Asset Accounting

Policy Statement

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Treasurers Instruction 1, Interpretation and Application
Treasurers Instruction 2, Financial Management
Treasurers Instruction 19, Financial Reporting
Treasurers Instruction 28, Financial Management Compliance Program;
Department of Treasury and Finance, Financial Management Toolkit.
Commissioners Standards.
Australian Accounting Standards
Department of Treasury and Finance Accounting Policy Framework

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ASSET ACCOUNTING

1. INTRODUCTION

The purpose of this Policy is to address the issue of identification, recognition and measurement of assets for accounting purposes.

This Accounting Policy Framework mandates that all public authorities measure noncurrent assets at fair value; obtain the Under Treasurer's approval prior to measuring noncurrent assets using discounted cash flows; and expense the value of interest-free loans provided for long periods.

It extends the ability to account for revaluations on a class basis to for-profit entities and introduces accounting thresholds for revaluation and recognition of smaller (or component) assets comprising a larger (or complex) asset.

1.1 AUSTRALIAN ACCOUNTING STANDARDS

The following Australian Accounting Standards have general application in relation to the accounting for assets.

AASB 116 *Property, Plant and Equipment* prescribes the accounting treatment and reporting requirements for non-current assets.

AASB 136 *Impairment of Assets* prescribes that the carrying amount of non-current assets is not to exceed their recoverable amount.

AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* prescribes the accounting and disclosure of provisions, contingent assets and contingent liabilities..

AASB 138 *Intangibles* prescribes the accounting treatment, measurement and disclosure rules for all intangible assets that are not dealt with specifically in another standard.

AASB 140 *Investment Property* prescribes the accounting treatment and disclosure requirements for investment property.

AASB 141 *Agriculture* prescribes the accounting treatment, financial statement presentation, and disclosures related to agricultural activity.

AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* prescribes the accounting treatment for assets held for sale, and the presentation and disclosure of discontinued operations.

2. ASSET RECOGNITION

WHAT ARE ASSETS?

The *AASB Framework for the Preparation and Presentation of Financial Statements* (AASB Framework) defines assets as:

> ... a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

The key features are that:

• the benefits must be controlled by the entity*;*

• the benefits must have arisen from a past event; and

• future economic benefits must be expected to flow to the entity.

Indicators of control:

- the ability of an entity to benefit from the asset and to deny or regulate the access of others to that benefit.
- an entity can depending on the nature of the asset, exchange it, use it to provide goods or services, exact a price for others use of it, use it to settle liabilities, hold it, or perhaps even distribute it to owners.
- possession or ownership of an object or right would normally be synonymous with control over the future economic benefits embodied in the right or object. Care needs to be taken as an entity may possess an object or right but not expect to enjoy the benefits embodied in it, e.g. under a finance lease agreement, control over the leased property owned by the lessor is transferred to the lessee.

Indicators of past event:

- the specification of a past event differentiates assets from intentions to acquire assets, which are not to be recognised.
- a transaction or event giving rise to control of the future economic benefits must have occurred.

Indicators of future economic benefits:

- distinguishable from the source of the benefit ie the particular physical resource or legal right.
- does not imply that assets necessarily generate cash flows, the benefits can also be in the form of ‘service potential’.
- in determining whether a resource or right needs to be accounted for as an asset, the potential to contribute to the objectives of the entity should be the prime consideration.
- capacity to contribute to activities/objectivies/programs.
- the fact that an asset cannot be sold does not preclude it from providing future economic benefits.

WHEN TO RECOGNISE ASSETS

In accordance with the AASB Framework, assets are recognised in the Statement of Financial Position when and only when:

- it is probable that the future economic benefits will flow to the entity; and
- the asset has a cost or value that can be measured reliably.

Indicators of probable:

- the chance of benefits arising is more likely rather than less likely (eg greater than 50%).
- benefits can be expected on the basis of available evidence or logic.

Indicators of reliable measurement:

- valuation method is free from material error or bias.
- faithful representation of the asset's benefits.
- reliable information will, without bias or undue error, faithfully represent those transactions and events.

RECOGNITION OF AN ASSET SHOULD BE UNAFFECTED BY QUESTIONS OF WHETHER THE ASSET IS ACQUIRED FROM, OR DEVELOPED BY, AN EXTERNAL PARTY OR CONSTRUCTED OR DEVELOPED INTERNALLY. JUDGEMENT MAY NEED TO BE EXERCISED TO DETERMINE WHETHER THE EXPENDITURE LEADS TO THE EMERGENCE OF ADDITIONAL ECONOMIC BENEFITS / SERVICE POTENTIAL OR SIMPLY MAINTAINS EXISTING ECONOMIC BENEFITS / SERVICE POTENTIAL. IN THE FIRST INSTANCE, THE TEST FOR RECOGNITION OF AN ASSET IS LIKELY TO BE SATISFIED WHILE THE SECOND INSTANCE IS UNLIKELY TO SATISFY THE TEST.

ITEMS THAT FAIL THE RECOGNITION TEST

Items that do not meet the recognition criteria will be disclosed in the explanatory notes and will not be reported in the Statement of Financial Position. For example:

- expenditure on research to extend knowledge in a field of science - fails because it is not possible to establish that it is probable that future economic benefits will arise.
- rare paintings or books – fails because they cannot be reliably measured.
- litigation in pursuit of a claim for damages - fails because it is not possible to measure the value of the claim.

INITIAL RECOGNITION

Assets, other than those that are acquired at no cost or for nominal consideration, are to be initially recognised at their cost of acquisition, which includes:

- purchase price plus import duties and non-refundable/claimable taxes minus trade discounts and refundable/claimable taxes;
- costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period; and
- does not include borrowing costs.

ASSETS ACQUIRED AT NO COST OR FOR NOMINAL CONSIDERATION ARE TO BE INITIALLY RECOGNISED AT THEIR FAIR VALUE (DR ASSET AND CR REVENUE). ASSETS (AND LIABILITIES) ACQUIRED AS A CONSEQUENCE OF A RESTRUCTURE OF ADMINISTRATIVE ARRANGEMENTS WILL BE RECOGNISED AT BOOK VALUE IE THE AMOUNTS RECORDED BY THE TRANSFEROR PUBLIC AUTHORITY IMMEDIATELY PRIOR TO THE RESTRUCTURE.

DEEMED ASSETS

APS 2.13 Funds credited by an agency to, and held in the following accounts are deemed to be assets of that agency:

- the Surplus Cash Working Account established pursuant to the Cash Alignment Policy; and
- the Accrual Appropriation Excess Funds Account established pursuant to a Treasury Direction.

MATERIALITY THRESHOLDS

APS 2.14 Government entities will control a large amount of relatively low value items which, if they were to be managed and reported in detail, would result in excessive costs for very limited benefits. Typically, these items would include furniture, office equipment, workshop tools etc.

APS 2.15 To minimise costs, a non-current asset, or group of assets as defined in APS 2.17 and APS 2.18, with a fair value at the time of acquisition of less than $10 000 need not be recognised (capitalised) as an asset. That is, it may be expensed in the period in which it is acquired.

APS 2.16 Because of differing materiality levels between entities, due to their size and the nature of their operations, an individual entity may, if it wishes, adopt a capitalisation threshold lower than the general threshold.

APS 2.17 Entities may control large numbers of similar assets with individual values below the capitalisation threshold but which, when grouped together, represent a total value, which is a significant percentage of the total value of the entities' assets. In these circumstances an entity may group those assets for the purpose of capitalisation. For example, all the chairs held by an entity may be grouped as one asset. Procedures would need to be established to ascertain that the grouped asset value continues to reflect the aggregate of the individual items.

APS 2.18 Entities may also control dissimilar assets with individual values below the capitalisation threshold but which work together in the form of a group or network asset whose total value exceeds the capitalisation threshold. In these circumstances the group or network would comprise the primary asset that should be capitalised. Examples of this are a computer network, PABX system or sewerage system.

3. ASSET VALUATIONS

MATERIALITY THRESHOLDS

APS 3.1 Other than for intangible assets (refer to APS 12.6), subsequent to initial recognition each class of non-current assets will be measured at fair value. The cost basis of measurement will not apply.

- Fair value is measured having regard to the asset's highest and best use. The best price of the asset is that price which market participants would be prepared to pay after an adequate period of marketing.
- In determining fair value, it is acceptable to use depreciated replacement cost as an estimate of fair value (that is the lower of replacement cost or reproduction cost, less accumulated depreciation, ie written down current cost) where the asset is specialised and/or the item is rarely sold.

APS 3.2 Most government reporting entities will control assets with relatively low values and/or short economic lives. In these circumstances, periodic revaluation would result in excessive costs for very limited benefits.

APS 3.3 To minimise costs, revaluation of a non-curren asset, or group of assets as defined in APS 2.17 and APS 2.18, is required only when its fair value at the time of acquisition is greater than $1 million and its estimated useful life is greater than 3 years. Assets below the revaluation threshold are deemed to have been revalued to their fair values immediately following recognition at cost.

FREQUENCY OF REVALUATIONS

APS 3.4 Where an asset is required to be revalued in accordance with APS 3.3, then the entire class to which the asset belongs is revalued.

APS 3.5 A class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period (ie two year period) and provided the revaluations are kept up-to-date.

APS 3.6 The frequency of revaluations depends on the materiality of changes in the fair value of assets within that class of non-current assets.

APS 3.7 There are two basic valuation procedures available for estimating replacement or current cost, namely independent appraisal, or internal estimates based on indices or recent transactions. An independent valuation appraisal will be performed at least every 5 years.

REVALUATIONS RESERVE

APS 3.8 To minimise costs all government reporting entities (not just not-for-profit entities) may take revaluation adjustments to the asset revaluation reserve on a class basis rather than an individual asset basis. For-profit entities will disclose their election in relation to this APS.

APS 3.9 The revaluation reserve included in equity in respect of an item of property, plant and equipment will be transferred directly to retained earnings when the asset is derecognised. Transfers from revaluation reserve to retained earnings are not made through profit or loss.

APS 3.10 AASB 116 allows two options for dealing with accumulated depreciation on revaluation, the gross method or the net method. It is DTF's preference that government reporting entities account for revaluations on a net basis; ie when an item of property, plant and equipment is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

4. DEPRECIATION AND AMORTISATION

Depreciation and amortisation is a systematic charge that recognises the consumption of non-current assets over their useful lives. Depreciation and amortisation begins when the non-current asset is available for use by the entity.

Residual value and useful life of asset classes will be reviewed annually.

Estimation of an asset's useful life requires professional judgement based on the use of similar non-current assets in a similar environment. The following useful lives are provided for consistency purposes across government:

- Buildings
  - Residential 40 – 50 years
  - Commercial 70 – 80 years
- Specialist These are unique to the business of the agency and can be assessed separately
- Office equipment 5 – 7 years
- Computer equipment and software 3 – 5 years
- Furniture and fittings 3 – 10 years
- Vehicles
  - Passenger 2 – 4 years
  - Commercial 20 – 25 years
  - Specialist These are unique to the business of the agency and can be assessed separately
- Plant and equipment 5 – 15 years
- Specialised assets These are unique to the business of the agency and can be assessed separately

Depreciation expense over the useful life of the asset is the difference between the cost and the residual value (resale price) expected at the end of the asset's "useful life" to the authority.

Depreciation rates must be reviewed at least annually, and, if necessary, adjusted so that they reflect the most recent assessment of the useful life and residual value of the depreciable asset, having regard to such factors as asset usage and the rate of technical and commercial obsolescence.

DEPRECIATION METHODS

The three most common methods used for calculating depreciation expense are:

Straight-Line Method - the straight-line method allocates the cost of consumption of an asset equally per period over its useful life. For example, office furniture may provide future economic benefits over a ten-year period.

Diminishing Balance Method - the diminishing or reducing balance method is used where the service yield of an asset is expected to be higher in earlier reporting

periods than in subsequent periods. The earlier periods bear a greater portion of the cost of consumption than later periods.

Units of Production Method - the overall output or service that an asset is expected to yield may be the basis for estimating the useful life of the asset. Examples of output or service include production units, operating hours, and distance travelled.

CHANGES OF METHODS OR RATES

When depreciation rates or depreciation methods are changed, the change must be accounted for as a change in accounting estimate in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The effect must be recognised in the reporting period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both. Depreciation recognised in prior reporting periods must not be changed either by an adjustment via the Statement of Comprehensive Income or via retained surplus.

INTANGIBLE ASSETS

In relation to intangible assets it is necessary to assess whether the useful life is finite or infinite.

An intangible asset is regarded as having an infinite life where, based on analysis of all the factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the entity.

The useful life of an intangible asset that arises from a contractual or other legal right will not exceed the period of the contract or right, but may be shorter depending on the period over which the entity expects to use the asset.

The residual value of an intangible asset with a finite useful life will be assumed to be zero unless there is a commitment from a third party to purchase the asset at the end of its useful life or there is an active market for the asset and the residual value can be determined by reference to that market.

An intangible asset with an infinite life will not be amortised.

LONG LIVED ASSETS

Depreciation on long lived assets, such as infrastructure assets, is to be accounted for in accordance with UIG 1030 *Depreciation of Long-Lived Physical Assets, including Infrastructure Assets: Condition-based Depreciation and other Related Methods.*

5. IMPAIRMENT

The following provides a guide to the provisions of AASB 136 *Impairment of Assets*. In practice, DTF considers AASB 136 will not generally impact on asset valuations for the majority of government assets.

An asset is impaired when its carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

At the end of each financial year, agencies must determine whether there is any indication or evidence that an asset or group of assets are impaired based on the impairment indicators.

There are two groups of indicators – external and internal. External indicators that may be applicable to entities:

- a significant decline in an asset's market value as a result of time or usage;
- significant changes in the technological, market, economic or legal environment; and
- an increase in market interest rates that are likely to increase the discount rate included in the cash flow calculation when determining value in use (this is not relevant for government reporting entities as the Discounted Cash Flows (DCF) valuation method is generally not permitted under APS 5.11, unless otherwise approved by the Treasurer).

Internal indicators that may be applicable to entities:

- evidence of obsolescence or physical damage to an asset;
- significant changes regarding the way an asset is used or expected to be used; and
- evidence from internal reporting that indicates that the economic performance of an asset is or will be worse than expected.

Examples of impaired assets include: building damaged by fire or flood; a building that is closed due to identification of structural deficiencies; a bridge that is weight-restricted due to the identification of structural deficiencies; computer hardware that has become obsolete; an oversupply of second hand motor vehicles resulting in a decline in the market price.

An indicator is only relevant if the recoverable amount of the asset or group of assets is sensitive to the indicator. If there is no evidence of impairment the entity does not have to make a formal estimate of recoverable amount.

Where there is an indication of impairment, an agency will need to determine the recoverable amount. Where fair value cannot be determined an agency will need to use 'value in use'.

Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. From a practical perspective disposal costs would be immaterial (eg advertising costs, legal fees, tender arrangements).

Value-in-use (VIU) is defined differently for not-for-profit entities than for for-profit entities.

The definitions are:

- *Not-for-profit entities* – VIU is the depreciated replacement cost where the future economic benefits of an asset are not primarily dependant on the asset's ability to generate net cash inflows ie the asset is retained by the entity for reasons other than its ability to generate cash.

Note: In practice most assets will be valued using depreciated replacement cost as a proxy for fair value in accordance with AASB 116 *Property Plant and Equipment.* Using depreciated replacement cost effectively obviates the need for impairment testing as the resulting value, even if the asset is impaired, would equal the carrying value (fair value).

- *For-profit entities* – AASB 136 defines VIU as the present value of the future cash flows expected to be derived from the asset or cash-generating unit. However, the meaning of the term cash-generating operation is problematic in a public sector context. The Government generally provides

goods and services for the purpose of meeting policy objectives rather than for the sole purpose of generating cash flows. User charges are intended to recover the whole, or part, of the cost of providing some goods and services from users rather than the population at large. Where user charges are insufficient to fully fund the provision of the goods or services, indirect funding will be provided which could include grants, appropriations, cross-subsidies and community service obligation payments. User charges are generally set by Cabinet or other regulatory mechanisms. They do not have the same information content relevant to asset valuation as may prices obtained by a private sector business in a competitive market. Therefore APS 5.11 only permits the present value of future cash flows as the valuation basis if approved or required by the Treasurer.

APS 5.11 The value-in-use of a cash-generating operation, and the assets comprising the operation, will be estimated by the sum of the written-down current costs of the assets comprising the operation unless otherwise approved or required by the Treasurer.

An impairment loss (recoverable amount is less than the carrying amount) relating to:

- a revalued asset is treated as a revaluation decrement ie offset against an asset revaluation reserve for that asset or class of assets.
- an asset measured at cost is recognised in the Statement of Comprehensive Income.

After the recognition of an impairment loss, an entity will revise the assets' carrying amount and future depreciation and amortisation charges will be based on the revised carrying amount.

An impairment loss is recognised for a cash-generating unit when the recoverable amount of the unit is less than the unit's combined carrying amount. Entities need to reduce the carrying amount of each asset within the unit on a pro rata basis, based on the carrying amount of each asset in the unit.

However, assets in the unit cannot be reduced below the highest of:

(a) the assets' fair value less costs to sell (if determinable);

(b) value in use (if determinable); and

(c) zero.

At the end of each reporting period, entities are required to assess whether impairment losses previously recognised need to be reversed. A reversal of an impairment loss for an individual asset cannot exceed the amount that asset would have been carried at had the asset not been impaired and written down. For a cash-generating unit the amount allocated to each asset cannot exceed the lower of the carrying amount had no impairment loss been recognised in the prior period and recoverable amount.

The following disclosures are required:

For each class of asset:

- The amount of the impairment loss and the reversals of any impairment loss recognised in the Statement of Comprehensive Income and the respective line items; and
- The amount of the impairment loss and the reversals of any impairment loss on revalued assets recognised directly in equity.

For each material impairment loss (or reversal) for an individual asset or cash-generating unit:

- The events/circumstances that led to the impairment loss;
- The amount of the impairment loss recognised or reversed (recognised by class of asset if it forms part of a cash-generating unit);
- The nature of the asset or cash-generating unit;
- The reportable segment to which the asset belongs; and
- Where the aggregation of assets for identifying the cash-generating unit has changed, a description of the current and former method and the reasons for the change.

If impairment losses in aggregate are material:

- The main classes of assets affected; and
- The main events/circumstances that led to the losses.

IN ADDITION, SEGMENT DISCLOSURES ARE REQUIRED.

6. CONTINGENT ASSETS

Contingent assets are:

- possible assets that may arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- assets that fail the asset probability recognition criteria.

Assessing whether an entity has contingent assets will be a matter of fact and degree and involve management judgement and in some cases, reports from independent experts.

Contingent assets usually arise from unplanned and/or unexpected events that give rise to the possibility of future economic benefits eg a legal claim where the outcome is uncertain. If the realisation of income (eg from the legal claim) is virtually certain than an asset is recognised.

The probability test in 2.7 is applied where the existence of future economic benefits relates to a past event. The virtually certain test is applied where the existence of possible future economic benefits will be confirmed by the occurrence of one or more uncertain future events.

APS 6.5 Where the inflow of possible future economic benefits is dependent on future uncertain events and is:

- not probable or probable but not virtually certain, the asset is a contingent asset and is not recognised in the Statement of Financial Position. Rather, the asset is disclosed in the explanatory notes. For example, receivables that are subject to disputes or claims that are subject to assessment.
- virtually certain and capable of reliable measurement, the asset is recognised in the Statement of Financial Position, ie is not a contingent asset.

7. COMPLEX ASSETS

BACKGROUND

Where major components of non-current assets are replaced at regular intervals, the components are accounted for as separate assets because they have useful lives different from those of the non-current assets to which they relate. It is appropriate to account for component parts of an asset separately when the component assets have different useful lives or provide benefits to an entity in a different pattern from that of the complex asset. Where the major components of complex assets are accounted for as separate assets, the requirements of AASB 116 will be applied to those component assets.

RECOGNITION OF COMPLEX ASSETS

APS 7.2 Assets will be classified as complex assets if the definition and recognition criteria for an asset in the AASB Framework are met, providing the fair value at time of acquisition is greater than $5 million for infrastructure assets and $1 million for other assets, and the estimated useful life is greater than 3 years. Government reporting entities may also elect to classify an asset as complex where its value is below these thresholds and/or is significant to the entity.

RECOGNITION OF COMPONENT ASSETS

APS 7.3 Assets will be classified as component assets when they:

- can be identified separately from the complex asset/structure of the asset to which they belong;
- can be measured reliably;
- have useful lives significantly different from the structure of the asset to which they belong; and
- are considered by the government reporting entity to be material and therefore the effort in separately tracking these components is justified.

The extent of componentisation is generally dependent on the nature and functions of the asset itself.

Separately identifiable

The identification, recognition and valuation of an asset requires clear specification of its economic benefits. This requires specification of the asset’s service capacity, service quality and expected useful life.

These are important aspects of an asset's ‘future economic benefits’. Without such specification, it is not possible to determine whether a particular item of expenditure represents, say, an asset replacement, an enhancement, or simply asset maintenance. The specification of the asset needs to be determined at the commencement of the asset's life to enable the proper accounting and management of that asset.

The separate recognition of material components is important in distinguishing between replacement and maintenance of assets. It also allows separate depreciation to reflect the useful life of the component, as well as the removal and replacement of the components in accounting terms.

Measured Reliably

Reliability is promulgated in the AASB Framework as one of the qualitative characteristics of financial statements. To be reliable, information must:

- be free from material error and bias;
- represent faithfully the transactions and other events; and
- be complete within the bounds of materiality and cost.

A reliable value can be attributed either separately or by apportioning the value of the asset.

Useful lives

An assessment of the useful life of a complex asset would include an assumption that repairs or maintenance would be carried out to allow the asset to continue to function in its current state, hence maintenance expenditure does not extend an asset's useful life but allows the asset to realise its expected service level and estimated useful life. However, asset enhancements could materially increase the asset's pre-determined useful life.

Materiality/Thresholds

Decisions about which components are accounted for separately usually reflect the systems put in place to ensure that the service delivery capabilities of infrastructure and other complex assets are monitored, managed and maintained on an appropriate basis.

APS 7.10 For the purposes of this policy:

- a complex asset with a fair value at the time of acquisition of less than $5 million for infrastructure assets and $1 million for other assets, need not be componentised.
- component assets of a complex asset valued below the threshold are deemed to provide benefits in the same pattern as the structure of the asset to which they belong.

8. MAINTENANCE VERSUS CAPITAL

MAINTENANCE EXPENDITURE

Expenditure on a non-current asset that does not meet the capitalisation criteria in paragraph APS 10.3, is maintenance expenditure and must be expensed as incurred. In general, maintenance expenditure (sometimes referred to as capital renewal) will allow the asset to realise its expected service levels and estimated useful life and does not:

- extend the expected useful life of the asset; or
- augment the expected service potential of the asset.

CAPITAL EXPENDITURE

Capital expenditure can relate to new assets or existing assets. Capital expenditure on existing assets is often referred to as capital expansion or upgrade expenditure.

APS10.3 Capital expenditure on a non-current asset will be recognised as an increase in the asset (capitalised) where considered by the government reporting entity to be material and:

- where the expenditure results in an effective increase in the future benefits that are expected to be derived from using the asset and the increase in future benefits will be utilised; or
- there has been an effective increase in the quality of the services provided by the asset beyond that previously determined; or
- there has been an effective extension to the asset's useful life as a result of the expenditure.

WHERE THESE CRITERIA ARE NOT MET THE EXPENDITURE IS CLASSIFIED AS MAINTENANCE AND IS EXPENSED.

9. INTANGIBLE ASSETS

Entities may incur costs in acquisition, development, maintenance or enhancement of intangible assets such as technical knowledge, licences or intellectual property. Common examples of items include in-house developed computer software, copyrights, customer lists, rights and licences.

APS 12.2 Software that is integral to the related hardware (eg operating software) is to be classified as plant and equipment. All other software is to be classified as an intangible asset (eg application software).

Intangible assets are only recorded when both the definition (that is, identifiability, control and the existence of future economic benefits) and recognition criteria are met.

The definition criteria for an intangible asset differ from an asset in that the element 'identifiability' is required rather than the 'past event or transaction' element.

If an item does not meet the definition and recognition criteria it is expensed.

APS 12.6 Intangible assets will be measured at cost unless the asset is acquired for no cost or for a nominal amount and then the asset's fair value is deemed to be its cost.

For externally acquired intangible assets, cost comprises the purchase price plus any directly attributable costs of preparing the asset for its intended use.

For internally generated intangible assets, cost is defined in the guidance contained within paragraph 12.10 to 12.14.

APS 12.7 To minimise costs, an intangible asset, or group of intangible assets as defined in APS 2.17 and APS 2.18 with a cost of less than $10 000 need not be recognised (capitalised) as an asset. That is, it may be expensed in the period in which it is externally acquired or if internally generated when the asset first meets the recognition criteria.

Because of differing materiality levels between entities, due to their size and the nature of their operations, an entity may, if it wishes, adopt a capitalisation threshold lower than the general threshold.

APS 12.9 Generally any subsequent expenditure by government reporting entities on intangible assets such as the replacement of a part or additions to the asset will be expensed as the expected future economic benefits will only be maintained.

INTERNALLY GENERATED INTANGIBLE ASSETS

In addition to the normal intangible asset definition and recognition criteria, internally generated intangible assets are subject to the requirements relating to project research and development.

All research expenditure and borrowing costs are to be expensed.

The cost of an internally generated intangible asset comprises all direct costs necessary to create, produce and prepare the asset for use and may include the costs of materials and services used or consumed, employee costs, legal fees etc. Overhead costs are not to be included such as, administration and staff training.

Development expenditure will be recorded as an intangible asset , if and only if, all of the following elements are satisfied:

- Technically feasible;
- Intention to complete the asset;
- Ability to use or sell the asset;
- Existence of a market for the output of the intangible asset, or for the asset itself, or if it is to be used internally, the usefulness of the asset;
- Availability of adequate technical, financial and other resources to complete the development; and
- Ability to reliably measure the expenditure attributable to the intangible asset during development.

Cost of an internally generated intangible asset is the sum of expenditure incurred from the date the intangible asset first meets the recognition criteria. Expenditure previously recognised as an expense cannot be reinstated.

Examples of costs that should be capitalised or expensed for Internally Developed Software

The following table provides a practical example of costs that should be capitalised (where the capitalisation limit is met) and those that should be expensed. The table specifically refers to internally developed software.

PROJECT ACTIVITY 1 (IN THE TABLE BELOW) REPRESENTS THE RESEARCH PHASE WHILE PROJECT ACTIVITIES 2, 3 AND 4 REPRESENT THE DEVELOPMENT PHASE, REFERRED TO IN THE 'RECOGNITION' SECTION ABOVE.

Project Activity/Item	**Activity/Cost Item Description**	**Expenditure type**
1. Initiation Stage (scoping, evaluation and business case)	• Project Scoping tasks including, • Conceptual formulation of alternatives, evaluation of alternatives, determination of the existence of the necessary technology. • Technology evaluation • Selection of alternatives • Business case analysis and the management and planning functions for the project • Developing standards and architectural designs	Expense

2. Analysis, Design and Development	• Detailed analysis of user requirements • Detailed design and specification • Software development configuration and interfaces • Coding • Installation of software	Capitalise
3. Testing and Implementation	• Testing up to the point where the system is live • Implementation of the software	Capitalise
4. Enhancement of existing applications	• Detailed design and specification • Software configuration • Development of interfaces • Coding • Installation of software • Testing • Parallel processing	Capitalise
5. Recurring maintenance and Infrastructure support	• Management costs associated with ensuring the project is completed, including the provision of accommodation, office supplies and corporate services for the project team • Data conversion from old systems into the new system • Post implementation review • Training of staff in the use or administration of the software (training room set up, organising, delivering and attending training, fees paid to vendor to attend a training course) • Ongoing support and system administration • Applications maintenance, including maintenance for software licences which includes provision for delivery of software upgrades • Management of	Expense

infrastructure resources and cost of infrastructure support
• Minor projects where an asset will be acquired or developed but the total expenditure will not exceed the threshold amount

RETIREMENTS AND DISPOSALS

APS 12.15 An intangible asset will be derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss on sale or disposal of an intangible asset will be disclosed in the Statement of Comprehensive Income

10. INTEREST FREE LOANS

WHAT ARE INTEREST FREE LOANS?

APS 13.1 Interest free loans are all loan agreements with a zero percentage interest rate implicit in that agreement.

ACCOUNTING FOR INTEREST FREE LOANS

APS 13.2 All interest free loans will be recorded at the present value of expected repayments, being expected future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate, and other factors) with a similar credit rating at the time of the loan's initiation. The remaining balance (that is, the difference between the amount lent and the present value) will be expensed.