Australian Accounting Standard **AAS 38**

December 1999

Revaluation of Non-Current Assets

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CONTENTS

Defined words appear in *italics* the first time they appear in a section. The definitions are in Section 11. 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

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

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

(d) prohibits an entity from reverting from a revaluation basis to the cost basis for measuring a class of non-current assets, other than on initial adoption of the Standard

(e) 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

(f) requires various disclosures about non-current assets.

AUSTRALIAN ACCOUNTING STANDARD

AAS 38 "REVALUATION OF NON-CURRENT ASSETS"

1 Application

1.1 This Standard applies to:

(a) *general purpose financial reports* of each *reporting entity* to which Accounting Standards operative under the Corporations Law do not apply; or

(b) financial reports that are held out to be general purpose financial reports by an *entity* which is not a reporting entity, and to which Accounting Standards operative under the Corporations Law do not apply.

1.1.1 Accounting Standards operative under the Corporations Law apply to companies and to other entities required by legislation, ministerial directive or other government authority to apply such Standards. Reporting entities which are not required to apply Accounting Standards operative under the Corporations Law are required to apply this Standard.

2 Scope

2.1 For *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* for the reporting period in which the changes occur.

2.2 This Standard does not apply to *inventories,* foreign currency *monetary assets,* or *goodwill.*

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

2.2.2 Monetary assets are defined in paragraph 11.1 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 may need to be restated as a result of changes in relevant exchange rates. Australian Accounting Standard AAS 20 "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 of the reporting period in which they are recognised.

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

Materiality

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

3 Operative Date

3.1 This Standard applies to reporting periods beginning on or after 1 July 2000.

3.2 This Standard may be applied to reporting periods beginning before 1 July 2000, provided that Australian Accounting Standard AAS 10 "Recoverable Amount of Non-Current Assets", as issued in December 1999, is also applied for the same reporting periods.

3.2.1 This revised Standard and Australian Accounting Standard AAS 10 "Recoverable Amount of Non-Current Assets" (as issued in December 1999) together replace Australian Accounting Standard AAS 10 "Accounting for the Revaluation of Non-Current Assets", as issued in June 1996. AAS 10, as issued in June 1996, continues to apply for reporting periods that begin before 1 July 2000. However, an *entity* can elect to apply this Standard early in accordance with paragraph 3.2. If it makes this election, the entity would not also be obliged to comply with AAS 10, as issued in June 1996, for the reporting periods to which the election applies.

However, the entity would need to comply with AAS 10 as issued in December 1999, the scope of which is limited to the *recoverable amount* test for *non-current assets* measured on the cost basis.

3.3 **When operative, this Standard and Australian Accounting Standard AAS 10 "Recoverable Amount of Non-Current Assets", as issued in December 1999, supersede Australian Accounting Standard AAS 10 "Accounting for the Revaluation of Non-Current Assets" as issued in June 1996.**

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 Measurement Basis

Cost or Revaluation 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.

5.1.1 *Entities* choose between measuring the assets in a class of non-current assets on the cost basis or the fair value basis. This means that, where a *non-current asset* is measured on the fair value basis, all of the assets within the class of non-current assets to which the asset belongs are revalued on the same 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 When preparing consolidated financial reports, the definition of "class of non-current assets" is to be applied to the *economic entity* as a single entity. Commentary paragraph 11.1.1 provides further guidance on the meaning of "class of non-current assets".

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

5.1.4 As required by Australian Accounting Standard AAS 10 "Recoverable Amount of Non-Current Assets", a non-current asset measured on the cost basis is written down to its *recoverable amount* when its *carrying amount* is greater than its recoverable amount. Recoverable amount write-downs and reversals of recoverable amount write-downs are not *revaluations*.

5.1.5 When an entity changes from the cost basis to the fair value basis to measure a class of non-current assets that previously had been written down to its recoverable amount, paragraph 6.3 specifies how to account for the change. However, where this change is made on initial application of this Standard, paragraph 10.3(a) is applied.

Fair Value

5.1.6 "Fair value" is defined in paragraph 11.1 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 If 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 similar asset (provided that 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 Where current market prices can be observed for the same or similar asset, the asset’s market buying price and market selling price will be approximately equal. In other circumstances, the asset’s market buying price and market selling price may differ materially, for example, because the asset is usually bought and sold by the entity in different markets. An asset may be bought separately in the new asset market but only sold separately for its residual value (that is, the asset normally would be sold in its current condition only as a part of a sale of the cash-generating operation to which it belongs). A similar example is where there is no market evidence of the asset’s market selling price, because the asset is specialised. In these circumstances, subject to paragraph 5.1.9, the asset’s fair value is measured at its market buying price, the best indicator of which is the replacement cost of the asset’s remaining future economic benefits (which is not necessarily the cost of replicating the asset).

5.1.9 If the sum of the market buying prices of the individual assets forming a cash-generating operation exceeds the fair value of that operation (which, in the absence of other market evidence, would be estimated as the present value of the net cash inflows that market participants would expect the highest and best use of the operation to generate, discounted at a current market-determined rate that reflects the risks associated with the operation), the fair values of the assets would be determined after deducting that excess. The excess would be:

(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 assets, other than purchased goodwill, forming part of the cash-generating operation to measure the fair values of those assets. In performing this process, no asset’s fair value is measured at an amount less than its market selling price.

Keeping Revaluations Up to Date

5.2 Where a class of non-current assets is measured on the fair value basis, 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.

5.2.1 When a class of non-current assets is measured on the fair value basis, the frequency of revaluations depends on the changes in the fair values of the assets within that class of non-current assets. When 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 requirements of paragraph 5.2 may be met by indexing the carrying amounts of non-current assets in reporting periods between more comprehensive valuations.

5.2.2 Assets within a class of non-current assets are revalued as at substantially the same date in order to avoid selective revaluation of assets. 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.

5.2.3 The requirement in paragraph 5.2 does not override the provisions of Australian Accounting Standards AAS 27 "Financial Reporting by Local Governments" and AAS 29 "Financial Reporting by Government Departments" concerning the measurement of 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.

Those Standards 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. Where a local government or government department exercises this option and, as a consequence, 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, that entity is not obliged to revalue the transferred assets to their fair value by the next reporting date. Instead, those assets would need to be revalued to fair value when the class of non-current assets is next revalued. 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, in accordance with the above-mentioned option in AAS 27 or AAS 29, separate disclosure of the assets measured at fair value and at the transferor's carrying amount is required by paragraph 9.4 of this Standard.

6 Revaluation Increments and Decrements

Offsetting of Revaluation Increments and Decrements

6.1 Subject to paragraph 6.3, *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.

Treatment of Revaluations

6.2 Where *non-current assets* are revalued, the net revaluation increment or revaluation decrement arising in the reporting period (determined in accordance with paragraph 6.1) 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 increment reverses a 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

(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 revaluation decrement grossed up for any related recognised *current tax* and *deferred tax* must be debited directly to the asset revaluation reserve.

6.3 When an *entity* changes from applying the cost basis to the *fair value* basis to measure a class of non-current assets for which a *recoverable amount* write-down previously has been recognised, any increase in the *carrying amount* of the *assets* comprising that class up to the carrying amount that would have been determined for the assets had no recoverable amount write-down previously been recognised must be accounted for as a reversal of the recoverable amount write-down (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 assets above the carrying amount that would have been determined for the assets had no recoverable amount write-down previously been recognised must be accounted for as a revaluation increment in accordance with this section of this Standard.

6.3.1 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 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 6.2 and AAS 3.

6.3.2 An example of applying the policy prescribed in paragraph 6.2 is where a revaluation decrement in respect of a class of non-current assets reverses a previous revaluation increment or cumulative increment in respect of that same class. The credit balance existing in the 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 decrements giving rise to that balance. In accordance with paragraph 6.2(b), the amount of the revaluation decrement would be debited to the asset revaluation reserve and, in accordance with 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 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 6.2(b), and any current tax and deferred tax related to that excess would be

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

recognised as revenue in net profit or loss/result for the reporting period in accordance with AAS 3. Paragraph 6.2(b) and AAS 3 prohibit debiting 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.

6.3.3 Another illustration of the policy prescribed in paragraph 6.2 is when the earlier 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 AAS 3 the amount transferred to the other reserve is net of any related recognised current tax and deferred tax. Under paragraph 6.2(b), the amount of the subsequent 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 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.

6.3.4 A further example of the policies prescribed in paragraph 6.2 is when the earlier 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 utilised by debiting against it a 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 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 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

* These assets were also revalued, but their fair value had not 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 6.2(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.

6.4 The balance of an asset revaluation reserve in respect of a class of non-current assets must only be credited with revaluation increments recognised for assets within the same class of non-current assets in accordance with paragraph 6.2.

6.4.1 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 6.3.4, 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.

6.4.2 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 6.4 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.

7 Revaluation of Depreciable Assets

Treatment of Revaluations

7.1 Subject to paragraph 7.2, 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*.

7.2 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.

7.2.1 An entity revaluing a *non-current asset* may need to estimate its *fair value* because, for example, of 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 period. Where such estimates have been used, the separate display of gross amounts and related accumulated depreciation is likely to provide users with relevant information which will assist in assessments of 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.

7.2.2 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 Australian Accounting Standard AAS 4 "Depreciation"). Depreciation expenses based on the gross amount of a revalued depreciable asset would need to be 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 would be determined by reference to the remaining useful life of the asset to the entity. Accordingly, the amount of depreciation expense *recognised* will be identical irrespective of which method of presentation is applied.

7.2.3 The term "depreciation", which is often used interchangeably with the term "amortisation", includes amortisation for the purposes of this Standard. The terms have the same meaning, however, depreciation is generally used in relation to non-current assets that have physical substance while amortisation is generally used in relation to intangible non-current assets.

8 Disposal of Assets

8.1 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.

8.1.1 Paragraph 8.1 deals with the recognition, but not display, of the gain or loss on disposal of non-current assets. Australian Accounting Standard AAS 15 "Revenue" requires the proceeds from the sale of assets other than goods, including non-current assets, to be disclosed separately as *revenue*. In addition, Australian Accounting Standard AAS 1 "Statement of Financial Performance" requires disclosure of the net gain or loss on disposal of non-current assets that are not measured at net market value.

9 Disclosures

Non-Current Assets Measured at Fair Value

9.1 Where the *fair value* basis is applied for measuring a *class of non-current assets*, the financial report must disclose in respect of each class of revalued non-current assets:

(a) the method(s) used in determining fair values

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

9.1.1 Where a *non-current asset* is being revalued, paragraph 5.1 requires the *revaluation* to be at fair value and paragraph 5.2 requires that fair value to be kept up to date. Where an *asset* has previously been revalued to fair value 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 9.1(b).

9.1.2 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 would be necessary for compliance with paragraph 9.1(b).

9.1.3 In respect of investments quoted on a stock exchange, the description "at current market value" would be sufficient for compliance with paragraphs 9.1(a) and (b).

9.2 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.

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

9.3.1 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 9.3.

9.4 Where a local government or government department recognises a class of non-current assets that is measured on the fair value basis and 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

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

(b) the basis or bases of valuation applied in respect of each amount disclosed in accordance with paragraphs 9.4(a)(i) and 9.4(a)(ii).

9.4.1 The disclosures required by paragraph 9.4 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 when assets are 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) a government department as a consequence of a restructuring of administrative arrangements

and, in accordance with Australian Accounting Standard AAS 27 “Financial Reporting by Local Governments” or Australian Accounting Standard AAS 29 “Financial Reporting by Government Departments”, those assets are recognised at the amount at which the assets were recognised by the transferor immediately prior to the transfer.

Other Disclosures

9.5 The financial report must disclose, in relation to each class of non-current assets, 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 recognised in accordance with Australian Accounting Standard AAS 10 "Recoverable Amount of Non-Current Assets"

(f) reversals of recoverable amount write-downs

(g) *depreciation expense*

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

(i) other movements.

9.5.1 The entity discloses those items in paragraph 9.5 that are applicable to the class of non-current assets, according to whether the cost basis or fair value basis is applied to that class.

10 Transitional Provisions

General

10.1 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. On first applying this Standard, an *entity* may elect to apply either of the following policies to a *class*

***of non-current assets* that was carried at a revalued amount at the immediately preceding *reporting date*:**

(a) continue to revalue the *assets* in that class of non-current assets in accordance with this Standard, after making initial adjustments in accordance with paragraph 10.3(b) if necessary; or

(b) revert to the cost basis in accordance with paragraph 10.4.

10.1.1 In relation to a class of non-current assets that was carried at cost at the immediately preceding reporting date, an entity may elect to continue to use the cost basis or change to the *fair value* basis.

10.2 An entity which applies the fair value basis for measuring a class of non-current assets at the end of the reporting period to which this Standard is first applied must not revert to the cost basis for measuring that class of non-current assets at a later date.

10.2.1 An entity that applies the cost basis on first applying this Standard for measuring a class of non-current assets under this Standard is able to change to the fair value basis for a later reporting period.

Transition to the Fair Value Basis

10.3 Where, 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, or where a public sector entity initially applies the fair value basis of measuring a class of non-current assets when it ceases to apply paragraph 10.7(b) during a reporting period beginning on or before 30 June 2003:

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

amount write-down previously been recognised must be credited directly to the asset revaluation reserve

(b) where paragraph 10.3(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

(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).

10.3.1 In accordance with paragraph 10.1, the net revaluation decrement debited directly to the asset revaluation reserve or to retained profits (surplus) or accumulated losses (deficiency) under subparagraph 10.3(b)(ii) is the revaluation decrement needed to adjust the carrying amounts of the *non-current assets* to their fair value as at the beginning of the reporting period. Revaluation decrements arising during the reporting period are treated in accordance with Section 6 of this Standard.

Reverting from a Revaluation Basis to the Cost Basis

10.4 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, as if they had always been measured using the cost basis. For that class of non-current assets, the resulting

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 effect of previous revaluations on the amount of accumulated depreciation**

(iii) **directly adjusting retained profits (surplus) or accumulated losses (deficiency) for any amounts not able to be adjusted in accordance with paragraph 10.4(b)(i).**

10.4.1 An example of a circumstance where paragraph 10.4(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 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.

10.5 **Where an entity elects to apply paragraph 10.4(a) to a class of non-current assets, any balances of accumulated depreciation and accumulated recoverable amount write-downs existing in respect of that class of non-current assets as at the date of first applying this Standard must not be credited to the asset accounts to which they relate.**

10.5.1 Under paragraph 10.4(a), an entity may elect to deem the carrying amount of assets comprising a class of revalued non-current assets to be the assets' cost for the purpose of reverting to the cost basis as at the date of first applying this Standard. Where this occurs, the gross amount (deemed cost of acquisition) and any related accumulated depreciation and accumulated recoverable amount write-downs in respect of those assets as at that date are used as the basis for disclosing the gross amount and any related accumulated depreciation separately in accordance with Australian Accounting Standard AAS 4 "Depreciation".

10.6 **Where, under paragraph 10.4(b), an entity elects to make retrospective adjustments to measure a class of non-current assets at its cost of acquisition less any accumulated depreciation and any accumulated recoverable amount write-downs, as if it had always been measured using the cost basis, any balances of**

accumulated depreciation and accumulated recoverable amount write-downs existing in respect of that class of non-current assets as at the date of first applying this Standard must not be credited to the asset accounts to which they relate. Each of those amounts 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.

10.6.1 The separately remeasured gross amount (cost of acquisition) and any related accumulated depreciation and accumulated recoverable amount write-downs in respect of the assets referred to in paragraph 10.6 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 Australian Accounting Standard AAS 4 “Depreciation”.

Public Sector Entities

Existing Revaluation Basis

10.7 For any reporting period beginning on or before 30 June 2002, public sector entities that did not elect to revert to the cost basis under paragraph 10.1(b) to measure the carrying amount of a class of revalued non-current assets must measure the carrying amount of the class on either:

(a) the fair value basis required by paragraph 5.1(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

(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.**

10.8 **Where non-current assets are written down to their recoverable amount in accordance with paragraph 10.7(b)(ii), the write-down must be accounted for as if it were a revaluation decrement, in accordance with Section 6 of this Standard.**

Progressive Revaluations Within a Class of Non-Current Assets

10.9 **For reporting periods beginning no later than 30 June 2005, with respect to the frequency of revaluations of *property, plant and equipment,* public sector entities must either:**

(a) **comply with paragraph 5.2; or**

(b) **apply the requirements in paragraphs 10.10 to 10.13.**

10.10 **Subject to paragraph 10.11, where a public sector entity elects to apply the transitional provisions in paragraph 10.9(b) and an item of property, plant and equipment is revalued, the assets within the class of property, plant and equipment to which the asset belongs must be revalued on a consistent basis and, immediately after a revaluation is made, be stated at values which are substantially of the same date.**

10.11 **Non-current assets comprising a 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**

(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.**

10.12 Where non-current assets are written down to their recoverable amount in accordance with paragraph 10.11(c), the write-down must be accounted for as if it were a revaluation decrement, in accordance with Section 6 of this Standard.

10.12.1 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 would determine 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.

10.12.2 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 10.9, 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 (Australian Accounting Standard AAS 10 "Recoverable Amount of Non-Current Assets" exempts these assets from application of the recoverable amount test), paragraph 10.11(c) requires the recoverable amount test to be applied in the manner set out in AAS 10. This requirement ensures that those assets are not carried at an amount exceeding their recoverable amount prior to their revaluation to fair value.

10.13 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 10.11, 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 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 are carried at their recoverable amount less, where applicable, any subsequent accumulated depreciation

(c) for each aggregate carrying amount referred to in paragraphs 10.13(b)(ii) or 10.13(b)(iii):

(i) the method(s) used to determine the revalued amount

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

(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

(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.

10.13.1 The disclosure in paragraph 10.13(b)(iv) 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

10.14 Where a *public sector borrowing/financing entity* 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, the net amount of those adjustments, including any adjustments to deferred income tax balances, must be adjusted against retained profits (surplus) or accumulated losses (deficiency) as at the beginning of the reporting period to which the policy is first applied.

11 Definitions

11.1 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

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

***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

(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**

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**

financial statements **means *statement of financial performance*, statement of financial position and statement of cash flows**

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 Australian Accounting Standard AAS 4 "Depreciation"

***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*

(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

(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 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**

***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**

***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**

***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**

***statement of financial performance* means profit and loss or other operating statement as referred to in other Australian Accounting Standards**

***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.**

Class of Non-Current Assets

11.1.1 Underpinning the requirements in paragraphs 5.1, 5.2, 6.1 to 6.4, 9.1, 9.2, 9.4 and 9.5 is the definition of "class of non-current assets" in paragraph 11.1. This definition, which is consistent with the view that non-current assets should be classified according to their nature or function in the operations of the entity, defines classes of non-current assets 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.

Profit-Seeking Entities

11.1.2 *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.

11.1.3 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.

11.1.4 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.

Public Sector Borrowing/Financing Entities

11.1.5 *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 6.2 and Australian Accounting Standard AAS 3 “Income Taxes” [2]

(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 6.2 that 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

  (ii) the requirement in 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 Australian Accounting Standard AAS 3 “Income Taxes” are to the revised AAS 3 issued in December 1999, which requires 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 the revised AAS 3 (which is operative for reporting periods beginning on or after 1 July 2002, but may be adopted early) is adopted, 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 $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 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 AAS 3.)

Scenario (1)

In this scenario, the 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 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 6.2 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 30 June 20X3, the land is revalued to $90 million in conformity with paragraph 5.2. 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 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 6.2 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 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 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, the amount of the revaluation decrement for the class of non-current assets is the same as for Scenario (1) [that is, $30 million]. However, the decrement is in respect of a different asset (within the same class) than the asset in respect of which the previous 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 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 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 AAS 3 may equal the tax effect of the entire 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 revaluation decrements for a class of 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).

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. 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 6.2 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 5.2. 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 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 6.2 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 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 6.2 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 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 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)

Date		$	Date		$
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)

Date		$	Date		$
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 revaluation increments and decrements of the same amount within the same class of non-current assets. Consequently, the revaluation increments and decrements 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 6.2 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 8.1 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 acquisition cost of $160 million, and the entity revalued that land to $140 million in accordance with paragraph 5.2. 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 assets comprising land parcels (a) and (c), the journal entries as at 30 June 20X4 to recognise the revaluation decrement and its associated tax effect under paragraph 6.2 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 6.2 and AAS 3. Accordingly, it is necessary to apportion the disposition of the revaluation decrement and associated tax effects between the asset revaluation reserve and net profit or loss/result.

The 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 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 6.2 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
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

As at the date of issue of this Standard, compliance with this Standard will ensure conformity with International Accounting Standard IAS 16 "Property, Plant and Equipment" to the extent that it addresses revaluations of, and disclosures relating to, non-current assets, except that 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 revalued assets that would have been recognised had the cost basis of measuring assets been applied

(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 the Standard for total non-current assets) to be made for each class of non-current assets.

The transitional provisions of this Standard allow an entity, where it is reverting to the cost basis of measuring a non-current asset, to deem its revalued carrying amount at the date of first applying the cost basis to be the cost of that asset. This will enable Australian entities that are currently revaluing a class of non-current assets to revert to the cost basis without requiring retrospective adjustments to be made. It will also enable those entities that cannot identify the original cost of an asset to apply the cost basis of measurement. IAS 16 does not deal with this issue.

Conformity with New Zealand Accounting Standards

As at the date of issue of this Standard, compliance with this Standard will ensure conformity with Statement of Standard Accounting Practice SSAP-28 "Accounting for Fixed Assets" to the extent that it addresses revaluations of, and disclosures relating to, non-current assets, except that SSAP-28 requires revalued fixed assets to be measured at net current value. Net current value differs from fair value in the following respects:

(a) it is determined assuming continuation of the asset's existing use

(b) estimated costs of disposal are deducted from the exchange price.

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 reissue of the Standard is part of a program being undertaken by the Public Sector Accounting Standards Board of the Australian Accounting Research Foundation and the Australian Accounting Standards Board (the Boards) to achieve greater harmony between Australian accounting standards and those of the International Accounting Standards Committee.

2 The reissue of the Standard follows consideration of the responses received on Invitation to Comment "Harmonisation with International Accounting Standards on the Revaluation of Non-Current Assets" (which was prepared by the Boards and released in October 1997) and Exposure Draft ED 92 "Revaluation of Non-Current Assets" (which was prepared by the Boards and released in June 1998). ED 92 contained proposals aimed at harmonising Accounting Standard AASB 1010 and Australian Accounting Standard AAS 10 "Accounting for the Revaluation of Non-Current Assets", as issued in June 1996, with International Accounting Standard IAS 16 "Property, Plant and Equipment".

Principal Changes from the Previous Standard

3 The principal changes from the Standard as issued in June 1996 that were proposed in ED 92 and have been included in the Standard are that it:

(a) requires either the cost basis or the fair value basis to be applied to measure a class of non-current assets subsequent to initial recognition

(b) requires fair values of non-current assets to be kept up to date where the fair value basis of measurement is applied

(c) prohibits an entity reverting from a revaluation basis to the cost basis for measuring a class of non-current assets, other than on initial adoption of the Standard.

Noteworthy Differences from ED 92

4 The majority of respondents to ED 92 did not support the proposal for private sector entities to account for revaluation increments and decrements on an individual asset basis. In particular, respondents

were concerned about exacerbating the bias of recognising revaluation increments in reserves and revaluation decrements in net profit or loss/result and the onerous record-keeping necessary to comply with the proposal. The requirement in the revised Standard has retained from AAS 10 (as issued in June 1996) the class of assets basis for accounting for revaluation increments and decrements.

5 The proposed requirement for private sector entities to disclose cost-based information where the fair value basis is applied for measuring a class of non-current assets has been omitted. It was not supported by the majority of respondents due to the onerous nature of the requirement and the lack of usefulness of the resulting information.

6 Recoverable amount write-downs for non-current assets are no longer classified as revaluations. Revaluations are defined as the recognition of reassessments of the carrying amounts of non-current assets to their fair value as at a particular date, excluding recoverable amount write-downs. Recoverable amount write-downs are dealt with in Australian Accounting Standard AAS 10 "Recoverable Amount of Non-Current Assets" as issued in December 1999, which applies only to non-current assets measured on the cost basis. Under that Standard, recoverable amount write-downs are recognised as expenses.

7 Standards and commentary have been added to reinforce the requirements of AAS 10, as issued in June 1996, that revaluation decrements are debited to the asset revaluation reserve to the extent that a credit balance exists in the reserve in respect of the same class of non-current assets. The additional text:

(a) specifies that amounts must not be transferred to the asset revaluation reserve from retained profits (surplus) or other reserves

(b) clarifies that once an amount is transferred from the asset revaluation reserve to another reserve, it is no longer available for offsetting against revaluation decrements.

8 Commentary (including the Appendix to the Standard) has been added to explain how the revised Australian Accounting Standard AAS 3 "Income Taxes", as issued in December 1999, is applied in conjunction with the requirements of the Standard that revaluation decrements must not be debited to the asset revaluation reserve to the extent that they would cause a debit balance in that reserve in respect of the same class of non-current assets.

9 ED 92 proposed disclosure of restrictions on the distribution to owners of the balance of the asset revaluation reserve for each class of non-current assets. The Standard requires this disclosure only for total non-current assets, because the Boards believe that the relevance of the information for each class of non-current assets would not justify the complexity added to the notes in the financial report.

Public sector entities

10 A number of respondents to ED 92 (particularly public sector entities) requested further guidance on measuring the fair value of a non-current asset. A number of public sector entities are subject to legislative or regulatory requirements to revalue non-current assets. The Boards have decided to undertake a project to develop further guidance on measuring an asset's fair value. Transitional provisions lasting three years have been included in the Standard to permit public sector entities to continue to use their existing revaluation basis to measure non-current assets, while the Boards progress this project.

DISSENTING VIEW

The Public Sector Accounting Standards Board (PSASB) of the Australian Accounting Research Foundation and the Australian Accounting Standards Board (AASB) approved Australian Accounting Standard AAS 38 "Revaluation of Non-Current Assets" in December 1999. Neville Smith, a member of the PSASB, wishes to express a dissenting view on the Standard. His dissenting view, which does not form part of the Standard, is set out below.

1 It is premature for the PSASB to require that public sector entities adopt the fair value basis for the revaluation of non-current assets from 1 July 2002.

2 Many governments and public sector agencies utilise deprival values when revaluing non-current assets, drawing on the detailed public sector specific work of the Asset Valuation Sub-Committee of the Steering Committee on National Performance Monitoring of Government Trading Enterprises undertaken between 1991 and 1994. This work was published as "Guidelines on Accounting Policy for Valuation of Assets of Government Trading Enterprises Using Current Valuation Methods".

3 The Sub-Committee explained the deprival value of non-current physical assets as the loss that might be expected to be incurred by an entity if that entity were deprived of the service potential or future economic benefits of those assets at the reporting date. It stated that "the value to the entity in most cases will … normally represent the cost avoided as a result of controlling the asset and that the replacement cost represents the amount of cash necessary to obtain an equivalent or identical asset." It identified that under this methodology "surplus assets (that is, assets held for sale without replacement) are to be measured at their current net selling price."

4 A view has been expressed that aspects of deprival value do not fit within fair value.

5 The AASB and the PSASB are still to fully explore the relationship between the fair value and deprival value of an asset, and have decided to undertake a project to develop further guidance on measuring an asset's fair value.

6 With the establishment of the Financial Reporting Council and the proposed merger of the two Boards there is no certainty that this project can be brought to conclusion, and the guidance published and assessed by public sector entities in time for them to adopt a

new valuation basis by reporting periods beginning on or after 1 July 2002.

7 Given the uncertainties, Australian governments and public sector agencies will be confronted with a decision when AAS 38 is released. Until that further work is undertaken by the Boards, public sector entities will not know the extent, if any, to which recently established balance sheet values will need to be written down or up. The risk minimisation approach could be for these entities to revert to the cost basis until the existing Boards, or the new Board, fully explore and report on the relationship between the fair value and deprival value of an asset. This would not prevent the public sector entities from revaluing in the future since under the Standard they retain the right to adopt fair values at any time. The use of three different bases of accounting in what could be a five-year period is unlikely to assist users in their understanding of the performance of public sector entities or in their understanding of the accounting standards on which these reports are based.

8 Notwithstanding the desirability of harmonising private and public sector accounting standards in Australia and harmonising Australian Accounting Standards with private sector International Accounting Standards, the relevance of fair value to the public sector should be established relative to deprival values before the PSASB mandates that the Australian public sector use fair values for revaluations.

9 At a more detailed level:

(a) there is not yet common understanding between the Boards and the valuation profession in Australia as to appropriate valuation bases and the relationship between fair value and market value

(b) the use of the terminology "market buying price" and "market selling price" within the Standard can give rise to confusion, as its use varies from one common, plain English meaning

(c) the Boards are granting an exemption in another Standard from a requirement to disclose fair or other valuations for land and buildings used in, or ancillary to, extractive industry operations and reported on the cost basis where the land and buildings possess a value that is wholly dependent on those operations.

These points are discussed below.

10 The Australian Valuation and Property Standards Board of the Australian Property Institute has identified a number of differences between fair value and market value, as understood by valuers. It is not clear whether it is intended that each of these differences exists, or whether these differences are simply a consequence of two different styles of wording to define the same concept. Until this matter is resolved, preparers and auditors of financial statements will find that they have to make individual assessments of the relevance of competing arguments from two professions. Departures from comparability could reduce the value of financial statements to users.

11 The use of the terms "market buying price" and "market selling price" (Section 5 of the Standard) can give rise to confusion. It follows from the definition of fair value that in each transaction the buying price and selling price will be the same, being the market price of the asset. Valuers have also identified this in written submissions to the Boards. However, the Boards are using the terms market buying price and market selling price in a different sense. It would aid the understanding of the Standard if the Boards were to draw out the different meanings. More specifically the Boards are referring to the market price that the entity would pay if it were to buy the asset and the market price that the entity would receive if it were to sell the asset. There could be a substantial difference in these two prices at the same point in time. It may be that the only alternative use for a sophisticated manufactured special purpose asset is as scrap. In a general sense, the asset's cost to the entity (its market buying price) would reflect the material, labour, financing and profit that went into its manufacture. The asset's selling price to the entity (its market selling price) would reflect the scrap value of the material less all of the costs and the return sought in extracting the scrap value of the material.

12 The Boards have extended the exemption from having to disclose valuations for land held at cost for extractive industry operations to land and buildings held at cost that are used in, or ancillary to, those operations and possess a value that is wholly dependent on those operations. The disclosures, and associated exemptions, have been included in Australian Accounting Standard AAS 36 "Statement of Financial Position". The fact that this exemption has been extended does of itself indicate that there may be circumstances in the private sector where the use of fair value may not be appropriate. Conceptually the identified circumstances appear to have parallels in the public sector.

Neville Smith
December 1999