TREASURER'S DIRECTIONS

ACCOUNTING – ASSETS

Section A2.1 : Overview

STATEMENT OF INTENT

Assets play a key role in the delivery of outputs by Agencies. Costs relating to assets can in turn form part of the costs of delivering outputs. This Section explains what assets are, when assets should be recognised and how they should be classified.

MAIN FEATURES

Section 38 of the *Financial Management Act* requires every Accountable Officer and every employee of an Agency to comply with the Treasurer's Directions.

Assets

- Assets are resources controlled by an Agency as a result of past events from which future economic benefits are expected to flow to the Agency.
- An Agency will control an asset where the Agency has the ability to control the benefits which are expected to flow from the asset.

Recognition of Assets

- Assets are to be recognised and recorded when:
  - it is probable that the future economic benefits embodied in the assets will flow to the Agency; and
  - the assets possess a cost or other value that can be measured reliably.
- Assets are to be initially recognised at their cost.

Classification of Assets

- Assets are to be recorded according to the categories and classes provided by the Standard Classifications.
- Assets and liabilities are not to be offset unless required or permitted by Treasurer's Directions or Australian accounting standards.

For authoritative instruction and guidance, reference should be made to related Treasurer's Directions and associated commentary, relevant Australian accounting standards and other authoritative interpretations.

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AUTHORITIES

Financial Management Act

REFERENCES

AAS 29	Financial Reporting by Government Departments
AASB 101	Presentation of Financial Statements
AASB 116	Property, Plant and Equipment
	Framework for the Preparation and Presentation of Financial Statements
	Agency Capital Construction Principles

Related Treasurer's Directions:

F2.2	Framework – *Working for Outcomes* : Central Holding Authority
A1.3	Accounting – Introduction : Standard Classification Codes
A2.2	Accounting – Assets : Property, Plant and Equipment
A2.4	Accounting – Assets : Revaluation
A2.5	Accounting – Assets : Improvements and Repairs and Maintenance
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WHAT ARE ASSETS ?

A2.1.1 **Assets are resources controlled by an Agency as a result of past events from which future economic benefits are expected to flow to the Agency.**

(i) An asset may be described as an item of value controlled by an Agency and includes:

- cash;
- receivables;
- inventories;
- prepayments; and
- property, plant and equipment.

The assets series of Treasurer's Directions provides detailed requirements relating to assets.

(ii) There are three essential characteristics of an asset:

- the expectation that future economic benefits will flow to the Agency;
- the Agency has control of the asset (resources); and
- the occurrence of an event giving rise to the Agency's control of the asset.

(iii) Whether or not an item meets the definition of an asset will depend on the assets underlying substance and economic reality, rather than just its legal form.

A2.1.2 **Future economic benefits refer to the capacity of an asset to provide benefits to an Agency.**

(i) Future economic benefits include cash inflows or a reduction in cash outflows that accrue to the Agency as a result of controlling and using an asset. Future economic benefits, also called service potential, may flow to the Agency in a number of ways that include:

- revenue from the delivery of outputs;
- proceeds from sale; and
- cost savings or other benefits resulting from the use of the asset by the Agency.

(ii) Assets will therefore provide a means by which Agencies can achieve their objectives. For example, assets such as cash, inventories of medicines, a hospital building and medical equipment assist in the delivery of outputs such as the provision of patient services.

A2.1.3 **An Agency will control an asset where the Agency has the ability to control the benefits which are expected to flow from the asset.**

(i) It is the concept of control that will determine which assets are recorded in an Agency's financial records. For example, a school building that is predominantly used to deliver educational outputs would be controlled by the education department, even though the school building may be used for community meetings at other times.

(ii) In many situations control of an asset will arise from ownership, legally enforceable rights and physical possession. However, there can be situations where an Agency has control of the benefits associated with an asset without legally owning it or physically possessing it. Examples include:

- Government buildings and infrastructure may be controlled by an Agency even though the assets are located on non-Government land;
- Government buildings and land may be controlled by an Agency although, legally, ownership rests with the Northern Territory of Australia; and
- a finance lease agreement, where the leased property is owned by the lessor but control is transferred to the lessee.

(iii) An asset will be specific to an Agency in that an Agency asset cannot at the same time also be the asset of another Agency. Each asset will therefore be recorded in the financial records of one Agency only.

(iv) In situations where an Agency controls a building asset, it will be deemed to control the parcel of land (if owned by the Northern Territory Government) under and immediately in the vicinity of the building unless other evidence exists leading to a contrary conclusion.

A2.1.4 **The transaction or event giving rise to an Agency's right to or control over the future economic benefits embodied in the asset must have already occurred.**

(i) An Agency can obtain control of the future economic benefits embodied in an asset through a variety of means, including:

- purchase;
- barter transactions;
- exchange transactions, such as trade-in;
- non-reciprocal transactions, such as donations, grants, appropriations and contributions; and
- accretion or discovery.

(ii) Future economic benefits that are not controlled by the Agency at reporting date would not qualify as assets. For example, a decision by an Agency prior to reporting date to purchase a new item of equipment would not qualify as an asset until the purchase transaction occurred. This is despite the fact that there may be a high probability that the purchase will occur.

RECOGNITION OF ASSETS

A2.1.5

Assets are to be recognised and recorded in the books of an Agency only when:

- **it is probable that the future economic benefits embodied in the asset will flow to the Agency**;
- **the asset possesses a cost or other value that can be measured reliably**; **and**
- **the asset is not recorded in the Central Holding Authority.**

(i) Recognition is the process of incorporating in an Agency's Balance Sheet or Operating Statement, an item that meets specific definition and recognition criteria. It is possible for an item to meet the definition of an asset but not be recognised. This could be due to uncertainty as to the asset's future economic benefits occurring, or due to an inability to reliably measure the asset.

(ii) The chances of future economic benefits arising needs to be more likely rather than less likely. If at the time of acquisition of an asset, it is not considered probable that future economic benefits will accrue to the Agency, it will not qualify for recognition as an asset at that time. For example, the value of costs incurred will not be recognised as an asset if it is not possible to establish at reporting date, that future economic benefits, such as output delivery or sales revenue, will eventuate.

(iii) Expenditure incurred on an item would be expensed rather than being recognised as an asset where it is considered improbable that economic benefits will flow to the Agency beyond the current accounting period. In this regard, Treasurer's Directions Section A2.5 and the Agency Capital Construction Principles provide further instruction and guidance in relation to capitalising and expensing of amounts.

(iv) Certain public sector asset values may not be able to be reliably measured and thus would not be recognised as assets. For example, some heritage assets, such as certain artworks, collections and historic objects may not be able to be reliably measured, and accordingly are not recognised as assets.

(v) Information regarding non-recognised assets, where significant, may still be required to be presented in an Agency's financial report. However, this information would only be disclosed in the notes to the financial statements and would not be recognised in the financial statements themselves.

(vi) Land under roads is not required to be recognised as an asset by Northern Territory Government Agencies.

(vii) Some assets, such as surplus cash balances and receivables relating to Territory income, will be recorded in the Central Holding Authority rather than being recorded by Agencies. Treasurer's Directions Section F2.2 elaborates on the concept of the Central Holding Authority and items recorded by it.

A2.1.6 **All new Agency assets are to be initially recognised at cost unless the assets have been acquired as a result of an administrative rearrangement, at no cost or for nominal consideration.**

A2.1.7 **Assets acquired by an Agency at no cost (for example, gifts of assets) or for nominal consideration are to be recognised at their fair value at the date of the acquisition.**

A2.1.8 **Assets received by an Agency as a result of administrative rearrangements are to be recognised at the amount recorded by the transferring Agency prior to the transfer, if such amount is available. Otherwise, these assets are to be recognised at their fair value.**

(i) Cost is the acquisition cost, less any purchase discounts or rebates, plus additional costs incidental to the acquisition, including directly attributable costs incurred in bringing the asset to its existing condition and location. For example, site preparation, freight, and installation costs would form part of the overall cost of the asset, but general administrative costs would be excluded.

(ii) The initial cost of an asset may also include the estimated cost of dismantling and removing the asset at the end of its useful life, to the extent that these estimated costs are recognised as a provision. The capitalisation of dismantling, removal and restoration costs would be expected to be rare for Agencies and should only occur where material and where these future costs can be reliably estimated.

(iii) Where the Goods and Services Tax (GST) is paid or payable as part of the acquisition of an asset, the asset will be recognised:

- for the vast majority of Agency assets, at the GST-exclusive cost (where an input tax credit entitlement exists); or
- at the GST-inclusive cost if there is no entitlement to input tax credits.

Additional information and guidance regarding GST policy may be found in Treasury GST Circulars.

(iv) An Agency may encounter situations where assets are received by way of donation, gift, grant, or for no or nominal consideration. In the absence of a cost of acquisition, the asset will be initially measured at its fair value, which generally equates to its current market price. Requirements relating to the fair value basis are covered in Treasurer's Directions Section A2.4.

(v) Agencies may also acquire assets as a result of administrative rearrangements such as those associated with changes to the Administrative Arrangements Order. Such assets will be recognised at the amount at which the asset was recognised by the transferring Agency immediately prior to the rearrangement. If such information is not known, the asset is to be recognised at its fair value. Treasurer's Directions Section A4.2 provides requirements relating to administrative rearrangements.

(vi) Reference should be made to Treasurer's Directions Sections A2.2 to A2.11 for additional instruction and guidance in relation to assets.

CLASSIFICATION OF ASSETS

A2.1.9 **Assets are to be classified according to their nature or function and, as a minimum, are to be recorded in the current and non-current categories and classes provided by the Standard Classifications.**

(i) Classification of assets on the basis of their nature or function may be made according to one or more of the following factors:

- their physical characteristics (for example, land may be differentiated from buildings);
- their liquidity (for example, land held for sale and ready for sale may be differentiated from land that is not held for the primary purpose of sale);
- the expected timing of cash flows to be derived from them (for example, according to the time that is expected to elapse from the reporting date to the expected date of cash receipt);
- the normal purpose for which the assets are used or held (for example, assets held for use in production may be differentiated from assets held for sale); and
- their marketability (for example, specialised plant and equipment may be differentiated from other plant and equipment).

A2.1.10

Current assets are assets that are :

- **expected to be realised or consumed within 12 months of the reporting date;**
- **cash or cash equivalents (unless exchange restrictions exist); or**
- **held primarily for trading purposes.**

(i) Current assets include the following items:

- cash – includes cash on hand, cash at bank and cash equivalents;
- receivables – includes amounts owing to the Agency for goods or services provided, due to be received within 12 months of the reporting date;
- inventories – includes goods purchased or produced and held for sale, materials awaiting consumption or use in the production process, and inventory held for distribution;
- prepaid expenses – includes payments made in advance for expenses that relate to some future period within 12 months of the reporting date;
- loans and advances – the portion of loans and advances that are expected to be repaid within 12 months of the reporting date; and
- non-current assets held for sale – includes only those non-current assets that are available for sale and for which a sale is highly probable.

A2.1.11

Non-current assets are all assets other than current assets.

(i) Non-current assets are assets that are expected to be realised or consumed more than 12 months after the reporting date and include the following items:

- loans and advances receivable;
- investments;
- land;
- buildings;
- infrastructure assets – includes public facilities often related to essential services such as roads, bridges, dams, drains, etc;

- construction (works in progress) – relates to expenditure on the construction of a new asset or additions to an existing asset, until the completion of the asset (on completion, the total expenditure related to that asset will be transferred to the relevant asset class);

- plant and equipment – includes medical equipment, office equipment, motor vehicles, vessels, etc;

- intangibles – assets that do not have a physical substance such as software. Intangibles are generally of a non-current nature; and

- plant and equipment under finance lease.

A2.1.12 **Assets and liabilities are not to be offset unless required or permitted by Treasurer's Directions or Australian accounting standards.**

(i) Offsetting means the reduction of a liability by an asset or vice versa in an Agency's Balance Sheet so that only the net amount is recognised. Assets and liabilities may only be offset in certain situations where offsetting reflects the substance of the transaction, and offsetting is permitted by Treasurer's Directions or Australian accounting standards. Restrictions in relation to offsetting income and expenses also apply.

(ii) Offsetting amounts is restricted as it can mislead users and reduce the ability of users of financial information to understand the transactions undertaken and to assess the financial position of an Agency. In this regard, offsetting assets and liabilities would not provide users with complete and accurate information in relation to total assets and liabilities held by the Agency. Measuring assets net of valuation adjustments, such as allowances for doubtful debts, or obsolescence, is not offsetting.

(iii) Examples of situations where offsetting is allowed include:

- the net proceeds (gain or loss) from the disposal of non-current assets are to be reported on a net basis in Agency financial statements (AASB 101);

- revaluation increases and revaluation decreases related to items of property, plant and equipment are to be offset against one another within the same asset class (AASB 116); and

- a financial asset and a financial liability may be offset where an Agency has a legally enforceable right to set-off the asset and the liability, and the Agency intends to exercise such a right or to settle simultaneously (AASB 132).