



APV

Technical Paper

**Visual Guide
to the AASBs**

24 August 2023



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About APV

APV provides specialist valuation, asset management and asset accounting services for a wide range of organisations and sectors. While based in Australia, we enjoy close partnerships with our clients across the globe, including hundreds of local, state and national governments, their agencies, universities, manufacturing and transportation businesses and not-for-profit organisations.

Our services include:

- Financial reporting valuations delivered in accordance with the IFRS, IPSAS, FASB or jurisdictional standards (such as AASB / XRB) covering land, buildings, transport infrastructure, water and waste water infrastructure, energy infrastructure, plant and equipment, etc.
- Insurance valuations for public sector, not-for-profit sector and commercial assets.
- Asset accounting advice with respect to valuation and depreciation methodologies and compliance reviews
- Asset management advice and training with respect to asset management frameworks, plans and systems
- Customised training and professional development with a focus on asset accounting and asset management.

As leaders in our field, we are proud of our unblemished record of audit approval. APV is comprised of a mix of valuers, engineers, quantity surveyors, accountants and IT specialists. We tailor our services to meet client needs, helping them get the most from their assets and plan effectively for the future.

And while valuation and depreciation can be complex, we keep it simple. We're constantly evolving to offer customers more flexibility and control. We use leading methodologies and custom-built valuation tools that are compliant, comprehensive, logical and truly relevant.



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Introduction

This visual guide has been developed as a quick reference point and tool to enable practitioners to quickly understand the requirements of the accounting standards that relate to asset valuation and depreciation.

It has also been developed to assist those who prefer to visual guides over text.

Most of the decision trees were initially created in 2011. For this guide, they have recently been updated to reflect changes in the standards including the impact of the implementation of AASB13 Fair Value Measurement in 2013, AASB16 Leases in 2019 and AASB1059 Service Concession Arrangements.

The decision trees provide an overview of the key requirements but DO NOT incorporate all the requirements outlined in each accounting standard. Additionally, accounting standards are constantly undergoing review and enhancement. As such, if you are unsure about a specific requirement as set out in the decision trees we would strongly recommend downloading the relevant standard from the AASB website (www.aasb.gov.au) and confirming the treatment.

If you have any comments or suggestions on this guide please provide your feedback to David@apv.net.



Overview of key requirements

Most public and not-for-profit sector assets valued under the Australian Accounting Standards are valued using the cost approach. While some assets are valued under AASB5 Assets Held for Sale and AASB140 Investment Properties, the bulk are valued under AASB116 Property Plant and Equipment.

These are generally 'specialised assets' where there is no active and open market, and they are held not to generate cash but to provide benefit to the community. Following changes to AASB136 Impairment in 2016, such specialised assets are no longer subject to the requirements of AASB136 provided they are regularly revalued to Fair Value.

The approach to valuation is covered by AASB13 Fair Value Measurement. When AASB13 was implemented, it changed the definition and concept of Fair Value that had previously been incorporated into AASB116 Property Plant and Equipment. This included replacing the Depreciated Replacement Cost (DRC) approach with the new Current Replacement Cost (CRC) approach. Unfortunately, there are still many valuations produced today based on DRC rather than CRC which as a result are not consistent with the requirements of AASB13.

AASB13 states that –

- The valuation is a market-based assessment and is not 'entity specific'
- The valuation is to be based on the 'highest and best use' of the asset taking from the 'perspectives of other market participants'
- In determining the value consideration has to be given the 'key characteristics relevant to the market participants. Apart from general obsolescence these are listed in paragraph 11 as condition, location and restrictions. Note that 'Useful life' is not listed. This is because Useful Life is a depreciation expense concept and is not directly relevant to valuation.



AASB13 clarifies that the calculation of the Fair Value is unrelated to depreciation expense and should not be determined based on depreciation concepts (such as useful life). (i.e DRC).

Specifically it notes in B9 that –

- Under the cost approach you first determine the Replacement Cost and then deduct an adjustment for 'obsolescence' to calculate the 'Current Replacement Cost'. Note that the adjustment is for 'obsolescence and NOT depreciation.
- 'Obsolescence for valuation purposes' is conceptually different and much broader than 'depreciation for financial reporting purposes'

In terms of depreciation –

- AASB116 requires that where a part of an asset has a different useful life it is to be depreciated separately
- The AASB May 2015 Residual Value added further clarification to this requirement. Specifically, that if the component of an asset is renewed at a cost lower than the component replacement cost that this confirms that the component comprises a short-life (renewal) part and a long-life (recyclable) part and that each is to be depreciated separately
- AASB108 example 3 clarifies that if you apply a constant pattern (straight-line) to calculate depreciation expense it must be based on the carrying amount less residual value divided by the remaining useful life.
- Therefore, it is critical that a Fair Value be calculated for each part of each component of each asset.



Decision Trees

The following decision trees are not designed to include all aspects of the various accounting standards. They are designed to provide a quick and easy understanding of the key aspects that relate to asset valuation and depreciation.

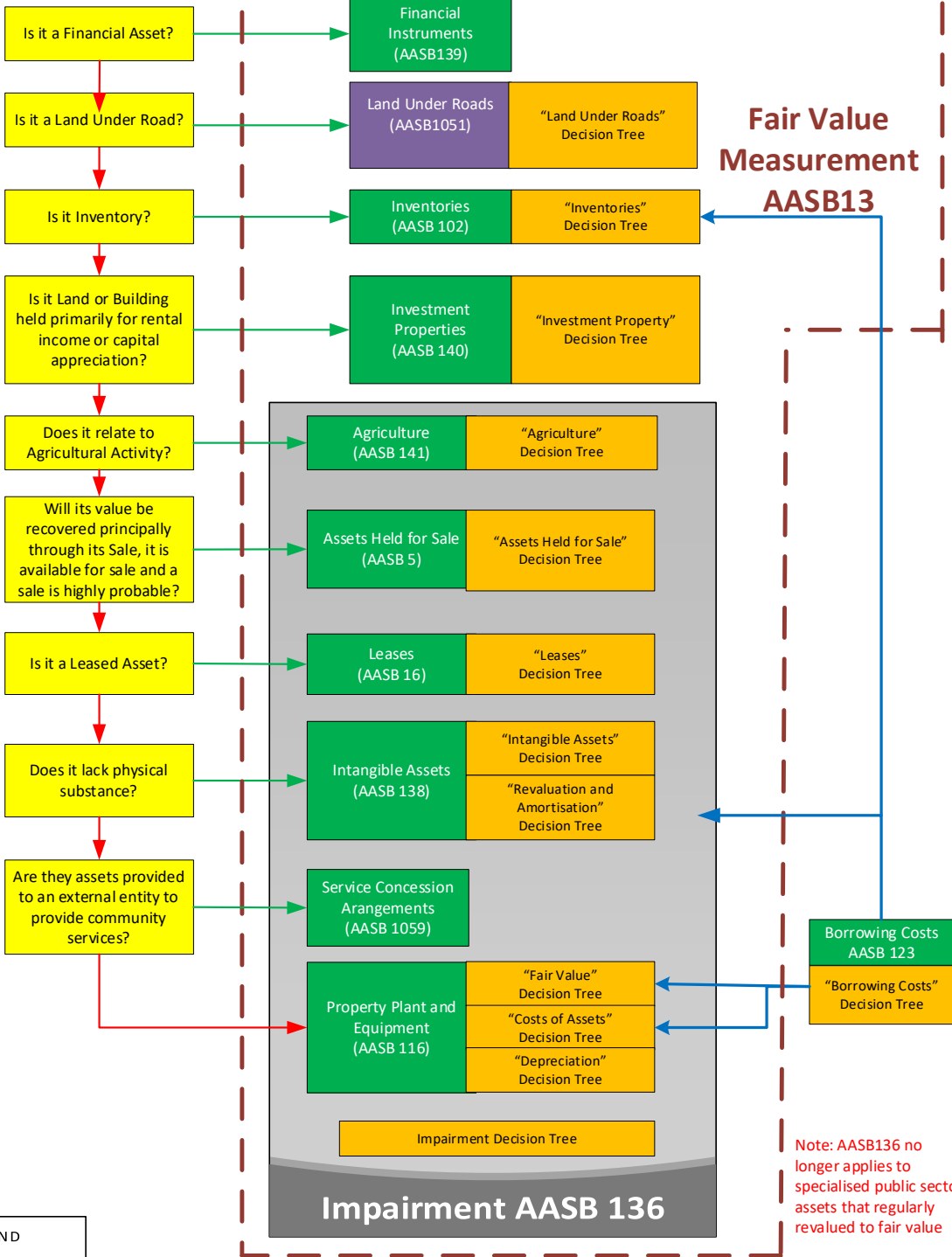
The decision trees are provided in the following order –

- Overview Integration of the key standards
- AASB13: High Level Process
- AASB13: Selection of Valuation Techniques
- AASB116: Costing of Assets
- AASB116: Depreciation Expense
- AASB123: Borrowing Costs
- AASB136: Impairment
- AASB5: Assets Held for Sale
- AASB140: Investment Properties
- AASB141: Agriculture
- AASB16: Leases
- AASB102: Inventories
- AASB138: Intangible Assets
- AASB138: Intangible Assets – Amortisation
- AASB1059: Service Concession Arrangements
- AASB1051 Land Under Roads



Overview: Valuation of Assets Decision Tree

As at 31 Aug 2023



LEGEND

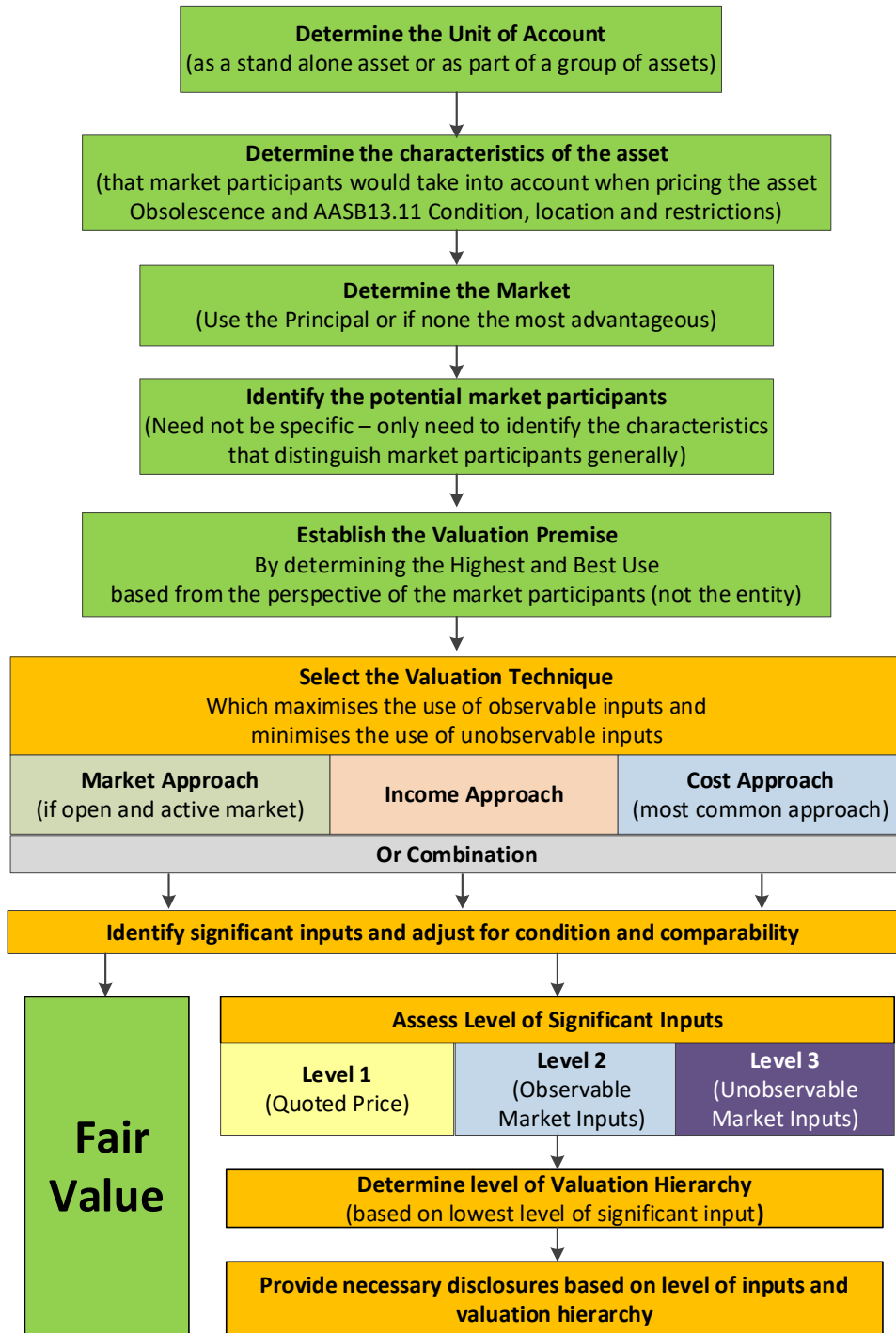
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AASB 13: High Level Overview

AASB 13



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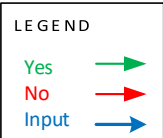
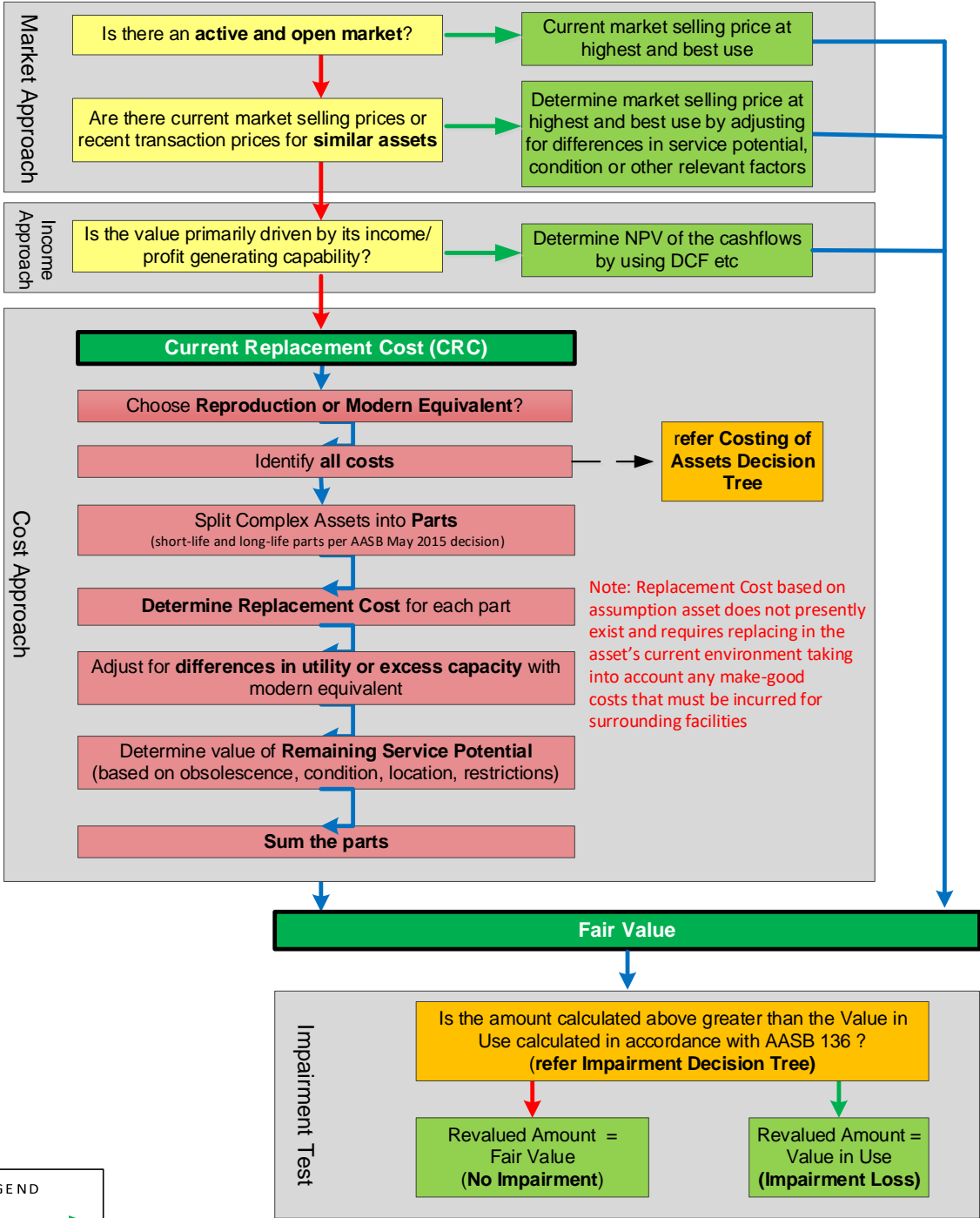


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AASB 13: Selection of Valuation Technique

As at 31 Aug 2023

As at 19 July 2021

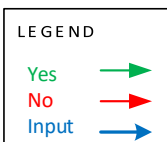
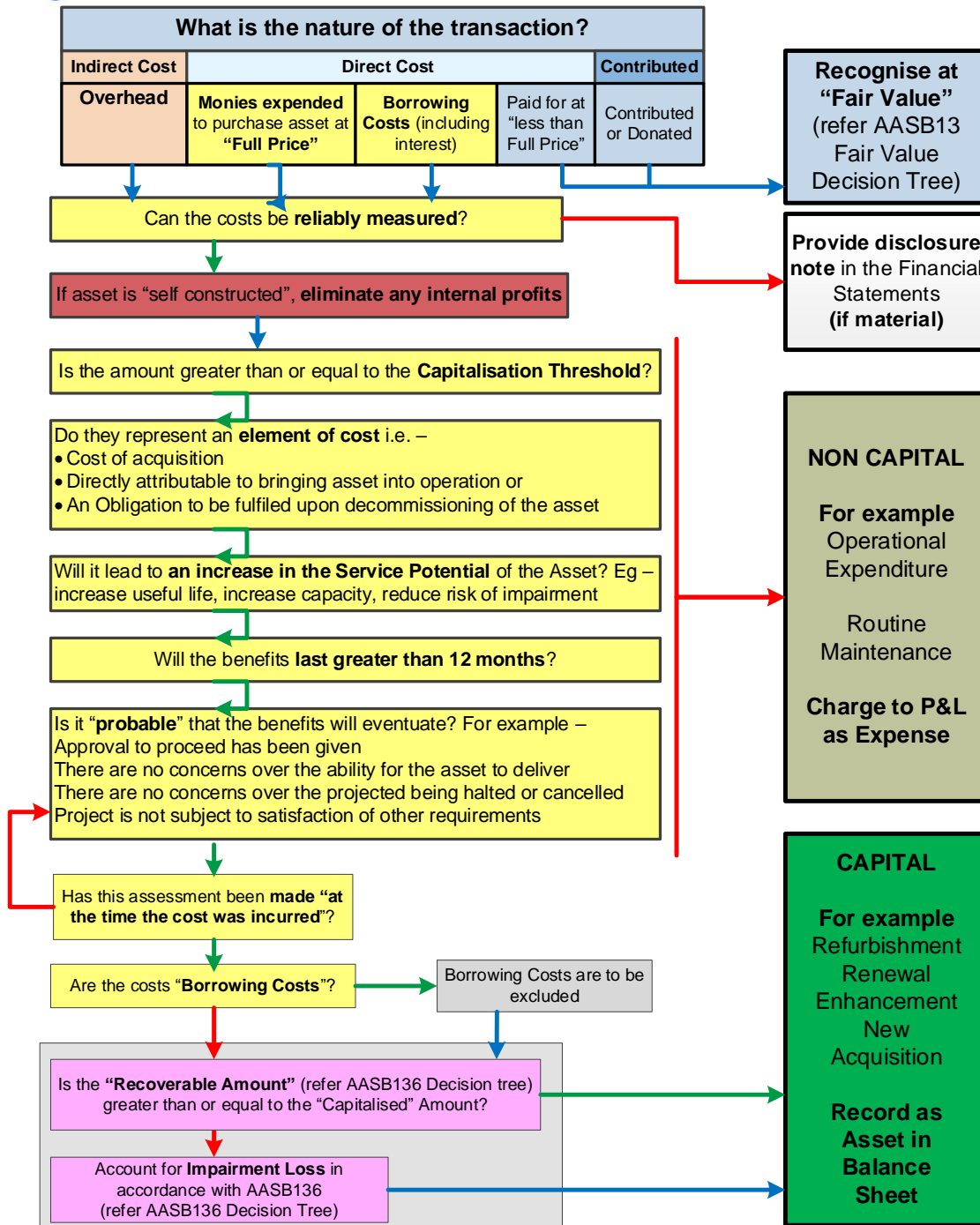


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AASB 116: Cost of an Asset

As at 13/11/2023



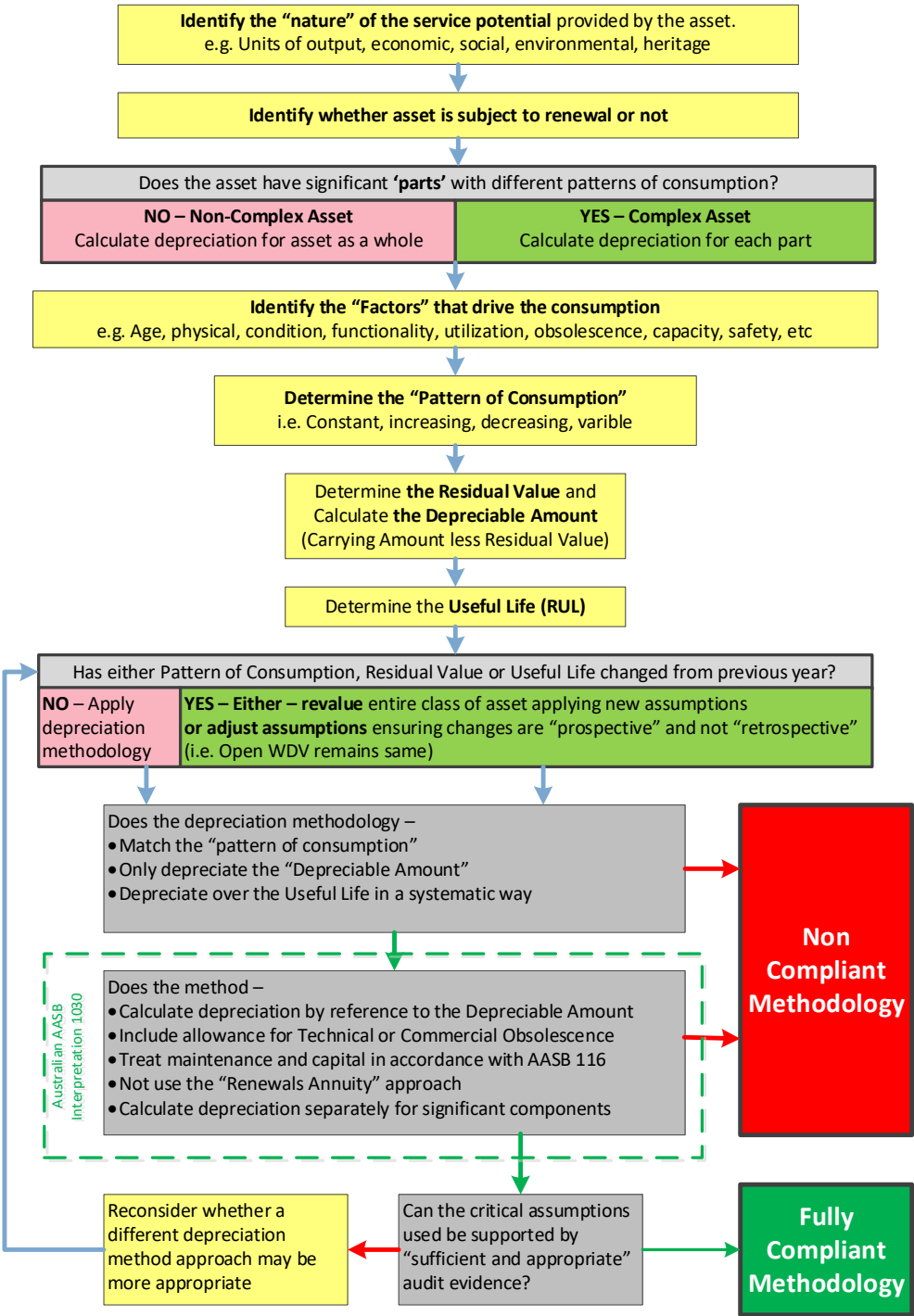
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AASB 116: Depreciation Expense

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No → (red arrow)

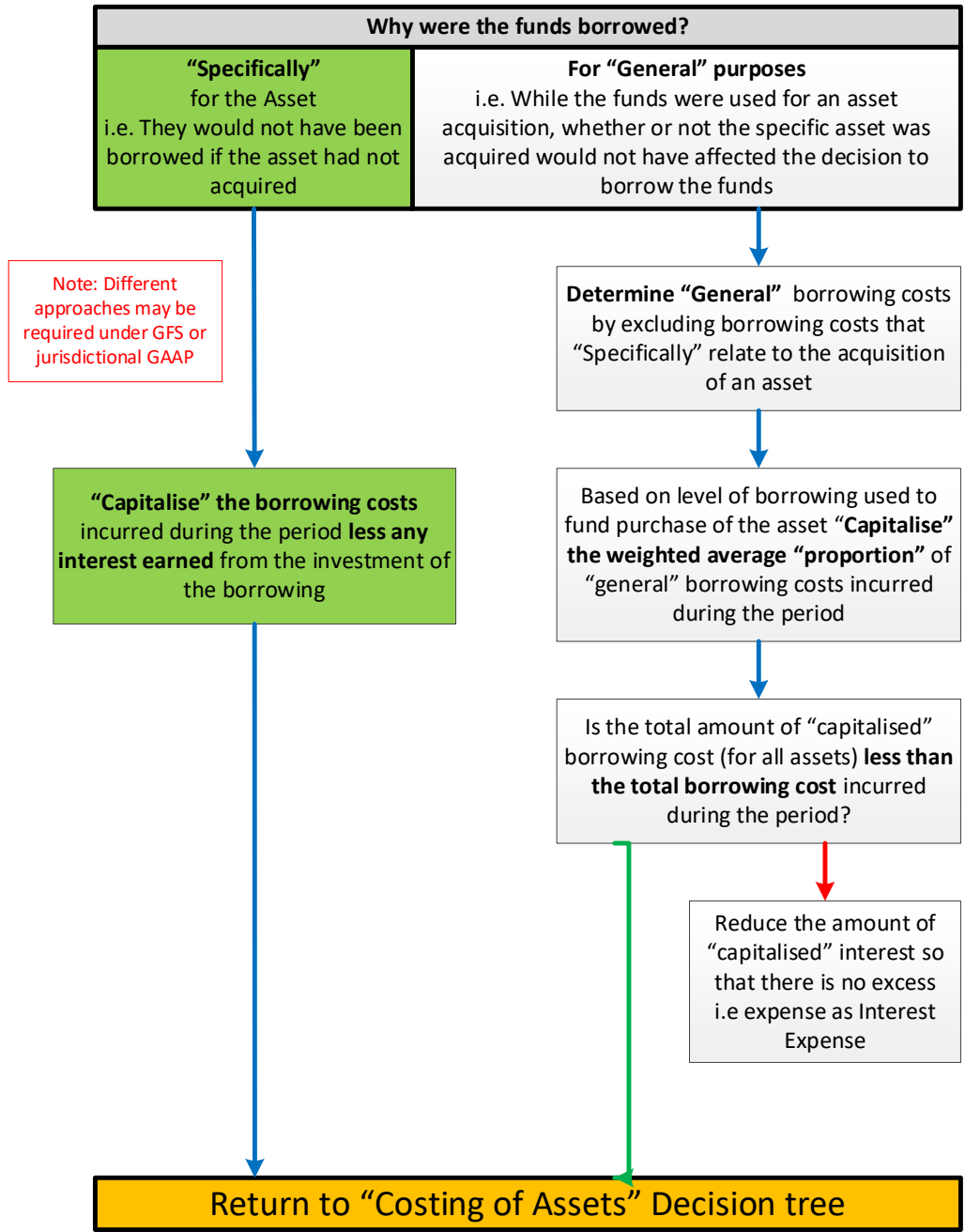
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Overview: Valuation of Assets Decision Tree

As at 31 Aug 2023



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No → (red arrow)

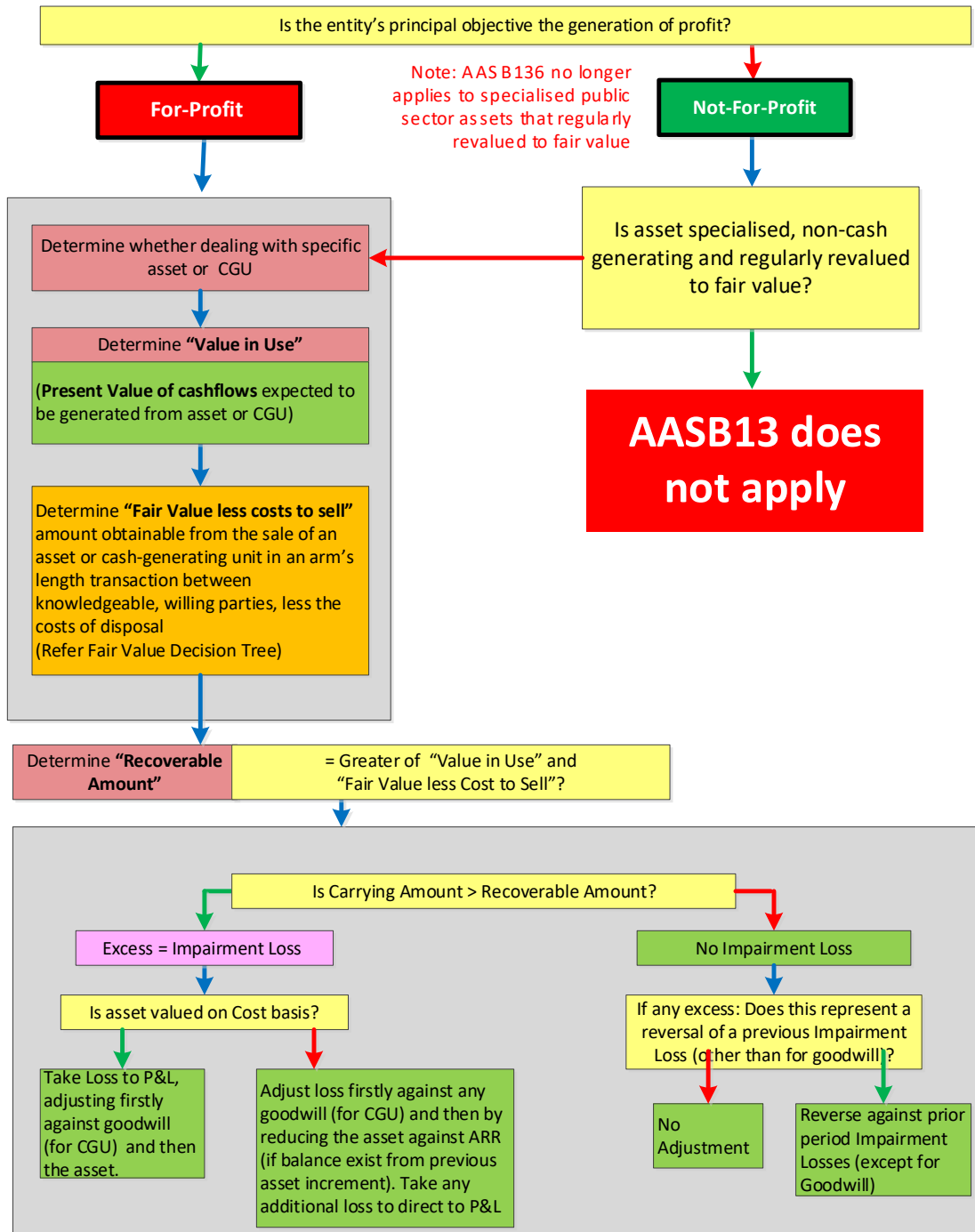
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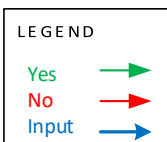


AAS B 136 Impairment

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Note: AAS B136 no longer applies to specialised public sector assets that regularly revalued to fair value

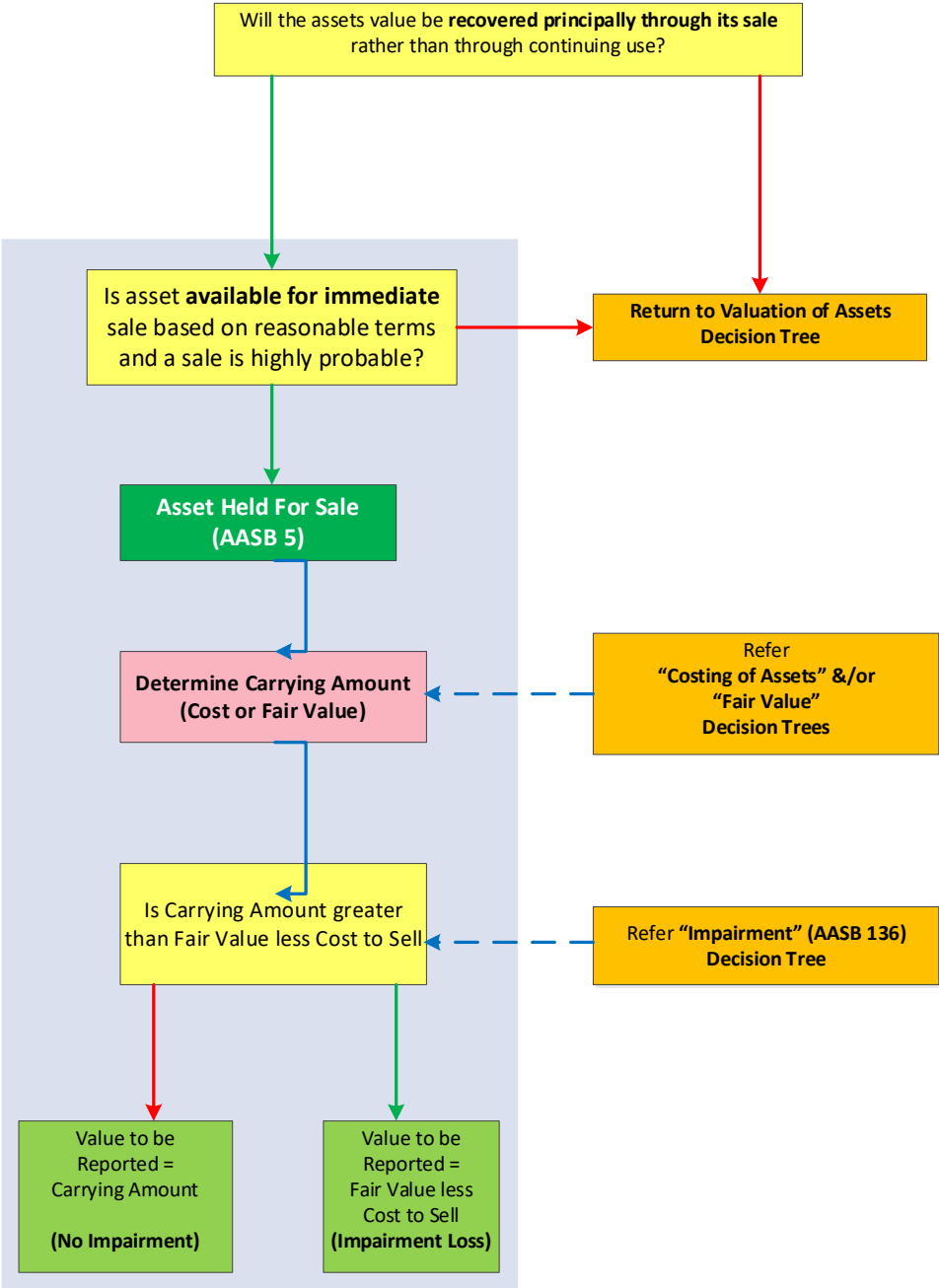


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AASB 5 Assets Held for Sale

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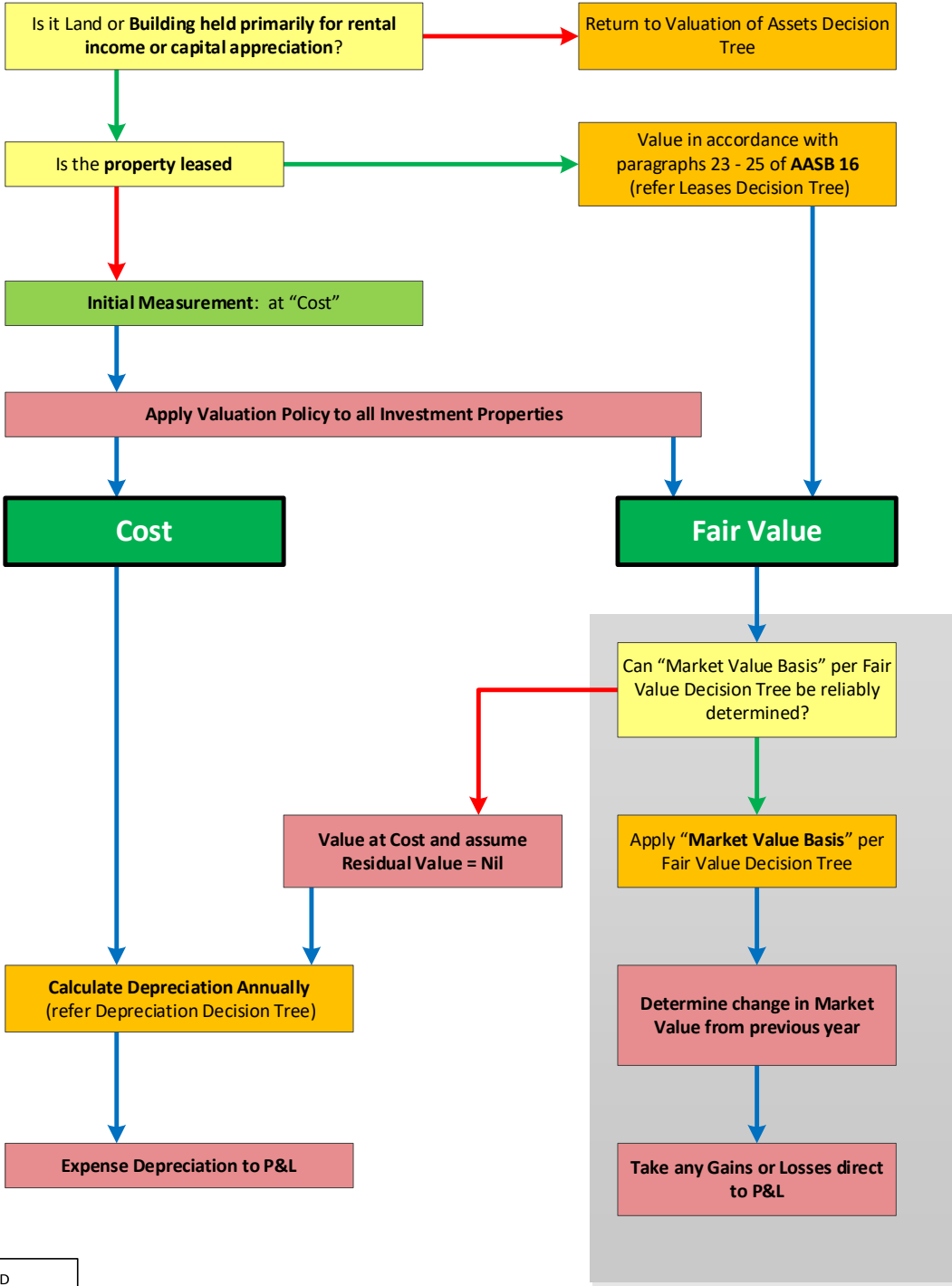
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AASB 140 Investment Properties

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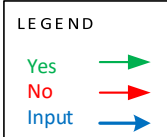
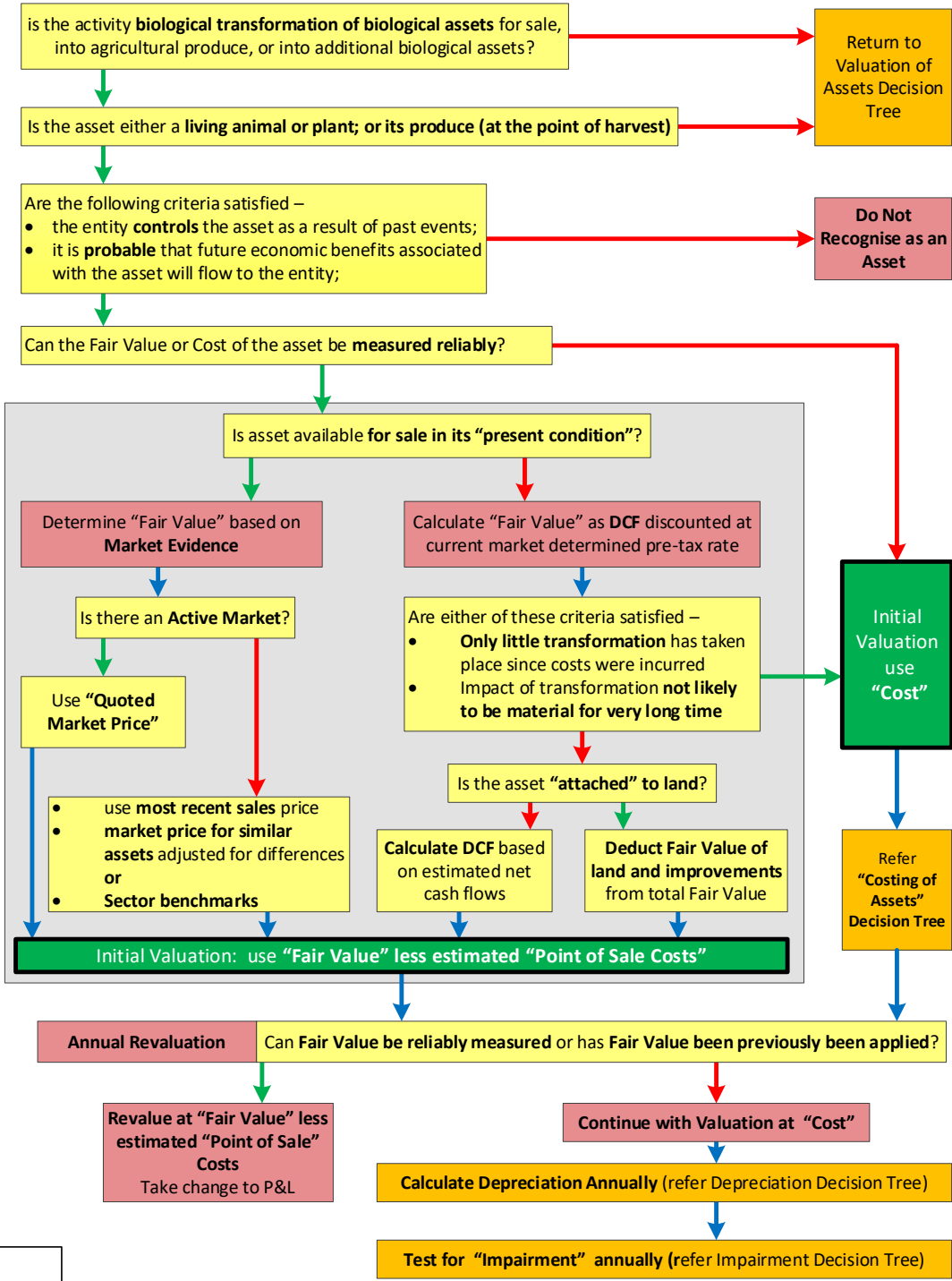
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AAS B 141 Agriculture

As at 31 Aug 2023

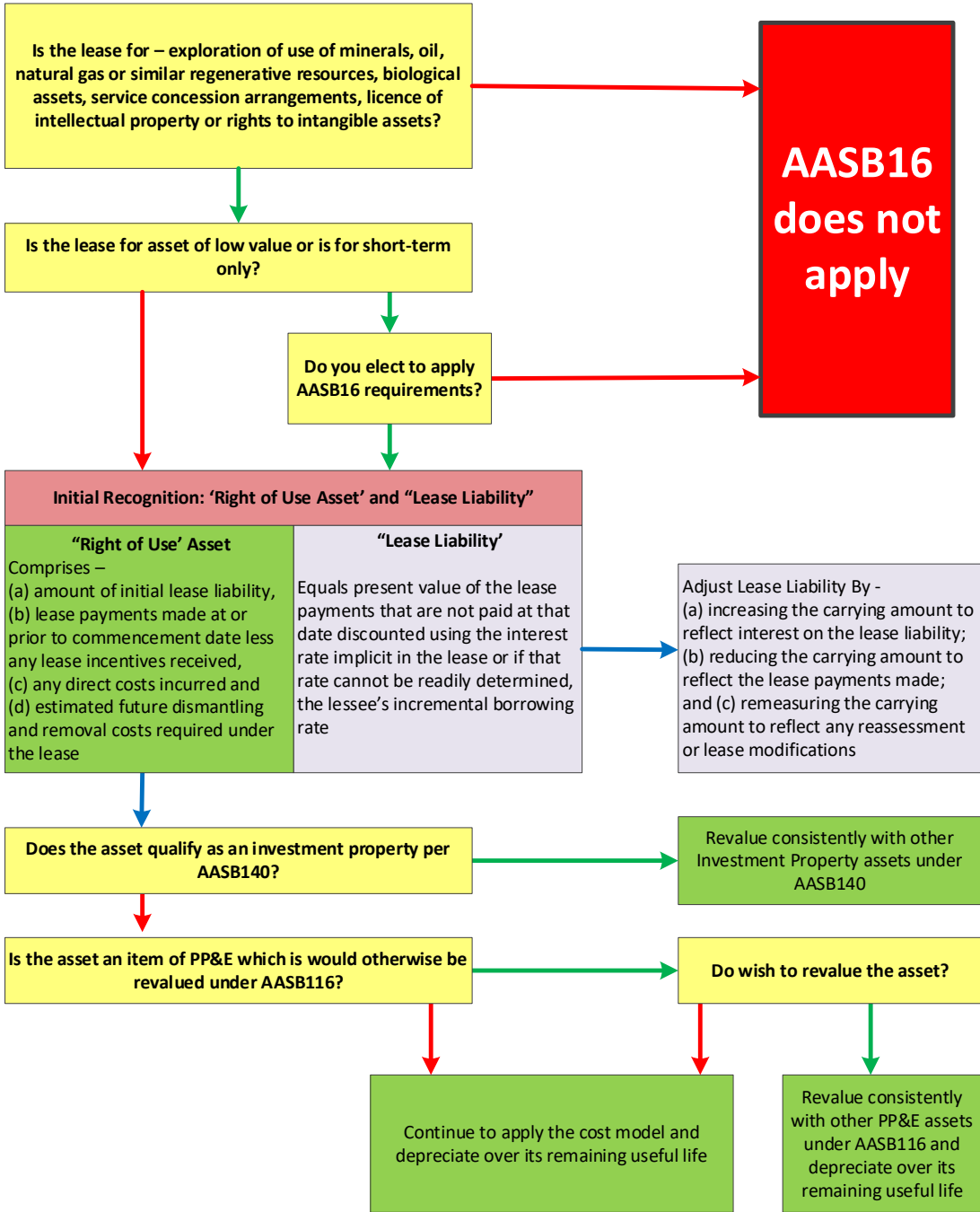


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AASB 16 Leases

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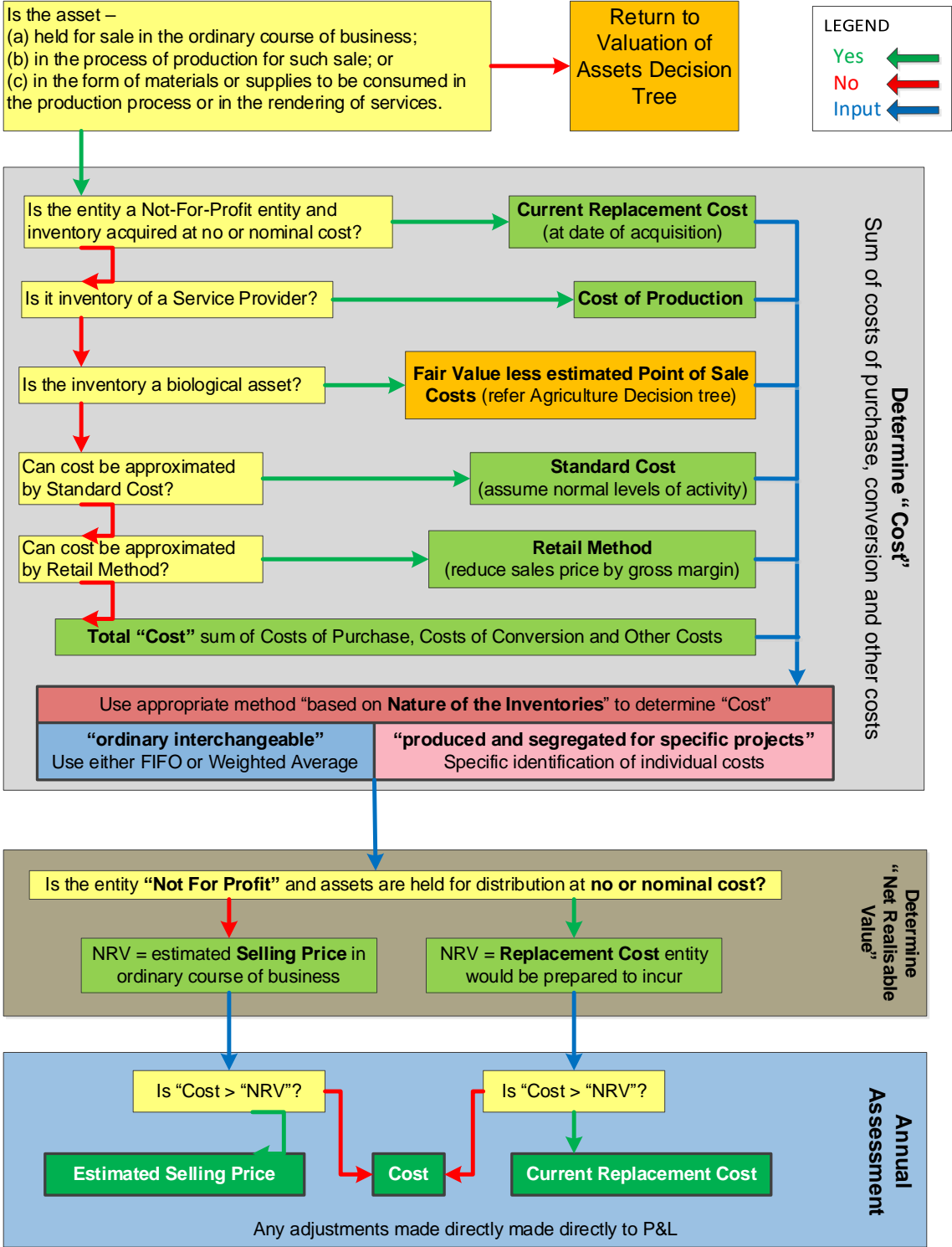
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AAS B 102 Inventories

As at 31 Aug 2023



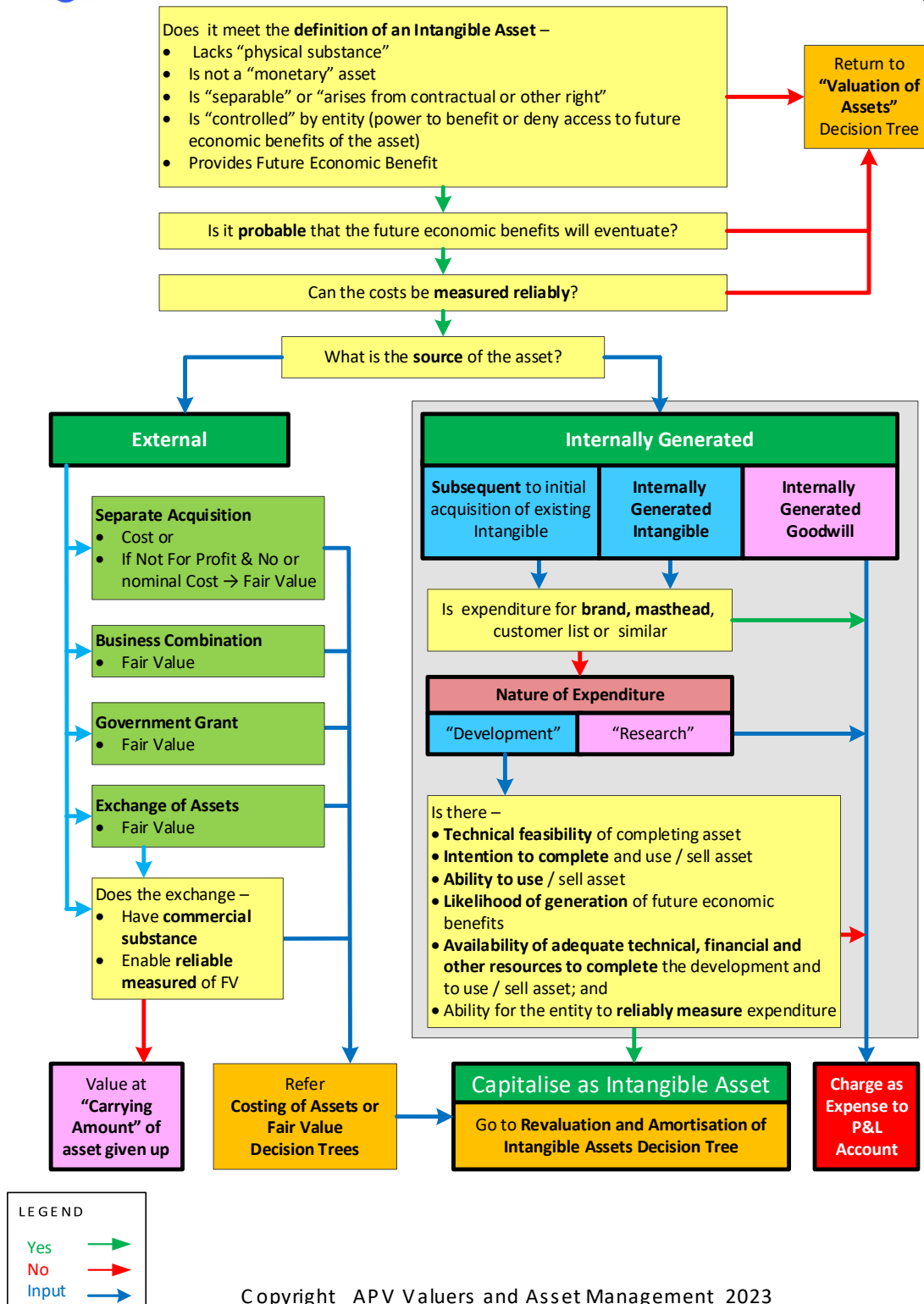
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AAS B 138 Intangible Assets

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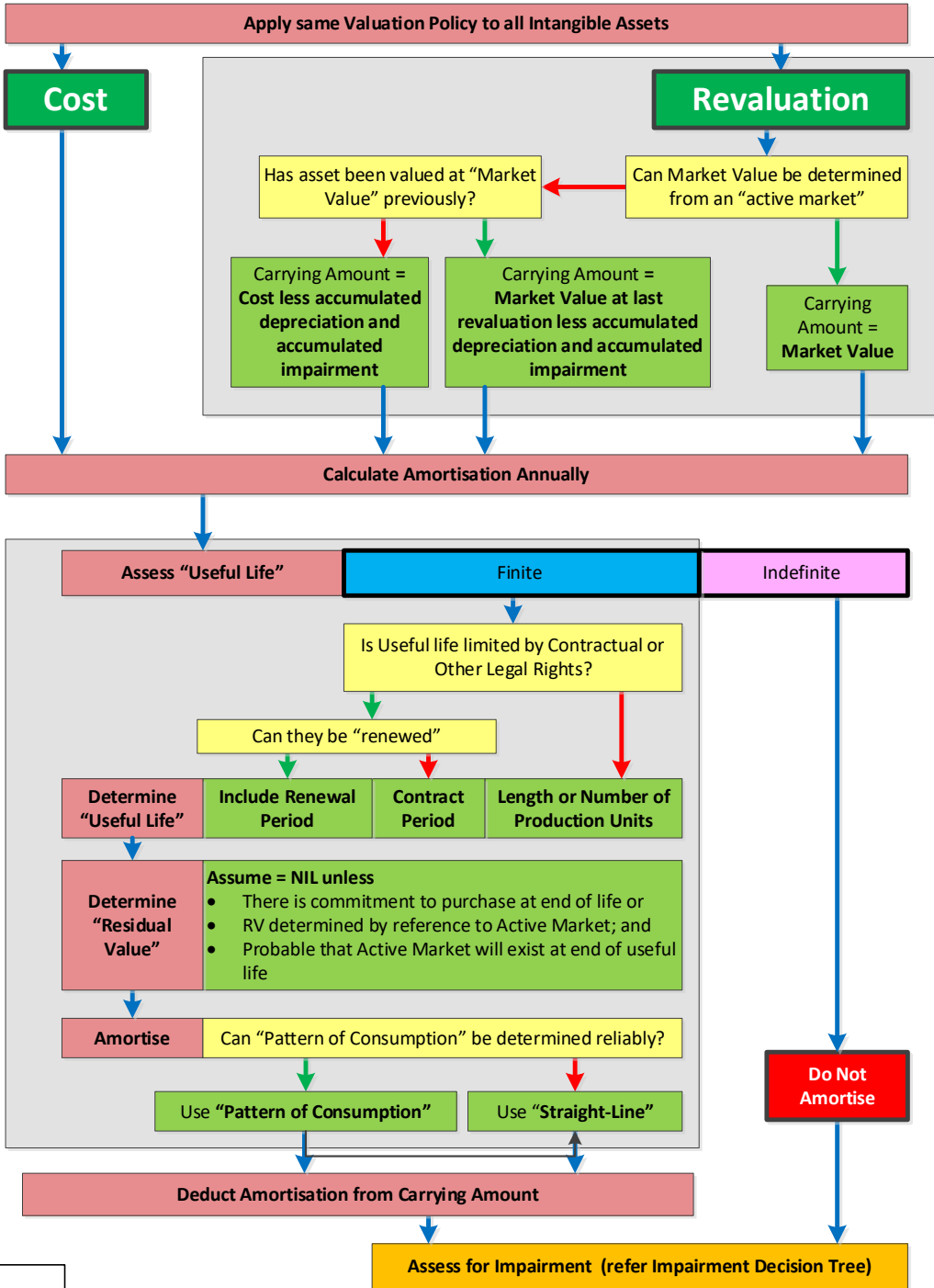


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AAS B 138 : Amortisation of Intangible Assets

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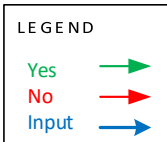
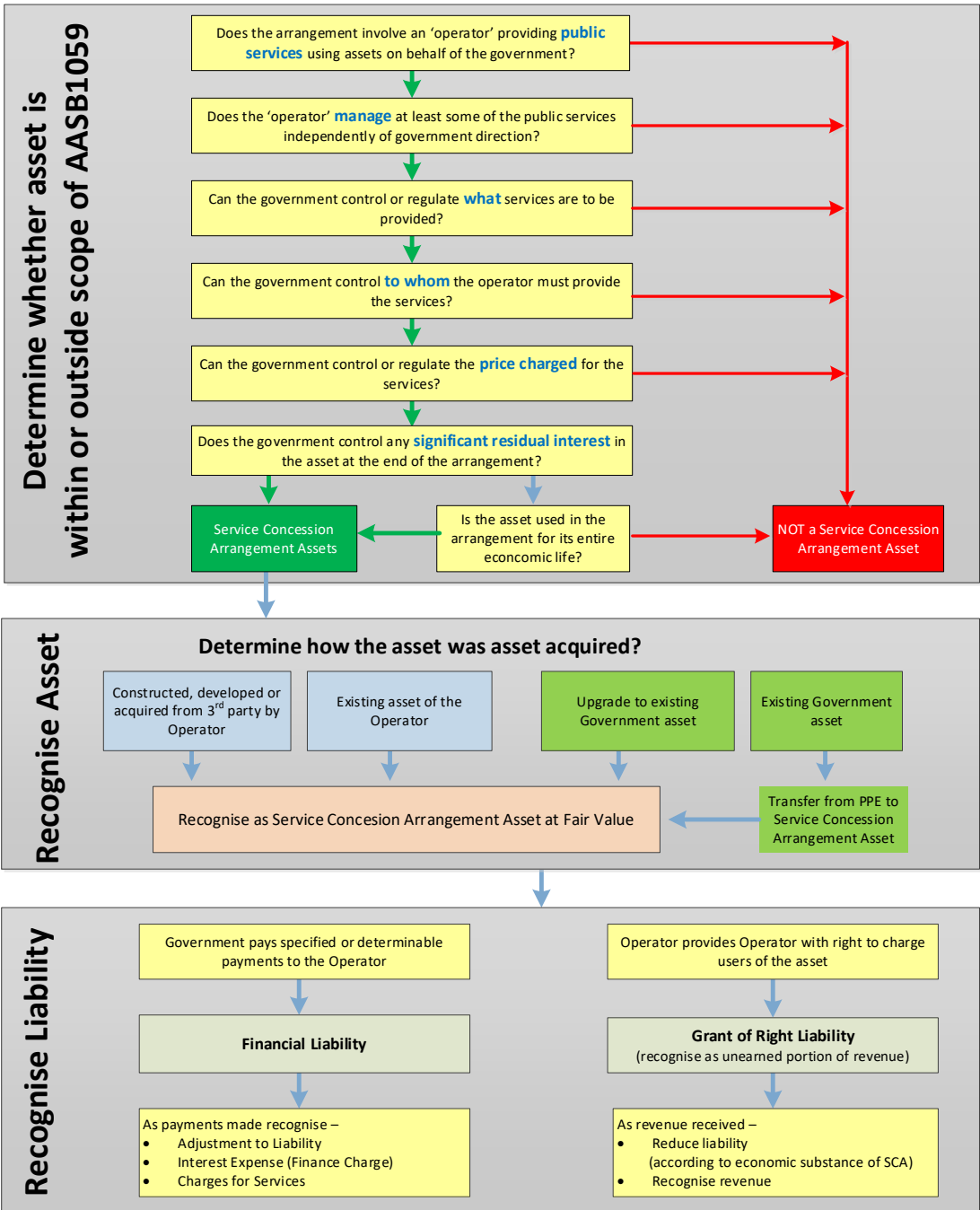
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AAS B 1059 Service Concession Arrangements

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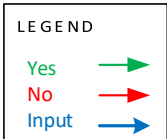
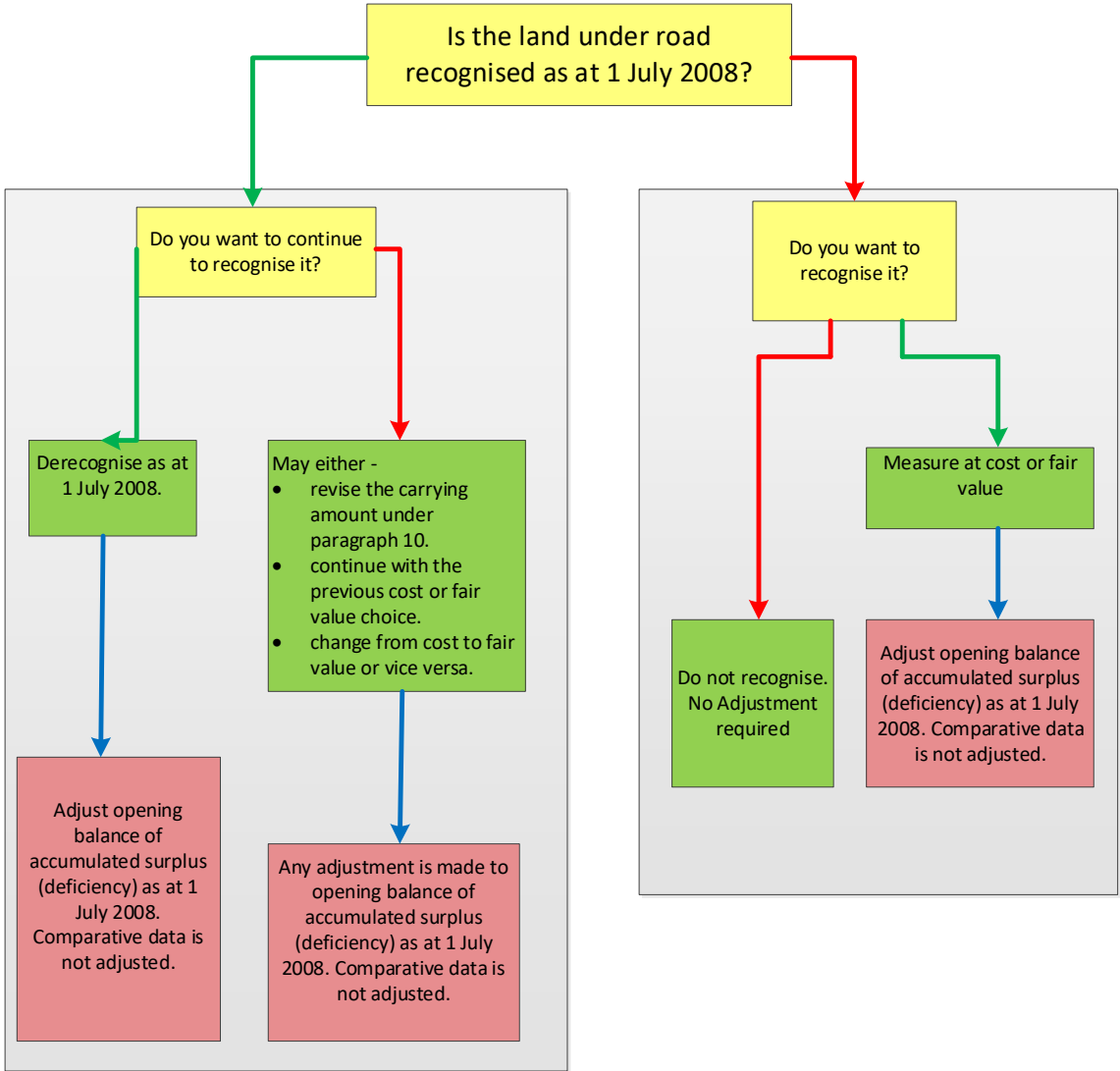


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AAS B 1051 Land Under Roads

As at 31 Aug 2023



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About the Author

David Edgerton FCPA

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David is an accountant (Fellow CPA Australia) with a valuation, audit and asset management background. He is internationally recognised as a leading expert in the valuation and depreciation of public sector assets. He is a regular presenter at national and international conferences and is a Director of APV Valuers and Asset Management.

He has been actively involved with both the asset accounting and asset management of public sector assets over the past 30 years. This has included –

- Author of CPA Australia's guides to the valuation and depreciation of public and NFP sector assets under the international (IFRS and IPSAS -2013) and Australian (2016) accounting standards.
- Member of the Australian Accounting Standards Board special project team for 'Fair Value in the Public Sector' (2017–22)
- Chair of the Public Sector Assets Collaborative Group which is a special interest committee of 'the Asset Institute'. The group is comprised of representatives of the peak bodies with an interest in the asset management of public sector assets.
- Member of 10 person international review panel for the IPWEA International Infrastructure Financial Management Manual (IIFMM) (2023)

Prior to joining APV in 2006 he spent over 20 years with the Queensland Audit Office where he –

- Held responsibility for the audit of Queensland's local government sector and water sectors
- Managed the audit office's 'Contract Auditors Section'
- Chaired the 'Asset Valuation and Audit Advisory Group'



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