deficiency) that would have been *recognised* when this Standard is first applied if the *entity* had not previously changed to the cost basis.

8.6.1 To the extent that the voluntary application of the *fair value* basis upon initial application of this Standard reverses the net increment or decrement in the *carrying amount* of a *class of non-current assets recognised* under paragraph 10.4 of AASB 1041 and AAS 38 as issued in December 1999 when the *entity* previously changed to the cost basis for that class, the *entity*:

(a) reverses the entries made to the asset revaluation reserve and to retained profits (surplus) or accumulated losses (deficiency); and

(b) directly adjusts the opening balance of retained profits (surplus) or accumulated losses (deficiency) for the effect on *depreciation expense* of temporarily applying the cost basis in a previous reporting period or in previous reporting periods.

8.6.2 To the extent that the net *revaluation increment* or *decrement* for the *class of non-current assets* arising from the application of the *fair* *value* basis upon initial application of this Standard exceeds the sum of the adjustments corresponding to the entries described in paragraphs 8.6.1(a) and (b), the excess is unrelated to the reversal of *accounting policy* and is accounted for in the normal manner under paragraph 5.5.

Reverting from a Revaluation Basis to the Cost Basis

8.7 On first applying this Standard, an *entity* may elect to revert to the cost basis for measuring a *class of non-current assets* that was carried at a revalued amount at the immediately preceding *reporting date* by applying either of the following policies:

(a) deeming the *carrying amount* of the *non-current assets* comprising the class at the date of first applying this Standard to be their cost; or

(b) making retrospective adjustments to measure the *non-current assets* comprising the class at their *cost of acquisition* less any accumulated depreciation and any accumulated *recoverable amount* write-downs or impairment losses, as if they had always been measured using the cost basis. For that *class of non-current assets*, the resulting net increments and decrements to the *carrying amounts* of *assets* must be *recognised* by making the following adjustments:

(i) debiting the credit balance of the asset revaluation reserve for that class;

(ii) directly adjusting retained profits (surplus) or accumulated losses (deficiency) by the cumulative effect of previous revaluations on the amount of depreciation that has been *recognised* as an *expense* in *net profit or loss/result*; and

(iii) directly adjusting retained profits (surplus) or accumulated losses (deficiency) for any amounts not able to be adjusted in accordance with paragraph 8.7(b)(i).

8.7.1 An example of a circumstance where paragraph 8.7(b)(iii) would apply is where the credit balance of the asset revaluation reserve in respect of a *class of non-current assets* is insufficient to reverse the previous net revaluation increments relating to that class because a portion of the balance of the asset revaluation reserve in respect of that class has been utilised for a bonus share issue. Another example is where the retrospective adjustments *recognised* under paragraph 8.7(b) increase the *carrying amounts* of the *assets* comprising the class, in which case both paragraph 8.7(b)(ii) and paragraph 8.7(b)(iii) apply.

8.7.2 Where an *entity* changes from a revaluation basis to the cost basis to measure a *class of non-current assets*:

(a) if paragraph 8.7(a) is applied, any balance in the asset revaluation reserve in respect of that class will remain unless it is transferred to another reserve; and

(b) if paragraph 8.7(b) is applied, a balance may still remain in the asset revaluation reserve in respect of that class despite the retrospective adjustments made under paragraph 8.7(b)(i). This may occur, for example, because *non-current assets* giving rise to previous net revaluation increments have been disposed of before the reporting period in which this Standard is first applied.

However, as is noted in paragraph 5.9.1, AASB 1018 and AAS 1 prohibit reversing and *recognising* as *revenue* within *net profit or loss/result* any net revaluation increments recognised in the asset revaluation reserve in a previous reporting period.

8.8 Where an *entity* elects to apply paragraph 8.7(a) to a *class of non-current assets*, either on initial application of this Standard or during the reporting periods to which paragraphs 8.12 and 8.13 apply:

(a) any balances of accumulated depreciation and accumulated *recoverable amount* write-downs or impairment losses in respect of that *class of non-current assets* as at the date of first applying this Standard must be used as the basis for disclosing the gross amount and any related accumulated depreciation separately in accordance with AASB 1021 and AAS 4; and

(b) the *entity* need not apply paragraph 8.5(d) of AASB 1001 and AAS 6, as issued in March 1999.

8.8.1 Paragraph 8.8(b) provides similar relief from the disclosure requirement in paragraph 8.5(d) of AASB 1001 and AAS 6 as the relief provided in paragraph 7.5.

8.9 Where paragraph 8.7(b) is applied, any balances of accumulated depreciation and accumulated *recoverable amount* write-downs or impairment losses in respect of the *class of non-current assets* as at the date of first applying this Standard must be restated separately to the amounts that would have been recorded in the accounting records if they had always been measured using the cost basis.

8.9.1 The separately remeasured gross amount (*cost of acquisition*) and any related accumulated depreciation and accumulated *recoverable amount* write-downs or impairment losses in respect of the *assets* referred to in paragraph 8.9 as at the date of first applying this Standard are used as the basis for disclosing the gross amount and any related accumulated depreciation separately in accordance with AASB 1021 and AAS 4.

Public Sector Entities: Existing Revaluation Basis

8.10 For any reporting period beginning on or before 30 June 2002, public sector *entities* that are not required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and did not elect to revert to the cost basis under paragraph 8.3(b) to measure the *carrying amount* of a *class of non-current assets* that was measured on a revaluation basis must measure the *carrying amount* of the class on either:

(a) the *fair value* basis required by paragraph 5.1(b), subject to paragraph 8.12(b); or

(b) the revaluation basis used for that class for the reporting period immediately preceding the first reporting period to which this Standard is applied. Where this basis is applied to revalue a *class of non-current assets*:

(i) the financial report must disclose the revaluation basis applied;

(ii) any *asset* within that class, other than a *non-current asset* of a *not-for-profit entity* for which the future economic benefits are not primarily dependent on the *asset's* ability to generate net cash inflows, must be written down to its *recoverable amount* when its *carrying amount* exceeds its *recoverable amount*; and

(iii) **the financial report must disclose the aggregate *carrying amount* of *assets* within that class that are carried at their *recoverable amount* less, where applicable, any subsequent accumulated depreciation.**

8.10.1 Net changes in the *carrying amount* of a *class of non-current assets* measured under paragraph 8.10(b) are accounted for under paragraphs 5.4 and 5.5 as if they were net *revaluation increments* or net *revaluation decrements* arising from a *revaluation* of that class to its *fair value*.

8.11 For public sector *entities* that are not required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act, where *non-current assets* are written down to their *recoverable amount* in accordance with paragraph 8.10(b)(ii), the write-down must be accounted for as if it were a *revaluation decrement*, in accordance with paragraphs 5.4 and 5.5.

Public Sector Entities: Progressive Revaluations Within a Class of Property, Plant and Equipment

8.12 For reporting periods beginning no later than 30 June 2005, with respect to the frequency of revaluations of *property, plant and equipment*, a public sector *entity* other than a listed corporation must either:

(a) comply with paragraph 5.1(b); or

(b) apply the requirements in paragraphs 8.13 to 8.16, where those paragraphs apply to that *entity*.

8.13 Where an item of *property, plant and equipment* is revalued, the *assets* within the class of *assets* to which it belongs must be revalued on a consistent basis. The class of *property, plant and equipment* may be revalued progressively over more than one reporting period, providing that:

(a) such revaluations are conducted in a systematic manner;

(b) all *assets* within that class are revalued within a five-year period; and

(c) **any *asset* within that class, other than a *non-current asset* of a *not-for-profit entity* for which the future economic benefits are not primarily dependent on the *asset's* ability to generate net cash inflows, is written down to its *recoverable amount* when its *carrying amount* exceeds its *recoverable amount*.**

8.13.1 In contrast with paragraphs 5.1(b) and 5.1.12, the progressive revaluation of a class of *property, plant and equipment* is permitted under paragraph 8.13 regardless of whether a material difference exists between the *carrying amount* of items of *property, plant and equipment* and their *fair value* [or another revaluation measure applied under paragraph 8.10(b)].

8.14 For public sector *entities* that are not required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act, where a class of *property, plant and equipment* is revalued progressively under paragraph 8.13 and, under paragraph 8.10(b), *assets* have been revalued to an amount other than *fair value*, the *fair value* basis must be applied to revaluations of *assets* within that class occurring during any reporting period beginning after 30 June 2002.

8.14.1 Where a progressive revaluation of a class of *property, plant and equipment* is partially completed when it becomes mandatory for public sector *entities* that are not required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act to apply the *fair value* basis to measure revalued *assets*, or where such a public sector *entity* elects to initially apply the *fair value* basis for that class of *assets* during an earlier reporting period:

(a) the *fair value* basis is applied for the remainder of the progressive revaluation; and

(b) the *assets* already revalued on the existing revaluation basis under paragraph 8.10(b) as a part of that progressive revaluation need not be *revalued* to *fair value* until the first reporting period after that progressive revaluation is completed.

8.14.2 Progressive revaluations may be conducted during reporting periods beginning no later than 30 June 2005. Accordingly, for public sector *entities* that are not required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act, all of the *assets* within a class of revalued *property, plant and equipment* that has been revalued progressively under paragraph 8.13 are measured at their *fair value* as at the end of the first reporting period beginning after 30 June 2005.

8.15 Where *non-current assets* are written down to their *recoverable amount* in accordance with paragraph 8.13(c), the write-down must be accounted for as if it were a *revaluation decrement,* in accordance with paragraphs 5.4 and 5.5.

8.15.1 Where a progressive basis of revaluation is applied, it is necessary for the revaluation of the class of *property, plant and equipment* to be carried out systematically. That is, at the commencement of the revaluation period, the *entity* determines a methodical approach to select which *assets* within the class are to be revalued in each reporting period within the revaluation period. For example, the selection of *assets* may be based on a similar percentage of the total value of the class prior to revaluation, or by reference to the nature, location or use of the *assets*.

8.15.2 The *carrying amount* of some *assets* within a class of *property, plant and equipment* revalued on a progressive basis may, during the transitional period specified in paragraph 8.12, exceed their *fair value*. Except for *non-current assets* of a *not-for-profit entity* for which the future economic benefits are not primarily dependent on the *assets'* ability to generate net cash inflows (AASB 1010 and AAS 10 exempt these *assets* from application of the *recoverable amount* test), paragraph 8.13(c) requires the *recoverable amount* test to be applied in the manner (including the disclosures) set out in AASB 1010 and AAS 10. This requirement ensures that those *assets* are not carried at an amount exceeding their *recoverable amount* prior to their revaluation.

8.16 Where, at the *reporting date,* a class of *property, plant and equipment* is in the process of being revalued on a progressive basis in accordance with paragraph 8.13, the financial report must disclose in respect of that class:

(a) the dates of the beginning and end of the current progressive revaluation;

(b) the aggregate *carrying amount* of each of the following:

(i) *assets* within that class that are yet to be revalued and are carried at their *cost of acquisition* less, where applicable, any accumulated depreciation;

(ii) ***assets*** **within that class that are yet to be revalued and are carried at revalued amounts determined prior to the beginning of the current progressive revaluation less, where applicable, any subsequent accumulated depreciation;**

(iii) ***assets*** **within that class that have been revalued as a part of the current progressive revaluation and are carried at their** ***fair value*** **as at the date of revaluation less, where applicable, any subsequent accumulated depreciation;**

(iv) ***assets*** **within that class that have been revalued as a part of the current progressive revaluation and, in accordance with paragraph 8.10(b), are carried at an amount other than** ***fair value*** **as at the date of revaluation less, where applicable, any subsequent accumulated depreciation; and**

(v) ***assets*** **within that class that are carried at their** ***recoverable amount*** **less, where applicable, any subsequent accumulated depreciation;**

(c) **for each aggregate** ***carrying amount*** **referred to in paragraphs 8.16(b)(ii) to 8.16(b)(iv):**

(i) **the method(s) used to determine the revalued amount; and**

(ii) **whether the** ***carrying amounts*** **have been determined in accordance with an** ***independent valuation*****; and**

(d) **for the class of** ***property, plant and equipment*** **as a whole:**

(i) **the approach to determining which items within the class are revalued in each reporting period within the current progressive revaluation; and**

(ii) **the name(s) of the firm(s) which made that valuation, where revalued** ***carrying amounts*** **that have been determined in accordance with an** ***independent valuation*** **are** ***recognised*** **for the first time.**

8.16.1 The disclosure in paragraph 8.16(b)(v) applies to *assets* within the class that have been written down to their *recoverable amount*, regardless of whether they previously have been revalued.

Public Sector Borrowing/Financing Entities

8.17 Where a *public sector borrowing/financing entity* that is not required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act applies a policy of measuring *financial assets* at *net market value* as at the *reporting date* and *recognises* any changes in *net market value* as *revenues* or *expenses* in *net profit or loss/result* for the reporting period in which the changes occur, and this policy is not already being applied, the policy must be applied as at the beginning of the reporting period. Where this gives rise to initial adjustments which would otherwise be *recognised* in *net profit or loss/result*, the net amount of those adjustments, including any adjustments to deferred income tax balances, must be adjusted directly against retained profits (surplus) or accumulated losses (deficiency) as at the beginning of the reporting period to which the policy is first applied.

9 Definitions

9.1 In this Standard:

***accounting policies* means the specific accounting principles, bases or rules adopted in preparing and presenting the financial report;**

***acquisition date* means the date on which an acquirer obtains *control of an asset*;**

***annual reporting period* means the financial year or similar period to which an annual financial report relates;**

***assets* means future economic benefits controlled by the *entity* as a result of past transactions or other past events;**

***associate* means an investee, not being:**

(a) a *subsidiary* of the investor; or

(b) a partnership of the investor; or

(c) **an investment acquired and held exclusively with a view to its disposal in the near future**

over which the investor has significant influence;

carrying amount **means:**

(a) **in relation to an *asset*, the amount at which the *asset* is recorded in the accounting records as at a particular date. In application to a *depreciable asset*, *carrying amount* means the net amount after deducting accumulated depreciation; and**

(b) **in relation to a class of *assets*, the sum of the *carrying amounts* of the *assets* in that class;**

cash assets **means *cash on hand* and *cash-equivalent assets*;**

cash-equivalent assets **means highly liquid investments with short periods to maturity which are readily convertible to *cash on hand* at the investor's option and are subject to an insignificant risk of changes in value;**

cash on hand **means notes and coins held, and deposits held at call with a *financial institution*;**

class of non-current assets **means a category of *non-current assets* having a similar nature or function in the operations of the *entity*, which category, for the purpose of disclosure in the financial report, is shown as a single item without supplementary dissection;**

control of an asset **means the capacity of the *entity* to benefit from the *asset* in the pursuit of the *entity's* objectives and to deny or regulate the access of others to that benefit;**

cost of acquisition **means the *purchase consideration* plus any incidental costs directly attributable to the acquisition;**

current asset **means an *asset* that:**

(a) **is expected to be realised in, or is held for sale or consumption in, the normal course of the *entity's* operating cycle; or**

(b) is held primarily for trading purposes or for the short-term and is expected to be realised within twelve months of the *reporting date*; or

(c) is cash or a *cash-equivalent asset* which is not restricted in its use beyond twelve months or the length of the operating cycle, whichever is greater;

***current tax* means the amount of income taxes payable (recoverable) in respect of the taxable amount (tax loss) for a reporting period;**

***deferred tax* means:**

(a) a *deferred tax liability* or *asset* that arises in a reporting period; and

(b) changes in a *deferred tax liability* or *asset* that occur in a reporting period, other than those arising from the translation of *deferred tax liabilities* and *assets* of foreign operations;

***deferred tax assets* means the amounts of income taxes recoverable in future reporting periods in respect of:**

(a) deductible temporary differences; and

(b) the carry forward of unused tax losses;

***deferred tax liabilities* means the amounts of income taxes to be settled in future reporting periods in respect of assessable temporary differences;**

***depreciable asset* means a *non-current asset* having a limited useful life;**

***depreciation expense* means an *expense recognised* systematically for the purpose of allocating the depreciable amount of a *depreciable asset* over its useful life;**

***direct credit to equity* means an increase in an item of *equity*, where the increase is not *recognised* in *net profit or loss/result*;**

***direct debit to equity* means a decrease in an item of *equity*, where the decrease is not *recognised* in *net profit or loss/result*;**

***disclosing entity* is defined in the Corporations Act;**

***economic entity* means a group of *entities* comprising the *parent entity* and each of its *subsidiaries*;**

***entity* means any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) having the capacity to deploy scarce resources in order to achieve objectives;**

***equity* means the residual interest in the *assets* of the *entity* after deduction of its *liabilities*;**

***expenses* means consumptions or losses of future economic benefits in the form of reductions in *assets* or increases in *liabilities* of the *entity*, other than those relating to distributions to owners, that result in a decrease in *equity* during the reporting period;**

***extraordinary items* means items of *revenue* and *expense* that are attributable to transactions or other events of a type that are outside the *ordinary activities* of the *entity* and are not of a recurring nature;**

***fair value* means the amount for which an *asset* could be exchanged, or a *liability* settled, between knowledgeable, willing parties in an arm's length transaction;**

***financial asset* means any *asset* that is:**

(a) cash; or

(b) a contractual right to receive cash or another *financial asset* from another *entity*; or

(c) a contractual right to exchange financial instruments with another *entity* under conditions that are potentially favourable; or

(d) an *equity* instrument of another *entity*;

***financial institution* means:**

(a) an *entity* (including an *economic entity*) whose principal activity is to take deposits or borrow, or both take deposits and borrow, with the objective of

lending or investing in *financial assets* other than *equity* instruments, but excluding:

> **(i)** ***entities* which take deposits or borrow principally from other *entities* in the *economic entity*; and**
>
> **(ii)** **general insurers, life insurers and superannuation plans; or**

(b) **an *entity* (including an *economic entity*) subject to the *Banking Act 1959* or any replacement legislation;**

***general purpose financial report* means a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs;**

***goodwill* means the future benefits from *unidentifiable assets*;**

***income tax expense (income tax revenue)* means the aggregate amount *recognised* in *net profit or loss/result* in the statement of financial performance for the reporting period in respect of *current tax* and *deferred tax*;**

***independent valuation* means, in relation to *non-current assets* of the *entity* which are the subject of a valuation, a valuation made by a person:**

(a) **who is an expert in relation to valuations of that *class of non-current assets*; and**

(b) **whose pecuniary or other interests could not reasonably be regarded as being capable of affecting the person's ability to give an unbiased opinion in relation to that valuation;**

***inventories* means *assets*:**

(a) **held for sale in the ordinary course of business; or**

(b) **in the process of production, preparation or conversion for such sale; or**

(c) **in the form of materials or supplies to be consumed in the production of goods or services available for sale;**

excluding *depreciable assets*, as defined in Accounting Standard AASB 1021 and Australian Accounting Standard AAS 4 "Depreciation";

***joint venture* means a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control;**

***joint venture entity* means a *joint venture* that is in the form of an *entity* and does not include:**

(a) **an *entity* that is acquired and held exclusively with a view to its disposal in the near future; or**

(b) **an *entity* that operates under severe long-term restrictions which impair significantly its ability to make distributions to the venturer;**

***liabilities* means the future sacrifices of economic benefits that the *entity* is presently obliged to make to other *entities* as a result of past transactions or other past events;**

***monetary assets* means money held, and *assets* to be received in fixed or determinable amounts of money;**

***net market value* means the amount which could be expected to be received from the disposal of an *asset* in an active and liquid market after deducting costs expected to be incurred in realising the proceeds of such a disposal;**

***net profit or loss/result* means:**

(a) **in the case of an *entity* that is not an *economic entity*, profit or loss/result after *income tax expense (income tax revenue)* from *ordinary activities* and *extraordinary items*; and**

(b) **in the case of an *entity* that is an *economic entity*, profit or loss/result after *income tax expense (income tax revenue)* from *ordinary activities* and *extraordinary items*, before adjustment for that portion that can be attributed to outside *equity* interest;**

***non-current assets* means all *assets* other than *current assets*;**

***not-for-profit entity* means an *entity* whose financial objectives do not include the generation of profit;**

***ordinary activities* means activities that are undertaken by an *entity* as part of its business or to meet its objectives and related activities in which the *entity* engages in furtherance of, incidental to, or arising from activities undertaken to meet its objectives;**

***parent entity* means an *entity* which controls another *entity*;**

***profit-seeking entity* means an *entity* whose financial objectives include the generation of profit;**

***property, plant and equipment* means tangible *non-current assets* that:**

(a) are held by an *entity* for use in the production or supply of goods or services, for rental to others, or for administrative purposes and may include items held for maintenance or repair of such *assets*; and

(b) have been acquired or constructed with the intention of being used on a continuing basis;

***public sector borrowing/financing entity* means a public sector *entity* whose principal activity is to take deposits or borrow, or both take deposits and borrow, with the objective of lending or investing in financial *assets*, but excluding general insurers, life insurers and superannuation plans;**

***purchase consideration* means the *fair value* as at the *acquisition date* of *assets* given, *equity* instruments issued, or *liabilities* undertaken by the acquiring *entity*;**

***recognised* means reported on, or incorporated in amounts reported on, the face of the statement of financial performance or the statement of financial position (whether or not further disclosure of the item is made in the notes);**

***recoverable amount* means, in relation to an *asset*, the net amount that is expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal;**

registered scheme **means a managed investment scheme that meets the criteria for registration under Section 601ED of the Corporations Act and has been registered by the Australian Securities and Investments Commission under Section 601EB of that Act;**

reporting date **means the end of the reporting period to which the financial report relates;**

reporting entity **means an *entity* (including an *economic entity*) in respect of which it is reasonable to expect the existence of users dependent on *general purpose financial reports* for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources, and includes but is not limited to the following:**

(a) a *disclosing entity*; and

(b) a company which is not a *subsidiary* of a holding company incorporated in Australia and which is a *subsidiary* of a foreign company where that foreign company has its securities listed for quotation on a stock market or those securities are traded on a stock market;

revaluation **means the act of *recognising* a reassessment of the *carrying amount* of a *non-current asset* to its *fair value* as at a particular date, but excludes *recoverable amount* write-downs and impairment losses;**

revaluation decrement **means the amount by which the *revalued carrying amount* of a *non-current asset* as at the *revaluation* date is less than its previous *carrying amount*;**

revaluation increment **means the amount by which the *revalued carrying amount* of a *non-current asset* as at the *revaluation* date exceeds its previous *carrying amount*;**

revenues **means inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in *assets* or reductions in *liabilities* of the *entity*, other than those relating to contributions by owners, that result in an increase in *equity* during the reporting period;**

subsidiary **means an *entity* which is controlled by a *parent entity*;**

***unidentifiable assets* means those *assets* which are not capable of being both individually identified and specifically *recognised*.**

Annual Reporting Period

9.1.1 The definition of *annual reporting period* refers to financial year or similar period and will normally be a twelve-month period. The *annual reporting period* will differ from twelve months in circumstances such as:

(a) the *entity* being established on a date other than a date exactly twelve months before the *reporting date*; and

(b) the *entity* changing its *reporting date*.

Class of Non-Current Assets

9.1.2 *Classes of non-current assets* are determined in terms of the lowest level of aggregation adopted in the financial report for disclosure of *non-current assets* having a similar nature or function. The same concept of a class is applied when disclosing a reconciliation of the *carrying amount* at the beginning and end of the reporting period for each class of *property, plant and equipment* under paragraph 7.6.

Profit-Seeking Entities

9.1.3 *Profit-seeking entities* include government business *entities*, and those private sector *entities* whose objectives include the generation of profit, including a surplus, for distribution to members.

9.1.4 Government business *entities* are those government *entities* whose objectives encompass the generation of profit from the provision of goods and services to consumers at charges equal to or greater than the full cost of those goods and services. The financial objectives of government business *entities* may encompass the achievement of either a nominated profit target or a nominated rate of return on *assets* employed.

9.1.5 Private sector *profit-seeking entities* are frequently characterised by the existence of defined ownership interests that can be sold, transferred and/or redeemed. Private sector *profit-seeking entities* also include clubs, credit unions, co-operatives, member service organisations and other organisations which generate profit for the benefit of members. An *entity* which ostensibly operates on a not-for-profit basis but which is part of an *economic entity* whose objective is to generate profit would in substance be an *entity* concerned with profit seeking and, accordingly, would meet the definition of a *profit-seeking entity*.

Registered Schemes

9.1.6 Registration under Chapter 5C of the Corporations Act of managed investment schemes that meet the criteria for registration is an investor protection mechanism, given that *registered schemes* are subject to certain structural and operational requirements under the Act. For example, proponents of a *registered scheme* need to appoint a public company as the responsible entity of the scheme, obtain a licence to operate the scheme, and develop and lodge with the Australian Securities and Investments Commission a compliance plan for the scheme which is required to be audited.

9.1.7 Managed investment schemes need to be registered under Section 601ED of the Corporations Act if any of the following occurs:

(a) they have more than 20 members;

(b) they were promoted by a person, or an associate of a person, who was, when the scheme was promoted, in the business of promoting managed investment schemes; and

(c) the Australian Securities and Investments Commission has made a determination under Section 601ED(3) that a number of schemes are closely related and that each of them has to be registered because the total number of members of all the schemes exceeds 20.

In general, under Section 601ED(2) a managed investment scheme is not required to be registered if all the issues of interests in the scheme were excluded issues under Section 66 of the Corporations Act (that is, where units have been issued to persons or in circumstances that do not require a prospectus).

Public Sector Borrowing/Financing Entities

9.1.8 *Public sector borrowing/financing entities* include central borrowing *entities* and other *entities* established to provide industry and housing finance.

APPENDIX

EXAMPLES OF RECOGNISING REVALUATIONS AND THEIR INCOME TAX EFFECTS

This Appendix forms part of the commentary. Its purpose is to illustrate the following matters, through three examples of accounting for *revaluations* of *non-current assets*:

(a) the accounting treatment of *revaluations* of *non-current assets* and their associated income tax effects under paragraph 5.5 and Accounting Standard AASB 1020 and Australian Accounting Standard AAS 3 "Income Taxes"; [2] and

(b) the effects of *recognised* tax effects of *revaluations* on the matching of *revaluation increments* and *decrements* that are credited and debited to the asset revaluation reserve in respect of a *class of non-current assets*, in the context of:

   (i) the requirement in paragraph 5.5 that net *revaluation decrements* are not to be debited to the balance of the asset revaluation reserve in respect of a *class of non-current assets* to the extent that they would cause the balance of the asset revaluation reserve in respect of that *class of non-current assets* to be a debit balance; and

   (ii) the requirement in AASB 1020 and AAS 3 that *current tax* and *deferred tax* are not to be debited to the balance of the asset revaluation reserve in respect of a *class of non-current assets* to the extent that they would cause the balance of the asset revaluation reserve in respect of that *class of non-current assets* to be a debit balance.

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2 References in this Appendix to Accounting Standard AASB 1020 and Australian Accounting Standard AAS 3 "Income Taxes" are to the revised AASB 1020 and AAS 3 issued in December 1999, which require the *recognition* of tax effects in respect of *revaluations* (provided the tax effects satisfy specified *recognition* criteria) regardless of whether *revaluation increments* or *decrements* are included in *net profit or loss/result* for the reporting period or *recognised* in asset revaluation reserves. Until adoption of the revised AASB 1020 (which is operative for half-years ending on or after 31 December 2002 and financial years ending on or after 30 June 2003, but may be adopted early) or AAS 3 (which is operative for reporting periods beginning on or after 1 July 2002, but may be adopted early), the *entity* would not *recognise deferred tax assets* or *deferred tax liabilities* in respect of *revaluations* of *non-current assets*.

Core data

The following data are common to Scenarios (1), (2) and (3) illustrated below.

An *entity* holds a parcel of land ("land parcel (a)") with a *cost of acquisition* of $100 million. On disposal of this or any other *asset* subject to capital gains tax, the amount by which the proceeds exceed the tax base will be taxed at a rate of 30%. Each parcel of land referred to in this Appendix is a single *asset* for tax purposes.

On 30 June 20X2, land parcel (a) is *revalued* to $120 million (its *fair value*) in conformity with paragraph 5.1(b) of this Standard. For the purpose of simplicity it is assumed that for each *asset* in this Appendix, the tax base (for capital gains tax purposes) remains at the *cost of acquisition.* (The effects of changes in the indexed cost base of *assets* the *carrying amounts* of which are expected to be recovered through sale are addressed in AASB 1020 and AAS 3.)

Scenario (1)

In this scenario, the net *revaluation decrement* for *assets* within a *class of non-current assets* exceeds the credit balance of the asset revaluation reserve for the same class. The amount by which the net *revaluation decrement* grossed up for the related *recognised* reduction in a *deferred tax liability* exceeds the credit balance of the asset revaluation reserve for the same class is *recognised* as an *expense* in *net profit or loss/result* for the reporting period, and an item of *income tax revenue* is *recognised* if a *deferred tax asset* is *recognised* in respect of the capital loss.

Land parcel (a) comprises an entire *class of non-current assets*, and there is not an existing balance of an asset revaluation reserve in respect of that class. In addition, no *deferred tax liabilities* or *deferred tax assets* have been *recognised* by the *entity* in respect of probable future capital gains or losses arising from other *classes of non-current assets*. The journal entries to *recognise* the *revaluation* as at 30 June 20X2 and its associated tax effect under paragraph 5.5, AASB 1020 and AAS 3 are:

		$million	$million
Dr	Land	20.00	
Cr	Asset Revaluation Reserve		20.00

		$million	$million
Dr	Asset Revaluation Reserve	6.00	
Cr	Deferred Tax Liability		6.00

On 30 June 20X3, the land is *revalued* to $90 million in conformity with paragraph 5.1(b). The tax base of the land remains at $100 million.

If it is assessed that it is less than probable that a future capital gain will arise from another *class of non-current assets* enabling recovery of the tax benefit arising from the unrealised capital loss of $10 million, under AASB 1020 and AAS 3 a *deferred tax asset* is not *recognised* in respect of that capital loss. The journal entries to *recognise* the *revaluation* and its associated tax effect under paragraph 5.5, AASB 1020 and AAS 3 are:

		$million	$million
Dr	Asset Revaluation Reserve	20.00	
Dr	Loss on Revaluation of Land (expense)	10.00	
Cr	Land		30.00
Dr	Deferred Tax Liability	6.00	
Cr	Asset Revaluation Reserve		6.00

The reduction of the *deferred tax liability* by $6 million reverses the increase in *deferred tax liability* that was *recognised* in respect of the unrealised capital gain as at 30 June 20X2 (see above), which has now reversed.

The entries made to the amounts other than cash and items *recognised* in *net profit or loss/result* are depicted below.

Land Parcel (a) ($million)

1/7 20X1	Land, at cost: balance brought forward	100.00			
30/6 20X2	Asset Revaluation Reserve	20.00	30/6 20X3	Asset Revaluation Reserve	20.00
			30/6 20X3	Loss on Revaluation	10.00
			30/6 20X3	Balance carried down	90.00
		120.00			120.00

Asset Revaluation Reserve: Land Parcel (a) ($million)

30/6 20X2	Deferred Tax Liability	6.00	30/6 20X2	Land Parcel (a)	20.00
30/6 20X3	Land Parcel (a)	20.00	30/6 20X3	Deferred Tax Liability	6.00
30/6 20X3	Balance carried down	–			
		26.00			26.00

Deferred Tax Liability ($million)

30/6 20X3	Asset Revaluation Reserve: Land Parcel (a)	6.00	30/6 20X2	Asset Revaluation Reserve: Land Parcel (a)	6.00
30/6 20X3	Balance carried down	–			
		6.00			6.00

Alternatively, if at 30 June 20X3 it were assessed that it is probable that a future capital gain will arise from another *class of non-current assets* enabling recovery of the tax benefit arising from the unrealised capital loss of $10 million, a *deferred tax asset* and associated credit to *income tax expense* (deferred) would be *recognised* in respect of that capital loss, under AASB 1020 and AAS 3. The journal entry to *recognise* these items would be:

		$million	$million
Dr	Deferred Tax Asset	3.00	
Cr	Income Tax Expense (Deferred)		3.00

Scenario (2)

In this scenario, as at 30 June 20X2, land parcel (a) comprises an entire *class of non-current assets* and there is not an existing balance of the asset revaluation reserve in respect of that class, and the amount of the net *revaluation decrement recognised* as at 30 June 20X3 for the *class of non-current assets* is the same as for Scenario (1) [that is, $30 million]. However, as at 30 June 20X3 the decrement is in respect of a different *asset* (within the same class) than the *asset* in respect of which the previous net *revaluation increment* was *recognised*. The determination of capital gains and losses for taxation purposes is on an individual *asset* basis. Where *revaluation increments* and *decrements* are *recognised* in respect of the same *asset* [as in Scenario (1)] the unrealised capital loss is the amount by which the *revaluation decrement* exceeds the *revaluation increment* [that is, $10 million]. Accordingly, if a *deferred tax asset* fails the criteria for *recognition* under AASB 1020 and AAS 3, the unrecognised *asset* (and corresponding unrecognised credit to the asset revaluation reserve) is limited to the tax effect of the net decrement.

In contrast, where net *revaluation increments* and *decrements* are *recognised* in respect of different *assets* within the same class [as in Scenario (2)] the amount of the *deferred tax asset* that may fail the criteria for *recognition* under AASB 1020 and AAS 3 may equal the tax effect of the entire net *revaluation decrement*. (This can occur, for example, because although capital gains and capital losses for taxation purposes that are realised in the same period are offset on a taxable entity-wide basis, capital gains may be realised and assessed for taxation purposes before capital losses are realised. Where the latter occurs, there may not be capital gains against which to offset the capital losses.) The corresponding unrecognised credit to the asset revaluation reserve would also be different, and this can affect the extent to which net *revaluation decrements* for a *class of non-current assets* can be debited to the asset revaluation reserve. In Scenario (2), the amount of the *revaluation decrement* that can be debited to the asset revaluation reserve is less than for Scenario (1).

As at 30 June 20X2, land parcel (a) comprises an entire *class of non-current assets*, and there is not an existing balance of the asset revaluation reserve in respect of that class. In addition, no *deferred tax liabilities* or *deferred tax assets* have been *recognised* by the *entity* in respect of probable future capital gains or losses arising from other *classes of non-current assets*. The tax effect of the *revaluation* of land parcel (a) as at 30 June 20X2 is *recognised* as a *deferred tax liability* of $6 million. As in Scenario (1), the journal entries to *recognise* the *revaluation* as at 30 June 20X2 and its associated tax effect under paragraph 5.5, AASB 1020 and AAS 3 are:

		$million	$million
Dr	Land	20.00	
Cr	Asset Revaluation Reserve		20.00
Dr	Asset Revaluation Reserve	6.00	
Cr	Deferred Tax Liability		6.00

Under Scenario (2), the *fair value* of land parcel (a) remains at $120 million, and the tax base of that land remains at $100 million.

During the reporting period ending 30 June 20X3, the *entity* acquired land parcel (b) for $150 million. This parcel of land is included in the same *class of non-current assets* as land parcel (a). For the purpose of simplicity it is assumed that the tax base of the land (for capital gains tax purposes) remains at $150 million.

By 30 June 20X4, the *fair value* of land parcel (b) had fallen to $120 million and the land was *revalued* to that amount under paragraph 5.1(b). If the *entity* assesses that it is not probable that a future capital gain will arise enabling recovery of the tax benefit arising from the unrealised capital loss of $30 million, under AASB 1020 and AAS 3 a *deferred tax asset* is not *recognised* in respect of that capital loss. The journal entry as at 30 June 20X4 to *recognise* the *revaluation* under paragraph 5.5 is:

		$million	$million
Dr	Asset Revaluation Reserve	14.00	
Dr	Loss on Revaluation of Land (expense)	16.00	
Cr	Land		30.00

The *fair value* of land parcel (b) subsequently remains at $120 million.

As at 30 June 20X6, due to an upward *revaluation* of another *class of non-current assets* (the *carrying amount* of which is expected to be recovered through sale) the *entity* assesses that it is probable that the tax benefit arising from the unrealised capital loss of $30 million that was *recognised* as a net *revaluation decrement* as at 30 June 20X4 in respect of land parcel (b) will be recovered as a deduction from an assessable capital gain in respect of that other *class of non-current assets*. Accordingly, the *deferred tax asset* arising from the unrealised capital loss of $30 million qualifies for *recognition* as an *asset*. The journal entries for the *revaluation* of the other *class of non-current assets* are not illustrated here.

The journal entry as at 30 June 20X6 to subsequently *recognise* the *deferred tax asset* of $9 million (calculated as 30% × $30 million) and the apportionment of the related credit to the asset revaluation reserve and *income tax expense*, under paragraph 5.5, AASB 1020 and AAS 3, is:

		$million	$million
Dr	Deferred Tax Asset	9.00	
Cr	Asset Revaluation Reserve		4.20
Cr	Income Tax Expense (deferred)		4.80

In the journal entry immediately above, $4.2 million is credited to the asset revaluation reserve to conform with the requirement in AASB 1020 and AAS 3 that *deferred tax* that arises in a reporting period is to be directly credited to *equity* to the extent that it relates to an amount that was directly debited to *equity* in the current or a previous reporting period. In this example, the $4.2 million credited to the asset revaluation reserve is calculated as the proportion of the *recognised deferred tax asset* attributable to the amount directly debited to the asset revaluation reserve as at 30 June 20X4. This amount is calculated as 14/30 × $9 million. The remainder of the $9 million (that is, $4.8 million) is credited to *income tax expense* (deferred) in accordance with AASB 1020 and AAS 3.

The entries made to the amounts other than cash and items *recognised* in *net profit or loss/result* are depicted below.

Land Parcel (a) ($million)

1/7 20X1	Land, at cost: balance brought forward	100.00			
30/6 20X2	Asset Revaluation Reserve	20.00	30/6 20X2	Balance carried down	120.00
		120.00			120.00

Land Parcel (b) ($million)

1/7 20X3	Cash	150.00			
			30/6 20X4	Asset Revaluation Reserve	14.00
			30/6 20X4	Loss on Revaluation	16.00
			30/6 20X4	Balance carried down	120.00
		150.00			150.00

Asset Revaluation Reserve: Land Parcels (a) and (b) ($million)

30/6 20X2	Deferred Tax Liability	6.00	30/6 20X2	Land Parcel (a)	20.00
30/6 20X4	Land Parcel (b)	14.00			
30/6 20X4	Balance carried down	–			
		20.00			20.00
			1/7 20X4	Balance brought forward	–
30/6 20X6	Balance carried down	4.20	30/6 20X6	Deferred Tax Asset	4.20
		4.20			4.20

Deferred Tax Asset ($million)

30/6 20X6	Asset Revaluation Reserve: Land Parcels (a) and (b)	4.20			
30/6 20X6	Income Tax Expense (deferred)	4.80	30/6 20X6	Balance carried down	9.00
		9.00			9.00

Deferred Tax Liability ($million)

			30/6 20X2	Land Parcel (a)	6.00
30/6 20X6	Balance carried down	6.00			
		6.00			6.00

Scenario (3)

In this scenario, a change in the rate of capital gains tax gives rise to different tax amounts credited and debited to the asset revaluation reserve for net *revaluation increments* and *decrements* of the same amount within the same *class of non-current assets*. Consequently, the net *revaluation increments* and *decrements* (which exclude tax effects) that are credited and debited to the asset revaluation reserve will differ in amount.

Land parcel (a) comprises an entire *class of non-current assets* as at 30 June 20X2, and there is not an existing balance of the asset revaluation reserve in respect of that class. In addition, no *deferred tax liabilities* or *deferred tax assets* have been *recognised* by the *entity* in respect of probable future capital gains or losses arising from other *classes of non-current assets*. As in Scenarios (1) and (2), the journal entries to *recognise* the *revaluation* as at 30 June 20X2 and its associated tax effect under paragraph 5.5, AASB 1020 and AAS 3 are:

		$million	$million
Dr	Land	20.00	
Cr	Asset Revaluation Reserve		20.00
Dr	Asset Revaluation Reserve	6.00	
Cr	Deferred Tax Liability		6.00

On 1 July 20X2, the *entity* acquired another parcel of land within the same *class of non-current assets* [that is, land parcel (c)] for $160 million.

On 30 June 20X3, land parcel (a) is sold for cash of $120 million (its *revalued carrying amount* immediately before sale). The tax base of the land remained at $100 million. The journal entries to *recognise* the sale and its associated tax effects under paragraph 5.9, AASB 1020 and AAS 3 are:

		$million	$million
Dr	Cash	120.00	
Cr	Sale of Land		120.00
Dr	Carrying Amount of Land Sold	120.00	
Cr	Land		120.00
Dr	Deferred Tax Liability	6.00	
Cr	Asset Revaluation Reserve		6.00

		$million	$million
Dr	Asset Revaluation Reserve	6.00	
Cr	Current Tax Liability		6.00

The *fair value* of land parcel (c) remained at $160 million at 30 June 20X3.

The entries made to the amounts other than cash and items *recognised* in *net profit or loss/result* for reporting periods up to 30 June 20X3 are depicted below.

Land Parcel (a) ($million)

1/7 20X1	Land, at cost: balance brought forward	100.00			
30/6 20X2	Asset Revaluation Reserve	20.00	30/6 20X3	Carrying Amount of Land Sold	120.00
			30/6 20X3	Balance carried down	–
		120.00			120.00
		- - - - -			- - - - -

Land Parcel (c) ($million)

1/7 20X2	Cash	160.00			
			30/6 20X3	Balance carried down	160.00
		160.00			160.00
		- - - - -			- - - - -

Asset Revaluation Reserve: Land Parcels (a) and (c)
($million)

30/6 20X2	Deferred Tax Liability	6.00	30/6 20X2	Land Parcel (a)	20.00
30/6 20X3	Current Tax Liability	6.00	30/6 20X3	Deferred Tax Liability	6.00
30/6 20X3	Balance carried down	14.00			
		26.00			26.00

Deferred Tax Liability ($million)

30/6 20X3	Asset Revaluation Reserve	6.00	30/6 20X2	Asset Revaluation Reserve: Land Parcel (a)	6.00
30/6 20X3	Balance carried down	–			
		6.00			6.00

Current Tax Liability ($million)

			30/6 20X3	Asset Revaluation Reserve	6.00
30/6 20X3	Balance carried down	6.00			
		6.00			6.00

As at 30 June 20X4, the *fair value* of land parcel (c) had fallen to $140 million from its *cost of acquisition* of $160 million, and the *entity revalued* that land to $140 million in accordance with paragraph 5.1(b). The tax base of that land remained at $160 million.

As at 30 June 20X4 the *entity* assesses that it is probable that the tax benefit arising from the unrealised capital loss of $20 million that was *recognised* as at that date in respect of land parcel (c) will be recovered as a deduction from an assessable capital gain. Accordingly, the *deferred tax asset* arising from the unrealised capital loss of $20 million qualifies for *recognition* as an *asset*.

Legislation was enacted on 1 July 20X3 reducing the rate of capital gains tax for capital gains realised after 30 June 20X3 from 30% to 25%. The *deferred tax asset* arising from the capital loss of $20 million is $5 million. Were there a sufficient balance carried forward in the asset revaluation reserve for the *class of non-current assets* comprising land parcels (a) and (c), the journal entries as at 30 June 20X4 to *recognise* the net *revaluation decrement* and its associated tax effect under paragraph 5.5, AASB 1020 and AAS 3 would be:

		$million	$million
Dr	Asset Revaluation Reserve	20.00	
Cr	Land Parcel (c)		20.00
Dr	Deferred Tax Asset	5.00	
Cr	Asset Revaluation Reserve		5.00

However, the resultant net debit of $15 million to the asset revaluation reserve would exceed the credit balance of that reserve carried forward as at 1 July 20X3 (that is, $14 million). This would breach the requirements of paragraph 5.5, AASB 1020 and AAS 3. Accordingly, it is necessary to apportion the disposition of the net *revaluation decrement* and associated tax effects between the asset revaluation reserve and *net profit or loss/result*.

The net *revaluation decrement* debited to the asset revaluation reserve would be $18.67 million (calculated as 20/15 × $14 million) and the amount credited to the asset revaluation reserve in respect of the *deferred tax asset* would be $4.67 million (calculated as 20/15 × $14 million × 25%).

The net *revaluation decrement recognised* as an *expense* in *net profit or loss/result* for the reporting period ended 30 June 20X4 would be $1.33 million (calculated as 20/15 × $1 million) and the amount credited to *income tax expense* (deferred) in respect of the *deferred tax asset* would be $0.33 million (calculated as 20/15 × $1 million × 25%).

The journal entries to *recognise* the *revaluation* and its associated tax effects under paragraph 5.5, AASB 1020 and AAS 3 are:

		$million	$million
Dr	Asset Revaluation Reserve	18.67	
Dr	Loss on Revaluation of Land (expense)	1.33	
Cr	Land		20.00

		$million	$million
Dr	Deferred Tax Asset	5.00	
Cr	Asset Revaluation Reserve		4.67
Cr	Income Tax Expense (deferred)		0.33

The entries from 1 July 20X3 made to the amounts other than cash and items *recognised* in *net profit or loss/result* are depicted below.

Land Parcel (c) ($million)

1/7 20X3	Balance brought Forward	160.00			
			30/6 20X4	Asset Revaluation Reserve	18.67
			30/6 20X4	Loss on Revaluation	1.33
			30/6 20X4	Balance carried down	140.00
		160.00			160.00

Asset Revaluation Reserve: Land Parcels (a) and (c) ($million)

			1/7 20X3	Balance brought forward	14.00
30/6 20X4	Land Parcel (c)	18.67	30/6 20X4	Deferred Tax Asset	4.67
30/6 20X4	Balance carried down	–			
		18.67			18.67

Deferred Tax Asset ($million)

30/6 20X4	Asset Revaluation Reserve	4.67			
30/6 20X4	Income Tax Expense (deferred)	0.33	30/6 20X4	Balance carried down	5.00
		5.00			5.00

CONFORMITY WITH INTERNATIONAL AND NEW ZEALAND ACCOUNTING STANDARDS

Conformity with International Accounting Standards issued by the International Accounting Standards Board

At the date of issue of this Standard, compliance with this Standard will ensure conformity with the requirements of International Accounting Standard IAS 16 "Property, Plant and Equipment" concerning revaluations of, and disclosures relating to, non-current assets, except for the following items.

Unlike IAS 16, this Standard:

(a) requires revaluation increments and revaluation decrements relating to assets within a class of non-current assets to be offset against one another;

(b) does not require disclosure of the carrying amount of each class of revalued assets that would have been recognised had the assets been measured at their cost of acquisition, less any accumulated depreciation and accumulated recoverable amount write-downs or impairment losses; and

(c) does not require the disclosure of restrictions on the distribution to owners of the balance of the asset revaluation reserve (which are specified in this Standard for total non-current assets) to be made for each class of non-current assets.

IAS 16 requires that, subsequent to initial recognition, an item of property, plant and equipment is measured either at:

(a) its cost less any accumulated depreciation and any accumulated impairment losses (the benchmark treatment); or

(b) a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses (the allowed alternative treatment).

Under International Accounting Standards IAS 1 "Presentation of Financial Statements" and IAS 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies", an entity's management would choose between measurement attributes (a) and (b) based on its assessment of their relative usefulness to users. This Standard does not conform with IAS 1, IAS 8 and IAS 16 because, under the requirements of this Standard, an entity can choose to discontinue the revaluation of a class of non-current assets (using similar criteria for a voluntary change of accounting policy as those specified in IAS 8) but not to revert to carrying amounts based on the cost of acquisition of the assets comprising the class. Instead, the assets subsequently are measured at their carrying amount as at the time that revaluation of the class was discontinued, less any subsequent accumulated depreciation and subsequent accumulated recoverable amount write-downs or impairment losses.

Conformity with International Public Sector Accounting Standards issued by the Public Sector Committee of the International Federation of Accountants

At the date of issue, this Standard has no corresponding International Public Sector Accounting Standard.

Conformity with New Zealand Accounting Standards

At the date of issue of this Standard, compliance with this Standard will ensure conformity with the requirements of Financial Reporting Standard No. 3 "Accounting for Property, Plant and Equipment" (FRS-3) concerning revaluations of, and disclosures relating to, non-current assets, except that this Standard:

(a) permits an entity to discontinue the revaluation of a class of non-current assets but not to revert to carrying amounts based on the cost of acquisition of the assets comprising the class. The corresponding policy in FRS-3 is consistent with the policy in IAS 1, IAS 8 and IAS 16 (see above), except that:

  (i) FRS-3 allows an entity to discontinue revaluation and subsequently measure the assets comprising the class based on their carrying amounts as at the date of the discontinuation of revaluation; and

  (ii) FRS-3 also allows the discontinuation of revaluations of a class of property, plant and equipment on the basis of cost-benefit reasons;

(b) requires that where non-current assets are revalued in the financial statements of a subsidiary in the process of revaluing the assets in consolidated financial statements as required by other Accounting Standards, the fair values of those assets are to be kept up to date in the financial statements of the subsidiary. This policy is required unless the subsidiary elects to discontinue revaluations under the criteria for a voluntary change in accounting policy specified in Accounting Standard AASB 1001 and Australian Accounting Standard AAS 6 "Accounting Policies". FRS-3 does not require the fair values of assets revalued in the financial statements of a subsidiary in the process of revaluing the assets in consolidated financial statements to be kept up to date in the financial statements of the subsidiary;

(c) does not include the requirement in FRS-3 that an item of property, plant and equipment currently measured on a revaluation basis must be revalued at least every five years;

(d) does not include the requirement in FRS-3 that the balance of the asset revaluation reserve attributable to an item of property, plant and equipment that has been disposed of or permanently withdrawn from operation must be transferred from the reserve to another component of equity. This Standard is silent on the issue, and it is optional whether amounts are transferred from the asset revaluation reserve in those circumstances;

(e) does not include special measurement requirements for items of property, plant and equipment withdrawn from use and intended for sale. FRS-3 requires those assets to be measured at the lower of their existing carrying amount and net market value. This issue will be dealt with in a future Standard developed on impairment of assets; and

(f) does not include the requirements in FRS-3 to disclose:

    (i) the carrying amount of property, plant and equipment not in current use, with separate disclosure of items withdrawn from use and not in regular use, and of items under construction; and

    (ii) for each class of revalued property, plant and equipment:

        (A) the balance of the asset revaluation reserve; and

        (B) the name and qualifications of the valuer(s).

At the date of issue of this Standard, compliance with this Standard will not ensure conformity with one of the requirements of Financial Reporting Standard No. 1 "Disclosure of Accounting Policies" (FRS-1). FRS-1 requires that where a change in an accounting policy did not have a material effect in the reporting period in which the change was made, but has a material effect in subsequent reporting periods, disclosure of the change (including its financial effect) is made in those subsequent reporting periods. This Standard does not require disclosure in subsequent reporting periods of the financial effect of discontinuing the revaluation of a class of non-current assets.

BACKGROUND TO REVISION

This section does not form part of the Standard. It is a summary of the reasons for the current revision to the Standard.

1 The Standard has been reissued to make amendments that deal with issues identified from the implementation of Accounting Standard AASB 1041 and Australian Accounting Standard AAS 38 “Revaluation of Non-Current Assets” as issued in December 1999. The Standard is presented in a format that combines the formats previously used in Accounting Standards (AASB Standards) and Australian Accounting Standards (AAS Standards) in order to move towards the issue of a single series of Standards. The differential application of the transitional arrangements in AASB 1041 and AAS 38 has been preserved.

2 The reissue of the Standard follows consideration of the responses received on Exposure Draft ED 101 “Revaluation of Non-Current Assets: Proposed Amendments to AASB 1041/AAS 38” issued in March 2001.

Principal Changes from the Previous AASB 1041 and AAS 38

3 The principal changes from the superseded Standards that were proposed in ED 101 and are included in the revised Standard are that it:

(a) limits the requirements to disclose reconciliations of the carrying amount at the beginning and end of the reporting period to each class of property, plant and equipment;

(b) specifies that a revaluation of non-current assets to fair value in consolidated financial statements required by other Accounting Standards does not give rise to a requirement to subsequently revalue those assets;

(c) specifies that amounts are credited to the asset revaluation reserve in respect of a class of non-current assets either as a result of applying this Standard or by applying the requirements of another Standard;

(d) amends the transitional arrangements to specify that when an entity initially applies the fair value basis to measure a class of non-current assets, any net revaluation increment arising upon revaluing the assets to their fair value must be credited directly to retained profits (surplus) or accumulated losses (deficiency) to the extent that it reverses a net revaluation decrement previously recognised in the statement of financial performance, with the remainder of the net revaluation increment (if any) credited directly to the asset revaluation reserve;

(e) includes an additional transitional arrangement for entities that changed from a revaluation basis to the cost basis for a class of non-current assets under the transitional arrangements set out in AASB 1041 and AAS 38 as issued in December 1999. This additional arrangement enables these entities to apply the fair value basis to measure that class of non-current assets by reversing the effects of the previous application of the cost basis on the asset revaluation reserve and retained profits (surplus) or accumulated losses (deficiency), to the extent of the net increment or decrement in the carrying amount of that class of non-current assets;

(f) clarifies that where public sector entities have partially completed a progressive revaluation of a class of property, plant and equipment, and the transitional arrangements permitting continuation of an existing revaluation basis other than fair value expire:

 (i) the fair value basis must be applied for the remainder of the progressive revaluation; and

 (ii) the assets already revalued on the "existing revaluation basis" as part of that progressive revaluation need not be revalued to fair value until the first reporting period after that progressive revaluation is completed;

(g) extends the transitional arrangements for public sector entities (other than listed corporations) revaluing a class of property, plant and equipment on a progressive basis. This extension specifies that revaluation adjustments resulting from the progressive adoption of the fair value basis that would otherwise be recognised as revenues or expenses would instead be made directly to retained profits (surplus) or accumulated losses (deficiency) in each affected reporting period until the first reporting period after the expiry of the transitional arrangements; and

(h) amends the commentary on fair value to remove the potential for interpretations that those non-current assets of not-for-profit entities which would be exempted from the recoverable amount test in Accounting Standard AASB 1010 and Australian Accounting Standard AAS 10 "Recoverable Amount of Non-Current Assets" if they were measured on the cost basis may need to be written down on the basis of their net cash inflows as part of a cash-generating operation if they are revalued to fair value under the Standard.

Noteworthy Differences from ED 101

4 Noteworthy differences from ED 101's proposals included in the revised Standard are described below.

Measurement Basis

5 ED 101 proposed an amendment permitting entities to change between the fair value basis and the cost basis, in either direction, for a class of non-current assets at any time, provided that the change in accounting policy will result in an overall improvement in the relevance and reliability of the financial information reported. Approximately half of the respondents to ED 101 disagreed with the proposal or argued that the change of measurement basis should be subject to additional conditions. Some respondents were particularly concerned that under the proposal:

(a) entities would recognise revenue as a result of reversing additional depreciation previously recognised on the basis of fair values, where they exceeded original cost; and

(b) entities could remeasure a class of non-current assets based on original cost immediately before disposing of material assets within that class, and recognise gains on disposal that would not have been recognised if the assets continued to be measured at revalued carrying amounts. This practice has been prohibited by AASB 1041 and AAS 38 and their antecedents for many years.

6 Consistent with the proposals in ED 101, the Standard permits an entity to discontinue the revaluation of a class of non-current assets under the criteria for a voluntary change of accounting policy set out in Accounting Standard AASB 1001 and Australian Accounting Standard AAS 6 "Accounting Policies". However, the Standard does not permit an entity to revert to carrying amounts based on the

cost of acquisition of the assets comprising the class. Instead, the carrying amount of the class subsequently is based on the carrying amounts of the assets comprising the class as at the date of the discontinuation of revaluation, and the class is treated as being measured on the cost basis. This change avoids the problems described in (a) and (b) above.

7 As suggested by a number of respondents to ED 101, the Standard also includes commentary that the criteria for a voluntary change of accounting policy set out in AASB 1001 and AAS 6 would rarely be satisfied in respect of the discontinuation of the application of the fair value basis.

8 The Standard includes new commentary clarifying that under the cost basis, non-monetary assets contributed to the entity are measured at their fair value as at the date of the contribution, less any subsequent accumulated depreciation and subsequent accumulated recoverable amount write-downs or impairment losses.

Disclosure Exemption

9 Where revaluation of a class of non-current assets is discontinued, the Standard sets aside the requirement under AASB 1001 and AAS 6 to disclose in the next reporting period the financial effect of that change in accounting policy. In order to disclose that financial effect in the next reporting period, it would be necessary to determine the fair values of the assets comprising the class in that reporting period, negating the cost savings from the discontinuation of the revaluation of that class.

Disclosure Under Transitional Arrangements

10 Based on comments received on ED 101, the Standard includes a new requirement that, where a public sector entity elects to revalue a class of property, plant and equipment progressively over more than one reporting period under the transitional arrangements, disclosure must be made of any assets within that class with a carrying amount based on a revaluation basis other than fair value.

REGULATION IMPACT STATEMENT

Background

In accordance with “A Guide to Regulation” issued by the Commonwealth Office of Regulation Review (December 1998), the Australian Accounting Standards Board (AASB) is required to prepare a Regulation Impact Statement in relation to the revised Accounting Standard AASB 1041 “Revaluation of Non-Current Assets”.

The policies specified in respect of revaluations of non-current assets in AASB 1041 have the potential to significantly affect the carrying amounts of non-current assets (such as property, plant and equipment) in statements of financial position, which will:

(a) be relevant to assessments of the resources that entities control in order to pursue their objectives; and

(b) affect the amount of depreciation expense recognised in the net profit or loss/result of entities with depreciable assets.

The policies specified in respect of revaluations of non-current assets in AASB 1041 affect a wide range of entities in the public and private sectors. This is particularly the case for public sector entities, which in a number of jurisdictions are required by legislation to regularly revalue their physical non-current assets. A sample of 30 of the largest 100 Australian listed companies by market capitalisation at 30 June 2000 included 22 companies that revalued some classes of non-current assets.

In amending AASB 1041 and AAS 38, the AASB has implemented its policy of issuing only AASB Standards, and the revised AASB 1041 replaces the previous AASB 1041 and AAS 38.

Problem

In general, accounting standards seek to address the following problems:

(a) deficiencies in the quality of financial information in general purpose financial reports – this information needs to be relevant and reliable in order to be of a quality that is useful to users of those reports;

(b) a lack of harmony with requirements of other major standard setters, particularly those operating in major international financial centres; and

(c) the incurrence of costs to preparers of general purpose financial reports, including businesses and government entities, of conforming with reporting requirements that result in little or no benefit to users of those reports.

The main specific issues addressed by the most recent revision to AASB 1041 are:

(a) the requirement to disclose reconciliations of the carrying amount at the beginning and end of the reporting period for classes of non-current assets other than property, plant and equipment, which goes beyond the corresponding requirements in the pertinent International Accounting Standard; and

(b) the prohibition on changing accounting policy between the cost basis and the revaluation basis for classes of non-current assets.

Minor issues have also been addressed in the revision, relating mainly to drafting and guidance.

Objectives

The AASB's primary objectives in revising AASB 1041 are to:

(a) improve the quality of financial reporting;

(b) enhance the extent to which AASB 1041 harmonises with International Accounting Standards, in particular, IAS 1 "Presentation of Financial Statements"; and

(c) potentially reduce the costs of complying with the revaluation requirements.

Identification of Options

Option 1

Maintain the status quo.

Option 2

Amend AASB 1041 to:

(a) remove the requirement to disclose reconciliations of the carrying amount at the beginning and end of the reporting period for classes of non-current assets other than property, plant and equipment; and

(b) permit entities to discontinue revaluations for a class of non-current assets at any future time if the change in accounting policy will result in an overall improvement in the relevance and reliability of the financial information reported.

Impact Analysis

The AASB assesses from a public interest perspective whether the costs of providing certain information exceed the benefits to be derived from its provision. There is no accepted methodology for quantitatively measuring costs and benefits of information provided in general purpose financial reports. The costs of providing financial information will be initially incurred, in the main, by preparers of general purpose financial reports (reporting entities), but will flow in various direct and indirect ways to many other parties in the community. The benefits may be derived by:

(a) users of general purpose financial reports, who fall into four broad categories:

  (i) resource providers (including investors, creditors and employees);

  (ii) recipients of goods and services;

  (iii) parties performing a review or oversight function; and

  (iv) managements and governing bodies;

  who may use the information for making and evaluating decisions about the allocation of scarce resources (including assessing the discharge of accountability by managements and governing bodies); and

(b) preparers of general purpose financial reports, through improved efficiency of Australian capital markets and consequently lower costs of capital for Australian businesses.

There is no guarantee that costs will be borne ultimately by those who derive the benefits.

Option 1

Costs

(a) time and costs by preparers and auditors of general purpose financial reports in disclosing reconciliations of classes of non-current assets other than property, plant and equipment. The time and costs would be significant for those reporting entities that have material classes of non-current assets other than property, plant and equipment;

(b) retention of impediments to entities electing to discontinue revaluations for a class of non-current assets in order to improve the relevance and reliability of the financial information reported, particularly when there is a change of the entity's controlling ownership group; and

(c) because of (b), continued non-conformity with the principle in International Accounting Standards that entities are permitted to change their accounting policy for measuring non-current assets where the criteria for a voluntary change in accounting policy are satisfied.

Benefits

(a) maintenance of the comparability between reporting periods concerning the basis of measurement adopted for a class of non-current assets and resulting depreciation charges.

Option 2

Costs

(a) time and costs by preparers and auditors of general purpose financial reports in becoming familiar with the changed requirements – although these are short-run costs and are unlikely to be significant; and

(b) a potential reduction in comparability between reporting periods concerning the basis of measurement adopted for a class of non-current assets and resulting depreciation charges. However, this potential reduction in comparability should be limited by the following factors:

    (i) the requirement of Accounting Standard AASB 1001 and Australian Accounting Standard AAS 6 "Accounting Policies" that changes between alternative permitted accounting policies may only be made where they will result in an overall improvement in the relevance and reliability of the financial information reported;

    (ii) the likelihood that frequent changes between revaluing and not revaluing would be strongly discouraged by expectations that investors and other users of general purpose financial reports would be critical of such a practice; and

(iii) the current lack of comparability due to the right of entities to choose whether to revalue certain classes of non-current assets while not revaluing other classes of non-current assets.

Benefits

(a) time and costs saved by preparers and auditors of general purpose financial reports due to the removal of reconciliations of classes of non-current assets other than property, plant and equipment. The time and costs would be significant for those reporting entities that have material classes of non-current assets other than property, plant and equipment;

(b) removal of impediments to entities electing to discontinue revaluation for a class of non-current assets in order to improve the relevance and reliability of the financial information reported, particularly when there is a change of the entity's controlling ownership group; and

(c) because of (b), greater conformity with International Accounting Standards because it adopts the principle that entities are permitted to change their accounting policy for measuring non-current assets where the criteria for a voluntary change in accounting policy are satisfied.

Consultation

Exposure Draft ED 101 "Revaluation of Non-Current Assets: Proposed Amendments to AASB 1041/AAS 38" was issued in March 2001 for a five week comment period. Twenty-three of the AASB's constituents commented on ED 101 and, in general, there was support for most of the proposals. The main exception was the proposal to permit entities to change from the fair value basis to the cost basis (involving retrospective adjustments to measure assets at acquisition costs) where the criteria for a voluntary change in accounting policy (under AASB 1001 and AAS 6) are satisfied. The AASB responded by changing the Standard to permit entities to discontinue the fair value basis where the criteria for a voluntary change in accounting policy (under AASB 1001 and AAS 6) are satisfied (without making retrospective adjustments to asset carrying amounts). Additional guidance is also included in the Standard as a result of the AASB responding to constituents' comments.

Conclusion and Recommended Option

Option 2 (amending AASB 1041 and AAS 38 to address the major issues identified from the implementation of those Standards by constituents) is the option chosen by the AASB.

Option 2 best meets the objective of improving the quality of financial reporting because it enables entities to change their accounting policy for the revaluation of non-current assets where that change meets the criteria for a voluntary change of accounting policy, which are that the change will give rise to more relevant and reliable information.

Option 2 best meets the objective of enhancing the extent to which AASB 1041 harmonises with International Accounting Standards, in particular, IAS 1 because it adopts the principle that entities are permitted to change their accounting policy for measuring non-current assets where the criteria for a voluntary change in accounting policy are satisfied. This is notwithstanding the fact that the revised AASB 1041 does not fully harmonise with IAS 16 "Property, Plant and Equipment" in this respect.

Option 2 best meets the objective of reducing the costs of complying with the Standard's requirements because it removes the requirement to disclose reconciliations of classes of non-current assets other than property, plant and equipment.

Implementation and Review

The amended AASB 1041 will be subject to the AASB's regular program of review and revision, which is based on the changing environment in which Accounting Standards are developed and applied. This program includes:

(a) regular consultation with the AASB's key constituents to identify implementation issues (including consistency of application, and the extent of compliance) or changes in factors affecting existing Accounting Standards; and

(b) the AASB's participation in the process of international convergence of accounting standards.