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# RECOGNITION OF RESIDUAL VALUE FOR INFRASTRUCTURE ASSETS

## Issue

The AASB received a request to clarify whether residual value, as defined in AASB 116 *Property, Plant and Equipment*, includes the cost savings from the re-use of in-situ materials. The submitter contended that the definition of residual value is unduly limiting in the not-for-profit (NFP) sector and requested an exception be made for NFP entities to permit such entities to recognise the cost savings from the re-use of in-situ materials in the residual value of infrastructure assets.

## Reasons for Not Adding the Issue to the AASB's Agenda

In considering this issue the AASB noted there are two views in relation to the definition of residual values for infrastructure assets:

- View 1: residual value is only recognised in circumstances when an entity expects to receive consideration for an asset that is at the end of its useful life and, accordingly, would not include the cost savings from the re-use of in-situ materials; and
- View 2: residual value includes the cost savings from the re-use of in-situ materials.

The AASB noted that the definition of residual value in AASB 116 refers to the estimated amount that an entity would currently obtain from disposal of the asset at the end of its useful life. That is, if significant values attach to in-situ materials, and they are expected to be recycled, the materials have not reached the end of their useful lives. Accordingly, the AASB considered that a residual value would only be recognised when an entity expects to receive consideration for an asset at the end of its useful life.

The AASB also observed that AASB 116 (paragraph 43) requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately and includes guidance when parts of items of property, plant and equipment require replacement at regular intervals (paragraphs 12-14). The AASB noted that these requirements apply equally to for-profit and not-for-profit entities.

Accordingly, the AASB noted that adequate componentisation of parts of an item of property, plant and equipment, and appropriate estimation of useful lives of such parts, would result in a similar overall depreciation expense recognised under either View 1 or View 2.

On the basis of the analysis performed and in light of the existing requirements in Australian Accounting Standards, the AASB determined that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the AASB [decided] not to add this issue to its work program.