# GOVERNMENT OF JERSEY
# CAPITAL ACCOUNTING MANUAL

Version Number 12.0
Issued with JFReM 2026

# Document History

Originating Department: Treasury and Exchequer
Document owner: Group Reporting Team
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| Version | Date | Status | Author | Comments |
|---|---|---|---|---|
| 12.0 | 18/05/2026 | Updates to Issued Version | G Turta | Updates to 2026 |
| 11.0 | 30/09/2024 | Updates to Issued Version | G Turta | Updates for change of accounting software to SAP Finance and changes to JFReM 2024/23 |
| 10.0 | 30/11/2020 | Updates to Issued Version | D Bratch | Updates for changes to JFReM 2020 – introduction of IFRS 15; change in references to the Public Finance Law 2019; changes to JDE codes. |
| 9.0 | 30/11/17 | Updates to Issued Version | K Lawrence/ L Rodrigues | Update for changes to JFReM 2017 – introduction of IFRS 13. |
| 5 | 06/06/13 | Updates to Issued Version | A Hacquoil | Update for changes to JFReM 2013 |
| 3.1 | 22/02/13 | Updates to Issued Version | R Searle | Update to bring CAM in line with IFRS |
| 3.0 | | Updates to Issued Version | A Hacquoil | Update of Impairment Indicators<br>Update on Asset Transfers |
| 2.3 | 12/04/10 | Updates to Issued Version | A Macleod | Revised Chapter 5. Added Chapter 7. |
| 2.2 | 17/03/10 | Updates to Issued Version | A Macleod | Added guidance on transferring Assets Under Course of Construction to Completed Assets. Updated guidance on networked assets to align with the JFReM. |
| 2.1 | 07/05/09 | Updates to Issued Version | A Macleod | Updated guidance on capitalisation start point and internally generated software. Revisions to accounting for capital grants received |
| 2.0 | 18/10/07 | Issued Version | A Rogers | |
| 1.0 | 18/09/07 | Project Team Draft | A Rogers | |

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# 1 Introduction

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## 1.1 Purpose of the Manual

1.1.1 The IFRS States of Jersey Capital Accounting Manual (CAM) is intended to complement the Jersey Financial Reporting Manual (JFReM) issued by the Treasury Department.

1.1.2 The Jersey Financial Reporting Manual is based in the UK Reporting Manual.

1.1.3 The CAM interprets the accounting guidance contained in the JFReM and is intended as general guidance on the application of accounting standards and practice to capital accounting transactions in the States of Jersey. The Manual should be read in conjunction with the JFReM.

1.1.4 The CAM will assist in ensuring Annual Accounts are properly prepared according to the JFReM. For these purposes States of Jersey entities should follow the treatment prescribed for departments except where indicated otherwise in this manual. It is expected that this Manual will be, in the main, used by staff that are relatively conversant with accounting principles. The Manual will be of less value to staff operationally involved in maintaining asset registers, where locally produced procedure notes will be more appropriate.

1.1.5 It should be recognised that, where the CAM provides general guidance, each individual Department must determine that the accounting treatment for all reported financial transactions is appropriate and consistent with current JFREM policy and Treasury Guidance in relation to the capitalisation of expenditure and the impact of depreciation, valuation and impairment. In the rare event States of Jersey entities propose to set aside guidance in the CAM to present a “true and fair” view of their transactions, treatments must be agreed with the Treasurer of the States so that any further implications can be followed through with the entity, as departures from the States of Jersey’s set policies could result in qualifications of Accounts.

1.1.6 The CAM is relevant to all entities within the States of Jersey boundary as defined by chapter 4 of the JFReM. Similarly, the term “Statement of Comprehensive Net Expenditure” is used generically in place of ‘I&E account’ or ‘Revenue Account’.

1.1.7 It should be noted that both revenue and capital codes can be under one Head of Expenditure.

## 1.2 The CAM 2026 Edition

1.2.1 This edition replaces earlier States of Jersey asset accounting requirements and should be applied by all States entities from 01/01/2026h. The new edition incorporates revisions required as a result of the application of International Financial Reporting Standards and interpretations (‘IFRS’).

1.2.2 The following international financial reporting standards and interpretations deal with accounting for non-current assets:

- IAS 2, ‘Inventories’.
- IAS 16, ‘Property, Plant and Equipment’.
- IFRIC 12, ‘Service Concession Arrangements’.
- IAS 20, ‘Accounting for Government Grants and Disclosure of Government Assistance’;
- SIC 10, ‘Government Assistance – No Specific Relation to Operating Activities’.

- IAS 23, ‘Borrowing Costs’.
- IAS 36, ‘Impairment of Assets’.
- IAS 38, ‘Intangible Assets’.
- IAS 40, ‘Investment Properties’.
- IAS 41, ‘Agriculture’.
- IFRS 5, ‘Non-current Assets Held for Sale and Discontinued Operations’; and
- IFRS 13, ‘Fair Value Measurement’.
- IFRS 15, ‘Revenue from Contracts with Customers’.
- IFRS 16, ‘Leases’.

## 1.3 Queries and Contacts

1.3.1 This Manual, and any further updates, will be available on the States of Jersey intranet.

1.3.2 Entities’ Finance Business Partners should be the first points of contact on most queries involving individual transactions and the associated ledger entries. Treasury & Exchequer Group Reporting Team will assist only in areas involving wider policy issues or those that involve the need to liaise with the auditors. T&E Group Reporting team contact email is as follows:

**Group Reporting Team – financialperformance@gov.je**

# 2 General principles and definitions

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## 2.1 General

2.1.1 Assets are defined in paragraph 49(a) of the International Accounting Standards Board's Framework for the preparation and presentation of financial statements (the 'Framework') as "...a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity".

2.1.2 In the context of the following sections, 'future economic benefits' means that the asset will contribute in some way to the provision of services or other outputs by States of Jersey entities. 'Control' in this context means the ability to obtain those benefits in fulfilment of aims and objectives of the entity and to restrict the access of others.

2.1.3 Access to economic benefits can be obtained in various ways. Usually, it is obtained by ownership of goods. Sometimes similar access to economic benefits may be obtained without legal ownership, for example where goods are leased by way of a finance lease. In these circumstances, the asset may be barely distinguishable in terms of financial commitment and opportunity for 'risk and reward' from that obtained through legal title. Therefore, the accounts should reflect the commercial substance of the transaction.

2.1.4 The concept of capital within the States of Jersey budgeting cycle is guided by the overarching definition of whether the expenditure is related to a Major Project or not.

- A capital project the duration of which, from start to finish, is planned to be of more than one year and the total cost of which is planned to be of more than £5 million; or
- a project that has been designated as a major project in an approved government plan.

2.1.5 If a project is designated as a Major Project, then the total cost and allocation for the first year is approved within the Government Plan. Once the Government Plan is approved the first year of allocation can be loaded as a budget by the department. Each year it is possible to transfer unspent balances on Major Projects to the following year on a decision from the Treasury Minister. If a project is not a Major Project, then the project approval is for a single year and unspent amounts at the end of the financial year are returned to reserves.

2.1.6 The Government Plan also designates some funding to the development of project business cases to assist with feasibility assessment. These amounts are funded from a Central Planning Reserve (CPR) and will form part of the departmental cash limit on approval by ministerial decision. These amounts should be accounted for in line with the Public Finances Manual and the CAM and will be subject to the rule on transfers between heads of expenditure which require them to be notified to the States Assembly for at least four weeks.

2.1.7 Capital projects that were appropriated under the previous Law (2005) are deemed to be a head of expenditure for the duration of the project and amounts can be carried over financial years for that project.

2.1.8 It is important that any commitments made in respect of projects are in line with the approved capital amount whether from the current Government Plan or from a prior approval.

2.1.9 The financial accounting for all capital projects does not vary whether the expenditure is for a Major project or not.

## 2.2 Property, Plant and Equipment

2.2.1 IAS 16 Property, plant and equipment applies as adapted retrospectively to accounting periods beginning on or after 1 January 2012. In accordance with IAS 16 property, plant and equipment are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
(b) are expected to be used during more than one period.

2.2.2 Property, plant and equipment will therefore have physical substance and will have an expected useful economic life in excess of one year when newly acquired.

2.2.3 The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and
(b) the cost of the item can be measured reliably.

2.2.4 As a minimum, Departments should analyse their property, plant and equipment under the following headings, distinguishing between owned and leased assets.

- Land – any land holdings and land underlying buildings (see below – land underlying or associated with dwellings to be separately disclosed).
- Buildings excluding social housing – offices, warehouses, hospitals, barracks, hangers, farms and multi-storey car parks, etc. Any underlying and associated land to be disclosed separately as noted above.
- Social housing – buildings used entirely or primarily as social housing, including any associated structures such as garages and parking areas. Any underlying and associated land, such as gardens and yards, to be separately disclosed.
- Networked assets – underlying and associated land should be included.
- Other structures – specialised buildings / structures which do not fall into any of the categories above. For example, pumping stations and runways.
- Transport equipment – equipment for moving people and/or objects, for example cars, lorries, vehicles, ambulances and aircraft.
- Plant, machinery, furniture and fittings – plant and machinery not covered by other categories, including scientific aids and logistics equipment; office fittings, furniture, showcases, shelving, etc.
- Information technology – hardware used for processing data and communications. This does not include software developed in-house or by third parties or software licences.
- Antiques and works of art – assets acquired for future generations, for example paintings, sculptures, recognised works of art, and antiques; and
- Payments on account and assets under construction – assets currently being built and not yet in use.
- Right of Use Assets – any asset for which a lessee is granted the right to obtain economic benefit from using an asset owned by a third party.

## 2.3 Intangible Assets

2.3.1 Intangible assets are non-monetary assets without physical substance which are capable of being sold separately from the rest of the Department's business or which arise from contractual or other legal rights. They are recognised only where it is probable that future economic benefits will flow to, or service potential be provided to, the Department and where the cost of the asset can be measured reliably.

2.3.2 For non-cash generating data assets, e.g., the content of a database, the term 'future economic benefit' as used in IAS 38 should be interpreted as 'future service potential' - that is, a direct contribution to the delivery of services to the public. For other non-cash generating intangible assets which otherwise meet the requirements of IAS 38, e.g., internally generated software, 'future economic benefit' should be interpreted as contributing to future cost savings.

2.3.3 As a minimum, Departments should analyse their intangible assets under the following headings:

- information technology and websites – software developed in-house or by third parties;
- development expenditure;
- licences, trademarks and artistic originals – original films, sound recordings, etc. on which performances are recorded or embodied; and
- patents – inventions that are afforded patent protection.

## 2.4 Investment Properties

2.4.1 Investment property is land or a building (including part of a building) or both that is:

- Held to earn rentals or for capital appreciation or both;
- Not owner-occupied;
- Not used in production or supply of goods and services, or for administration; and
- Not held for sale in the ordinary course of business.

2.4.2 Investment property should initially be measured at cost, including relation transaction costs and (where applicable) borrowing costs. Subsequent expenditure is capitalised to the asset's carrying value when it is probable that future economic benefits will flow to the relevant entity and that the cost can be measured reliably.

2.4.3 The cost of an investment property interest held as a lease is measured in accordance with IFRS 16 'Leases' at the lower of fair value of the property interest and the present value of the minimum lease payments.

2.4.4 All maintenance and repair costs should be expenses as incurred.

2.4.5 After initial recognition, investment property is carried at fair value in accordance with IAS 40 'Investment Property' with movements in value recognised as gains or losses in the consolidated statement of comprehensive income.

2.4.6 Fair value should be determined at each reporting date, using recognised valuation techniques, by a qualified person who is likely to be a member of the Royal Institute of Chartered Surveyors (RICS).

2.4.7 When the investment property undergoes a change of use such as the commencement of development with a view to sale, the property would be transferred to inventories at the fair value at the date of change in use.

2.4.8 When the investment property is disposed of at fair value in an arms-length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price and the adjustment is recorded in the income statement as a net gain on sale of investment property.

## 2.5 Networked assets

2.5.1 Networked assets comprise assets that form part of an integrated network servicing a significant geographical area. These assets usually display some or all of the following characteristics:

- They are part of a system or network.
- They are specialised in nature and do not have alternative uses.
- They are immovable; and
- They may be subject to constraints on disposal.

Examples of networked assets include road networks, sewer systems and sea defences.

## 2.6 Heritage assets

2.6.1 Heritage assets have cultural, environmental or historical associations that confer an obligation on the owner to preserve them for future generations. Characteristics of heritage assets are:

- A value to the Government and public in cultural, educational and historic terms that is unlikely to be reflected in a financial mechanism or price;
- Established custom or primary statute or entity obligation that impose prohibition or severe restrictions on sale;
- They are often irreplaceable, and their value may increase over time even if their physical condition deteriorates;
- They may require considerable maintenance expenditure;
- Their life might be measured in hundreds of years; and
- Antiques and other works of art should be classified as heritage assets only when they fulfil the above requirements. Otherwise, antiques and other works of art should be accounted for in the same way as other assets.

2.6.2 A distinction must be drawn between operational and non-operational heritage assets.

2.6.3 Operational heritage assets are ‘those that, in addition to being held for their characteristics as part of the nation’s heritage, are also used by the entity for other activities or to provide other services (e.g., buildings)’. These assets should be treated as any other type of tangible non-current asset in terms of valuation, depreciation and capital charges.

2.6.4 The Government’s Occupational Structures are classified as buildings and set not to depreciate. This classification will be reassessed if the balance becomes material in the future.

# 3 Recognition and Initial Measurement

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## 3.1 Capitalisation Threshold - de minimis limits

3.1.1 The States of Jersey has adopted a £10,000 capitalisation threshold for new individual assets except for land. Multiple assets must not be grouped for the purpose of assessment against the de minimis threshold. All land purchases, regardless of value, must be capitalised. There is no de minimis for subsequent expenditure.

## 3.2 Property, plant and equipment - Initial Measurement

3.2.1 In accordance with IAS 16, all property, plant and equipment must initially be measured at cost which should also reflect its fair value provided that the transactions are at arm's length and no impermissible costs have been capitalised.

3.2.2 Cost is defined as "...the amount of cash or cash equivalents paid, or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs, for example, IFRS 2 Share-based Payment". Other consideration could, for example, include an asset given up in exchange.

3.2.3 Measurement of cost is normally straightforward as it is generally the price paid. Where an asset is self-constructed, the production cost will be ascertained by aggregating the price paid for material, labour and other inputs used in the construction.

3.2.4 The cost of an item of property, plant and equipment comprises:

- The purchase price, including import duties and non-refundable purchase taxes less any trade discounts and rebates.
- Directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- The initial estimate of costs of dismantling and removing the item and restoring the site on which it is located ('decommissioning costs') where there is a corresponding obligation recognised as a provision under IAS 37, 'Provisions, contingent assets and contingent liabilities'.

3.2.5 Subject to de minimis limits (see section 3), all directly attributable expenditure on the acquisition or creation of property, plant and equipment should be capitalised on an accruals basis. See section 3.3 for more information regarding directly attributable costs.

3.2.6 Only the costs that are 'directly attributable' to the item of property, plant and equipment, and not the general operating costs, may be capitalised. Examples of costs that are not 'directly attributable' can be found in section 3.3.

3.2.7 IAS 16 allows capitalisation of costs only in respect of the period in which the activities necessary to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management are being undertaken. Thus, capitalisation should cease when substantially all the activities necessary to get the asset ready for use are complete, even if the asset has not yet been brought into use. 'Ready for use' means when the physical construction of the asset is complete even though routine administrative work might still continue. For example, if minor decoration of a property to a Department's specification is all that is outstanding this indicates that the asset is substantially complete.

### *Deferred payment*

3.2.8 The cost of an item of property, plant and equipment is the cash price equivalent at the date when the asset is recognised. Where an item is acquired on terms that payment is deferred beyond normal credit terms, its cost is the cash price equivalent that is the discounted amount. The difference between this amount and the total payments is treated as interest payable over the period of credit.

## 3.3 Property, plant and equipment - Directly Attributable costs

3.3.1 Examples of directly attributable costs given in IAS 16 are:

- The cost of employee benefits as defined in IAS 19, 'Employee benefits', that arise directly from the construction or acquisition of the item.
- The costs of site preparation.
- Acquisition costs such as stamp duty, import duty and non-refundable purchase tax.
- Initial delivery and handling costs.
- Installation and assembly costs.
- Professional fees (such as legal, architects' and engineers' fees).
- Costs of testing whether the asset is working properly (commissioning costs), after deducting the net proceeds of sale of any items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced during testing).

3.3.2 How an entity is funded for their capital works project should not determine the accounting treatment applied to project costs i.e. all project costs should not be capitalised purely because the funding for the project was received as a capital budget.

3.3.3 Entities should consider the appropriate accounting treatment for project costs when applying for funding, so that the funding requested reflects as much as possible the subsequent accounting for costs as either expenses or assets.

### *Start-up costs*

3.3.4 Start-up costs and similar pre-production costs do not form part of the cost of an asset. Initial operating losses incurred prior to an asset achieving its planned performance are recognised as an expense. The same would apply to operating losses that occur because an economic benefit earning activity has been suspended during the construction of an item of property, plant and equipment. An example might be where a hospital is being refurbished and is, therefore, closed for a period. The losses incurred in that period (rents, wages etc.) would be expensed as incurred as they would not form part of the cost of improvements.

### *Self-constructed assets*

3.3.5 The cost of a self-constructed asset is determined using the same principles as for an acquired asset. The cost of abnormal amounts of wasted material, labour or other resources incurred in the production of a self-constructed asset are not included in the cost of the asset. Other specific types of abnormal costs that would also be excluded are costs related to design errors, industrial disputes, idle capacity and production delays.

3.3.6 The capital costs, and related budget, are held as an Asset Under the Course of Construction (AUCC) under a Project Definition structure with at least one Capital WBS. Capital expenditure must be IFRS compliant (e.g., directly attributable costs – see above for more detail on what costs can be capitalised).

3.3.7 In instances where revenue expenditure is associated with an AUCC, such as training expenditure, it should be posted under the same Project Definition, but under a Revenue Expenditure WBS, and not a Capital WBS.

3.3.8 Once the asset is ready for use (even if the asset has not yet been brought in use) costs should be transferred from the AUCC-Project WBS to the relevant Departmental Statement of Financial Position Profit Centre – via the Final Settlement process used to capitalise assets, against one or more – Asset Classes (depending on the number of assets being created). The following extract from IAS 16 considers this: 'Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.'

3.3.9 At this point depreciation will commence (i.e., there is no depreciation on AUCC).

### *Employee benefit costs*

3.3.10 IAS 16 is clear that only those directly attributable labour costs (employee benefits) that relate to the time spent by employees on constructing or acquiring the specific asset should be capitalised. Where an entity's own staff are involved in the acquisition, construction or development of a piece of property, plant and equipment, the relevant proportion of the internal costs relating to those staff should, if material and if the other criteria for capitalisation referred to in this section are met, be included in the cost of the asset, subject to the condition in 3.3.16 Other incremental costs.

3.3.11 Entities should account for staff costs gross before any cost recovery/recharge. The cost recovery/recharge should be recorded within income. This applies to capital and revenue recharges. For the purpose of the Year End Consolidated Accounts, however, capital recharges should be netted off against Manpower Expenditure. It is not permitted to charge staff costs directly against a capital project.

3.3.12 Such internal costs will include own employees' (e.g., site workers, in-house architects and surveyors) salaries and expenses arising directly from the construction and acquisition of the specific tangible non-current asset. Administration and other general overhead costs should be excluded from the cost. Employee costs not related to the specific asset (such as site selection activities) are not directly attributable costs.

3.3.13 Therefore, time spent on other potential acquisitions or developments cannot be included. For example, an internal surveyor may carry out surveys on five different properties as part of the process to determine which one of those properties the Department will buy. The cost of these surveys should not be capitalised as part of the cost of the property which is subsequently bought. However, the cost of a survey of a property after the decision to purchase it (for example, to confirm that decision) would be capitalised.

3.3.14 Furthermore, if a site engineer spends 30 per cent of his time on a particular development project, then only 30 per cent of his employee costs should be capitalised as part of the asset's cost. As a rule, in such situations only incremental costs that would have been avoided had the asset not been constructed can really be directly and conclusively attributed to bringing the asset to its working condition. For example, the cost of a temporary office on the site of the development, that would not have been incurred but for the project, should be capitalised because it is both an incremental and a direct cost that is attributable to bringing the asset to the condition necessary for it to operate in the manner intended by management.

### *Professional fees*

3.3.15 External professional fees incurred in finding a suitable asset, which is then acquired or constructed, may be capitalised. However, costs such as external professional fees should only be capitalised as part of the cost of an asset when they relate directly to the acquisition or construction of the asset. Therefore, costs on speculative projects and costs of aborted plans should not be capitalised. Other professional fees incurred in acquiring an asset such as legal fees and stamp duty would be included in the cost of an asset.

### *Other incremental costs*

3.3.16 Although constructing or acquiring a new asset may result in other incremental costs that would have been avoided only if the asset had not been constructed or acquired, these should not be included in the cost of the asset if they do not bring the asset into the location and condition necessary for it to be capable of operating in the manner intended by management.

3.3.17 For example, the cost of training staff for new machinery or computer equipment should not be capitalised as they are operating costs rather than directly attributable to the item of property, plant and equipment. This is because the nature of the investment is in staff rather than the asset directly. Therefore, these costs should be treated as revenue expenditure.

### *Decommissioning costs*

3.3.18 The cost of an item of property, plant and equipment includes the estimated costs of dismantling and removing the asset and restoring the site on which it is located (‘decommissioning costs’). However, this is only allowed when there is a corresponding obligation recognised as a provision under IAS 37, ‘Provisions, contingent liabilities and contingent assets.

3.3.19 At first glance, it seems odd to capitalise decommissioning costs that are not going to emerge until later in the asset's life. However, where the entity has an obligation as a direct consequence of acquiring or constructing property, plant and equipment to incur further costs in the future that it cannot avoid, a provision is recognised in accordance with IAS 37. Therefore, the decommissioning costs at the end of the asset's life are just as much a cost of acquiring or constructing the asset as the costs incurred at the start of the asset's life.

### *Demolition costs*

3.3.20 Costs incurred in demolishing or rearranging existing assets should be capitalised where this is necessary to allow a new asset to be built. Where no new asset is to be created, these costs must be charged as revenue expenditure.

### *Equipment*

3.3.21 Equipment is initially capitalised at its cost (generally the price paid).

### *Interest (Borrowing costs)*

3.3.22 IAS 23 requires borrowing costs incurred in connection with the acquisition or construction of a qualifying asset (principally property, plant and equipment and intangible assets) to be capitalised and included within the cost of the asset.

3.3.23 Consequently, the States of Jersey has decided that Departments may not capitalise borrowing costs unless the borrowing has been obtained for the specific project only and prior approval from the Treasurer has already been obtained.

## 3.4 Property, plant and equipment - Non-attributable costs

3.4.1 The standard specifically says that the following are not directly attributable costs and so should be charged directly to the Statement of Comprehensive Net Expenditure rather than capitalised:

The standard lists types of costs that are not 'directly attributable' as follows:

- costs of opening a new facility.
- costs of introducing a new product or service (including costs of advertising and promotional activities).
- costs of conducting business in a new location or with a new class of customer (including costs of staff training).
- administration and other general overhead costs.
- costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity.
- initial operating losses, such as those incurred while demand for the item's output builds up.
- costs of relocating or reorganising part or all of an entity's operations.
- employee costs not related to the specific asset (such as site selection activities).
- Operating losses that occur because a revenue activity has been suspended during the construction of a tangible non-current asset.
- abnormal costs e.g. costs relating to:
    - Design errors.
    - Industrial disputes.
    - Idle capacity.
    - Wasted materials, labour or other resources; and
    - Production delays.

### *Staff training costs*

3.4.2 The question of capitalisation of staff training costs associated with the introduction of new assets is occasionally raised. As the nature of the investment is in staff rather than non-current assets directly, such expenditure should always be treated as a revenue.

3.4.3 Where 'non directly attributable' costs form part of the total expenditure of a 'capital' project, the amounts not directly attributable will require to be charged to Statement of Comprehensive Net Expenditure.

## 3.5 Intangible non-current assets – recognition

3.5.1 A Department may obtain an intangible asset in several ways:

- By developing or generating the asset internally.
- By separate acquisition for monetary or other consideration.
- By way of capital grant.
- Further guidance on the recognition of websites is provided in Appendix I.

3.5.2 If the asset meets the definition of an intangible asset as outlined in 3.5.1, it must also meet two recognition criteria (in common with all non-current assets) before it can be capitalised. These are:

- Future Economic Benefit – it must be probable that the expected future economic benefits will flow to, or service potential be provided to, the entity.
- Cost – must be able to measure reliably.

3.5.3 If the asset meets the definition and recognition criteria, then it must be capitalised and should be measured initially at cost. Note however, that for internally generated intangible assets, cost can only be recognised at the stage when the asset is capable of generating future economic benefits or providing service and all costs incurred before this stage should be treated as an expense.

### *Goodwill*

3.5.4 It is not expected that goodwill will arise for States of Jersey entities. If any goodwill is expected, the Treasurer of the States must be contacted prior to the transaction taking place.

### *Internally generated intangible assets*

3.5.5 Expenditure involved in the internal generation of an intangible asset falls into two phases - a research phase and a development phase. 'Research' is defined as "…original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding". 'Development' is defined as "…the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use".

3.5.6 If the two phases are indistinguishable all the expenditure on the asset should be attributed to the research phase.

3.5.7 No intangible assets can be recognised during the research phase and all such costs must be recognised as operating expenses.

3.5.8 Expenditure on development is capitalised only where all of the following can be demonstrated:

- the project is technically feasible to the point of completion and will result in an intangible asset for sale or use.
- the Department intends to complete the asset and sell or use it.
- the Department has the ability to sell or use the asset.
- how the intangible asset will generate probable future economic benefits can be demonstrated e.g. the presence of a market for it or its output, or where it is to be used for internal use, the usefulness of the asset.

- adequate financial, technical and other resources are available to the Department to complete the development and sell or use the asset; and
- the Department can measure reliably the expenses attributable to the asset during development.

3.5.9 Internally generated goodwill, brands, mastheads, publishing titles, customer lists and similar items are not capitalised as intangible assets.

### *Software*

3.5.10 Software which is integral to the operation of hardware e.g. an operating system is capitalised as part of the relevant item of property, plant and equipment. Software which is not integral to the operation of hardware e.g. application software, is capitalised as an intangible asset.

### *Website costs*

3.5.11 SIC 32 gives guidance specifically on the type of expenditure to be considered in the planning and development phases of internally generated websites projects. If the web site meets the conditions for capitalisation, the key issue is to correctly identify which phase the costs of the project are attributable to.

3.5.12 Paragraph 8 of SIC 32 specifically states that 'an entity will not be able to demonstrate that a website developed solely or primarily for promoting and advertising its own products and services will generate probable future economic benefits, and consequently all expenditure on developing such a website will be recognised as an expense when incurred.' For the public sector, it has been made clear that websites designed for the purpose of informing stakeholders of the services or other objectives of the reporting entity should not be capitalised. In contrast websites designed to provide a means of delivery of specific services in furtherance of the State's objectives can be capitalised.

3.5.13 Further guidance on the application of SIC 32 is given in Appendix I.

## 3.6 Internally generated intangible assets – initial measurement

3.6.1 Intangible assets are measured initially at cost.

3.6.2 Once the recognition criteria have been satisfied, the cost of an internally generated intangible asset is the sum of subsequent directly attributable expenditure incurred to create, produce and prepare the asset so that it is capable of operating in the manner intended by management.

3.6.3 Examples of directly attributable costs given in paragraph 66 of IAS 38 are:

- Costs of materials and services used or consumed in generating the intangible asset.
- The cost of employee benefits, as defined in IAS 19, 'Employee benefits', that arise directly from the generation of the asset. It should be noted that there is no requirement for these costs to be incremental. There is not, therefore, a requirement for an employee to have been specifically hired to develop the internally generated intangible asset, for the employee benefit costs to be capitalised. It is sufficient that the employee has incurred time working on the relevant project.
- Fees paid to register a legal right, such as patent registration fees.
- Amortisation of patents and licences that are used in generating the asset.

3.6.4 The types of costs described above are being incurred while an intangible asset is being generated. Further capitalisation may also be possible during the commissioning phase before an asset can operate in the manner intended by management. For example, the cost of testing whether an item is functioning properly is specifically identified in paragraph 28 of IAS 38 as being a directly attributable cost of a separately acquired intangible asset. Such a cost would be an equally valid cost in relation to an internally generated intangible asset.

3.6.5 Only the costs that are directly attributable to generating the intangible asset, and not the general costs of the operation, may be capitalised. Costs which are not 'directly attributable' to the cost of the internally generated asset are as follows:

- Selling, administration and other general overhead costs, unless they can be directly attributed to preparing the asset for use.
- Inefficiencies and initial operating losses incurred before the asset achieves planned performance.
- Training costs for staff that will operate the asset.

3.6.6 The capitalisation of costs stops when the asset "is capable of operating in the manner intended by management". This means that if an asset is internally generated (constructed) and can operate in that manner immediately, but is not brought into use immediately, costs incurred whilst the asset is standing idle may not be capitalised.

3.6.7 Costs incurred in using or redeploying an item are not included in its carrying amount. The types of costs that may fall into this category are as follows:

- Costs incurred while an item that is capable of operating in the manner intended by management has yet to be brought into use.
- Initial operating losses, such as may be incurred while demand for an item's output builds up.

3.6.8 Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset later.

## 3.7 Purchased intangible assets – initial measurement

3.7.1 IAS 38 'Intangible Assets' requires the recognition of an intangible asset that has been purchase if:

- It is probable that the future economic benefits attributable to the asset will flow to the entity; and
- The cost of the asset can be measured reliably.

3.7.2 These criteria apply whether an intangible asset is acquired externally or generated internally. The probability of future economic benefits must be based on reasonable and supportable assumptions about conditions that will exist over the life of the asset.

3.7.3 Cost for an intangible asset comprises:

- The purchase price, including import duties and non-refundable purchase taxes. Trade discounts and rebates are deducted in arriving at the purchase price; plus
- Any directly attributable cost of preparing the asset for its intended use.

3.7.4 Directly attributable costs include:

- The cost of employee benefits as defined in IAS 19, 'Employee benefits', that arise directly from bringing the asset into its working condition. It should be noted that there is no requirement for these costs to be incremental. There is not, therefore, a requirement for an employee to have been specifically hired to prepare the asset for intended use, for the employee benefit costs to be capitalised. It is sufficient that the employee has incurred time working on the relevant project.
- Professional fees.
- Costs of testing whether the asset is working properly.

3.7.5 In practice the directly attributable costs referred to above are more likely to arise where an intangible asset is internally generated, rather than acquired separately. Therefore, these types of cost are discussed in more detail above. However, an intangible asset that is acquired separately may sometimes still require expenditure to bring it into working condition, so the guidance may still be relevant in these circumstances.

3.7.6 Expenditure that does not form part of the cost of an intangible asset includes:

- The cost of introducing a new product or service, including advertising costs and promotional activities. On the other hand, the development cost of a new product, as opposed to the cost of introducing it, may qualify for recognition.
- Costs of conducting business in a new location or with a new class of customer, including training costs.
- Administration and other general overheads.

3.7.7 Capitalisation of eligible costs should cease when the asset can operate in the manner intended by management. Costs of using the asset or for redeploying it to other uses or another location are not capitalised. Such costs include any that are incurred while an asset can operate in the manner intended by management and any initial operating losses, such as those that might be incurred while demand builds up for the asset's output.

3.7.8 If computer software is purchased, then the total cost should be capitalised to include the operating system for hardware and then amortised over the useful life based on pattern of benefits. Straight line amortisation is the default.

3.7.9 If software as a service (i.e. applications accessed via the cloud) is acquired, then the right to use the software is acquired at contract commencement date. This should be recognised as an intangible asset in line with IAS 38 as the purchase is not within the scope of IFRS16. This will mean measuring the cost of the purchase with reference to the contract values and the length of the contract and in line with paragraph 3.7.3.

## 3.8 Subsequent expenditure

### *Property, Plant and Equipment*

3.8.1 Once an item of property, plant and equipment has been recognised and capitalised, a Department may incur further costs on that asset at a later date.

3.8.2 Subsequent expenditure should be capitalised, that is recognised as an asset, only if it meets the recognition criteria in IAS 16. As explained above these are those:

- It is probable that future economic benefits associated with the item will flow to the entity; and
- The cost of the item can be measured reliably.

All other subsequent costs should be recognised as an expense in the period in which they are incurred.

3.8.3 Often it is easy to tell whether expenditure is capital or revenue in nature and, therefore, whether it should be capitalised or expensed. For example, the cost of adding a level to a multi-story car park should be capitalised as it will meet the recognition criteria of IAS 16. The additional floor contributes to the provision of services of the Department so it is probable that future economic benefits will arise, and the cost can be reliably measured. In contrast, the cost of cleaning the new floor is a period cost of servicing the car park and should be expensed as incurred.

3.8.4 However, sometimes it is difficult to distinguish whether expenditure on improvements and repairs should be capitalised or expensed. IAS 16 provides more guidance and rules in this area, explaining that the costs of the day-to-day servicing of an item of property, plant and equipment are not recognised as an asset. Instead, such costs are recognised in the Statement of Comprehensive Net Expenditure as incurred. Day-to-day servicing costs would include costs of labour and consumables and may include the cost of small replacement parts. The purpose of this type of expenditure is often known as 'repairs and maintenance'. The reason why such costs are expensed rather than capitalised is that they do not add to the future economic benefits of the item of property, plant and equipment. Rather they maintain the asset's potential to deliver the level of future economic benefits that it was expected to provide when it was originally acquired. These subsequent repair and maintenance costs do not, therefore, qualify for recognition as an asset.

3.8.5 In summary, subsequent expenditure on a tangible non-current asset should be capitalised in three circumstances:

- Where they meet the recognition criteria in the standard, specifically it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.
- Where a component of the asset is replaced or restored the costs of a replacement component are recognised as an asset if they meet the recognition criteria described above and the carrying amount of the part or parts that are replaced is derecognised.
- Where the subsequent expenditure relates to a major inspection of the asset the inspection cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised.

3.8.6 IAS 16 gives an example of an aircraft that may be required by law to be inspected/overhauled every three years. In such a case it requires a proportion of the cost of the asset equivalent to the expected overhaul cost to be identified and depreciated over the period to the next inspection/overhaul if it represents a significant part of the asset's cost. The actual cost of the overhaul or inspection is then capitalised, if it meets the recognition criteria that is it is probable that future economic benefits will flow to the entity and the cost can be measured reliably. This inspection/overhaul cost is then depreciated over the period to the next inspection/overhaul. The cost and depreciation attributed to the overhaul originally should be removed from the Statement of Financial Position once the cost of the new overhaul has been capitalised to avoid double counting. The remainder of the value of the asset is depreciated over the useful life of the asset, on the basis that the appropriate overhauls will be carried out as they are due.

### *Intangible Assets*

3.8.7 The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it. Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in IAS 38. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the business. Therefore, only rarely will subsequent expenditure—expenditure incurred after the initial recognition of an acquired intangible asset or after completion of an internally generated intangible asset—be recognised in the carrying amount of an asset.

3.8.8 Expenditure on software licences should be treated as current expenditure where the licences are paid on a recurrent basis, even where the period between repayments is more than a year with any amount relating to future years treated as a prepayment, rather than an intangible asset.

3.8.9 Where subsequent expenditure is incurred to upgrade or enhance the software (so that its service potential is increased), the costs should normally be capitalised.

## 3.9 Additional guidance in respect of the road network and other networked assets

### *Land, Structures and Communications*

3.9.1 Land, Structures and Communications will be accounted for following the guidance in IAS 16.

### *Road Surface*

3.9.2 The road surface asset will be recognised as a single asset following the additional guidance in this manual.

3.9.3 The road surface asset will be held at Depreciated Replacement Cost based on service potential.

3.9.4 Subsequent expenditure on the road surface will be capitalised where it enhances or replaces the service potential. Spending that does not replace or enhance service potential will be expensed.

### *Other Networked Assets*

3.9.5 The road accounting methodology detailed above should also be used for the foul and surface water sewerage system and the sea defences network. Where entities hold other networked assets the road surface accounting methodology may be used where it is appropriate to do so. However, approval to use the road surface methodology should first be obtained from the Treasurer of the States.

## 3.10 Componentisation

3.10.1 IAS 16 requires that each part of an item of property, plant and equipment that has a cost that is significant when compared to the total cost of the item, should be depreciated separately. The amount initially recognised for an item of property, plant and equipment should be allocated to its significant parts, which must then be depreciated separately. (This may be contrasted with land and buildings, which the standard states are separate assets for depreciation purposes rather than separate parts of the same asset). There is, therefore, a need for Departments to review whether an asset has significant parts. If it decides it has, then the significant parts should be depreciated individually, unless the exception described in the next paragraph applies.

3.10.2 Where significant parts of an item of property, plant and equipment have been separately identified in accordance with the standard they should normally be depreciated separately. However, where one significant part has a useful life and a depreciation method that is the same as those of another part of that same item of property, plant and equipment, the two parts may be grouped together for depreciation purposes. In general, for a component to be significant it should represent 20% or greater of the total cost of the asset.

3.10.3 The States of Jersey does not consider buildings with carrying values of less than £750k for componentisation as the impact of doing so would be immaterial. In addition, where the annual depreciation charge (after componentisation) for buildings is less then £250k it is presumed that componentisation will not have a material impact on the accounts, unless evidence exists to the contrary. Buildings are componentised where the cost of the component is significant in relation to the overall total cost of the asset (at least 20%) and has a different useful life to the main asset. Land should always be identified as a separate component.

3.10.4 Departments are permitted to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item, for example, where this provides useful management information.

3.10.5 When incurring subsequent expenditure on an asset that has been componentised, departments are required to allocate costs between the relevant components. The exact method may depend on the nature of the expenditure, but in general any expenditure directly on a component (for example the separately recognised structure of a building) should be charged directly to that component. For more general expenditure professional judgment will be required to determine the correct allocations, and departments should document and retain details of the methodology, and the assumptions used for audit.

## 3.11 Capital grants

3.11.1 Grants may be received from other entities from time to time. Capital grants are defined as “assistance in the form of cash or transfers of assets to an entity in return for past or future compliance with certain conditions relating to the operating activities of the enterprise”.

3.11.2 Assets for which a capital grant has been received to fund the specific asset will be accounted for in the same way as other non-current assets. The asset will be carried at its current cost, and the value of the grant must not be netted off its carrying amount, i.e. the option provided in IAS 20 to offset the grant against the cost of the asset is not available.

3.11.3 The accounting treatment of capital grants is covered by IAS 20. The objectives of IAS 20 are to ensure that capital grants are recognised as income in the Statement of Comprehensive Net Expenditure on a systematic basis so as to match them with the related expenditure towards which they are intended to contribute and are recognised at fair value only when the conditions for their receipt have been complied with and there is reasonable assurance that they will be received.

3.11.4 States of Jersey Departments should record grants received as a contribution towards the purchase cost of a specific non-current asset as income when future economic benefits will arise and can be reliability measured. Where the grant is for a specific purpose, this will normally be where the relevant expenditure has been occurred.

3.11.5 The option provided in IAS 20 to defer Capital grant income only applies where the grantor imposes a condition that could lead to the grant becoming repayable, e.g., a grant that is conditional on the construction of an asset.

3.11.6 As it is important for monitoring and control purposes, entities that receive a grant that is intended to finance both revenue and capital expenditure should analyse the grant between its constituent parts.

3.11.7 Additional guidance on accounting for Capital Grants is included in the Supplementary Guidance to the JFReM.

## 3.12 Donated assets

3.12.1 Assets donated by third parties, by way of a gift to acquire the asset, must be separately identified, provided there is no consideration given in return. Assets which do not meet this criterion should be treated as purchased, potentially with a capital grant received.

3.12.2 Donated Assets should be capitalised at fair value on receipt. Where the value of the services provided by the asset will be less than fair value because the asset is over specified for its intended use, the lower value should be used. The funding element should be recognised as income.

3.12.3 Where a donor contributes part of the cost of a non-current asset, only that proportion will be accounted for as donated. Where a donation is part of a group or series of transactions designed to achieve an overall commercial effect, the substance should be reflected in the Department's accounts.

3.12.4 The following are examples of what will not qualify as donated assets:

- assets financed by a capital grant.
- subsequent capitalised expenditure on a donated asset, which should be capitalised (see 3.8) and treated as a purchased asset.
- assets constructed or contributed to by a developer to benefit the developer's business.
- an asset transferred between entities within the States of Jersey Group as a result of a transfer of functions (unless the asset was legitimately a donated asset in the transferor's books. Thus, for example, donated assets in I&E Department - transfer intact to Economy Department - in its

Statement of Financial Position or to a States of Jersey entity during a merger or reconfiguration.)

3.12.5 These types of assets should be accounted for in accordance with IAS 16 in the same way as other assets of that general type.

3.12.6 The normal rules on the capitalisation of subsequent expenditure, and the charging of repairs and maintenance to revenue expenditure, apply. Capitalised expenditure has the effect of creating a part-purchased and part-donated asset. The purchased element should be separately identified.

3.12.7 Any restrictions imposed by the donor on the use of an asset must be notified to the Treasurer of the States and disclosed in the annual accounts.

3.12.8 Where donations are of assets that fall below the normal capitalisation thresholds, the accounting treatment is to record both income and expenditure, the expenditure being the value of the items received but not capitalised.

3.12.9 Where a States of Jersey entity chooses to purchase a new or replacement asset, using donated asset sale proceeds, no new donated asset is created. The replacement or new asset is a purchased, not donated, asset.

# 4 Subsequent Measurement - Revaluation


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## 4.1 Introduction

4.1.1 Subsequent to initial recognition an item of property, plant and equipment or an intangible asset should be carried at:

- Cost or revalued amount.
- Less any subsequent accumulated depreciation / amortisation.
- Less any subsequent impairment losses.

4.1.2 The basis of valuation is considered in section 4.3 below.

4.1.3 Chapter 5 deals specifically with depreciation and amortisation.

4.1.4 Chapter 6 deals specifically with impairment.

## 4.2 Valuation Requirement

4.2.1 All property, plant and equipment, should be held using the Revaluation model. Revaluations should be performed regularly enough that there is not materially different to Fair Value at that date.

4.2.2 Intangible assets cannot use a revaluation model and shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

4.2.3 Donated assets should be revalued in the same way as other non-current assets.

## 4.3 Basis of valuation of property, plant and equipment

4.3.1 The States of Jersey accounting policy is to revalue property, plant and equipment systematically to ensure that assets are carried on a fair value basis. Thus, for subsequent measurement of property, plant and equipment and intangible assets, Departments must follow the Revaluation Model in IAS 16 and IAS 38 respectively. The Cost Approach for subsequent measurement in the Standards is not permitted.

4.3.2 Valuation of property, plant and equipment assets is on the basis of fair value. IFRS 13 defines fair value 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'.

4.3.3 Where an active (homogeneous) market exists, fair value of intangible assets is determined with reference to this market. Where no active market exists, fair value is the lower of Depreciated Replacement Cost (DRC) and value in use where the asset is income generating. These measures are a proxy for fair value.

4.3.4 The States of Jersey adopts a policy of revaluation within the meaning of IAS 16 and IAS 38 and must consistently apply revaluation policies to each asset within a given class of assets. An item of property, plant and equipment's carrying amount at the date of the Statement of Financial Position should be the revalued amount, determined according to these policies.

## 4.4 Frequency of valuations

4.4.1 The JFReM allows for three difference options schedules for valuations. The Valuation schedule selected is as follows:

- Land & Buildings (Circa 36% of PPE): Full valuations are conducted every five years, with interim years adjusted through indexation.
- Networked Assets (Circa 51% of PPE): Full valuations are conducted every five years, with interim years adjusted through indexation.
- RoU Asset (Circa 1% of PPE): Full valuations are conducted every five years, with an interim desktop valuation performed in the third year.
- Assets Under Course of Construction (Circa 6% of PPE): As projects are not yet complete, cost less depreciation and impairment is used as a proxy for fair value.
- Plant and Machinery, Furniture and Fittings (Circa 3% of PPE): These represent a relatively minor balance and, given the nature of the assets, are held over shorter useful lives; accordingly, they are measured at cost less depreciation and impairment.
- Other Structures (Circa 3% of PPE): These represent a relatively minor balance and, given the nature of the assets, unique and specific; accordingly, they are measured at cost less depreciation and impairment.
- Transport Equipment (Circa 0% of PPE): These represent a relatively minor balance accordingly, they are measured at cost less depreciation and impairment.
- Information Technology Equipment (Circa 0% of PPE): These represent a relatively minor balance accordingly, they are measured at cost less depreciation and impairment.
- Antiques and Works of Art (Circa 0% of PPE): These represent a relatively minor balance accordingly, they are measured at cost less depreciation and impairment.

4.4.2 The value at which assets are included in the Statement of Financial Position must be materially correct at the end of every financial period. The policy above is expected to satisfy this requirement in most cases. In exceptional circumstances, there may be a need to revalue in intervening years. In these cases, a mixture of professional valuation and application of appropriate price indices, (dependent on the nature and types of assets) will be used. Suitable indices will be issued by the Treasury for each asset class.

4.4.3 Revaluations of individual assets will be required outside the 5-yearly cycle when, for example:

- there is an indication that assets may have suffered impairment (see chapter 6 below); or,
- property has been subject to enhancement expenditure; or,
- there has been a change of use or level of utilisation of an asset; or,
- an asset is to be taken out of use or is surplus to the States of Jersey's needs.

## 4.5 Assets under construction

4.5.1 Assets under construction are not revalued and are carried at cost on the Statement of Financial Position. The carrying amount of an asset under construction must be reduced if it becomes apparent that fruitless payments have been incurred or other costs have been inappropriately capitalised.

## 4.6 Ad-hoc 'housekeeping' revaluations

4.6.1 IAS 16 requires that where a single item of property, plant and equipment is revalued the entire class of property, plant and equipment to which that asset belongs shall be revalued. This principle has been applied in the guidance given, therefore, the ad-hoc revaluation of individual assets on a good-housekeeping principle is not permissible.

## 4.7 Valuers and Disclosures

4.7.1 The 5-yearly property revaluation exercises for the States of Jersey may be carried out by either:

- A qualified external valuer; or
- A qualified internal valuer provided that the valuation performed by the internal valuer has been appropriately reviewed by a qualified external valuer. In the case of properties, such a review should involve the valuation of a sample of properties, so that the external valuer can give an opinion on the overall accuracy of the valuations performed.

4.7.2 Interim valuations should be performed by a qualified valuer, who may be either internal or external to the entity.

4.7.3 Entities must retain documentation supporting the valuations for disclosure purposes.

4.7.4 In the event of revaluations of a class of assets outside the course of the 5-yearly cycle the full disclosure provisions of IAS 16 must be followed.

## 4.8 Non-specialised land and buildings

4.8.1 Where it is possible to value a property in the context of an active market in that type of property in the locality, the Valuer will attach an existing use value (EUV), to the property. In effect, this should be the default valuation policy as it gives a clear, understandable valuation figure. The existence of a vast specialised estate in the States of Jersey, for which there is no active market, confines the use of EUV to such properties as residential accommodation, office buildings and car parks.

4.8.2 Existing use value (EUV) and DRC for specialised buildings (see 4.9 below) will be appropriate for most properties but there will be some properties where EUV will not be appropriate (for example where there are legal restrictions in selling a property). These properties should be considered on a case-by-case basis considering the relevant accounting criteria.

4.8.3 Social Housing should be valued on the EUV – Social Housing as defined by the RICS Red Book.

## 4.9 Specialised land and buildings

4.9.1 Where, due to the specialised nature of an asset, the fair value is to be determined using a Depreciated Replacement Cost (DRC), Departments should have regard to the interpretations in the JFReM. Further information can be sought from the Group Reporting Team.

4.9.2 DRC is defined as 'the current cost of replacing an asset with its modern equivalent less deductions for physical deterioration and all relevant forms of obsolescence and optimisation'. The DRC basis uses a modern equivalent asset basis except in the rare cases where the building or site must remain.

4.9.3 Certain assumptions inherent in the DRC valuation methodology may lead to DRC valuations being lower than the initial cost of new buildings. Inefficiencies and abnormal costs (above) cannot be capitalised, even as part of initial costs. Certain other costs associated with capital projects are legitimately capitalised initially yet may not be reflected in DRC valuations. Examples of these might be the cost implications of contractors having to work in an occupied site, or the necessity to put in access roads; the cost of having multiple contracts and phases to construct one building; and the additional cost of inclement weather.

4.9.4 It is therefore possible that the initial revaluation from cost to DRC will lead to an impairment loss which must be recognised in the Statement of Comprehensive Net Expenditure. The actual cost of construction must initially be shown as an addition to non-current assets prior to any adjustment for an impairment.

4.9.5 An exception to this general rule is land included in property. Because land and buildings asset movements are reported separately, revaluations need to be apportioned between land and buildings, rather than being assigned to the property asset.

## 4.10 Non-property assets – Plant and Equipment

4.10.1 Departments may adopt a depreciated historical cost basis as a proxy for fair value in respect of assets which have short useful lives (i.e. less than 10 years) or low values (i.e. less than £250,000), or both. For depreciated historical cost to be considered as a proxy for fair value the useful life must be a realistic reflection of the life of the asset and the depreciation method used must provide a realistic reflection of the consumption of that asset. Where such a basis is not used, assets should be carried at fair value and Departments should value them using the most appropriate valuation methodology available. Where non-property assets are carried at Depreciated Replacement Cost it may be sufficient to apply indexation and depreciation to the current value of equipment.

4.10.2 In preparation of the consolidated financial statements Departments should provide information to the Treasury including where Depreciated Replacement Cost is used as a proxy for fair value for named classes of assets (where appropriate) and the reasons why; information about any significant estimation techniques (where applicable).

4.10.3 Where an entity believes that, in their judgment, the value of any of the above assets would be materially different if valued on a current value approach, they should, in consultation with the Treasurer of the States, use the current value to value the asset.

## 4.11 Networked Assets

4.11.1 Networked Assets will be subject to annual valuations as measured by suitable indices.

## 4.12 Intangible assets

4.12.1 Where an active (homogeneous) market exists, fair value of intangible assets is determined with reference to this market – that is, the cost option given in IAS 38 has been withdrawn. Where no active market exists, fair value is the lower of Depreciated Replacement Cost and value in use where the asset is income generating. Where there is no value in use, the asset should be valued using Depreciated Replacement Cost. These measures are a proxy for fair value.

4.12.2 Even though an asset may have been acquired separately, there is unlikely to be an active market with the characteristics described in IAS 38 (one of which is that prices are available to the public) as purchase costs will usually be negotiated between the buyer and the seller and this information is unlikely to be in the public domain.

## 4.13 Heritage Assets

4.13.1 Non-operational heritage assets should be valued on the following basis:

- non-operational heritage assets purchased within the accounting period should be valued at cost.
- existing and newly donated non-operational heritage assets (and newly purchased assets on revaluation) should, where there is a market in assets of that type, be valued at the lower of Depreciated Replacement Cost and Net Realisable Value; or
- where there is no market in assets of that type, at Depreciated Replacement Cost unless the asset could not or would not be physically reconstructed or replaced, in which case at nil (except, on revaluation, those non-operational heritage assets already carried at cost shall continue to be carried at cost).

4.13.2 There may be instances where valuation of non-operational heritage assets may not be practicable or appropriate – either because reliable valuations (including original cost) cannot be obtained or because the costs associated with obtaining reliable valuations are onerous when compared with the additional benefits obtained by users of the financial statements (the cost/benefit analysis). For example, it might be possible to capitalise (at cost) non-operational heritage assets where the accounting records exist for past accounting periods, but not where the records no longer exist, since the cost of reconstructing them would be prohibitive, nor where the cost information is of such an age as to make it meaningless in terms of a reasonable view of the value of the asset today

4.13.3 Examples of heritage assets where it might be difficult to obtain a valuation include:

- museum and gallery collections and other collections existing at 31 December 2008 (but where the information is available in relation to additions made in earlier years, those additions should be capitalised); and
- Archaeological sites, burial mounds, ruins, monuments and statues.

## 4.14 Accounting for Revaluations – the Revaluation Reserve

4.14.1 The revaluation reserve reflects the unrealised element of the cumulative balance of revaluation adjustments to assets.

4.14.2 An increase in value arising on the revaluation of an asset will be credited to the reserve, unless it reverses a previous revaluation loss which was debited to the Statement of Comprehensive Net Expenditure in a previous financial period, when (after adjusting for subsequent depreciation) it should be credited to the Statement of Comprehensive Net Expenditure.

4.14.3 Following revaluation, the purchase cost and accumulated depreciation elements of PPE should be adjusted to reflect any changes in values. IAS 16 allows this to be done either by adjusting the cost and accumulated depreciation elements by an appropriate factor or by eliminating all the accumulated depreciation to date and reflecting the revalued amount within the revalued cost element in the PPE note.

4.14.4 Departments should reflect revaluations by the second method, i.e., eliminating all the accumulated depreciation to date and reflecting the revalued amount within the revalued cost element in the PPE note.

4.14.5 Any downward revaluation (including impairment) should be charged against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Any balance of the decrease should then be recognised as an expense in the Statement of Comprehensive Net Expenditure.

4.14.6 The change in the Net Book Value because of a downward revaluation should be recorded against the cost of the asset to the extent it is charged to the revaluation surplus. Any further decrease should be accounted for in the same way as an impairment i.e., against Accumulated Depreciation (see chapter 6 for further information).

4.14.7 When an asset is disposed the balance on the Revaluation Reserve in respect of it should be transferred to the Accumulated Income and Expenditure Reserve.

4.14.8 It is important to be able to relate balances taken to the Revaluation Reserve with their associated assets. All entities will therefore need to ensure that they have systems in place to enable Revaluation Reserve balances to be analysed to the level of individual/component assets.

# 5 Subsequent measurement - Depreciation, amortisation, residual value and asset lives


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## 5.1 Introduction

5.1.1 In accordance with IAS 16, depreciation should be provided for all property, plant and equipment with a finite useful life by allocating the cost (or revalued amount) less estimated residual value of the assets on a systematic basis over their useful life. The method of depreciation that is used should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the Department. Property, plant and equipment with an indefinite useful life should not be depreciated.

5.1.2 In accordance with IAS 38, amortisation should be provided for all intangible assets with a finite useful life by allocating the cost (or revalued amount) less estimated residual value of the assets on a systematic basis over their useful life. The method of depreciation that is used should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the Department. An intangible asset with an indefinite useful life should not be amortised.

5.1.3 Donated assets should be depreciated/amortised in the same way as other non-current current assets.

## 5.2 Depreciation and amortisation policy

5.2.1 The policies set to comply with the JFReM are outlined below.

5.2.2 The States of Jersey adopts a policy of straight-line depreciation and amortisation. In accordance with IAS 16 and IAS 38 this method has been judged that which most closely reflects the expected pattern of consumption of economic benefits. This being the policy adopted for the Consolidated Accounts, other methods (e.g. reducing balance, sum of digits methods) are not permissible.

5.2.3 Depreciation and amortisation charged in a period are recognised in the Statement of Comprehensive Net Expenditure unless it is permitted to be included in the carrying amount of another asset. This will only occur when depreciation or amortisation is included in inventory or work-in-progress as part of an allocation of overheads, in accordance with IAS 2, 'Inventories', or IFRS 15, 'Revenue from Contracts with Customers', or when it forms part of the cost of another item of property, plant and equipment or intangible asset.

## 5.3 Useful life

5.3.1 As noted above, depreciation and amortisation is calculated by allocating the cost or revalued amount of an asset less its estimated residual value (that is, its 'depreciable amount') on a systematic basis over its useful life.

5.3.2 Useful life is defined in IAS 16 and IAS 38 as either: "(a) ... the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity." Generally, the former of these two will apply, as in most cases it is more straightforward to assess useful lives by reference to time periods.

5.3.3 The definition includes the phrase 'expected to be available for use'. Thus, the useful life includes any period after acquisition when the asset is capable of operating in the manner intended by management but has not yet been brought into use. It is also clear from the definition that the end of the asset's useful life is not necessarily the end of its physical life. This is because the useful life is the period when the asset is used by the entity. If the entity buys an asset that has a physical life of ten years, but the entity intends to use the asset for only six years, the useful life that the entity assigns to the asset will be six years and not ten years.

5.3.4 IAS 16 and IAS 38 requires that the useful lives of property, plant and equipment and intangible assets should be reviewed at least at each year end and, if expectations are significantly different from previous estimates, the change should be accounted for as a change in estimate in accordance with IAS 8, 'Accounting policies, changes in accounting estimates and errors'. IAS 8 requires that the effect of a change in estimated useful life should be accounted for by adjusting the charge for future periods to the extent that it affects the future periods.

5.3.5 An example that illustrates this treatment is as follows:

Entity A purchased an asset on 1 January 20X0 for 100,000 and the asset had an estimated useful life of 10 years and a residual value of nil. The entity has charged depreciation using the straight-line method at 10,000 per annum. On 1 January 20X4, when the asset's net book value is 60,000, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years and, therefore, the total life is revised to 8 years. The entity should amend the annual provision for depreciation to charge the unamortised cost (namely, 60,000) over the revised remaining life of four years. Consequently, it should charge depreciation for the next 4 years at 15,000 per annum.

## 5.4 Residual value

5.4.1 As noted above, depreciation and amortisation are calculated by allocating the cost or revalued amount of an asset less its estimated residual value (that is, its 'depreciable amount') on a systematic basis over its useful life.

5.4.2 IAS 16 and IAS 38 defined the residual value of an asset as 'the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life'.

5.4.3 In accordance with IAS 38 the residual value of an intangible asset with a finite useful life should be assumed to be zero, unless:

- a third party has committed to purchase the asset at the end of its useful life; or
- there is an active market (as defined in IFRS 13) for the intangible asset; and residual value can be determined by reference to that market; and the market is likely to exist at the end of the asset's useful life.

5.4.4 Residual values should be based on prices current at the date of the Statement of Financial Position. That is, the residual value takes account of price changes up to that date (but not future price changes).

5.4.5 IAS 16 and IAS 38 requires that the residual values of property, plant and equipment and intangible assets should be reviewed at least at each year end and, if expectations are significantly different from previous estimates, the change should be accounted for as a change in estimate in accordance with IAS 8, 'Accounting policies, changes in accounting estimates and errors'. IAS 8 requires that the effect of a change in residual estimated useful life should be accounted for by adjusting the depreciation charge for the current period insofar as the change affects the current period and by adjusting the charge for future periods to the extent that it affects the future periods.

## 5.5 Land and Building Assets

5.5.1 Land is not depreciated, because it is considered to have an infinite life.

5.5.2 Building assets are depreciated over the period of their estimated useful lives. Property consists of land and building elements, and valuers will apportion the cost of the property between (depreciable) buildings and (non-depreciable) land elements. In addition, buildings should be considered to determine whether they should be split into component parts (see 3.10).

5.5.3 The suggested lives for land and buildings are as follows:

- Land – Not depreciated.
- Property held for disposal – Not depreciated.
- Buildings – Up to 75 years.
- Social Housing – Up to 80 years.

5.5.4 Surplus land and buildings which meet the definition of non-current assets held for sale, in accordance with IFRS 5, should be reclassified as such and should not be depreciated. For further guidance on non-current assets held for sale refer to chapter 7.

5.5.5 Properties that are surplus to requirements, but which do not meet the definition of non-current assets held for sale in accordance with IFRS 5 should continue to be revalued and depreciated in accordance with the policies above applying IFRS 13. In practice this will include properties identified as surplus which will not be available for sale until no longer in operational use. Guidance on valuation of such properties is also given in chapter 7.

## 5.6 Plant and Equipment

5.6.1 Plant and equipment assets are depreciated over the period of their estimated useful lives. Suggested lives are provided below:

- Plant, Machinery, Fixtures and Fittings – 3 to 50 years.
- Transport Equipment – 2 to 20 years.
- IT Equipment – 3 to 10 years.
- Other Structures – Up to 100 years.

5.6.2 It is recognised that within the States of Jersey there may also be non-standard assets i.e. those which do not readily fit into the categories listed in 5.6.1 above. In this case, an individual assessment of the asset life will be required, and asset depreciated accordingly.

## 5.7 Networked Assets

5.7.1 The annual depreciation charge for the road surface will be the value of the service potential replaced though the maintenance programme plus, or minus, any adjustment resulting from the annual condition survey. The value of maintenance work undertaken will be used as an indication of the value of the replaced part. Where the condition survey shows that deterioration in the road surface exceeds the service potential replaced by the maintenance programme the additional deterioration will be taken to the Statement of Comprehensive Net Expenditure as part of the depreciation charge. Where the condition survey shows that deterioration in the road surface is less than the service potential replaced by the maintenance programme the depreciation charge will be reduced by the excess maintenance.

5.7.2 The road accounting methodology detailed above should also be used for the foul and surface water sewerage system and the sea defences network. Where entities hold other networked assets the road surface accounting methodology may be used where it is appropriate to do so. However, approval to use the road surface methodology should first be obtained from the Treasurer of the States.

## 5.8 Assets under construction

5.8.1 Assets under construction are not depreciated, because depreciation is appropriate only when assets are available for operational use.

## 5.9 Intangible assets

5.9.1 Under IFRS, intangible assets can have an indefinite useful life. Whilst this is possible it is more likely that intangible assets will have a short (and therefore finite) useful life.

5.9.2 An intangible asset with a finite useful life is amortised over its expected useful life. An intangible asset with an indefinite useful life is not depreciated.

## 5.10 Finance leases & Right of Use Assets (resulting from IFRS 16)

5.10.1 An asset leased under a finance lease should be depreciated over the shorter of the lease term and its useful life, unless there is a reasonable certainty the lessee will obtain ownership of the asset by the end of the lease term in which case it should be depreciated over its useful life. IFRS 16 - defines the useful life of an asset as – “The period over which an asset is expected to be available for use by an entity; or the number of production or similar units expected to be obtained from an asset by an entity” - The depreciation policy used should be consistent with that for other depreciable assets that are owned by the entity. More details on accounting for Assets financed via Finance Lease are given in section 8.19.

5.10.2 An asset leased under an operating lease will result in a ‘Right of Use’ asset. This right of use asset will depreciated over the lease term. This is expanded on at section 8.15.

## 5.11 Depreciation and Amortisation Chargeable period

5.11.1 States of Jersey entities should calculate depreciation and amortisation monthly, with additions and disposals requiring to be accounted for accordingly. Hence, in the following paragraphs States of Jersey entities should interpret 'period' to be 'month'.

## 5.12 Commencement of depreciation and amortisation

5.12.1 Depreciation and amortisation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

5.12.2 The date at which an asset becomes available for use will not always be clear and a realistic approach must be adopted in deciding the appropriate date. The minimum period after which it would be expected that depreciation is applied is one quarter after the asset becomes available for use.

5.12.3 Buildings are deemed to become available for use at the earlier of:

- first use; or
- the date agreed as per the completion certification.

5.12.4 Assets under construction are not subject to depreciation, but when they become available for use, they must be reclassified as property, plant or equipment or intangible assets and subsequently depreciated or amortised.

## 5.13 Cessation of depreciation and amortisation

5.13.1 Depreciation and amortisation cease when an asset is derecognised. Derecognition is deemed to arise when the asset is no longer available for use and is removed from the asset register. This will occur because the asset is:

- Sold.
- Recorded in the asset register and losses register as being lost or destroyed. An asset that is totally lost or destroyed will be accounted for as being disposed. If a partial loss occurs, e.g. when an asset is damaged, this is treated as an impairment and the net book value of the asset will be reduced as appropriate. This will result in a reduced depreciation charge.
- Scrapped.

5.13.2 Therefore, depreciation and amortisation does not stop when an asset is idle.

5.13.3 Depreciation and amortisation will cease to be charged where the asset is classified as held-for-sale under IFRS 5. This would be where the asset is available for immediate sale in its present condition and the other conditions in IFRS 5 have been complied with (see further chapter 7).

## 5.14 Accelerated depreciation on surplus assets

5.14.1 Accelerated depreciation in respect of reductions in value of surplus assets is not applicable under IFRS. These should now be recognised as impairments, as described in chapters 6 and 7.

## 5.15 Disposal of assets

5.15.1 Depreciation and amortisation are chargeable in the period until an asset meets the definition of a non-current asset held-for-sale in accordance with IFRS 5. Depreciation and amortisation will cease to be charged where the asset is classified as held-for-sale under IFRS 5 (see further chapter 7).

5.15.2 Depreciation is not chargeable in the month in which disposal of an asset takes place. Depreciation is not chargeable in the month in which a building asset is formally declared to be held for disposal and revalued to open market value for alternative use but has not yet been disposed of. No further depreciation is charged on a surplus building asset after this point if it is not in operational use.

## 5.16 Fully depreciated assets

5.16.1 An asset may reach the end of its useful economic life and be fully depreciated, giving a nil net book value (assuming a nil residual value). If it continues to be used, no adjustment is made in the books and its cost and accumulated depreciation continue to be reflected until it is no longer available for use. Fully depreciated assets should continue to be recorded in the asset register. The replacement cost and accumulated depreciation continue to be revalued even where the net book value remains nil.

5.16.2 The necessity to adopt this treatment should be rare under IFRS, as estimates of useful economic life are required to be reviewed annually by departments.

## 5.17 Non-depreciation of certain assets

5.17.1 An argument is sometimes put forward that assets with very long lives and/or high residual values and/or which are maintained to a high standard will attract immaterial levels of depreciation. In the States of Jersey all assets, including those falling into this category, should be depreciated as a matter of policy to achieve consistency.

## 5.18 Depreciation calculation - On revalued assets

5.18.1 IAS 16 specifies that all the depreciation chargeable on revalued assets must be recognised as an expense in the Statement of Comprehensive Net Expenditure. However, as assets are required to be revalued at the date of the Statement of Financial Position and depreciation is calculated on opening values the effect of the year end revaluation on depreciation will not be accounted for until the following years.

5.18.2 The following example illustrates the depreciation of a revalued asset.

Example: Treatment of Depreciation in the Statement of Financial Position

Asset purchased for £10,000, written off over 5 years with a revaluation in year 3 to £15,000, increasing the remaining useful life by 1 year.

***Statement of Financial Position***

| | Year 1 | Year 2 | Year 3 (Asset Revalued) | Year 4 | Year 5 | Year 6 |
|---|---|---|---|---|---|---|
| **Gross Cost** | | | | | | |
| Opening | 10,000 | 10,000 | 10,000 | 15,000 | 15,000 | 15,000 |
| Revaluation | - | - | 5,000 | - | - | - |
| Closing | 10,000 | 10,000 | 15,000 | 15,000 | 15,000 | 15,000 |
| **Acc. Depr.** | | | | | | |
| Opening | - | (2,000) | (4,000) | - | (5,000) | (10,000) |
| Depr. | (2,000 ) | (2,000) | (2,000) | (5,000) | (5,000) | (5,000) |
| Revaluation depr. | - | - | 6,000 | - | - | - |
| Closing | (2,000 ) | (4,000) | - | (5,000) | (10,000) | (15,000) |
| **NBV** | 8,000 | 6,000 | 15,000 | 10,000 | 5,000 | - |

# 6 Subsequent measurement – Impairment


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## 6.1 Basic principles of impairment

6.1.1 In accordance with IAS 36, an item of property, plant and equipment or an intangible asset may not be carried in the Statement of Financial Position at more than its recoverable amount.

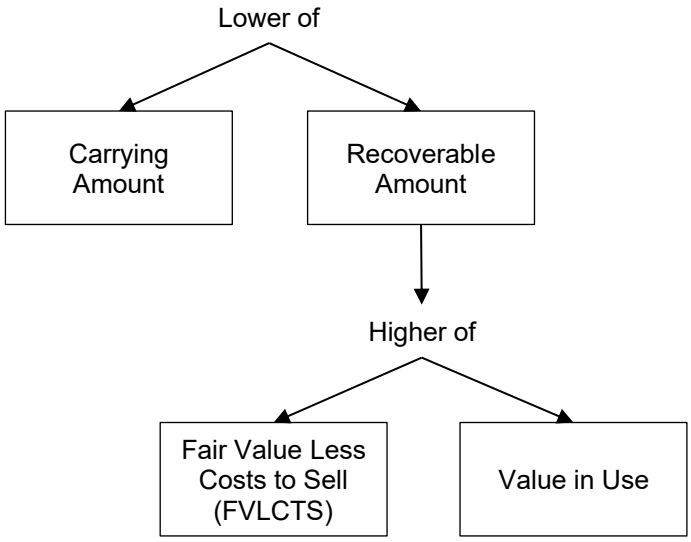
6.1.2 An impairment review involves estimating an asset's recoverable amount and comparing it with its carrying value. If the recoverable amount is lower than the carrying value, the asset is impaired and must be written down to the recoverable amount. An impairment cannot be avoided by arguing that the diminution in value is not permanent.

6.1.3 An asset's recoverable amount represents its greatest value to the business in terms of the cash flows that it can generate. That is the higher of:

- fair value less costs to sell (see 6.2 below); and
- value in use (see 6.3 below).

6.1.4 The impairment process can be expressed diagrammatically as described below:

**Valuation of non-current assets**




## 6.2 Fair value less costs to sell

6.2.1 Fair value less costs to sell is defined as the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties, net of estimated costs of disposal.

6.2.2 Where the revalued asset's fair value is based on Existing Use Value the only difference between that value and the fair value less costs to sell will be the direct incremental costs of disposing of the asset. Where these are negligible the recoverable amount (higher of fair value less costs to sell and value in use) will be close to, or greater than, the carrying amount and no impairment test is required. Where, however, the incremental disposal costs are material or where the fair value (carrying value) of a revalued asset is determined on a basis other than its market value the carrying amount may be greater or less than its recoverable amount and the standard should be applied as normal to determine whether or not there is an impairment loss.

## 6.3 Value in use

6.3.1 Value in use is defined as the present value of the future cash flows that are expected to be derived from the asset. The expected future cash flows include those from the asset's continued use in the business and those from its ultimate disposal. Value in use would normally be based on present value calculations.

6.3.2 The not-for-profit nature of most of the States of Jersey's activities means that value in use is not always measurable in terms of income. In these cases, the value in use is assumed to equal the cost of replacing the service potential provided by the asset. The cost of replacing the service potential of operational assets in the States of Jersey is existing use value or, if such a value is not available (as is the case for specialised property) Depreciated Replacement Cost. The above applies unless there has been a reduction in service potential. Such a reduction can arise for various reasons, including:

a) the purpose for which the asset was acquired is no longer carried out and there is no alternative use for the asset.

b) the asset is to be sold.

c) the asset cannot be used.

d) the asset is otherwise surplus and has no alternative use.

e) the asset is over specified for its current use (e.g., building constructed for a specialised purpose currently used as a store).

6.3.3 In the case of (a–d) above, the recoverable amount will be the asset's fair value less costs to sell – i.e., the amount at which the asset could be disposed of, less any disposal costs where the asset is no longer being used for the specialised purpose. In the case of the example in e), it will be the value of a store – i.e., without the higher specification.

6.3.4 Where an asset continues to provide its existing service potential in advance of future planned sale or other event that will reduce its current service potential, this impairment should be recognised to the extent of the current service potential that is expected to be foregone. For assets valued at Depreciated Replacement Cost based on current specialised use this can be assessed by comparing their recoverable amount with their anticipated carrying value at the point their specialised use is expected to cease and recognising any reduction as an impairment. In normal practice this will relate to the excess of anticipated Depreciated Replacement Cost over Fair Value at the point in time the properties are available for disposal or non-specialised use.

6.3.5 An impairment review of a States of Jersey asset therefore usually compares the carrying amount of the asset with the higher of existing use value/Depreciated Replacement Cost and net realisable value. However, if an asset cannot be used or is surplus to requirements, the impairment review compares the carrying amount of the asset with net realisable value only, since there is no value in use. Where an asset is over-specified for its current use, the impairment review compares the carrying amount of the asset with the higher of net realisable value and the existing use value/Depreciated Replacement Cost of an asset of the lower specification

6.3.6 Where, however, there is a reduction in the service potential of an asset which then remains in partial use providing a lower level of service, the asset will be written down immediately to its recoverable amount. This will reflect the capacity to provide that lower level of service. The written down value of the asset will be depreciated considering any change in the asset's life or residual value.

## 6.4 Requirements for an impairment review

6.4.1 An entity should assess at each reporting date whether there is any indication that an asset may be impaired. If any indication exists the entity should estimate the asset's recoverable amount. The recoverable amount should be compared with the asset's carrying value and if an impairment loss has arisen it should be recognised immediately.

6.4.2 Property, plant and equipment and intangible assets should be tested for impairment if, and only if, there is an impairment indicator.

6.4.3 Networked Assets will be subject to an annual impairment review.

6.4.4 Goodwill and intangible assets that are deemed to have an indefinite useful life are tested annually for impairment (irrespective of indicators).

6.4.5 Intangibles that are not yet ready for use must also be tested annually because they are not being amortised. The ability of an intangible asset to generate sufficient future economic benefits to recover its carrying amount is usually more uncertain before it is brought into use.

6.4.6 Donated assets are subject to impairments in the same way as other non-current current assets.

## 6.5 Impairment indicators

6.5.1 In assessing whether there is any indication that an asset may be impaired an entity should consider at least the following indicators:

***External sources of information, including:***

- A decline in the asset's market value that is significantly greater than would be expected because of the passage of time or normal use. Changes in market values reflect economic conditions, hence a significant fall in value is worthy of further investigation (at least to consider whether it is relevant) as it could be a symptom of another more pervasive change, for example technological change or a change in demand for the asset's output.
- Significant adverse changes that have taken place or are expected in the near future in the technological, market, economic or legal environment in which the entity operates or in its markets.

- Increases in interest rates or other market rates of return that may materially affect the discount rate used in calculating the asset's recoverable amount.

***Internal sources of information, including:***

- Obsolescence or physical damage affecting the asset.
- Significant adverse changes that have taken place or are expected in the near future in the extent to which, or in the way that, an asset is used or expected to be used. This includes the asset becoming idle, plans to discontinue or restructure the operation to which the asset belongs or the asset's disposal. It also includes reassessing the asset's useful life from indefinite to finite.
- Deterioration in the expected level of the asset's performance.
- There is a commitment by management to undertake a significant reorganisation and non-current assets are involved.
- The asset is held at value in use or Depreciated Replacement Cost, and there has been substantial capital work (i.e., in excess of depreciation charged in the year) carried out.

6.5.2 An indication of impairment does not necessarily mean there has been impairment. However, if there is an indication that an asset may be impaired the standard notes that the useful life, the depreciation method or the residual value for the asset need to be reviewed and adjusted if necessary, under the appropriate IFRS (for example, IAS 16, 'Property, plant and equipment' or IAS 38, 'Intangible Assets'). This applies even if no impairment loss is recognised for the asset.

6.5.3 Events after the reporting period may provide indications that an asset was impaired at the year end. However, if the event indicates that the impairment occurred after the year end the indicator is not considered.

## 6.6 Loss of economic benefits

6.6.1 The JFReM has adapted IAS 36 to distinguish between impairments that were caused by a clear consumption of economic benefits and other impairments. Only those impairment losses that do not result from a loss of economic value or service potential should be taken to the revaluation reserve. Impairment losses that arise from a clear consumption of economic benefits should be taken to the Statement of Comprehensive Net Expenditure. However, to ensure that the reserves figure on the Statement of Financial Position is consistent with the requirements of IAS 36 had this adaptation not been applied, the balance on any revaluation reserve (up to the level of the impairment) to which the impairment would have been charged under IAS 36 should be transferred to the accumulated reserve.

6.6.2 Indications of possible impairment are described in section 6.5 above. Where a newly constructed asset is brought into use and the subsequent valuation is less than cost, the write down may also be described as impairment.

6.6.3 Where there is evidence of obsolescence or physical damage to the asset, valuation will be required to determine the reduction in the service potential of that asset.

6.6.4 Where there is a commitment by management to undertake a significant reorganisation and non-current assets are involved, the impact of potential future impairments arising should be estimated.

6.6.5 In the case of any impairment due (i.e., write down to loss of economic benefits/recoverable amount) in the above circumstances will be charged to the Statement of Comprehensive Net Expenditure.

6.6.6 In the case of the above, the recoverable amount will be the asset's net realisable value (i.e. the amount at which the asset could be disposed of, less any disposal costs) or the value of the asset in alternative use.

## 6.7 Impairment charges to revaluation reserves

6.7.1 Downward revaluation and impairments not resulting from the consumption of economic benefits are written off against the revaluation reserve, until the carrying value reaches the level of depreciated historical cost. (For this purpose, 'historical cost' means the value at which an asset was taken on to the asset register if no historical cost information is otherwise available.) The effect of this is that the write-off should only be made against that proportion of the credit balance on the reserve which relates to the asset concerned. Downward revaluation below this should be recognised in the Statement of Comprehensive Net Expenditure.

## 6.8 Downward valuation vs. impairment

6.8.1 Downward revaluations result in an impairment only where an asset is revalued below its historical cost carrying amount. In these cases, the accounting treatment is as for any other impairment. All other downward movements (for example, as a result of market fluctuations or changes in valuation basis, such as where assets are moved from 'in use' to 'held for disposal') should be accounted for through the revaluation reserve to the extent that there is a credit in that reserve that relates to the revalued asset or portfolio of assets.

## 6.9 Recognition of impairment losses

6.9.1 As in the application of all International Financial Reporting Standards, impairment losses need only be recognised (i.e., accounted for) when they are material. What is material in a particular set of circumstances is a matter to be considered in the context of each entity, further advice on levels of materiality can be sought from the Group Reporting Team. The following paragraphs relate to material impairment losses.

6.9.2 When an asset has been impaired, the remaining carrying value less residual value (if any) should be amortised over the remaining useful economic life. The principle in accounting for non-current assets is that asset lives, and residual values should be reviewed at least annually to ensure they are realistic and be revised if this is not the case in the light of experience or changed circumstances. An impairment would warrant particular attention, because it may indicate that previously estimated asset lives are unrealistically long and need to be shortened.

## 6.10 Presentation of impairment losses

6.10.1 Impairment losses resulting from the loss of economic value or service potential should be recognised in Net Revenue Expenditure in full.

6.10.2 Impairment losses not resulting from the loss of economic value or service potential should be recognised against any revaluation reserve first (i.e., in Other Comprehensive Income), and only in Net Revenue Expenditure to the extent that it exceeds the revaluation surplus relating to that asset.

6.10.3 In the notes to the financial statements, the impairment loss should be treated as follows:

- Impairments/Revaluation Reversals charged to Other Comprehensive Income should be shown in the cost/valuation (top half) part of the PPE note;
- Impairments/Revaluation Reversals charged to Net Revenue Expenditure should be shown in the depreciation (bottom half) part of the PPE note.

## 6.11 Reversal of past impairments

6.11.1 IAS 36 requires that an entity should assess at each reporting date whether there is any indication that an impairment loss recognised in a previous period for an asset (other than goodwill) either no longer exists or has decreased. If there is any such indication the entity should estimate the recoverable amount.

6.11.2 A reversal of an impairment loss should be recognised in the Statement of Comprehensive Net Expenditure to the extent that the original impairment loss (adjusted for subsequent depreciation) was recognised in the Statement of Comprehensive Net Expenditure. Any remaining balance of the reversal of an impairment should be recognised in the revaluation reserve.

6.11.3 Events and circumstances which are the reverse of those listed in 6.5 as indications of impairment may indicate that the recoverable amount of an asset has increased. An increase in the value of an asset above the amount at which it would have been carried if the original impairment not taken place is a revaluation and should be presented as such.

6.11.4 Reversals will happen in cases where an economic loss has been recognised on an asset written down to EUV (disposal value) prior to disposal, which subsequently is taken back into operational use on a change of plan.

## 6.12 Operational surplus properties

6.12.1 Properties that are expected to become surplus but are still operational, should be assessed for compliance with IFRS 5.

## 6.13 Accounting entries - Impairment and impairment reversal

6.13.1 Changes to Net Book Value resulting from impairments should be recorded against Accumulated Depreciation, except where they are treated as downwards revaluations (see Chapter 4).

6.13.2 On impairment of a revalued asset, the balance on the revaluation reserve in respect of that asset up to the amount of the impairment will become fully realised and should be transferred to the Accumulated Reserve.

6.13.3 A reversal of an impairment loss should be recognised in the Statement of Comprehensive Net Expenditure to the extent that the original impairment loss (adjusted for subsequent depreciation) was recognised in the Statement of Comprehensive Net Expenditure. Any remaining balances of the reversal of an impairment should be recognised in the Statement of Changes in Taxpayers' Equity.

6.13.4 The underlying principle in reversing impairments previously charged to the Statement of Comprehensive Net Expenditure is to ensure that the same overall effect is achieved as would have been the case had the original downward revaluation not occurred. In other words, adjustments must be made in respect of the lower depreciation charged to the Statement of Comprehensive Net Expenditure following downwards revaluation. The reversal of the impairment does not necessarily have to stem from the same cause as the original impairment, and the application of upward revaluations may be taken to reverse earlier impairments.

## 6.14 Surplus assets

6.14.1 Non-current assets held for sale under IFRS 5 (see section 7) are outside the scope of IAS 36. A non–current asset classified as held for sale should be measured at the lower of its carrying amount and fair value less costs to sell in accordance with IFRS 5. Immediately before the initial classification of an asset as held for sale, the carrying amount of the asset should be measured in accordance with applicable IFRSs. A plan to dispose of an asset or cash generating unit is an internal indicator of impairment, specifically identified by the standard. In accordance with IFRS 5, prior to classification as held for sale the asset must be reviewed for impairment under IAS 36.

6.14.2 Properties may be identified as surplus significantly in advance of actually becoming surplus, particularly in the case of large hospitals. They should only be treated as surplus when they become available for disposal.

# 7 Non-current assets held for sale and disposal of non-current assets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## 7.1 Introduction

7.1.1 IFRS 5, 'Non-current assets held for sale and discontinued operations' sets out requirements for the classification, measurement and presentation of non-current assets held for sale. Non-current assets that meet the criteria to be classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell, with depreciation on such assets ceasing at the point of reclassification. Non-current assets that meet the criteria are also presented separately on the Statement of Financial Position.

7.1.2 Assets should only be classified as 'non-current assets held for sale and discounted operations' when the conditions in section 7.2 are met.

## 7.2 Conditions for classification as held for sale

7.2.1 IFRS 5 describes criteria that must be met before a non-current asset (or disposal group) will be classified as held for sale.

7.2.2 Firstly it must be available for sale in its present condition, allowing for terms that are usual or customary for such assets. Such terms might include, for example, search and surveys of the property. They do not include any conditions that have been imposed by the seller of an asset, for example, if the property is being marketed subject to the vendor obtaining planning permission, the property is not available for immediate sale in its present condition, it is being made available by the vendor as a property in a materially different condition (that is including planning permission). Hence the property would not be classified as held for sale.

7.2.3 The second condition for classification of an asset or disposal group as held for sale is that the sale must be highly probable. This is defined in IFRS 5 as 'significantly more likely than probable', which itself is, 'more likely than not'. The criteria for a sale to be highly probable are:

- The appropriate level of management must be committed to a plan to sell. This means a level of management that has the authority to sell the asset or disposal group; and
- An active programme to locate a buyer and complete the sale must have begun. This will include making it known that the asset or disposal group is for sale to those who might be interested; and
- The asset or disposal group must be actively marketed at a price that is reasonable compared to its current fair value. This should take account of local conditions in the market; and
- The sale should be expected to be recorded as completed within one year from the date of classified as held for sale. This is not approximately within one year or by the end of the following accounting period; and
- Finally, the actions required to complete the plan should indicate that it is not likely that there will be significant changes made to the plan or that the plan will be withdrawn.

7.2.4 In certain circumstances a Department can go beyond the one year condition. The sale date may extend beyond one year from the date of classification as held for sale when a delay is caused by events outside the Department's control occurring and there is evidence that the Department is still committed to the sale. IFRS 5 sets out a number of detailed conditions that need to be met if the asset or disposal group is to continue to be classified as held for sale when the one year condition is breached.

- the date the Department commits itself to a plan to sell the non-current asset or disposal group it has a reasonable expectation that other parties, that are not the buyer, will impose conditions that will extend the period required to complete the sale and i) actions required to meet those conditions cannot begin until a firm purchase commitment is obtained and ii) a firm purchase commitment is highly probable within one year;
- the Department obtains a firm purchase commitment and the buyer, or other parties unexpectedly impose conditions on the transfer of a non-current asset or disposal group that has been classified as held for sale that will extend the period required to complete the sale and i) the Department has taken timely actions to respond to the conditions; and ii) a favourable resolution of the factors delaying the sale is expected;
- during the one year period following classification as held for sale, circumstances occur that had previously been thought unlikely to happen and the asset or disposal group is not sold by the end of the year and i) during the initial one year period after classification as held for sale the Department took the necessary action to respond to the change in circumstances; ii) the non-current asset or disposal group is being actively marketed at a reasonable price given the changes in circumstances and the criteria in 7.2.2 and 7.2.3 continue to be met.

7.2.5 Departments cannot classify a non-current asset or disposal group as held for sale if it meets the criteria to be classified as held for sale after the date of the Statement of Financial Position. However, if the criteria are met between the date of the Statement of Financial Position and the date that the financial statements are authorised the Department should notify the Treasury as it may affect disclosure in the financial statements.

7.2.6 IFRS 5 deals with assets whose carrying value will be principally recovered through sale rather than through continued use. A non-current asset or disposal group that will be abandoned or scrapped cannot be classified as held for sale.

## 7.3 Measurement of non-current assets held for sale and disposal groups

7.3.1 A non-current asset or disposal group that has been classified as held for sale should be measured at the lower of:

- its carrying amount; or
- fair value less costs to sell.

7.3.2 Prior to measurement on this basis the non-current asset or the individual assets and liabilities within the disposal group are measured in accordance with applicable standards, for example, IAS 16 and IAS 38 as outlined above.

## 7.4 Fair value less costs to sell

7.4.1 Fair value is defined in IFRS 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’.

7.4.2 Costs to sell are ‘the incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense’. Note that costs must be incremental; internal costs cannot be included in costs to sell.

7.4.3 If the sale is expected to occur after one year from initial classification (because the Department is able to satisfy the rules set out in the first bullet in 7.2.4) costs to sell should be measured at their present value (that is discounted). Any increase in the costs to sell over time should be presented in the Statement of Comprehensive Net Expenditure as a financing cost.

## 7.5 Measurement prior to classification as held for sale

7.5.1 Assets should be measured in accordance with applicable IFRSs immediately before classification as held for sale. This ensures that any gains, losses or measures of consumption (depreciation and amortisation) are properly taken account of and not rolled up into, or masked by, measurement under IFRS 5.

## 7.6 Impairment

7.6.1 IAS 36 requires a Department to assess at each reporting date whether there is an indication that an asset may be impaired and, if any such indication exists, estimate the asset's recoverable amount. In cases where a Department decides to sell an asset or disposal group at some time in the future this is an indicator that the asset or disposal group may be impaired. The Department should, therefore, at that time or at the next reporting date, perform an impairment review.

7.6.2 In practical terms, this means that an impairment review will be required before IFRS 5 classification as held for sale only when a Department decided to sell a non-current asset or disposal group, but it does not meet the IFRS 5 criteria to be classified as held for sale until after the next reporting date.

## 7.7 Measurement on classification as held for sale

7.7.1 Following measurement in accordance with applicable accounting standards non-current assets or disposal groups held for sale should be measured at the lower of their carrying amount and fair value less costs to sell.

7.7.2 If the fair value less costs to sell is greater than the carrying value, then no further adjustment is made.

7.7.3 If the fair value less costs to sell is lower than the carrying value an impairment should be recognised on classification as held for sale.

## 7.8 Re-measurement of non-current assets held for sale

7.8.1 At each reporting date where a non-current asset or disposal group continues to be classified as held for sale it should be re-measured to the lower of its previous carrying value and fair value less costs to sell.

## 7.9 Depreciation, amortisation and interest

7.9.1 Non-current assets that are classified as held for sale or are part of disposal groups that are classified as held for sale, should not be depreciated or amortised.

## 7.10 Changes to a plan to sell

7.10.1 Departments classifying non-current assets or disposal groups as held for sale need to monitor the conditions in section 7.2. If they are not met at any point then the non-current asset or disposal group ceases to be classified as held for sale.

## 7.11 Measurement on declassification as held for sale

7.11.1 A non-current asset or disposal group that stops being classified as held for sale should be remeasured. This should be at the lower of:

- Its carrying amount prior to the asset or disposal group being classified as held for sale, adjusted for any depreciation, amortisation or revaluation that would have been recognised if the asset or disposal group had not been classified as held for sale;
- Its recoverable amount at the date of the decision not to sell.

7.11.2 Recoverable amount is defined as 'the higher of an asset's fair value less costs to sell and its value in use'.

## 7.12 Presentation and disclosure

7.12.1 Non-current assets held for sale and the assets and liabilities of disposal groups must be presented separately from other assets and liabilities in the Statement of Financial Position.

7.12.2 Any gain or loss on measurement of non-current assets or disposal groups held for sale should be disclosed in the notes to the financial statements.

7.12.3 In the period in which a non-current asset held for sale or disposal group has been classified as held for sale or sold the following should be disclosed:

- A description of the asset or disposal group;
- A description of the facts and circumstances of the sale or those leading to an expected disposal, and the expected method and timing of the disposal;
- Any gain or loss recognised in respect of such assets;
- Where applicable the segment that the non-current asset or disposal group is part of.

## 7.13 Calculation and Recognition of gain or loss on Disposal of Non-Current Assets

7.13.1 The final profit or loss on disposal is calculated by comparing any disposal proceeds, net of any incidental costs of disposal (for example, dismantling or transport costs), with the net book value of the asset at the end of the period.

7.13.2 The asset should be removed from the Statement of Financial Position at net book value as at the end of the period of disposal. The net book value of the disposed asset should be debited to a 'NBV of Assets Disposed'. The balances for revaluation in respect of assets disposed of in the year should be transferred from the Revaluation Reserve to the Accumulated Reserve.

7.13.3 The sales proceeds should be credited against the 'Proceeds from Disposal Account' with the resultant profit or loss on disposal (i.e. net balance on the 'Sale of Asset Account') being carried to the Statement of Comprehensive Net Expenditure.

7.13.4 Any non-incidental costs (i.e. not directly a result of the disposal) incurred during the disposal of an asset should be charged to the relevant object account within the Department's Net Revenue Expenditure, i.e. not offset against sale proceeds.

7.13.5 In the period of disposal, if the asset does not meet the definition of a non-current asset held for sale, depreciation/amortisation should be charged for the whole period as normal and the profit or loss should then be calculated as at the end of the period.

7.13.6 If the asset does meet the definition of a non-current asset held for sale, depreciation and amortisation should cease on classification as a non-current asset held for sale and the asset should be measured at the lower of carrying amount and fair value less costs to sell. In most cases, the fair values of specialised assets held by Departments are likely to exceed their carrying amounts since the former takes into account potential alternate uses. In such situations, an asset held for disposal would therefore continue to be measured at its carrying amount, and this value used to calculate any subsequent profit on disposal.

## 7.14 Timing of Disposal

7.14.1 The timing of disposal of a non-current asset will be determined in accordance with the guidance in section 5.13 which will inform the depreciation charge required.

7.14.2 It should be noted that disposal occurs only when an asset is no longer available for use. An asset which has been declared surplus to requirements but is still available for use will still incur depreciation and other charges.

7.14.3 A sale of an asset should be recognised when contracts are exchanged or completion takes place. Where uncertainty exists the recognition of sale should be deferred until completion. Recognition is dependent upon the certainty that the transaction will take place.

## 7.15 Assets transferred between States of Jersey entities

7.15.1 Assets will transfer between States of Jersey entities in a variety of circumstances. The accounting bases in respect of valuation are common to the States of Jersey as a whole, so it is appropriate to recognise the asset in the receiving entity at the same book value at which it was carried in the original States of Jersey entity. There will generally be no need to revalue assets on such transfers. Where an asset is demonstrably inaccurately valued in the original entity's books (e.g. an impairment review has identified that the carrying amount of the asset is greater than its recoverable amount) it will be appropriate to revalue prior to transfer. The key point however is that any revaluation is accounted for as an in-year transaction in either the donor's or recipient's books - a revaluation cannot occur "invisibly" at some stage after leaving one Statement of Financial Position and appearing in another.

7.15.2 Assets transferred as a result of a transfer of functions should be treated as a transfer between Statements of Financial Position. Where assets transferred between States of Jersey entities for other reasons, the transfer should be accounted for as either a sale and purchase at carrying value or a transfer between Statements of Financial Position, depending on the particulars of the transfer. Departments should seek advice from the Treasurer when determining which method to use.

7.15.3 Transfers of non-current assets that are not part of a transfer of functions should in general be transferred at fair value following the fair value measures in IFRS 3. Carrying value should normally be used as, due to the revaluation policy adopted by the States of Jersey, this should equate to fair value. Where a States' Decision specifies the value that should be used for such a transfer, this will be used instead (for example the Protocols for the Transfer of assets to and from the States of Jersey Development Company included in P.73/2010). Where an entity dissolves, and its assets pass to a successor entity these may also be transferred at less than carrying value.

# 8 Leases


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## 8.1 IFRS 16 Leases

8.1.1 From 1 January 2024, IFRS 16, has been adopted by States of Jersey in 2024. Guidance within this chapter should be read in conjunction with the current JFReM. Any queries in relation to the treatment of leases should be referred to the Group Reporting Team.

## 8.2 Introduction

8.2.1 JFReM compliance with IFRS 16 requires leased assets to be recognised, if they give rise to the right to control a leased asset with a corresponding lease liability. Introduction of IFRS 16 aims to improve disclosure of financial obligations arising from leasing and greater comparability between organisations.

8.2.2 There are two types of leasing relationship, in which either the fundamental risks and rewards of ownership are either transferred to the lessee (tenant/customer) or are retained by the lessor (landlord/supplier), as section 8.10 discusses.

## 8.3 Leasing arrangements external of States of Jersey entities

8.3.1 It is necessary to determine whether a leasing arrangement exists, as explored in sections 8.6 and 8.7, or whether a hire purchase contract exists as explored in section 8.8.

8.3.2 Section 8.10 provides guidance as to determining lease classification as a finance or operating lease. Sections 8.11-14 guide on treatment for both lessee (tenant/customer) and lessor (landlord/supplier) arrangements.

8.3.3 Recognition must adhere to guidance in section 8.9, where both land and building elements are leased.

## 8.4 Leasing arrangements between States of Jersey entities

8.4.1 As of the JFReM 2025, entities previously recognised as subsidiaries have been reclassified as Strategic Investments. Being no longer consolidated within the States of Jersey group, there will be no elimination of inter-company balances.

Lease treatment will be in accordance with section 8.3.

8.4.2 Should internal leasing arrangements occur, such as between departments, these lease agreements are eliminated for the accounts.

## 8.5 Definitions

### *Lease*

8.5.1 A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

### *Finance lease*

8.5.2 A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

For leases where the Government acts as a lessee, IFRS 16 does not distinguish between finance and operating leases. Accordingly, this definition applies only where the Government acts as a lessor.

### *Operating lease*

8.5.3 An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

For leases where the Government acts as a lessee, IFRS 16 does not distinguish between finance and operating leases. Accordingly, this definition applies only where the Government acts as a lessor.

### *Right-of-use asset*

8.5.4 Represents a lessee's right to use an underlying asset for the lease term. This refers to when you have an operating lease and the assets is the benefit of being able to

### *Contract Liability*

8.5.5 An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.

### *The lease term*

8.5.6 The non-cancellable period for which a lessee has the right to use an underlying asset, together with both: (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

8.5.7 Generally, the lease period can be divided into primary and secondary terms. In the primary lease term, the lessee is committed to make certain rental payments, with a termination payment sometimes payable on termination of the primary term. The secondary lease term is that in which the lessee may extend the lease if desired. The secondary term is normally included in the lease term if it is reasonably certain that the lease will so be extended.

8.5.8 It is important, therefore, to consider carefully, those parts of the lease that deal with:

- the leases non-cancellable period (sometimes referred to as the 'primary period').
- cancellation (or 'break') clauses.
- exchange and upgrade conditions
- options to extend the lease.

### *Break clauses*

8.5.9 If a lease contains a clean break clause, that is, where the lessee is free to walk away from the lease agreement after a certain time without penalty. If it is reasonably certain that a brake clause will be exercised, the lease duration will be deemed for accounting purposes to be from commencement date until the break date.

8.5.10 If no break date can be deemed reasonably certain, the lease term is deemed to be until the natural end of the lease contract. Any termination payments required as part of a break clause must be recognised in the liability measurement, but only if it is deemed reasonably certain to exercise.

### *Statutory rights of renewal*

8.5.11 Where the terms of renewal are set at what is anticipated to be significantly below a fair market rental then it is reasonable to assume that the lessee will act in their own commercial interests and extend the lease. In these situations, the lease term would include both the minimum period and the renewal period.

8.5.12 Where, however, the rentals in the secondary period are based on a fair market basis, such that there is no compelling commercial reason why the lessee must extend the lease, the lease term will normally exclude the secondary period.

8.5.13 Other factors that may need to be considered in determining whether secondary periods should be included in the lease term are other forms of commercial compulsion such as penalties. For example, if the lessee is subject to a penalty for failing to renew a lease or exercise a purchase option, or if the return conditions stipulated in the lease are unduly penal, it may be to the lessee's advantage to continue to lease the asset. Similarly, if the lessee's business is dependent on the asset such that the cost of its removal and disruption of business are disproportional to the costs of continuing the lease, the secondary period should be included in the lease term.

8.5.14 Conversely, an asset may become surplus to operational requirements in the future. If the asset is determined to be redundant after the primary lease period, no secondary period should be recognised in the lease term, even if a commercial benefit can be established for extending the lease.

## 8.6 Determining whether a lease exists

8.6.1 Departments sometimes enter into arrangements that do not take the legal form of a lease, but which nevertheless convey a right to use an asset in return for a payment or series of payments. Examples include:

- Outsourcing arrangements.
- Rights to use capacity in the telecommunications industry.
- Take or pay contracts.

8.6.2 IFRS 16 identifies that a lease exists if the following criteria are satisfied:

- **Identified Asset:** An asset is either explicitly or implicitly specified in an arrangement. Where the lessor has substantive substitution rights, the asset is not considered to be a specified one.
- **Right to Control:** The lessee must have the right to control the use of the identified asset for a period of time. This includes the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset.
- **Lease Term:** The lease term must be more than 12 months unless the asset is of low value.

8.6.3 Note that directing the use of an asset does not extend to an asset class usage that is specified in a lease agreement. For example, an agreement for a leasing a building that is to be used as office space does not contravene the right of usage. Whilst the lessee cannot change the asset's nature, tests for whether a lease exists would instead focus on the ability to direct how such office space is used.

8.6.4 Economic benefits from use of the asset also include the support of business operations, not only relevant for the office example. As a not-for-profit organisation, this application of economic benefits is likely to be relevant for lease recognition.

8.6.5 IFRS 16 guidance notes that the initial assessment of the lease agreement, is only revisited if one of the following four conditions are met:

- There is a change in the contractual terms, unless the change only renews or extends the arrangement.
- A renewal option is exercised, or an extension is agreed to by the parties to the arrangement, unless the term of the renewal or extension had initially been included in the lease term in accordance with the requirements of IFRS 16.
- There is a change in determining whether fulfilment is dependent on a specified asset; or
- There is a substantial change to the asset, for example a substantial physical change to property, plant or equipment.

## 8.7 Leasing – Substance over form

8.7.1 It is also important to consider whether transactions that involve the legal form of a lease do in fact have the substance of a leasing arrangement.

8.7.2 IFRS 16 explicitly identifies the nature of the transactions as being important in identifying a lease, regardless of the legal arrangements. IFRS 16 reiterates the 'substance over form' concept within the IFRS Conceptual Framework.

8.7.3 Regarding legal form interpretations, IFRS 16 detail and guidance supersedes the previously used SIC 27. Identifying whether a lease agreement requires recognition is covered within the previous section, with a requirement to satisfy all of the following criteria, irrespective of any legal considerations:

- An asset is either explicitly or implicitly specific in an arrangement. Where the lessor (supplier) has substantive substitution rights, the asset is not considered to be a specified one.
- A right to control the asset must be transferred to the lessee in which they have both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.
- A period of time can be established, either by contract terms or implicit agreement.

## 8.8 Hire purchase contracts

8.8.1 Some leasing agreements contain an option to purchase, in which the lessee may purchase the right-of-use asset at a future date.

8.8.2 Where the terms of purchase are set at what is anticipated to be significantly below a fair market rental, then it is reasonable to assume that the lessee will act in their own commercial interests and exercise the option to purchase. The statutory rights of renewal definition explore other factors to determine whether an option is reasonably certain to be exercised. Whilst noted in the context of lease term extensions, it is applicable to purchase options, including where asset disposal – including restorative costs and activities – are considered disproportionate to the costs of purchasing and continuing to use the asset.

8.8.3 If it is deemed reasonably certain that a purchase option of an asset covered by a lease agreement will be exercised, the asset and liability are recorded in the following manner:

- The lease liability is recognised as the present value of future payments, comprising of both lease payments and purchase price.
- The asset should be recognised as equivalent to the liability.
- The asset should be depreciated over the duration of the asset's useful life.

8.8.4 Once the asset is purchased, consideration must be given to how the asset class is typically treated under IAS 16, specifically whether the asset class is to be held under the revaluation model.

8.8.5 If the cost model is applied to the asset class, no adjustment to carrying value is required. The right-of-use asset should be derecognised, and an owned asset recognised, of the same value.

8.8.6 If the revaluation model is applied to the asset class, the right-of-use asset should initially be recognised as a right-of-use asset under the cost model. When the transfer of ownership through purchase occurs, the right-of-use asset is derecognised and an owned asset at fair value is recognised. Any movements in the asset value are to be recorded in Other Comprehensive Income.

## 8.9 Treatment of building and land components

8.9.1 IFRS 16 requires that the land and buildings elements of a lease are both classified and treated separately.

8.9.2 Section 8.10 – Determining the lease type, below, explores the criteria of a finance lease, which must be applied to the separate land and building elements. In the case where ownership is deemed to have been transferred for the duration of a building asset's life, a finance lease is likely to be recognised. However, land can generally be deemed to have an indefinite useful life, meaning that the risks and rewards of ownership could be retained by the lessor. In this instance, a finance lease would be recognised for the building asset and an operating lease for the land asset.

8.9.3 However, this applies when the right to control the use on land is distinctly conferred. Where land and building are leased together and there is no right transferring in direct the use of land, both the land and the building can be recognised as a single unit asset and do not require separation.

8.9.4 Similarly, the separate classification and treatment of land and building is not required where it can be argued it is neither practical nor meaningful to do so. Where a lease effectively binds the specific use of both, for example office space, the service potential are derived from using the property; the service potential being it's value in enabling the public sector to deliver it's services. In this instance, separating the land component is impractical and not necessary.

8.9.5 In recognising asset values, the cost model will be used to value the collective asset and then apportion the values among the separate land and building lease. The value will be apportioned to land and building on a basis of respective fair value. If the fair value of land would be deemed to be one third of the collective fair value, the land asset recognised will be equivalent to one third of the right-of-use asset.

8.9.6 Subsequently, for right of use assets in which the land and building components are distinguished from one another, the building asset will be depreciated as normal whereas the land asset will not. For assets applying the approach in 8.9.4, there is no separation of land and building components and so the combined right-of-use asset is depreciated over the lease term.

8.9.7 Additionally, separate measurement of the land and buildings element is not required when the lessee's interest in both the land and the building is classified as an investment property under IAS 40 as long as the property interest is accounted for as a finance lease and the fair value model is adopted.

## 8.10 Determining the lease type

8.10.1 The transfer of the risks and rewards of ownership are determine lease classification and subsequent treatment.

8.10.2 IFRS 16 provides the following examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease (see definitions section) effective ownership is transferred to the lessee:

- The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
- The lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised.
- The lease term is for the major part of the economic life of the underlying asset even if title is not transferred.
- At the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset.
- The underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

8.10.3 For some arrangements, it may be unclear as to which party is subject to the risks and rewards of ownership. Responsibility for asset maintenance, insurance etc. can be an indicator that control resides with one part. However, a lessor that bears these costs and recovers them through rentals makes this a meaningless indicator.

## 8.11 Accounting for Operating Leases – for lessee

8.11.1 IFRS 16 impacts are most notable for lessees (tenants) in accounting treatment of operating leases. The States of Jersey entities engage in numerous such agreements as lessee.

8.11.2 As noted in definitions, an operating lease is one in which there is no substantial transfer of the risks and rewards of ownership. These criteria are explored within the Determining lease type section (8.10) of leases. If effective ownership is not transferred, it is by default an operating lease and is treated as follows:

## 8.12 Capitalisation

8.12.1 As lessee, a right of use asset and a lease liability must be recognised irrespective of whether a lease is classified as finance or operating in nature. These should be recorded as of the commencement of the lease term.

8.12.2 A contract liability will be determined as the present value of future payments as at inception of the lease. Guidance on discounting will be provided from the Group Reporting team, being discounted either at the interest rate implicit of the lease or as the organisational cost of borrowing as a proxy alternative.

8.12.3 A right-of-use asset is generally recognised as the cost model, though considers the entire of the following:

- Initial measurement of the lease liability.
    - Plus, any payments made at or before commencement date.
    - Less any lease incentives.
    - Plus, any initial direct costs.
    - Plus, any estimate of restoration costs. IAS 37 would be applied to determine a provision – separate of the lease liability – for which an equal value is to be added to the right-of-use asset at recognition.

8.12.4 The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset and it is the date of initial recognition of the lease assets and liabilities.

## 8.13 Contract Liability

8.13.1 A contract liability will be determined as the present value of future lease payments, as identified with the capitalisation treatment.

8.13.2 These payments must include both the minimum future payment period, or primary period, and optional; secondary period if it is deemed that the right to extend will be exercised.

8.13.3 Rather than recognising a straight-line expense over the duration of the lease, payments made are debited directly against the contract liability held on the balance sheet.

8.13.4 The lease liability is also to be unwound over the duration, in which a finance cost is to be recognised on the profit statement.

## 8.14 Revaluation and Impairments

8.14.1 Assets will be revalued in line with the requirements of Chapter 4.

8.14.2 States of Jersey entities must also assess leased land and buildings for impairment on an indication of impairment under IAS 36.

## 8.15 Depreciation

8.15.1 Building assets should be depreciated over the shorter of the lease term and its useful life. If there is a reasonable certainty of a purchase option being exercised, an asset should be depreciated over its useful life.

8.15.2 The depreciation policy used should be consistent with that for other depreciable assets that are owned by the entity in applying IAS 16.

8.15.3 Section 8.9 clarifies the depreciation treatment of both land and buildings. For assets applying the approach in 8.9.4, there is no separation of land and building components and so the combined right-of-use asset is depreciated over the lease term.

## 8.16 Additional disclosures

8.16.1 Right of use assets require a separate line with the PPE note.

8.16.2 Disclosure of future minimum payments for each year for years one to five, and for all lease payments beyond five years collectively.

## 8.17 Exemptions

8.17.1 A lessee may be exempt from recognising an asset. To do so, permission from the Group Reporting team must be sought. The exemption criteria can be summarised as:

- Low Value Assets: in which the right-of-use asset recognised is immaterial in value. However, if the purchase price of a new asset would be considered above £10,000, the low value asset exemption cannot be applied. Where a lease liability may be small for a car, the purchase price is typically above the threshold and so the asset and liability require recognition.

- Short-Term Leases: in which agreements lasting for twelve months or less do not require recognition. If a car is to be leased for a period of up to twelve months, it can be exempt from recognition irrespective of failing the low value asset exemption test.

8.17.2 The definition for lease term must be adhered to; if it is deemed reasonably certain that a lease term will be extended beyond twelve months, the lease agreement does not qualify for a short-term exemption.

## 8.18 Peppercorn rents

8.18.1 For some assets, the States of Jersey entities will engage in a lease agreement in which payments are significantly below the fair market value. Examples include agreements to use land for primary schools, at no cost. Where the lease liability would be nil in this instance, an asset value of nil is not an appropriate measure of the right-of-use asset.

8.18.2 Where a negligible liability may exist, the asset may not be negligible in value and such an asset would benefit from assumptions drawn via the revaluation model, dependent upon asset class. Please explore the nature of such lease agreements with Group Reporting.

## 8.19 Accounting for Finance Leases – for lessees

8.19.1 IFRS 16 impacts are less notable for lessees (tenants) in accounting treatment of finance leases. The States of Jersey entities do not typically engage in such agreements as lessee.

8.19.2 As noted in definitions, an operating lease is one in which there is no substantial transfer of the risks and rewards of ownership. These criteria are explored within the Determining lease type section of leases (8.10). If effective ownership is deemed to be transferred, the finance lease is treated as follows:

## 8.20Capitalisation

8.20.1 As lessee, a right of use asset and a lease liability must be recognised irrespective of whether a lease is classified as finance or operating in nature. These should be recorded as of the commencement of the lease term.

8.20.2 A contract liability will be determined as the present value of future payments as at inception of the lease. Guidance on discounting will be provided from the Group Reporting team, being discounted either at the interest rate implicit of the lease or as the organisational cost of borrowing as a proxy alternative.

8.20.3 A right-of-use asset is generally recognised as the cost model, though considers the entire of the following:

- Initial measurement of the lease liability.
    - Plus, any payments made at or before commencement date.
    - Less any lease incentives.
    - Plus, any initial direct costs.
    - Plus, any estimate of restoration costs. IAS 37 would be applied to determine a provision – separate of the lease liability – for which an equal value is to be added to the right-of-use asset at recognition.

8.20.4 The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset, and it is the date of initial recognition of the lease assets and liabilities.

## 8.21 Contract Liability

8.21.1 A contract liability will be determined as the present value of future lease payments, as identified with the capitalisation treatment.

8.21.2 Rather than recognising a straight-line expense over the duration of the lease, payments made are debited directly against the contract liability held on the balance sheet.

8.21.3 The lease liability is also to be unwound over the duration, in which a finance cost is to be recognised on the profit statement.

## 8.22 Revaluation and Impairments

8.22.1 Assets will be revalued in line with the requirements of Chapter 4.

8.22.2 States of Jersey entities must also assess leased land and buildings for impairment on an indication of impairment under IAS 36.

## 8.23 Depreciation

8.23.1 Building assets should be depreciated over the shorter of the lease term and its useful life. If there is a reasonable certainty of a purchase option being exercised, an asset should be depreciated over its useful life.

8.23.2 The depreciation policy used should be consistent with that for other depreciable assets that are owned by the entity in applying IAS 16.

## 8.24 Additional disclosures

8.24.1 Right of use assets require a separate line with the PPE note.

Disclosure of future minimum payments for each year for years one to five, and for all lease payments beyond five years collectively.

## 8.25 Exemptions

8.25.1 A lessee may be exempt from recognising an asset. To do so, permission from the Group Reporting team must be sought. The exemption criteria can be summarised as:

- Low Value Assets: in which the right-of-use asset recognised is immaterial in value. However, if the purchase price of a new asset would be considered above £10,000, the low value asset exemption cannot be applied. Where a lease liability may be small for a car, the purchase price is typically above the threshold and so the asset and liability require recognition.

- Short-Term Leases: in which agreements lasting for twelve months or less do not require recognition. If a car is to be leased for a period of up to twelve months, it can be exempt from recognition irrespective of failing the low value asset exemption test.

8.25.2 The definition for lease term must be adhered to; if it is deemed reasonably certain that a lease term will be extended beyond twelve months, the lease agreement does not qualify for a short-term exemption.

## *8.26 Peppercorn rents*

8.26.1 For some assets, the States of Jersey entities will engage in a lease agreement in which payments are significantly below the fair market value. Examples include agreements to use land for primary schools, at no cost. Where the lease liability would be nil in this instance, an asset value of nil is not an appropriate measure of the right-of-use asset.

8.26.2 Where a negligible liability may exist, the asset may not be negligible in value and such an asset would benefit from assumptions drawn via the revaluation model, dependent upon asset class. Please explore the nature of such lease agreements with Group Reporting.

## 8.27 Accounting for Operating Leases – for lessors

8.27.1 IFRS 16 impacts are less notable for lessors (landlords) in accounting treatment. The States of Jersey entities engage in numerous agreements as lessor.

8.27.2 As noted in definitions, an operating lease is one in which there is no substantial transfer of the risks and rewards of ownership. These criteria are explored within the Determining lease type section (8.10) of leases.

8.27.3 If the lease type is not deemed to be a finance lease, in which effective ownership is not transferred, it is by default an operating lease.

### *Asset derecognition*

8.27.4 A leased asset is not derecognised when leased via operating lease.

### *Lease receivable*

8.27.5 No receivable is recognised for future rental payments made to the lessor.

### *Lease income*

8.27.6 Lease payments received are recognised as income when they are received, typically over a straight-line basis over the lease term.

### *Interest income*

8.27.7 There are no interest income elements for operating leases.

### *Additional disclosures*

8.27.8 Assets leased out by operating leases require a separate line with the PPE note.

8.27.9 Disclosure is required of future minimum payments received for each year for years one to five, and for all lease payments beyond this.

## 8.28 Accounting for Finance Leases – for lessors

8.28.1 IFRS 16 treatment of finance leases as lessor under IAS 17 have not notably changed in accounting treatment. The States of Jersey entities rarely engage in such agreements as lessor.

8.28.2 As noted in definitions, an operating lease is one in which there is no substantial transfer of the risks and rewards of ownership. These criteria are explored within the Determining lease type section of leases.

8.28.3 If the lease type is not deemed to be a finance lease, in which effective ownership is not transferred, it is by default an operating lease.

### *Asset derecognition*

8.28.4 A leased asset is derecognised when leased via finance lease. A profit or loss on disposal must be recognised when doing so, consisting of the difference between the lease receivable and net book value of disposed asset.

### *Lease receivable*

8.28.5 A lease receivable is recognised as being the present value of future income received, discounted to the interest rate implicit of the lease. Where this interest rate cannot be readily determined, the incremental borrowing rate of the lessee.

### *Lease income*

8.28.6 Lease payments received are offset against the receivable, so that the lease receivable reduces over the duration of the lease term.

### *Interest income*

8.28.7 Applying the same methodology of unwinding discounted future payments in establishing a liability as lessee, the lessor shall unwind the receivable and recognise this increase in receivable as interest income.

### *Additional disclosures*

8.28.8 As the leased asset is not represented directly on the balance sheet, it is not required to be identified within the PPE note.

8.28.9 Nonetheless, disclosure is required of future minimum payments received for each year for years one to five, and for all lease payments beyond this.

## 8.29 Improvements to leased assets

8.29.1 Normal repair and maintenance expenditure on a leased asset should be charged to revenue. Expenditure can be capitalised where it involves renovation or upgrading when it is probable the future economic benefits associated with the subsequent expenditure will flow to the entity. The subsequent expenditure should be capitalised and treated as a separate, purchased asset. This applies equally to operating and finance leases, even though under an operating lease the original leased asset was not capitalised.

8.29.2 Depreciation on the 'subsequent expenditure' asset is charged to the Statement of Comprehensive Net Expenditure and the asset is included in average relevant net assets when calculating the rate of return. The life of the improvements will be the shorter of the remaining lease term and the assessed life of the improvement.

8.29.3 On reversion of the original asset to the lessor, any such improvements should be treated as a disposal.

8.29.4 Contractual variations in lease contracts may require additional assets to be created or increase the value of the overall leased asset to be accounted for. These should therefore be assessed in terms of IFRS 16.

## 8.30 Termination of lease

8.30.1 Early termination of a finance lease can be considered as a disposal of the capitalised asset by the lessee if the asset reverts to the lessor. In this case a profit or loss on disposal may arise. Profit/loss on disposal is calculated by comparing the net book value of the asset, less the outstanding lease creditor, with any final cash settlement.

## 8.31 Operating lease incentives

8.31.1 A complication of operating leases concerns lease incentives. In negotiating a new or renewed operating lease, a lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee; the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, and costs associated with a pre-existing lease commitment of the lessee); and the gift of an asset such as the lessor bearing directly all the costs of the fitting out the property to the lessee's specifications. Alternatively, initial periods of the lease term may be agreed to be rent-free or at a reduced rent.

8.31.2 The initial assessment of an operating lease agreement, the lessee will deduct lease incentives received at or before the commencement date from the value of the right of use asset.

8.31.3 Similarly, as lessor of a finance lease, the net investment in the lease payments arising to the lease receivable shall deduct lease incentives payable or given at or before the commencement date.

# 9 Asset Accounting

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## 9.1 Introduction

9.1.1 A significant proportion of accounting entries for asset accounting are automated within Connect Finance. Asset accounting tables which show the accounting entries for the different types of asset transaction can be found in Section 10.3.1.

9.1.2 Standard Operating Procedure (SOP) manuals are available under Asset Accounting documentation for Connect Finance.

9.1.3 This chapter provides an explanation of the Asset Chart of Accounts in Connect Finance.

## 9.2 Explanation of Asset GL Accounts

9.2.1 The Chart of Accounts for accounting for PPE assets has been designed with the following objectives:

- To provide enhanced transparency on asset movements (for example, separating out asset movements as the result of impairments or revaluations). Different transaction types are used for this, which are system generated through the various applications in Connect Finance under the Fixed Assets module.
- To enable preparation of the year end accounts directly from the ledger (e.g. PPE Notes, Cash Flow Statements).
- To facilitate system-based solutions which simplify accounting for assets.

9.2.2 The Chart of Accounts has the following classes based on guidance (see 2.2.4)

- Land
- Buildings
- Social Housing
- Networked Assets (split into Highways, Sea Defences and Drainage in the CoA)
- Transport Equipment
- Plant, Machinery and Fixture and Fittings (including Marine Structures, Medical Equipment and other machinery).
- Other Structures (Pump Stations, Sludge Tanks and other similar structures)
- Antiques and Works of Arts.
- Information Technology Equipment
- Information Technology Software
- Property Held for Disposal.
- Assets Under Course of Construction (AUCC) – split between Tangible and Intangible.

9.2.3 The GL's to be used for purchase assets in each class are as follows:

| GL Accounts | SoFP | | SoCNE | |
|---|---|---|---|---|
| **Asset Class** | **Cost Account** | **Accumulated Depreciation** | **Depreciation** | **Impairments** |
| **Land** | 10100000 | 10100050 | 50031000 | 50041000 |
| **Buildings** | 10110000 | 10110050 | 50031100 | 50041100 |
| **Property Held for Disposal** | 10900000 | 10900050 | 50039000 | 50049000 |
| **Social Housing** | 10130000 | 10130050 | 50031300 | 50041300 |
| **Highways** | 10200000 | 10200050 | 50032000 | 50042000 |
| **Drainage** | 10210000 | 10210050 | 50032100 | 50042100 |
| **Sea Defences** | 10220000 | 10220050 | 50032200 | 50042200 |
| **Other Structure** | 10330000 | 10330050 | 50033300 | 50043300 |
| **Transport Equipment** | 10300000 | 10300050 | 50033000 | 50043000 |
| **Plant & Machinery** | 10310000 | 10310050 | 50033100 | 50043100 |
| **Medical Equipment** | 10320000 | 10320050 | 50033200 | 50043200 |
| **Antiques & WofA** | 10370000 | 10370050 | 50033700 | 50043700 |
| **IT Hardware** | 10350000 | 10350050 | 50033500 | 50043500 |
| **IT Software** | 10360000 | 10360050 | 50033600 | 50043600 |
| **AUCC Tangible** | 10400000 | N/A | N/A | 50044000 |
| **AUCC Intangible** | 10410000 | N/A | N/A | 50044100 |
| **RoU Asset- Buildings** | 10600000 | 10600050 | 50036000 | 50046000 |
| **RoU Asset- Vehicles** | 10610000 | 10610050 | 50036100 | 50046100 |
| **RoU Asset- Oth Equip** | 10620000 | 10620050 | 50036200 | 50046200 |

## 9.3 Transaction types used in Asset Accounting

### *Transaction types*

9.3.1 There are various transaction types used in Asset Accounting within Connect Finance – SAP. Within Asset Accounting, the transaction type classifies the business transaction (for example: acquisition, retirement, transfer). It also controls various system actions when posting business transactions; it therefore determines how the transaction is processed in the system.

9.3.2 The transaction type is the basis for the system assigning a business transaction to a column of the Asset History Sheet app.

9.3.3 Each transaction type is assigned to a transaction type group. The transaction type group performs various control functions for posting and for calculating depreciation. The transaction type groups are also predefined by the system. Examples for transaction type groups are year-end carry forward, acquisition, retirement, transfer prior-year acquisitions being retired and manual ordinary depreciation.

9.3.4 The business transactions are subdivided based on the transaction type group into:

- Transactions that influence the acquisition and production costs of fixed assets
- This includes acquisitions, retirements, transfers, and post-capitalizations.
- Manual depreciation
- Write-Ups
- Revaluation

9.3.5 Most of the transactions mentioned above are system generated and cannot be posted manually. It uses the various apps within the Connect Finance interface under the Asset Accounting role.

9.3.6 Transactions shown in the tables below are for reference only. Only specific users with the Asset Accounting role setup in Connect Finance can process these transactions.

| Assets - Cost/Valuation (Gross Carrying Value) | | |
|---|---|---|
| **Transaction Type** | **Transaction description** | **Relevant information** |
| ZPD, ZPL | Additions/Acquisitions | These codes should not be used without discussion with Group Reporting team. Can be used in certain circumstances such as donated and leased assets. |
| X80 | Revaluation | Transaction used to increase the NBV of the asset via upward revaluation. |
| 200, 210 | Retirement (Disposal) | Gross carrying value of an asset disposed |
| X62, X81 | Impairment | Impairments to assets due to a Loss on Revaluation (where the asset had previously been revalued to more than carrying value) |
| X63 | Impairment Reversal | Reversal of prior year impairments due to Gain on Revaluation |
| 116 | Transfers | Gross carrying value of assets transferred between classes. Transfers from AUCC to one of the asset classes. |

| Assets - Accumulated Depreciation | | |
|---|---|---|
| **Transaction Type** | **Transaction description** | **Relevant information** |
| X81 | Revaluations | Acc. Depn. eliminated as part of a revaluation |
| 200, 210 | Retirements/Disposals | Acc. Depn. on retired assets |
| X52 | Impairments | Impairments to assets due to consumption of economic benefit |
| X82 | Impairments Reversal | Reversal of impairments due to consumption of economic benefit |
| 500 | Depreciation | Monthly Depreciation charges |

### *Disposals*

9.3.7 When assets are disposed the remaining carry value on the Statement of Financial Position will be transferred to the SoCNE (55001000 – Disposal Asset NBV). This will be offset by any proceeds from the sale of the asset (55000000 - Disposal - Proceeds).

## 9.4 Other Relevant Object Accounts

9.4.1 Income recognised as a result of the donation of a Non-Current Asset must be recorded against 40016050 – Donated Assets Received.

# 10 Accounting and Budgeting Entries for Transfers from Assets under Course of Construction to Assets

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## 10.1 Introduction to the Settlement Process in Connect Finance

10.1.1 The settlement process in Connect Finance is a key function that ensures accurate cost allocation and financial tracking for projects and other internal activities. It allows us to transfer costs and revenues incurred during a project/activity to appropriate cost objects, such as Cost Centres, Internal Orders, Profitability Segments, or Asset Accounts. This helps maintain accurate financial statements and project cost control.

### *Settlement Process Overview*

10.1.2 **Cost Collection:** during the project, costs are accumulated on WBS elements. These costs can include labour, materials, overhead, and other project expenses.

10.1.3 **Defining Settlement Rules:** settlement rules specify how and where the costs should be transferred. Rules define the receiving cost objects (e.g., Cost Centres, Orders, Assets, or Profitability Analysis segments) and the percentage or amounts to be settled. These rules are set up during project planning or before executing the settlement process.

10.1.4 **Executing the Settlement:** the settlement run is executed periodically (e.g., monthly) to transfer the accumulated costs to the designated cost objects. Connect Finance processes the rules and allocates costs, accordingly, ensuring accurate reflection in the financial records.

10.1.5 **Final Settlement:** at the end of the project, a final settlement is carried out. This process ensures that all remaining costs are cleared from the project accounts, and no costs are left unallocated. It typically involves a final check to ensure all incurred costs have been properly accounted for and settled. The final settlement closes the project from a cost accounting perspective, ensuring there are no outstanding balances, and all costs are accurately posted to their final destinations.

### *Final Settlement Process*

10.1.6 The final settlement is a crucial step in the project/departmental activity lifecycle within Connect Finance. It is performed at the end of a project/activity to ensure that all costs have been appropriately allocated to the correct cost objects and that the project/activity is fully closed from a cost accounting perspective.

10.1.7 Purpose of final settlement:

- **Clear remaining costs**: ensure that any residual costs still sitting on the project/activity (WBS elements) are settled.
- **Close financial accounts**: making sure all financial transactions related to the project are finalised and properly accounted for.
- **Prepare for project/activity closure**: enable the project/activity to be officially closed, preventing further financial transactions. This can be done in two stages:

    1. Changing the status to TECO (Technically Complete) – this will stop any further commitments or purchase documents being raised against the project/activity but still allow financial transactions.
    2. Changing the status to CLSD (Closed) – this status indicates that the project/activity is now fully closed which will block any further postings.

### *Preparing for Final Settlement*

10.1.8 Before executing a final settlement, certain preparatory tasks should be completed:

1. **Review costs**: check the project for any outstanding costs or transactions that may need to be processed. This involves confirming that all project expenses, invoices, and accruals have been posted.

2. **Verify settlement rules**: ensure that the correct settlement rules are in place, specifying how any remaining costs should be distributed. If necessary, adjust the rules to make sure the final costs are allocated correctly.

3. **Check project status**: confirm that the project is ready for closure. This includes ensuring that all planned tasks are complete, all procurement activities are finalised, and no new costs are expected.

### *Executing the Final Settlement*

10.1.9 **Run the Final Settlement transaction:** we use "Run Settlement – Actual" tile for individual projects/activity or "Run Settlement – Collective" tile for multiple projects/activities to execute the settlement. During this run, Connect Finance checks all costs that have been posted to the project/activity and distributes them according to the defined settlement rules.

10.1.10 **Process remaining costs:** if there are any remaining unallocated costs, Connect Finance transfers them to the designated cost objects, which could be Cost Centres, Internal Orders, Assets, or Profitability Analysis segments.

10.1.11 For projects that lead to the creation of fixed assets (capital projects), the costs are settled to Asset Under the Course of Construction (AUCC) accounts and then finalised as fixed assets.

10.1.12 **Final Settlement type:** Full Settlement. When processing the full settlement all costs are settled to zero, meaning no remaining balance on the project's WBS elements.

10.1.13 The double entries happen automatically during the Final Settlement process to capitalise the asset. These movements are shown on the asset flowchart in Appendix IV.

10.1.14 While the expenditure is recorded as AUCC, no asset records are created on the system, and the expenditure is not linked to assets.

10.1.15 Once the asset(s) are available for use (see section 5.12), relevant asset(s) records are created in the Asset Module in Connect Finance, and the transferred expenditure should be linked to the asset record/s at that stage. The assets should be set up before the Final Settlement process being run to capitalise the expenditure.

### *Actuals Postings*

10.1.16 To capitalise an asset, the Final Settlement process needs to be performed. This will credit the Project's WBS and debit the relevant Asset on the Department's Statement of Financial Position. The asset number is created automatically, being the next number in line, based on the Asset Class selection.

10.1.17 When the Final Settlement is complete, the balance on the WBS should be nil for actuals whilst still enabling the scheme's expenditure to be reviewed, unless the transfer is partial, and the project is ongoing. Where previous transfers have been made this should be considered when running the Final Settlement process.

## 10.2 Closure of the project

10.2.1 Once all budget, expenditure and forecast adjustments have been made the project can be closed.

10.2.2 Closing a project has to parts, firstly the project will be marked as technically complete (TECO) that will stop any further commitments or purchase documents being raised against the project but still allow financial transactions. When all project transactions are complete the project will be set to closed (CLSD).

10.2.3 Before a project can be finally closed, certain activities and checks in the system must be done, this includes:

- The verification of remaining commitments or prepayments
- Close any open purchase requisitions or purchase orders
- The final settlement of the remaining project costs has been settled.

10.2.4 The technically complete or closed status can be assigned to a whole project (All WBS elements) or individual WBS element.

# Appendix I – Example application of SIC 32 Intangible Assets—Web Site Costs

The purpose of the appendix is to illustrate examples of expenditure that occur during each of the stages described in paragraphs 2 and 3 of the Interpretation (SIC 32) and illustrate application of the Interpretation to assist in clarifying its meaning. It is not intended to be a comprehensive checklist of expenditure that might be incurred.

| Stage/Nature of Expenditure | Accounting treatment |
|---|---|
| Planning<br>• undertaking feasibility studies<br>• defining hardware and software specifications<br>• evaluating alternative products and suppliers<br>• selecting preferences | Recognise as an expense when incurred in accordance with IAS 38.54 |
| Application and Infrastructure Development<br>• purchasing or developing hardware | Apply the requirements of IAS 16 |
| • obtaining a domain name<br>• developing operating software (e.g. operating system and server software)<br>• developing code for the application<br>• installing developed applications on the web server<br>• stress testing | Recognise as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in IAS 38.21 and IAS 38.57 |
| Graphical Design Development<br>• designing the appearance (e.g. layout and colour) of web pages | Recognise as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in IAS 38.21 and IAS 38.57 |
| Content Development | Recognise as an expense when incurred in accordance with IAS 38.69(c) to the extent that content is developed to advertise and promote an entity's own products and services (e.g. digital photographs of products). Otherwise, recognise as an expense when |

| | | |
|---|---|---|
| | • creating, purchasing, preparing (e.g. creating links and identifying tags), and uploading information, either textual or graphical in nature, on the web site before the completion of the web site's development. Examples of content include information about an entity, products or services offered for sale, and topics that subscribers access | incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in IAS 38.21 and IAS 38.57 |
| Operating | • updating graphics and revising content<br>• adding new functions, features and content<br>• registering the web site with search engines<br>• backing up data<br>• reviewing security access<br>• analysing usage of the web site | Assess whether it meets the definition of an intangible asset and the recognition criteria set out in IAS 38.18, in which case the expenditure is recognised in the carrying amount of the web site asset |
| Other | • selling, administrative and other general overhead expenditure unless it can be directly attributed to preparing the web site for use to operate in the manner intended by management | Recognise as an expense when incurred in accordance with IAS 38.65-.70 |

| | | |
|---|---|---|
| | • clearly identified inefficiencies and initial operating losses incurred before the web site achieves planned performance (e.g. false-start testing)<br><br>• training employees to operate the web site | |

# Appendix II – Internally Generated Software – example and summary

### *Illustrative example*

Illustrative example - Expense or capitalise?

### *Information:*

An entity develops a new IT software programme to record customer details. The entity incurred the following costs to develop the new software:

- £5,000 consultant fees to search and evaluate off the shelf systems;
- £2,000 in employee expenses to select the final off the shelf system;
- £3,000 in employee expenses to design the changes required to the off the shelf system;
- £10,000 in employee expenses to construct and test the new software;
- £50,000 for five new terminals to replace old terminals that did not have the capacity to handle the new software;
- £500 to promote the new software to staff; and
- £2,000 in training staff to operate the new asset.

### *Answer:*

Assuming that the requirements to capitalise have been met (including total cost of software > £10,000). These costs would be treated as outlined below:

- expense £5,000 consultant fee as it was incurred in the research stage;
- expense £2,000 employee expenses to select the final off the shelf system;
- capitalise £3,000 employee expenses to design changes required to the off the shelf system;
- capitalise £10,000 employee expenses to construct and test the new system;
- recognise as property, plant and equipment five £10,000 new terminals;
- expense £500 to promote new software to staff; and
- expense £2,000 training of staff to operate the new asset.

### *Examples of Project Costs Allocations*

| | Revenue Expense | Software Capital Expenditure | Plant and Equipment Capital Expenditure |
|---|---|---|---|
| **Research Stage** | | | |
| Consultants Fees | X | | |
| Staff Costs | X | | |
| **Development Stage** | | | |
| Off the shelf System | | X | |
| Consultants Fees – Design & Construction | | X | |
| Equipment Other (printers, PC's, etc.) | | | X |
| Data Migration | X | | |
| Staff Costs - Development | | X | |
| Staff Costs - Testing | | X | |
| **Implementation Stage** | | | |
| Training - Staff Costs | X | | |
| Promotional Costs | X | | |
| Manuals | X | | |

# Appendix III – Abbreviations

| | |
|---|---|
| AD | Accumulated Depreciation |
| ASB | Accounting Standards Board |
| AUCC | Asset(s) under course of construction |
| CA | Carrying amount |
| CAM | Capital Accounting Manual |
| COA | Chart of Accounts |
| DRC | Depreciated Replacement Cost |
| EUV | Existing use value |
| FRAB | Financial Reporting Advisory Board |
| FVLCTS | Fair value less costs to sell |
| IASB | International Accounting Standards Board |
| IFRIC | International Financial Reporting Interpretations Committee |
| IFRS | International Financial Reporting Standards |
| IT | Information technology |
| JFReM | Jersey Financial Reporting Manual |
| MEA | Modern equivalent asset |
| NBV | Net book value |
| NPV | Net present value |
| NRV | Net realisable value |
| PFI | Private finance initiative |
| PPE | Property, Plant and Equipment |
| PPP | Public Private Partnership |
| PV | Present value |
| R&D | Research and development |
| RC | Replacement cost |
| RICS | Royal Institution of Chartered Surveyors |
| SIC | Standing Interpretations Committee |
| SoCiTE | Statement of Changes in Taxpayers' Equity |
| SoCNE | Statement of Comprehensive Net Expenditure |
| SoFP | Statement of Financial Position |
| SOJ | States of Jersey |
| WBS | Work Breakdown Structure |
| Connect Finance | GoJ Finance System |

# Appendix IV – Decision Trees

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Disposal of Assets ..... 88
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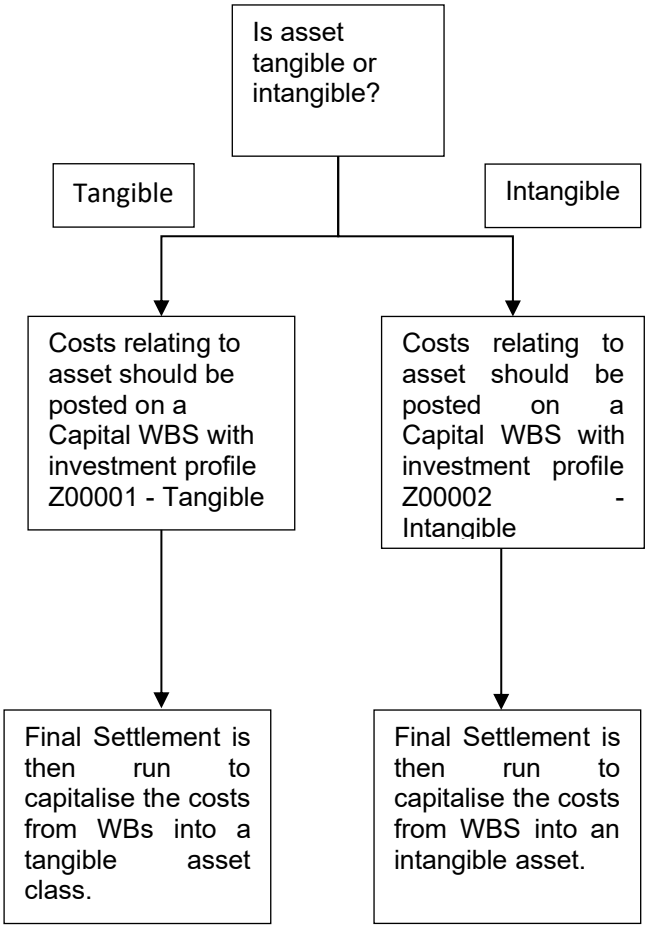
Impairment/Downward Revaluation of Assets ..... 90

# AUCC project ready to be transferred to assets

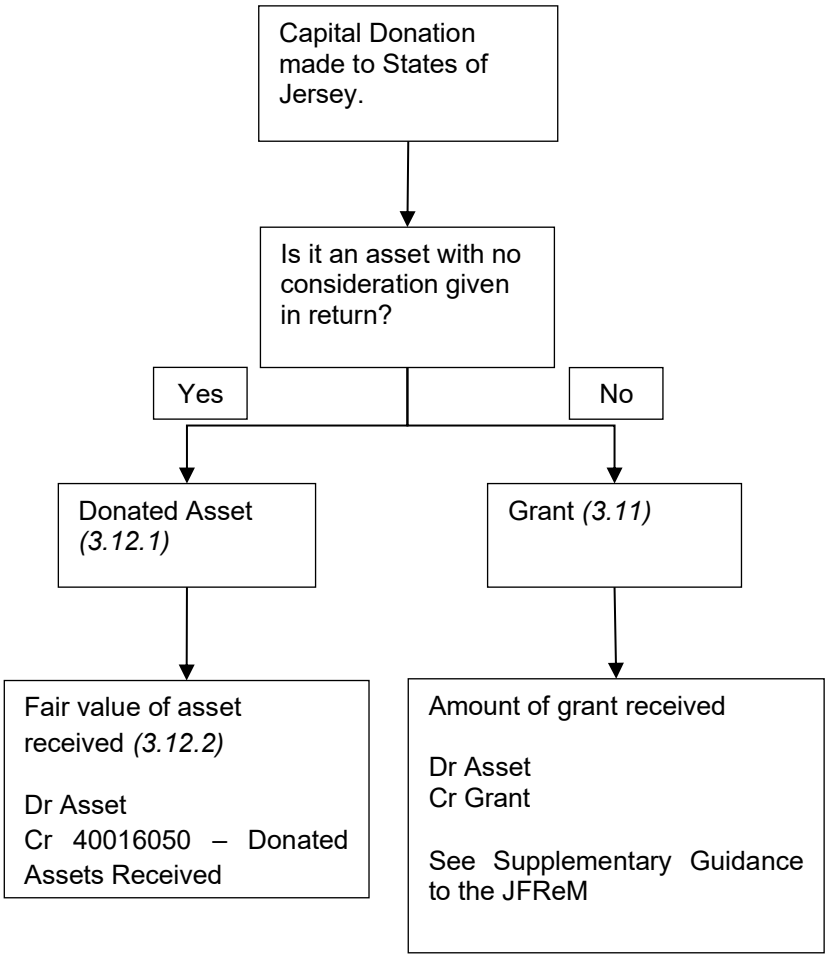



This is the expected route for capitalisation of assets within the States of Jersey.

If the asset has been donated, see *Donated Asset Additions*.

If the asset cannot be capitalised through AUCC and is not donated speak to the Group Reporting Team.

## Donated Asset Additions

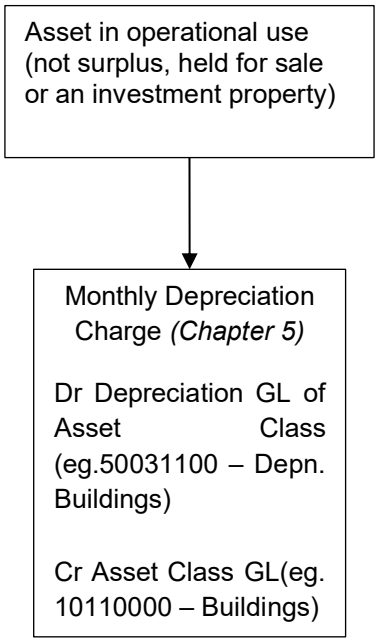



This route should only be used for assets that have been donated to the States of Jersey.

For purchased or leased assets, see *AUCC project ready to be transferred to assets*.

For any other assets that the States receive speak to the Group Reporting Team.

## Depreciation



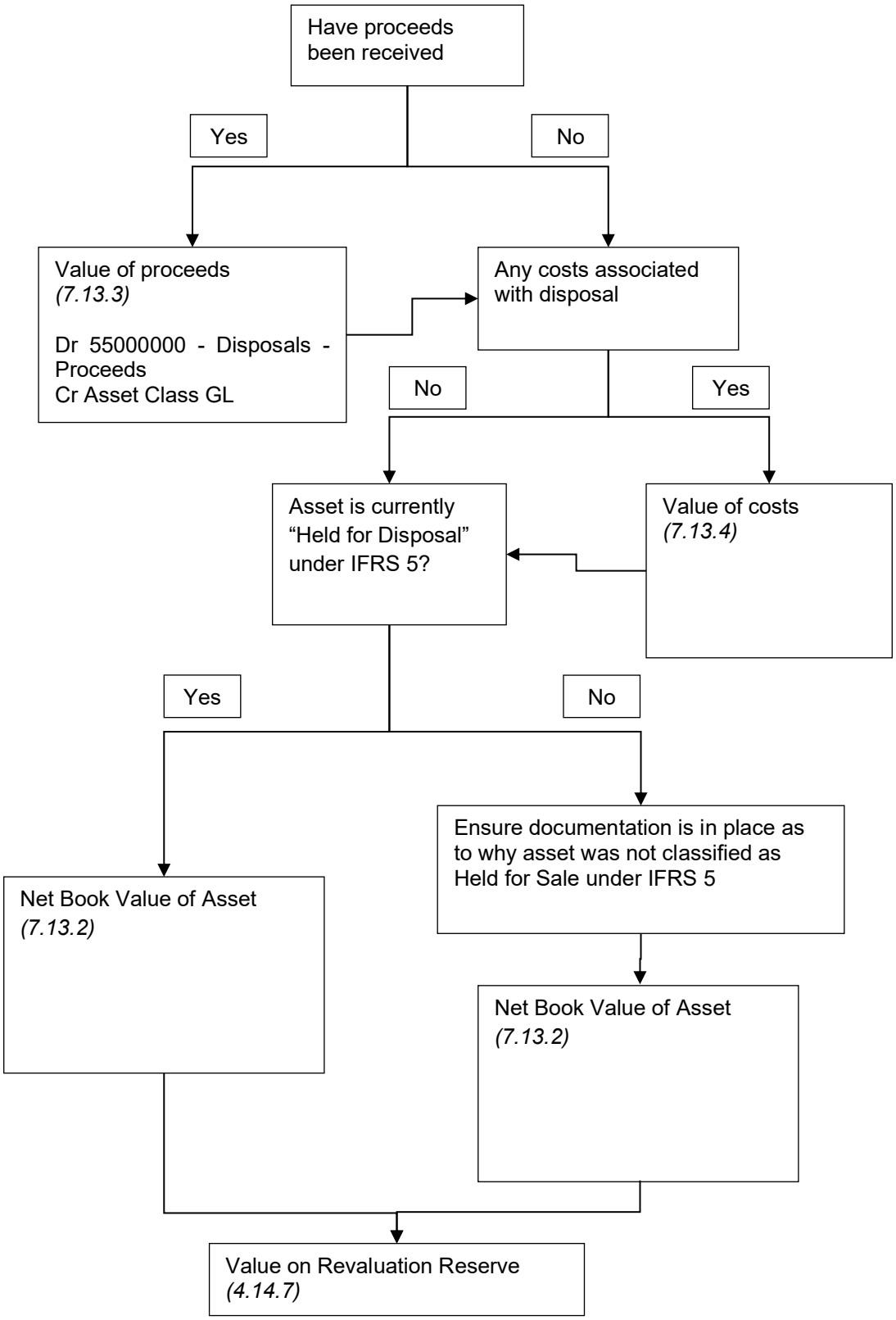

Depreciation is system generated and run by the Group Reporting Team monthly.

Depreciation expense within the same fiscal year as the capitalisation date, will be updated automatically by Connect Finance – e.g. Running the catch-up depreciation. For depreciation expense relating to prior year capitalisation please speak to the Group Reporting Team if this is required.

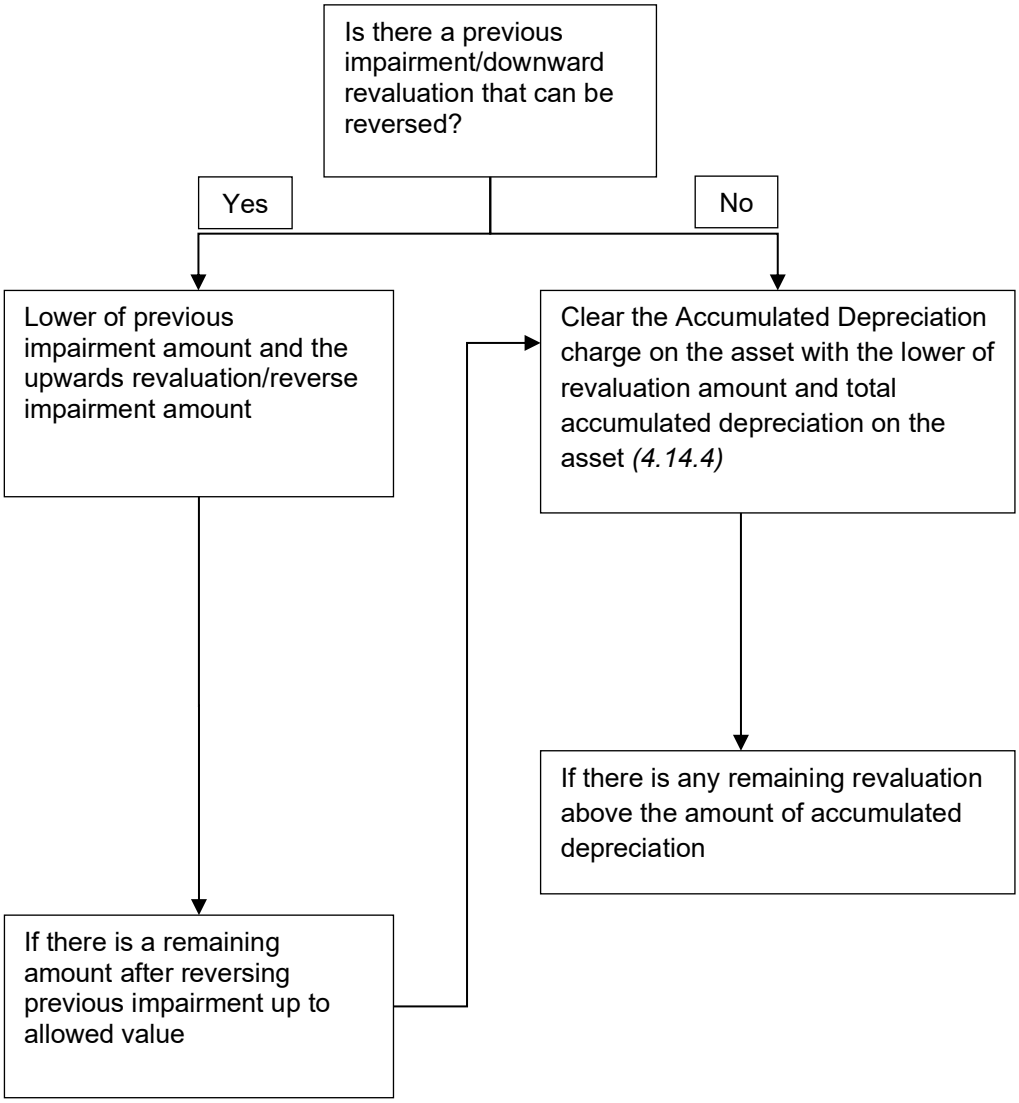
## Transfer to Non-Current Assets Held for Sale

Assets should be transferred to the separate account as soon as they meet the requirements in IFRS 5. This is to ensure no further depreciation is charged and also to meet the disclosure requirements as per the standard.

## Disposal of Assets

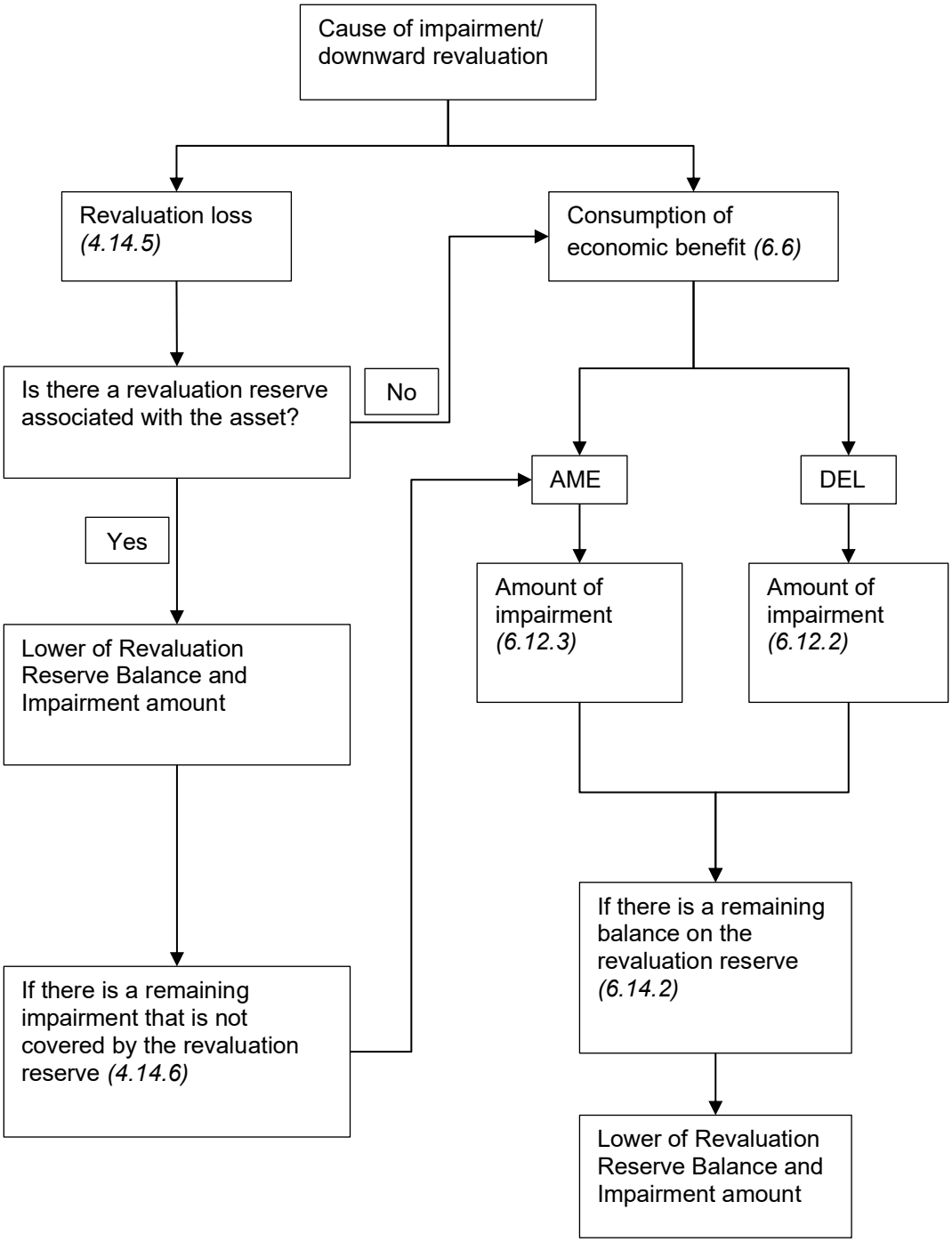


## Revaluation/Reversal of Impairment of Assets




For downward revaluations or impairments see *Impairment/Downward Revaluation of Assets.*

## Impairment/Downward Revaluation of Assets




For upward revaluations or reversal of an impairment see *Revaluation/Reversal of Impairment of Assets.*

## Revaluation process

Revaluation process has been simplified since the introduction of Connect Finance.

The process is automated through the “Assets Revaluation” app within the Asset Module in Connect Finance.

Previous Revaluation processes from JDE (old finance solution) are now obsolete but the accounting method utilised remains the same.

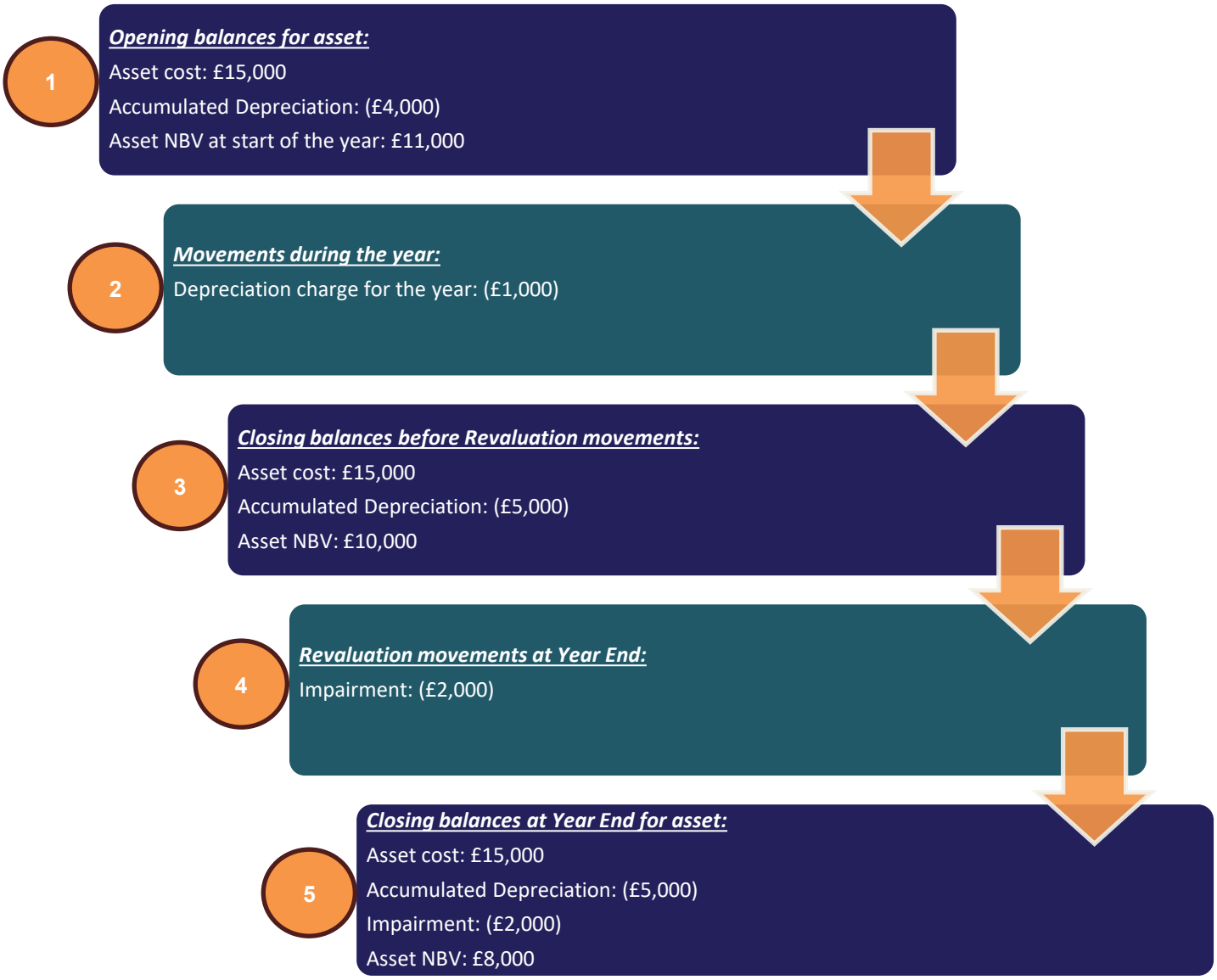
As this process is now automated, the human element interaction is minimised, and Connect Finance processes the Upwards or Downwards revaluation through the build-in logic designed specifically for GoJ purposes and based on the principles and accounting method utilised in JDE and according with the JFReM.

## Worked example

Asset original cost: £15,000
UEL: 15 years

In this worked example we take an asset with a cost of £15,000 and UEL of 15 years. We’ll show the opening balances, movements and closing balances for three consecutive years simulating an Impairment, Upwards Revaluation and an increase in useful economic life in year 6.

# Year 5: Downwards Revaluation/Impairment




| Year 5 | Opening | Movements | Closing | | Reval movements | | Total |
|---|---|---|---|---|---|---|---|
| Cost | 15,000 | - | 15,000 | | - | | 15,000 |
| Acc. Depn. | (4,000) | (1,000) | (5,000) | | - | | (5,000) |
| Impairment | - | - | - | | (2,000) | | (2,000) |
| NBV | 11,000 | (1,000) | 10,000 | | (2,000) | | 8,000 |
| Graph sequence | 1 | 2 | 3 | | 4 | | 5 |

**Year 5 – Downward Revaluation (Impairment) - walkthrough**

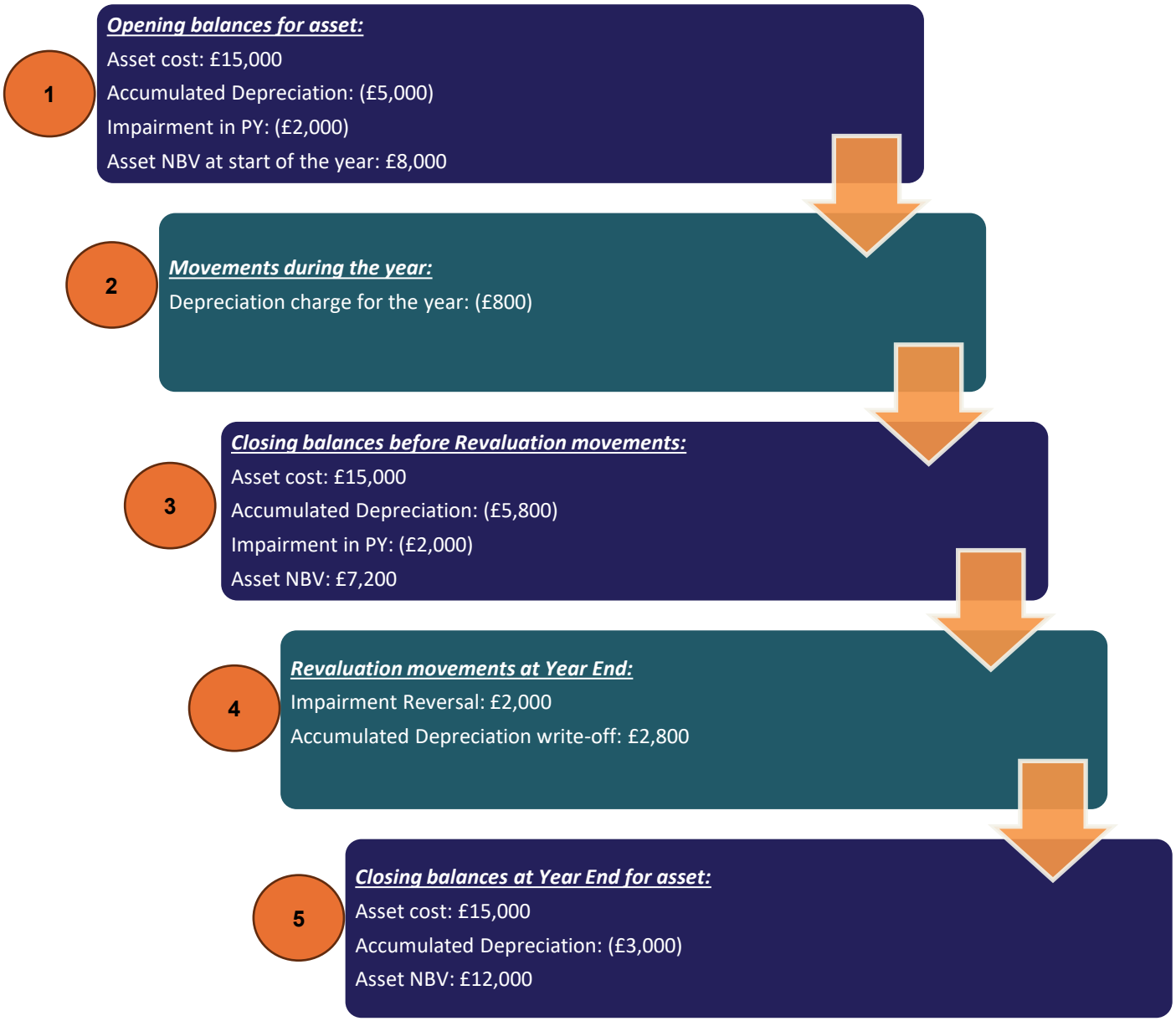
1. Asset has a Revaluation loss/Impairment for the year.

2. Is there a Revaluation Reserve associated with the asset to absorb the loss? No, in this case. Impairment amount of £2,000 is credited to the Asset Cost account.

3. The other side of the Impairment amount will be taken to SoCNE (Statement of Comprehensive Net Expenditure) as an expense for the year.

4. Asset NBV at Year End 5 (£8,000) represents the difference between the Asset Cost (£15,000) less Accumulated Depreciation (£5,000) less Downward Revaluation/Impairment amount (£2,000).

# Year 6: Upwards Revaluation/Impairment Reversal

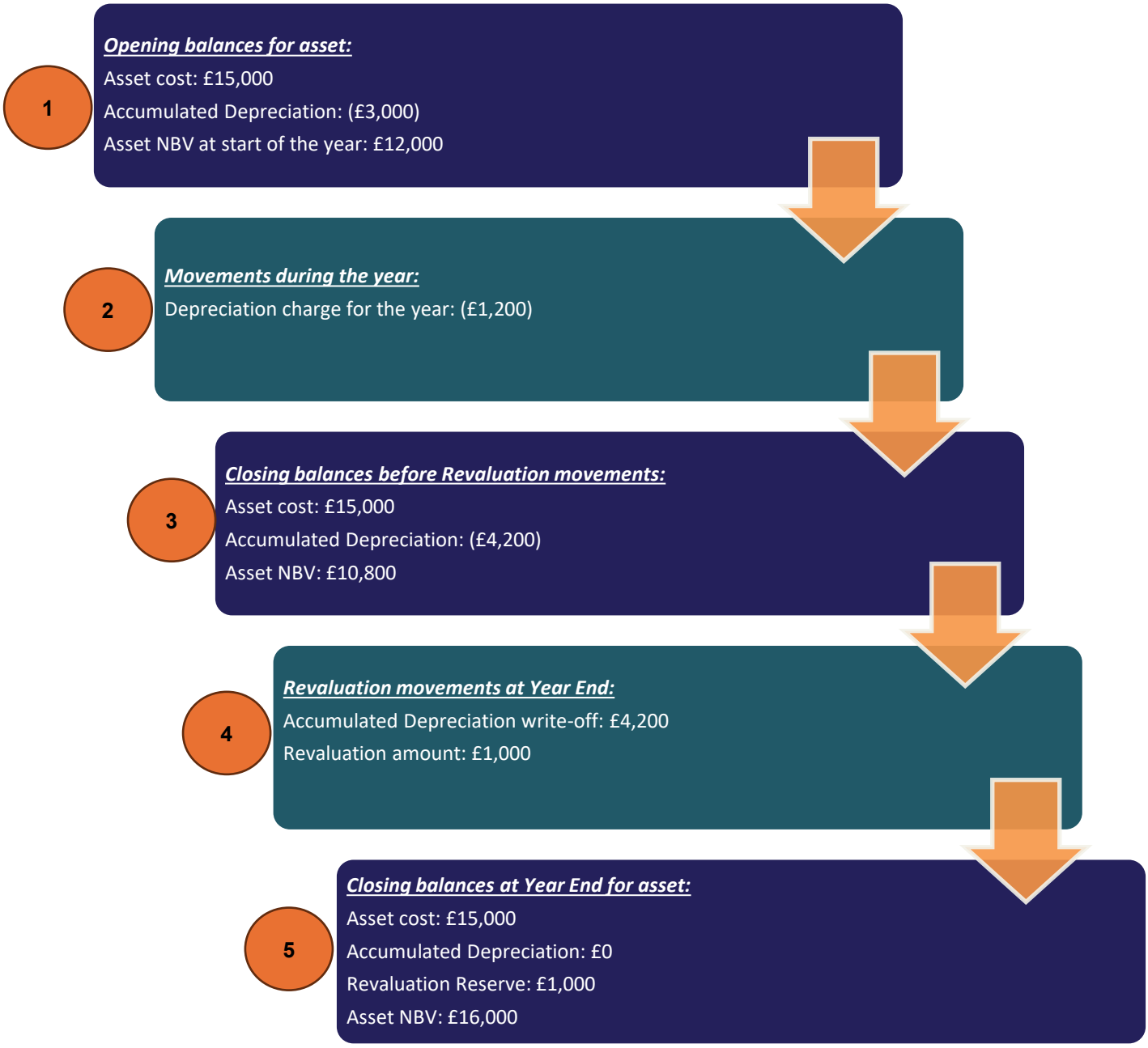



| Year 6 | Opening | Movements | Closing | | Reval movements | | Total |
|---|---|---|---|---|---|---|---|
| Cost | 15,000 | - | 15,000 | | - | | 15,000 |
| Acc. Depn. | (5,000) | (800) | (5,800) | | 2,800 | | (3,000) |
| Impairment | (2,000) | - | (2,000) | | 2,000 | | - |
| NBV | 8,000 | (800) | 7,200 | | 4,800 | | 12,000 |
| Graph sequence | 1 | 2 | 3 | | 4 | | 5 |

**Year 6 – Upwards Revaluation (with Impairment Reversal) and increase in UEL by 1 year - walkthrough**

1. Asset has a Revaluation gain for the year (up to £12,000).
2. Is there a previous Impairment/Downward Revaluation that can be reversed? Yes, in this case (£2,000).
3. We need to use the lower of previous impairment amount and the upward revaluation/reverse impairment amount. In this example the lower value is the £2,000. (£2,000 vs £4,800).
4. Impairment Reversal of £2,000 is consumed.
5. If there is a remaining amount after reversing previous impairment up to allowed value, we need to clear the Accumulated Depreciation charge on the asset with the lower of Revaluation amount and total Accumulated Depreciation on the asset.
    - Remaining amount for Revaluation: £2,800 (£4,800 - £2,000)
    - Accumulated Depreciation amount: £5,800
    - Lower between the two is: £2,800.
6. Write off the Accumulated Depreciation up to £2,800.
7. Asset NBV at Year End 6 (£12,000) represents the total between the Asset Cost (£15,000) less Accumulated Depreciation (£3,000).
8. Impairment Reversal (£2,000) and the Accumulated Depreciation write-off (£2,800) are part of the Revaluation movements at Year End and are used to increase the value of the asset.
9. Useful Economic Life of the asset has been increased by 1 year, with the new UEL being 10 years.

# Year 7: Upwards Revaluation




| Year 7 | Opening | Movements | Closing | | Reval movements | | Total |
|---|---|---|---|---|---|---|---|
| Cost | 15,000 | - | 15,000 | | - | | 15,000 |
| Acc. Depn. | (3,000) | (1,200) | (4,200) | | 4,200 | | - |
| Impairment | - | - | - | | - | | - |
| Revaluation | - | - | - | | 1,000 | | 1,000 |
| NBV | 12,000 | (1,200) | 10,800 | | 5,200 | | 16,000 |
| Graph sequence | 1 | 2 | 3 | | 4 | | 5 |

**Year 7 – Upwards Revaluation to £16,000 – walkthrough**

1. Asset has a Revaluation gain for the year (up to £16,000).
2. Is there a previous Impairment/Downward Revaluation that can be reversed? No. We consumed it all in the previous year.
3. If no Impairment to reverse, our next step is to clear the Accumulated Depreciation charge on the asset with the lower of Revaluation amount and total Accumulated Depreciation:
    - Revaluation amount: £5,200
    - Total Accumulated Depreciation.: £4,200
    - Lower between the two is: £4,200
4. If there is any remaining Revaluation above the amount of Accumulated Depreciation, £1,000 in our case, we add the value to the Revaluation Reserve, increasing the asset value by the same amount.
5. Asset NBV at Year End 7 represents the Asset Cost (£15,000) less Accumulated Depreciation (£0) adding the Revaluation amount (£1,000).