Guidance document - Revaluation

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| --- | --- |
| Acronyms | Full form |
| ABS | Australian Bureau of Statistics |
| DTF | Department of Treasury and Finance |
| FMA | Financial Management Act 1995 |
| NT | Northern Territory |
| TD | Treasurer’s Direction |

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| Acknowledgements |
| This document draws upon and or reproduces information contained in the following publications:   * *Non-Current Asset Policies for the Queensland Public sector, The State of Queensland (Queensland Treasury) June 2022* * *TPP21-09 Valuation of Physical Non-Current Assets at Fair Value, NSW Treasury July 2021* * *Guidance on the application of FRD 103 Non-financial physical assets, VIC Treasury June 2021* |

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# Introduction

## Purpose

To provide better practice guidance to assist accountable officers and agencies meet their obligations under the Treasurer’s Direction (TD) – Non-financial assets, the *Financial Management Act 1995* (FMA)*,* and other relevant legislation.

Guidance material in this document is not mandatory. If a conflict arises between this guidance document and TD or other legislative requirements, the legislation takes precedence followed by the TD.

The TD generally designates responsibility to the accountable officer. Unless specifically excluded by the FMA or TD, accountable officers may choose to delegate certain responsibilities and functions to agency employees. This can be done through a number of mechanisms, such as accountable officer approved policies, procedures and agency delegations.

## Statement

The objectives of the TD – Non-financial assets and this guide is to establish minimum requirements for the revaluation of non-financial assets applicable to all agencies including government business divisions**.**

Agencies are strongly encouraged to ensure all employees involved in revaluation of non-financial assets have access to this guide.

## Legislative basis and related documents

* FMA
* Treasurer’s Directions:
  + Non-financial assets
  + R2.1 Appendix A – Agency financial statements
* Guidance document – Impairment of assets
* Australian Accounting Standards:
  + AASB 13 Fair Value Measurement (AASB 13)
  + AASB 116 Property, Plant and Equipment (AASB 116)
  + AASB 136 Impairment of Assets (AASB 136)
  + AASB 138 Intangible assets (AASB 138)

# Revaluation

Revaluation is the act of reassessing the carrying amount of an asset to its fair value as at a particular date.

The revaluation process accounts for changes in the values of inputs over time due to things such as technological changes and inflation. Revaluation assists in assessing asset performance by providing the current value of an agency’s asset holdings and a more accurate assessment of the cost of delivering outputs.

The carrying amount or written down value of an asset is the amount that is recognised in an agency’s accounting records. The carrying amount is determined after deducting accumulated depreciation (for depreciable assets) and any accumulated impairment losses from the cost of an asset.

Revaluation of assets include:

* 1. evaluation of all appropriate valuation aspects including but not limited to:
     1. methodology – what valuation technique and fair value hierarchy level is applied
     2. assumptions – application of the highest and best use principle considering what is physically possible, legally permissible and financially feasible
     3. data inputs and sources – use of appropriate observable and unobservable data as inputs
     4. remaining useful life.
  2. assessment of the physical condition of assets:
     1. sample size for inspections - a representative proportion of the population of assets must be inspected
     2. inspections can be done via physical site visits, photos, videos, condition report or combination of both.

# Measurement basis

Agencies must subsequently measure non-financial assets using the revaluation model or cost model.

The following classes of non-financial assets must be measured using the **revaluation model** (revalued amount less any accumulated depreciation/amortisation and accumulated impairment losses):

1. land
2. buildings
3. infrastructure assets
4. heritage and cultural assets
5. intangible assets with an active market.

Other classes of non-financial assets are not revalued and are to be measured using the **cost** **model** (cost less any accumulated depreciation/amortisation and accumulated impairment losses). Computer software assets are intangible assets. However, they are to be measured using the cost model irrespective of whether they have an active market or not.

Assets within a class of non-current assets are to be measured consistently on the same basis, using either the cost or revaluation model. This also applies to complex assets disaggregated and recorded into significant components. For example, a hospital building is measured using the revaluation model. A significant component of the building is its air-conditioning system, which would ordinarily be classified as plant and equipment, and hence measured using the cost model. However, the components in complex assets need to be measured using the same basis, as such, the air-conditioning system which forms part of the building will be measured using the revaluation model instead of the cost model.

Agencies must revalue the following non-financial assets:

* 1. all land assets
  2. all other non-financial assets with a carrying amount of $50 000 or more, unless the agency holds materially significant volumes of assets under the threshold and applying the threshold could result in a material misstatement in aggregate non-financial asset values of the agency.

The $50 000 threshold applies to the total value of a complex asset. For example, a hospital complex is assessed using the total value of the complex asset rather than by components or separate blocks. An apartment building is assessed using the total value of the whole building instead of individual rooms or units within the block. The threshold applies to the carrying amount of the non-financial asset when it is initially acquired.

Where electing not to revalue assets below the $50 000 threshold would result in a material misstatement in aggregate asset values for the agency, the agency should not apply this threshold in identifying assets subject to revaluation. The assessment of materiality maybe done on the class of assets subject to revaluation.

Subsequent to the initial recognition of a non-current asset, additional outlays may be incurred that enhance the usefulness of the asset in terms of its service capacity, service quality or useful life. Where material, such outlays are recognised as improvements and are added to the carrying amount of the asset. Improvements to existing non-current assets may result in the value of the asset becoming material for revaluation purposes.

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| Example 1 |
| Agency A owns a building with an original acquisition cost of $40 000. Agency A elected not to revalue that building because it was below the allowable threshold of $50 000. The building subsequently has substantial improvement works carried out that add $50 000 to the value of building. Because buildings are subject to the revaluation model and the carrying value of the building now exceeds the $50 000 threshold, the asset will be subject to revaluation on or before the next revaluation date for that class of assets. In practice, an independent valuation of such assets will be deferred until the class of assets to which the asset belongs is being revalued. |

Regardless of the measurement model used, there may be certain assets that cannot be reliably measured. For example, the unique nature of some heritage and cultural assets may preclude reliable and meaningful measurement. Although these assets will not be recognised in the financial records, they should remain subject to appropriate asset management control arrangements. Agencies should include in their internal accounting policy on non-financial asset measurement and valuation, a description of these types of assets and why they cannot be reliably measured.

A flow chart depicting the classes of assets that are subject to revaluation is shown below.

Does the asset fall into the following classes of assets?

841000 Land

842000 Buildings

843000 Infrastructure Assets

849000 Heritage and Cultural Assets

850000 Intangibles

860000 Biological Assets

Yes

Yes

Does the agency wish to otherwise measure the asset using the fair value basis?

Measure using the Revaluation Model

Asset initially recorded in accordance with AASB 116.

841000 Land

842000 Buildings

843000 Infrastructure Assets

849000 Heritage and Cultural Assets

850000 Intangibles with active market

Measure using the Cost Model (2) (No Revaluation)

No

No

No

Yes

Does the asset have a material value (generally greater than or equal to $50,000)? (1)

(1) To be reassessed if the asset’s value becomes material as a result of improvements.

(2) The following classes of non-current assets are measured using the cost model:

|  |  |
| --- | --- |
| 844000 Construction (Work in Progress)\* | 847000 Computer Hardware |
| 845000 Plant and Equipment | 848000 Transport Equipment |
| 846000 Computer Software |  |

\* Construction (Work in Progress) is valued at cost during construction and upon transfer to the relevant agency asset class on completion. The relevant asset will generally become subject to the valuation basis attributable to that class of assets on the next revaluation date for that class of assets.

## Cost model

Assets that are required to be measured using the cost model are to be carried at **cost** less any accumulated depreciation and any accumulated impairment losses.

The value of an agency asset under the cost model includes:

* cost of acquisition, including the purchase price and any costs directly attributable to bringing the asset to its operating location
* the fair value of assets acquired by an agency at no cost (for example, gifts of assets), for nominal consideration or where no cost information is available
* the carrying amount recognised by the transferring agency for assets received as a result of administrative restructures.

Classes of assets subject to the cost model such as plant and equipment, computer hardware and transport equipment usually have relatively short useful lives. The fair values will not differ significantly from its written down value (cost less accumulated depreciation) therefore, cost is deemed to equate to fair value.

In certain instances, a class of non-current assets that is normally subject to the revaluation model may include new assets that are initially recognised at cost in accordance with Accounting Standards. In practice, an agency may decide to continue to measure such assets at cost until the next revaluation for that asset class occurs. This would be applicable where the construction cost of a newly constructed asset equates to its fair value (for assets revalued using the cost approach).

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| Example 2 |
| On 31/12/X5, Agency A completed the construction of a new building. The next scheduled revaluation for the building asset class is due in one and half years’ time on 30/6/X7. Agency A decides to continue to measure the new building at its construction cost until the next revaluation is undertaken, at which point the building will be subject to independent valuation using the revaluation model along with other building assets. |

## Revaluation model

Assets that should be measured using the revaluation model should be carried at **fair value** less any accumulated depreciation and any accumulated impairment losses. Fair value is determined in accordance with AASB 13.

### Application of fair value concepts

Fair value is defined in AASB 13 as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”

The fair value of an asset is the best estimate of the price reasonably obtainable in the market at a certain date and equates to the asset’s market price where such a price is available. It is essentially an exit price, which is the price at which an entity expects to sell an asset or transfer a liability. Where there is limited or no market based evidence available, the fair value of an asset will be estimated based on the market buying price (such as the asset’s replacement cost).

Among other things, the following should be considered in determining the fair value of an agency’s asset:

* value is based on reliable market information that is not adversely impacted by unrealistic terms and or conditions
* value has been determined based on the highest and best use of the asset that is legally, financially and physically possible. In this regard, possible future changes in use are not considered until little or no doubt exists that they will occur. For example, a highly sought after parcel of land which has been rezoned from parkland to residential use would be revalued based on the highest and best use of the land (for example, residential use)
* the agency expects to continue operations in its current form and has not been or is not expected to be subject to a major restructure that would require the disposal of agency assets on adverse terms
* adequate marketing will be undertaken in order to obtain the best price for the asset.

Certain complex non-current assets are made up of a number of separately identifiable components that may be recognised as sub-assets and depreciated separately. Market evidence may not be available for these separately identifiable components that can be sold in their present state only as part of the sale of the complex asset or operation (taken as a whole). In such situations, the individual asset’s fair value will be its current market buying price.

The sum of the fair values of the individual component assets cannot exceed the fair value of the complex asset taken as a whole. Any excess should be removed by reducing proportionately the fair value of each of the individual component assets.

**Highest and best use**

Highest and best use is defined as the use of a non-financial asset by market participants that would maximise the value of the asset or group of assets and liabilities within which the asset would be used.

Highest and best use of an asset is determined from the perspective of market participants, regardless of whether the agency intends a different use or intends to sell it. However, the current use of an asset is presumed to be the highest and best use, unless market or other factors suggest that a different use by market participants would maximise the value of the asset.

Most agency assets are held primarily to deliver public service and not to generate net cash inflows. Therefore, the current use of the asset is the highest and best use as it is very seldom that an alternative use exists.

Highest and best use takes into account the use of the asset that is:

* physically possible – the physical characteristics of the asset that market participants would take into account (for example, location or size of a property)
* legally permissible – any legal restrictions on the use of the asset that market participants would take into account (for example, zoning regulations)
* financially feasible – does the asset generate an adequate return on investment, taking into account costs to convert the asset to the alternative use, from the perspective of market participants.

**Impact of restrictions on highest and best use**

Often in the public sector, restrictions are imposed on the use or disposal of an asset. This is because most agencies are mandated by the government to continue to provide the services that the assets assist them to provide. Therefore, the highest and best use must take account of the characteristics of the asset being measured, including the mandated restrictions imposed by government on the use or disposal of assets and the risk that the government will not permit the sale or alternative use of the assets.

Example of restricted land assets in the public sector include parks and botanical gardens, national parks and reserves that are held for public benefit. Restricted assets also include land under specialised assets or infrastructure assets for example, railway corridors. Also, land under most schools, hospitals and police and fire stations have a restricted use, because the agency is mandated to continue to provide the services and the services are needed at that location.

# Valuation techniques

When a price for an identical asset is not observable, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Valuation techniques used to calculate fair value fall into either the market approach, current replacement cost approach or income approach.

Each of these valuation techniques are explained further below. Agencies should refer to AASB 13 for more guidance on valuation techniques.

[**Appendix A**](#_Appendix_A:_Expected) provides guidance on likely valuation techniques and input levels for each class of non-financial assets.

## Market approach

Market approach uses prices and other market data derived from observed transactions for the same or similar assets. This often involves using comparable market data and adjusting it for size, location, zoning and other relevant attributes. Assets which have a commercial use, are likely to be valued based on observable market values.

For example, an office or administration building used for the delivery of a public service by an agency, which is in close proximity to other offices used for commercial purposes would be competing with commercial users for that office space within the market. As such, the office building’s fair value could be determined based on sales of comparable buildings.

## Income approach

Income approach converts future amounts (for example, cash flows, or income and expenses) to a single discounted amount. When income approach is used, the fair value measurement reflects current market expectations about those future amounts. This includes present value techniques, option pricing models and the multi period excess earnings method.

This approach is generally more relevant where an asset’s highest and best use is primarily dependent on their ability to generate net cash inflows. Applying the income approach to generate the fair value of agency assets may not be appropriate for most agency assets as public services often do not generate income to the owner of the asset or if they do, that income is subsidised by public funds.

## Current replacement cost approach

The current replacement cost approach reflects the amount that would be required currently to replace the service capacity of an asset, often referred to as current replacement cost. This approach reflects the cost to acquire the asset adjusted to reflect the asset’s present condition/physical deterioration, functionality (technological) obsolescence and economic obsolescence.

Current replacement cost approach is more widely relevant to most agencies given the specialised nature of many public sector assets. Examples of assets valued using the current replacement cost include hospitals, schools, bridges, roads, libraries and dams.

Replacement cost does not necessarily represent the cost of replicating the asset as new, as only the remaining future economic benefits are taken into account with this approach.

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| Example 3 |
| Agency A owns a specialised communication equipment that is 5 years old with an estimated useful life of 10 years. The estimated replacement costs of the equipment when “new” is $10 million. Assuming that the asset delivers economic benefits evenly over its useful life, the asset’s current replacement cost would be $5 million, as it would be assumed that 50% of the asset’s future economic benefits have been consumed. |

Where it is not possible to replace an existing non-current asset with an asset having similar service potential, it can be assumed that the asset will be replaced by its most modern equivalent (adjusted for obsolescence), unless evidence exists suggesting otherwise.

# Fair value hierarchy

When measuring fair value, an agency is required to maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

Observable inputs are publicly available data that are relevant to the characteristics of the assets being valued, for example, published sales data for land and general office buildings.

Unobservable inputs are data, assumptions and judgements that are not available publicly, but are relevant to the characteristics of the assets being valued. Such inputs include agency’s internal adjustments to observable data to take into account particular and potentially unique characteristics or functionality of assets and assessments of physical condition and remaining useful life.

The following fair value hierarchy prioritises the inputs in fair value measurement.

|  |  |
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| Level 1 | Quoted prices, which are not adjusted, in an active market for **identical** assets that the agency can access at the measurement date. |
| Level 2 | Inputs, other than quoted prices in level 1, in an active or non-active market for similar but not identical assets. Inputs are also observable, either directly or indirectly. |
| Level 3 | Unobservable inputs. |

Management should review and understand the inputs used in the valuation (whether compiled internally or externally) to determine the appropriate classification of those inputs in the fair value hierarchy.

Unless the market for the asset is active and the quoted price is for an identical asset, the price will not be considered Level 1. Most agency’s fair value measurements of non-financial assets would be classified as either Level 2 or 3 as it is rare for identical assets to be actively traded.

Possible examples of fair value measurements categorised within Level 2 might include:

* a building where a sufficient number of comparable buildings (considering architectural style, property size and location) and a sufficient volume of recent sales transactions prices could be observed
* equipment used in a research facility for which comparable equipment is available in the market and there is a sufficient volume of recent transactions for which prices could be observed.

When an observable input is adjusted to reflect differences between the asset being valued and the observed transaction, depending on the significance of the adjustment it may cause the measurement to be categorised as a Level 3 measurement instead of a Level 2 measurement.

Where the valuation is based on unobservable inputs, categorisation will be in Level 3 of the fair value hierarchy. Examples of such assets may include roads, hospitals or prisons which could be valued using the cost approach with appropriate adjustments to reflect the asset’s service potential.

When selecting the most appropriate inputs to a fair value measurement from multiple available values, those that maximise the use of observable data, rather than unobservable data, must be selected. Care should, therefore, be taken in using a cost approach to measure fair value without appropriate consideration of the available observable inputs. Even in a market that is inactive, an agency should not presume that the transactions in that market do not represent fair value or that the market is not orderly. Agencies will need to consider the individual facts and circumstances in making this assessment.

The flowchart below sets out the process for identifying the fair value inputs and corresponding fair value hierarchy levels.

Level 2

No

Is a significant adjustment required or does the calculation involve, significant data/ judgement that is not available in a publicly accessible source?

Yes

Yes

No

Is there other data available from a publicly accessible source that is relevant and reliable in determining fair value for the asset?

Yes

Is there a quoted prices in an active market for an identical asset?

Level 1

Level 3

Yes

No

No

Is there a quoted price in an active market for a similar asset?

# Frequency of revaluations

Revaluations are to be made with sufficient regularity to ensure that the total carrying amount of agency assets subject to the revaluation model does not differ materially from fair value at reporting date.

How often an agency undertakes revaluations will depend on the materiality of changes in the fair value of the assets subject to the revaluation model.

At a minimum, assets subject to the revaluation model must be revalued:

* 1. once every **three years**, for non-financial assets revalued using Level 1 and Level 2 inputs of the fair value hierarchy in AASB 13
  2. once every **five years**, for all other non-financial assets.

The land associated with non-financial assets under the revaluation model must be revalued at the same time as the asset. Assets valued using observable inputs (Level 1 and 2) are more likely to experience material changes in fair value from period to period, compared to other non-financial assets, therefore, the TD requires more frequent revaluations. Examples of assets which may fall under this category include, public or employee housing (including the underlying land) in urban areas and non-specialised buildings such as general office or commercial buildings (including the underlying land).

To ensure revaluations are undertaken in a timely manner, agencies may choose to undertake revaluations before 30 June (for example, a valuation as at 31 March), and record the fair value of the assets at the date of the valuation report in the financial records. Where this option is used, the agency’s revalued assets must be depreciated using the revalued amounts from the date of the revaluation (for example, if assets are revalued, as at 31 March, assets should be depreciated using the revised asset base from 1 April).

The recognition of the revalued amount and subsequent depreciation is deemed to approximate the fair value of the assets at 30 June provided no significant event occurs that indicates that the carrying amount of the asset differs materially from the fair value of the assets. If an agency through assessment identifies a material change in value of the asset from the date of the valuation report to the end of the reporting period, the agency would need to adjust the value of the assets accordingly in the financial records. In assessing whether there is a significant change in the value, the agency may seek an update from the valuer they engaged for the earlier valuation process.

## Rolling valuation cycle

Agency assets subject to the revaluation model may be revalued on a rolling basis provided that revaluations are conducted on a systematic basis that avoids the selective revaluation of assets. The selective revaluation of assets, within a class of assets can lead to inconsistent asset values being reported in an agency’s financial statements.

Where a large number of assets require revaluation and or the revaluation process is complex and time consuming, a class of non-current assets may be revalued on a rolling basis provided:

* the agency determines and documents appropriate subclasses within the class of asset for the purpose of a rolling revaluation plan (for example, assets maybe categorised based on a regional analysis)
* all assets within that class are revalued within a three-year or five-year cycle as appropriate.

If an agency chooses to revalue its assets on a rolling basis, a revaluation plan should be developed for that class of asset that may be based on factors such as:

* type of asset
* asset location
* nature of asset
* use of asset.

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| Example 4 |
| An example of the rolling revaluation plan based on a regional analysis is provided below:   * Year 1: Darwin, Palmerston and Litchfield region assets * Year 2: Alice Springs region assets * Year 3: Barkly and Katherine region assets * Year 4: East Arnhem region assets * Year 5: Assets that have been acquired, constructed or transferred into the agency within the last five years which have not otherwise been valued. |

## Interim valuation

An interim valuation is required when cumulative increases or decreases in indicators support a change in fair value of assets since the last revaluation of 20% or more. Agencies may opt to reset the revaluation cycle for that asset class or subclass after an interim valuation. Should an agency choose to reset its revaluation cycle, the agency must update their internal accounting policy on asset measurement and revaluation to reflect the change.

Examples of indicators that the fair value of an asset class may have experienced a ‘significant’ change include (but are not limited to):

* changes in the market conditions of the asset (such as rapidly deteriorating property markets)
* significant changes in prices of raw materials (if applicable)
* rapid wage growth in the construction industry (if applicable)
* evidence of physical damage
* changes in the demand or need for services provided by the asset arising from a population shift to other areas
* changes in the technological environment
* changes in legal or government policy environment.

Agencies may also refer to impairment indicators of assets subject to revaluation method in Appendix A of Guidance document – Impairment of Assets for more examples.

To assist with the assessment of whether an interim valuation is required, the Department of Treasury and Finance (DTF) will issue the construction industry producer price indices for the Northern Territory annually, based on data from the Australian Bureau of Statistics (ABS). This index is only relevant for determining whether an interim valuation is required for building and infrastructure assets valued with the current replacement cost approach. For buildings valued on the market approach, DTF will also publish the median residential price indices for the Northern Territory based on ABS data annually. Agencies may refer to these indices, together with other agency asset specific indictors to assess whether an interim valuation is required for a class or subclass of assets.

### Sample indices for various asset categories

The ABS publishes construction industries price and median residential price indices at regular intervals. The construction industries price indices measure changes in prices of outputs from selected construction industries. The median residential price indices measure changes in residential property prices. DTF will issue this information annually to assist agencies is assessing whether an interim valuation is required.

The table below provides an example of indices to be published and the types of assets these indices may be used for. The listing is not exhaustive and is intended to be a guide to assist agencies with determining the appropriate index to refer to when identifying if an interim valuation is required. Agencies may refer to the [ABS website](https://www.abs.gov.au/methodologies/producer-price-indexes-australia-methodology/dec-2023) for additional information on indicators if required.

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| Index | What it covers | Examples of government assets |
| 3011 - House construction | This covers units mainly engaged in the construction of houses (except semi-detached houses) or in carrying out alterations, additions or renovations to houses. Examples include garages, houses etc. | Public housing valued with the cost approach |
| 3019 - Other Residential Building Construction | This covers units mainly engaged in the construction of residential buildings (except houses) or in carrying out alterations, additions or renovations to such buildings. Examples include apartments, duplex, high-rise flats, flats, semi-detached houses etc. | Public housing valued with the cost approach (except houses) |
| 3020 – Non-residential building construction | This consists of units mainly engaged in the construction of non-residential buildings such as hotels, motels, hostels, hospitals, prisons or other buildings, in carrying out alterations, additions or renovation to such buildings. Examples include commercial buildings, industrial building, office building, prefabricated non-residential buildings etc. | Hospitals, prisons, office buildings, police stations, schools, clinics |
| 3101 – Road and bridge construction | This consists of units mainly engaged in the construction of roads, bridges, aerodrome runways, asphalt surfacing or parking lots. Examples include aerodrome runways, asphalt surfacing, bridges, elevated highways, overpass, parking lot (excluding buildings), roads etc. | Roads  Bridges |
| 3109 – Other heavy and civil engineering construction | This consists of units mainly engaged in the construction of railway permanent way, dams, irrigation systems, harbour or river works, water or gas supply systems, oil refineries (except buildings), pipelines or **construction projects** not elsewhere classified. Examples include golf course, jetty, sports field, swimming pools, water tank constructions, sewerage and stormwater drainage, irrigation systems, flood control systems, mines site | Sport facilities (excluding buildings)  Swimming pools  Stadiums |
| Median price established house transfers – Darwin | Detached residential dwellings on their own block of land regardless of age (including new houses sold as a house/land package as well as second hand houses). | Public housing valued with the market approach |
| Median price attached dwelling transfers – Darwin | Dwellings, which share a structural component with one or more other dwellings. This may include walls, ceiling, floor or roofing. For example, flats, units and apartments, and semi-detached, row and terrace houses. | Public housing valued with the market approach |

### How to calculate the cumulative index for an interim valuation

The example below illustrates how the cumulative change in indices can be calculated using annual percentage changes in the relevant index to assess whether an interim valuation is required.

**Example 5**: ***Identification of ‘cumulative’ percentage change***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Valuation | Year 1 | Year 2 | Year 3 | Year 4 |
| Annual index rate | - 3% | 9% | 5% | 12% |
| Valuation at 30 June Year 0: $1 0001 | 970 | 1 0571 | 1 110 | 1 243 |
| Compounding index since Year 02 | - 3% | 5.7%2 | 11% | **24.3%** |
| Asset subject to interim revaluation? | No | No | No | Yes3 |

1 Calculation: Current year (CY) asset value = Previous year (PY) asset value x (1 + CY index rate)

Example: Year 2 asset value of $1 057 = $970 x (1+9%)

2 Calculation: CY compounding index = PY compounding index + CY index + (PY compounding index x CY index)

Example: Compounding Year 2 index of 5.7% = - 3% + 9% + (- 3% x 9%)

or

CY compounding index = (CY asset value / Asset value from last revaluation) - 1

Example: Compounding Year 2 index of 5.7% = ($1 057 / $1 000) – 1

3 As the cumulative index change is more than 20%, asset is subject to an interim valuation.

DTF will publish the cumulative percentage change for indices each year. The indices will be based on yearly average growth. To identify the relevant cumulative percentage change and if an interim valuation is required, agencies will need to use the date of the last revaluation for the asset class or subclass (start period). Data will be published in December each year.

An excerpt of the format indices data will be publish in is provided below:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | ANZSIC index and title | Index Number ; 3011 House construction Northern Territory ; | Index Number ; 3019 Other residential building construction Northern Territory ; | Index Number ; 3020 Non-residential building construction Northern Territory ; | Index Number ; 3101 Road and bridge construction Australia ; | Index Number ; 3109 Other heavy and civil engineering construction Australia ; |
|  | **start period** | **end period** |  |  |  |  |  |
| 1 year growth rate | 1/09/2022 | 1/09/2023 | 2.2% | 6.0% | 7.2% | 7.7% | 6.1% |
| 2 year growth rate | 1/09/2021 | 1/09/2023 | 10.7% | 12.5% | 15.7% | 16.0% | 14.7% |
| 3 year growth rate | 1/09/2020 | 1/09/2023 | 13.3% | 15.0% | 18.4% | 17.6% | 17.2% |
| 4 year growth rate | 1/09/2019 | 1/09/2023 | 15.3% | 16.4% | 19.9% | 17.8% | 19.1% |
| 5 year growth rate | 1/09/2018 | 1/09/2023 | 15.4% | 15.5% | 19.0% | 21.7% | 23.1% |
|  |  |  |  |  |  |  |  |
| year-average: compares the average of the current full year period (4 quarters) to the average of the same full year period (4 quarters) in the previous year | | | | | | | |

# Engagement and appointment of valuers

Revaluations of agency assets are to be conducted by experts and may include government officers.

Revaluations are to be undertaken by appropriately qualified and experienced persons who are considered experts for the relevant class of assets. This may include external bodies such as professional valuation firms, or government officers who have the necessary qualifications and experience.

Agencies may consider the use of in-house expertise to value assets but should take into account such things as:

* skills, qualifications and experience available
* ability to exercise professional judgement in: ­
  + applying all relevant fair value measurement principles in AASB 13 Fair Value Measurement
  + identifying the highest and best use of the assets ­
  + selecting an appropriate valuation technique
  + determining reasonable and supportable assumptions based on objective evidence and rational judgement.
* the materiality of the asset(s) being revalued
* sensitivity to under or over valuation
* availability and accuracy of relevant asset valuation data in corporate systems.

The provision of fair value information by government officers would be particularly relevant in the case of assets that are valued at current replacement cost, such as infrastructure assets and certain buildings.

It is preferable that a revaluation is undertaken by independent experts, such as valuers, engineers, quantity surveyors or other experts for a specific class or asset type. The use of independent experts will give an impartial opinion in relation to the asset values provided and will also reduce the risk of adverse audit comment.

Regardless of who undertakes the revaluation, the valuation methodology and assumptions should be clear and properly documented.

## External valuation

When the revaluation process involves engaging an external valuer, agencies must ensure the valuation instructions to external parties and content of valuation report received from a valuer are in accordance with **Appendix A of TD – Non-financial assets**.

An across government contract for valuation services is available for agencies seeking to engage an external valuer. It is mandatory for all NT Government agencies and government business divisions to use valuers on the panel contract unless a specific exemption is sought. For more information, agency should refer to [NTG Central – Valuation services](https://ntgcentral.nt.gov.au/services-and-support/buy-goods-and-services/contracts-and-agreements/professional/valuation).

Agencies are encouraged to commence the revaluation process including the procurement process early, prior to financial year end. This will ensure there is sufficient time allocated for the agency to review the valuation report and make adjustments to the financial records before Period 14 closes.

A suggested timetable for agency asset valuations is provided below:

|  |  |
| --- | --- |
| Date | Task |
| Sep/Oct | Agency to:   * determine scope (nature, condition, location and number) of assets subject to revaluation * undertake data cleansing and accumulation of relevant asset information in preparation for revaluation |
| November | Commence procurement process. Where applicable, send out ‘Request for Quote’ (RFQ) detailing management’s proposed scope, methodologies, assumptions and sources of evidence.  Agency must refer to the Appendix A of the TD – Non-financial assets for minimum requirements for valuation instructions and content of valuation report from valuer. |
| December/  January | Confirm appointment of valuer. |
| Feb/Mar | Valuer commences valuations |
| Apr | Draft valuation report received from valuer.  Agency to review draft report and provide feedback to valuer. |
| Early May | Final valuation report received from valuer |
| End of May | Agency to send final revaluation report to Department of Corporate and Digital Development for upload in Government Accounting System Fixed Assets system |
| June/July | If valuation reports and financial records have been adjusted months in advance of the financial year-end, consider if any indicators suggest additional procedures need to be performed for asset valuations including if engagement with the valuer is required to confirm there are no material valuation changes as at 30 June. |

## Review of revaluation report

It is best practice for agencies to undertake an adequate review before relying or using the valuation report. Review of the valuation report should include the following at a minimum:

1. a review of valuation assumptions and methodologies applied in the report
2. an analytical review of the reasonableness of the movements in the fair value of assets and an assessment of whether results are in line with expectations
3. a review of report for completeness of information and a check for any formula and calculation errors
4. perform a recalculation of the fair value of assets on a sampling basis.

# Accounting for revaluations

## Gross vs Net method

Where fair value is determined using:

1. cost approach – the gross value of the asset and any related accumulated depreciation should be separately adjusted for the revaluation increment or decrement (**gross method**)
2. market or income approach – any balance of accumulated depreciation at revaluation date should be credited to the asset account it relates to, and the asset account will then be adjusted for the revaluation increment or decrement (**net method**).

### Gross method

Under the gross method, both the gross asset value and the accumulated depreciation/amortisation are restated. This method will require valuers to provide a gross asset value as well as a reassessment of the ‘value’ of accumulated depreciation as at the date of revaluation.

This is accounted for as follows:

* the asset account is increased or decreased to reflect the revised replacement cost
* accumulated depreciation/amortisation is adjusted to reflect the present condition of the asset with reference to the current replacement cost.

This method of accounting for revaluations provides:

* users with information that will assist in assessing the condition of the assets by disclosing the expired component of the asset’s useful lives
* information on the estimated amount and timing of cash flows for asset replacement purposes and is particularly useful for asset managers assessing the condition of infrastructure assets and buildings.

### Net method

Under the net method, the balance of accumulated depreciation/amortisation is eliminated against the gross asset value and is accounted for as follows:

* the balance of the related accumulated depreciation/amortisation existing at the revaluation date is credited to the asset account (that is, accumulated depreciation/amortisation is written back to zero)
* the asset account is increased (or decreased) by the amount of the revaluation increment (or decrement).

## Revaluation changes

### Revaluation increment

A revaluation increment is the amount by which the revalued carrying amount (new value) of a non-current asset at the revaluation date exceeds its previous carrying amount (old value). Revaluation increment is the result of recognising an increase in the value of an asset.

Net revaluation increments are credited to the asset revaluation reserve unless they reverse previous revaluation decrements for that class of assets. The asset revaluation reserve is an equity account in the balance sheet and records increments, decrements and other adjustments, such as a reversal of an impairment loss.

Amounts recorded in the asset revaluation reserve are effectively quarantined and may only be adjusted in certain situations.

The balance in the asset revaluation reserve for a class of non-current assets represents the total net revaluation increments (that is net of any revaluation decrements and/or asset impairment losses) that have been recognised for the relevant class of assets in prior periods. The increments and decrements relating to different classes of non-current assets cannot be offset.

In situations, where a net revaluation increment reverses a previously recognised revaluation decrement (expense) for the same class of non-current assets, the increment is recognised as income (gain) in the Comprehensive Operating Statement only to the extent of expenses previously recognised. Any net revaluation increment remaining will be credited to the asset revaluation reserve.

### Revaluation decrement

A revaluation decrement is the amount by which the revalued carrying amount (new value) of a   
non-current asset at the revaluation date is less than its previous carrying amount (old value). A revaluation decrement is the result of recognising a decrease in the value of an asset.

A net revaluation decrement is recognised as an expense (loss) in the Comprehensive Operating Statement. However, where a net revaluation decrement reverses a previous revaluation increment for the same class of non-current asset in the asset revaluation reserve, the decrement is debited directly to the asset revaluation reserve. The decrement is recognised in the asset revaluation reserve only to the extent of the remaining balance for that class of assets. Any net revaluation decrement remaining will be recognised as an expense (loss) in the Comprehensive Operating Statement.

## Illustrative examples on accounting for revaluations

### Revaluation of a non-depreciable asset (increment followed by decrement)

An agency controls a block of land with a carrying amount of $100 000. This asset comprises the entire class of non-current assets and no revaluation increments, revaluation decrements or impairment losses have been recognised in respect of that class of assets in prior years. On 30 June 20X3, the block of land is revalued to $120 000. On 30 June 20X4, the block of land is subsequently revalued to $90 000 and the balance in asset revaluation reserve for land on the date of revaluation is $20 000.

The journal entries required to recognise the revaluation are as follows:

* + - 1. Recognise revaluation increment on land of $20 000 at 30 June 20X3

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | Account description | Account code | DR | CR | | Land – Revaluation Increment /Decrement | 841150 | $20 000 |  | | Asset Revaluation Reserve - Land | 992100 |  | $20 000 |  * + - 1. Recognise revaluation decrement on land at 30 June 20X4.  |  |  |  |  | | --- | --- | --- | --- | | Account description | Account code | DR | CR | | Asset Revaluation Reserve - Land | 992100 | $20 000 |  | | Asset Revaluation – Land (expense)\* | 382100 | $10 000 |  | | Land – Revaluation Increment /Decrement | 841150 |  | $30 000 | | \**This assumes there is no land asset reserve balance for other land assets to offset the decrement. AASB 116 paragraph* *Aus40.1 permits revaluation increments and decrements to be offset in respect of the same class of asset to the extent of any credit balance existing*. | | | | |

The impact of the above journal entries on the asset account is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 30/06/20X2 | 30/06/20X3 | 30/06/20X4 |
| Land | 100 000 | 120 000 | 90 000 |

### Revaluation of a non-depreciable asset (decrement followed by increment)

An agency controls a block of land with a value of $100 000. This asset comprises the entire class of non-current assets and no revaluation increments, revaluation decrements or impairment losses have been recognised in respect of that class of assets in prior years. On 30 June 20X3, the block of land is revalued to $90 000. On 30 June 20X4, the block of land is revalued to $120 000.

The journal entries required to recognise the revaluation are as follows:

* + - 1. Recognise revaluation decrement on land of $10 000 at 30 June 20X3.

|  |  |  |  |
| --- | --- | --- | --- |
| Account description | Account code | DR | CR |
| Asset revaluation – Land (expense) | 382100 | $10 000 |  |
| Land – Revaluation Increment /Decrement | 841150 |  | $10 000 |

* + - 1. Recognise revaluation increment on land at 30 June 20X4.

|  |  |  |  |
| --- | --- | --- | --- |
| Account description | Account code | DR | CR |
| Land – Revaluation Increment /Decrement | 841150 | $30 000 |  |
| Revaluation Increment – Land (Revenue) | 175000 |  | $10 000 |
| Asset Revaluation Reserve - Land | 992100 |  | $20 000 |

The impact of the above journal entries on the asset account is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 30/06/20X2 | 30/06/20X3 | 30/06/20X4 |
| Land | 100 000 | 90 000 | 1. 000 |

### Depreciation of revalued assets

In situations where a non-current asset is revalued, the value of the asset must be increased by the amount of the revaluation increment or decreased by the amount of the revaluation decrement. The revalued amount (new value) should be depreciated over the remaining useful life of the asset.

|  |  |
| --- | --- |
| Cost of Non-Current Asset | $500 000 |
| Expected Useful Life | 10 years |
| Residual Value | Nil |
| Depreciation method | Straight line method |
| Revaluation | End of year 5 |
| Scenario 1 | Asset revalued to $400 000 **(\*)** – revaluation increment |
| Scenario 2 | Asset revalued to $100 000 **(^)** – revaluation decrement |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | Scenario 1 | | | Scenario 2 | | |
|  | **Opening Balance ($)** | **Depreciation Expense ($)** | **Carrying Amount ($)** | **Opening Balance ($)** | **Depreciation Expense ($)** | **Carrying Amount ($)** |
| 1 | 500 000 | 50 0001 | 450 000 | 500 000 | 50 0001 | 450 000 |
| 2 | 450 000 | 50 000 | 400 000 | 450 000 | 50 000 | 400 000 |
| 3 | 400 000 | 50 000 | 350 000 | 400 000 | 50 000 | 350 000 |
| 4 | 350 000 | 50 000 | 300 000 | 350 000 | 50 000 | 300 000 |
| 5 | 300 000 | 50 000 | 400 000 | 300 000 | 50 000 | 100 000 |
| 6 | 400 000 **(\*)** | 80 0002 | 320 000 | 100 000 **(^)** | 20 0003 | 80 000 |
| 7 | 320 000 | 80 000 | 240 000 | 80 000 | 20 000 | 60 000 |
| 8 | 240 000 | 80 000 | 160 000 | 60 000 | 20 000 | 40 000 |
| 9 | 160 000 | 80 000 | 80 000 | 40 000 | 20 000 | 20 000 |
| 10 | 80 000 | 80 000 | Nil | 20 000 | 20 000 | Nil |

1$500 000 / 10 years = $50 000 per year

2$400 000 / 5 years = $80 000 per year

3$100 000 / 5 years = $20 000 per year

### Revaluation increment for a depreciable asset

An agency controls a building with a cost of $100 000 and accumulated depreciation of $20 000. This asset comprises the entire class of non-current assets and no revaluation increments, revaluation decrements or accumulated impairment losses are associated with the asset.

On 30 June 20X2, the building is revalued to $90 000 based on an estimate of the buildings depreciated replacement cost (current replacement cost $120 000 and accumulated depreciation $30 000).

The journal entries required to recognise the revaluation are as follows:

**Gross Method:** Building is revalued by proportionately restating accumulated depreciation.

Recognise revaluation increment on building of $10,000 at 30 June 20X2.

|  |  |  |  |
| --- | --- | --- | --- |
| Account description | Account code | DR | CR |
| Buildings - Revaluation Increment/Decrement | 842150 | $20 000 |  |
| Accumulated Depreciation – Building Revaluation adjustments | 842240 |  | $10 000 |
| Asset Revaluation Reserve | 992100 |  | $10 000 |

**Net Method:** Building is revalued and accumulated depreciation is written back to ‘zero’.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Recognise revaluation increment on building of $10,000 at 30 June 20X2.   |  |  |  |  | | --- | --- | --- | --- | | Account description | Account code | DR | CR | | Accumulated Depreciation – Building Revaluation adjustments | 842240 | $20 000 |  | | Buildings - Revaluation Increment/Decrement | 842150 |  | $20 000 | | Buildings - Revaluation Increment/Decrement | 842150 | $10 000 |  | | Asset Revaluation Reserve | 992100 |  | $10 000 | |

The impact of the journal entries above on the asset account is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Pre-revaluation | Post-revaluation | |
| Asset account | **30/06/20X2 ($)** | **Gross method**  **30/06/20X2 ($)** | **Net method**  **30/06/20X2 ($)** |
| Buildings | 100 000 | 120 000 | 90 000 |
| Accumulated depreciation – Buildings | (20 000) | (30 000) | - |
| Carrying amount – Buildings | 80 000 | 90 000 | 90 000 |

### Revaluation decrement of a depreciable asset

An agency controls a building with a cost of $100 000 and accumulated depreciation of $20 000. This asset comprises the entire class of non-current assets and no revaluation increments, revaluation decrements or impairment losses are associated with the asset.

On 30 June 20X2, the building is revalued to $60 000 based on an estimate of the depreciated replacement cost of the building (current replacement cost $90 000 and accumulated depreciation $30 000).

The journal entries required to recognise the revaluation decrement on building of $20 000 at 30 June 20X2.

**Gross Method:** Building is revalued by proportionately restating accumulated depreciation.

|  |  |  |  |
| --- | --- | --- | --- |
| Account description | Account code | DR | CR |
| Asset Revaluation Decrement | 382100 | $20 000 |  |
| Buildings - Revaluation Increment/Decrement | 842150 |  | $10 000 |
| Accumulated Depreciation – Building Revaluation adjustments | 842240 |  | $10 000 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Net Method**: Building is revalued and accumulated depreciation is written back to ‘zero’.   |  |  |  |  | | --- | --- | --- | --- | | Account description | Account code | DR | CR | | Accumulated Depreciation – Building Revaluation adjustments | 842240 | $20 000 |  | | Buildings - Revaluation Increment/Decrement | 842150 |  | $20 000 | | Asset Revaluation Decrement | 382100 | $20 000 |  | | Buildings - Revaluation Increment/Decrement | 842150 |  | $20 000 |   The impact of the above journal entries on the asset account is as follows:   |  |  |  |  | | --- | --- | --- | --- | |  | Pre-revaluation | Post-revaluation | | |  | **30/06/20X2 ($)** | **Gross method**  **30/06/20X2 ($)** | **Net method**  **30/06/20X2 ($)** | | Buildings | 100 000 | 90 000 | 60 000 | | Accumulated Depreciation – Buildings | (20 000) | (30 000) | - | | Carrying Amount – Buildings | 80 000 | 60 000 | 60 000 | |

### Derecognition of a revalued non-current assets via disposal

On 1 July 20X3, Agency A acquires a block of land at a cost of $50 000. The land was revalued to $65 000 on 30 June 20X4. The land was subsequently sold on 30 September 20X4 for $80 000.

The journal entries to record the above transactions are as follows:

* + - 1. Recognise revaluation increment on land of $15 000 at 30 June 20X3.

|  |  |  |  |
| --- | --- | --- | --- |
| Account description | Account code | DR | CR |
| Land – Revaluation Increment/Decrement | 841150 | $15 000 |  |
| Asset Revaluation Reserve | 992100 |  | $15 000 |

* + - 1. Recognise sale of land and derecognition of revaluation reserve balance.

|  |  |  |  |
| --- | --- | --- | --- |
| Account description | Account code | DR | CR |
| Cash | 811100 | $80 000 |  |
| Land – Sales | 841120 |  | $65 000 |
| Gain on sale of land | 172100 |  | $15 000 |
| Asset Revaluation Reserve | 992100 | $15 000 |  |
| Transfers to/from reserves | 993300 |  | $15 000 |

### Derecognition of a revalued non-current assets via a transfer to another agency

On 30 June 20X3, Agency A transfers a block of land to Agency B with a revalued amount of $150 000. The original cost of land was $100 000.

The journal entries to record the transaction above is as follows:

**Transferring agency (Agency A):**

* + - 1. Transfer of land worth $150 000 to Agency B at 30 June 20X3.

|  |  |  |  |
| --- | --- | --- | --- |
| Account description | Account code | DR | CR |
| Equity transfers out – Non cash | 991140 | $100 000 |  |
| Asset Revaluation Reserve | 992100 | $50 000 |  |
| Land – Transfers out | 841140 |  | $150 000 |

**Receiving agency (Agency B):**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| * + - 1. Transfer of land worth $150 000 from Agency A at 30 June 20X3.  |  |  |  |  | | --- | --- | --- | --- | | Account description | Account code | DR | CR | | Land – Transfers in | 841130 | $150 000 |  | | Asset Revaluation Reserve | 992100 |  | $50 000 | | Equity transfers in – Non cash | 991130 |  | $100 000 | |

# Appendix A: Expected valuation techniques and input levels

The tables below provide guidance on the likely valuation methodology for various types of   
non-financial assets.

|  |  |  |  |
| --- | --- | --- | --- |
| Asset class / example | Likely valuation technique | Expected input level | |
| **LAND** | | | |
| In areas, where there is an active market and land is not subject to restrictions on use or sale  Example: vacant land | Market approach | Level 2 | |
| In areas, where there is no active market or subject to restrictions on use or sale  Example: Cemetery land, parkland and reserves | Market approach adjusted for any restrictions/zoning and others | Level 3 | |
| **Additional factors to consider in the measurement of land assets:**  *Where land continues to provide benefit in its existing use, for example a school building:*   * location of the block of land (for example, a block of land in the Central Business District will have a greater value than a similar block of land in a rural area) * overall size of the block of land (for example, larger blocks of land may have a higher value compared to smaller blocks of land in the same area) * existing improvements, for example sewerage, drainage, access to power and others * any restrictions on the use of land, for example zoning restrictions, heritage orders, conservation orders and others * sales evidence to allow market evidence to be used as an indicator of value * any formal Court Determinations (for example, claims for Native Title).   *Where it is known that the existing use of land will cease or be amended, the following factors should be considered:*   * possible alternative use of land, including potential for subdivision or other development * any other intrinsic, environmental or economic worth. | | | |
| **BUILDINGS** | | |
| Non-specialised building (general office or commercial buildings)  Social/public or employee housing for which there is an active market | Market approach | Level 2 or 3, depending on the significance of adjustments using unobservable data |
| Specialised building with limited alternative uses and/or substantial customisation, such as prisons, hospitals, schools  Social/public or employee housing for which there is no active market | Cost approach | Level 3 |
| **Additional factors to consider in the measurement of building assets:**   * location of the building * existing use or purpose of the building, whether it is used for commercial or residential purposes * condition of the building, for example the value of a well maintained building will generally be higher than a similar building in disrepair * sales evidence to allow market evidence to be used as an indicator of value. * income approach may be used as a valuation technique for income-producing assets where income generated is generally akin to market rates. This technique is generally used by trading entities in valuing assets. | | |
| Asset class / example | Likely valuation technique | Expected input level |
| **INFRASTRUCTURE ASSETS** | | |
| Any type of infrastructure assets  Examples: Roads, footways, carparks, bridges, marine structures (marinas, wharves, jetties), hydraulic structures (dams, reservoirs) | Cost approach | Level 3 |
| **Additional factors to consider in the measurement of infrastructure assets:**   * condition of the asset * major periodical maintenance to sustain the longevity of the asset * whether the asset is part of a major asset * that the asset will be replaced by its modern equivalents. | | |
| **HERITAGE AND CULTURAL ASSETS** | | |
| Items for which there is no active market and/or for which there are limited uses | Cost approach | Level 3 |
| Items for which there is an active market and operational uses exist for the item | Market approach | Level 3 (due to significant judgement expected) |
| **Additional factors to consider in the measurement of heritage and cultural assets:**   * the unique nature of many heritage and cultural assets and lack of active and liquid markets may preclude reliable measurement * in determining the replacement cost of specialised or unique heritage or cultural assets, it is important to consider the function/purpose of the asset. It may be possible to replace the function of an asset, not with an identical asset, but with another type of asset. Therefore the absence of active secondary market for a particular type of asset does not necessarily mean that the asset cannot be measured reliably * for example, an asset may represent a certain school of art or the clothes of a particular historical era. It may be possible to replace the function that a unique item performs by the acquisition of another painting of that school or some other possessions of the historical era * however, if the painting was held because it was by a particular artist, or because the clothes had been worn by a famous fashion model, or the film had been collected because it was the work of a particular producer, the replacement items used as a reference for valuation must relate to those specific persons * any decision not to recognise certain heritage assets because of the inability to obtain a reliable value must be supported by an external opinion given by an expert in that particular area, if the asset is likely to be material to the financial statements. Where heritage assets are not recognised in the financial statements, relevant information on those items must be disclosed in the notes to the financial statements in accordance with Treasurer’s Direction R2.1 Appendix A Agency financial statements. | | |
| **INTANGIBLES** | | |
| Intangibles with an active market (other intangibles are not revalued) | Market approach | Level 2 |