

FAQ – How do I restate existing assets under AASB 1059 when initially recognising and subsequently revaluing a service concession asset?

What restatement method should I apply when initially recognising service concession assets under AASB 1059?

The standard mandates the measurement of a service concession asset at current replacement cost in accordance with the cost approach to measuring fair value in AASB 13.

Under AASB 116 (paragraph 35) where an item of property, plant & equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount and can be treated in one of two ways:

- Gross restatement - the gross carrying amount is adjusted in a manner that is consistent with the carrying amount of the asset i.e. may be restated proportionately to the change in the carrying amount and accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount
- Net restatement - the accumulated depreciation is eliminated against the gross carrying amount of the asset

The standard indicates the assets should be measured using the **net restatement method** when initially recognising service concession assets, because:

- A net restatement better reflects “deemed cost”
The transition guidance in AASB 1059 requires the grantor to recognise the deemed cost of the service concession asset at initial recognition. By requiring deemed cost, the transition requirement suggest an expectation that recognition at initial application is akin to initial recognition and should therefore be recognised using the net restatement method.
- The reclassification is consistent with a change in nature of the asset
The reclassification of a grantor’s existing asset represents a change in the nature of the asset and should be measured on the same basis as a service concession asset acquired through the operator (AASB 1059.BC67). This indicates that the asset should be recognised net of accumulated depreciation because when an asset is acquired from an operator the asset would be initially recognised without associated accumulated depreciation.
Note, although reclassification of an asset as a service concession asset is a change in the nature of the asset, service concession assets are considered a *subset* of an existing class of assets, such as land & buildings, infrastructure (AASB 1059.29).
- Depreciation “begins” after reclassification
The standard requires the grantor to depreciate or amortise the depreciable amount of the asset over the useful life in accordance with *AASB 116 Property, Plant and Equipment* or *AASB 138 Intangible Assets*, as appropriate. This indicates depreciation should begin after initial recognition/reclassification and therefore indicates applying the net restatement method.

For example, if on 1 July 2020, an agency is going to recognise a SCA where previously they have been recognising an AASB 116 PP&E asset. The existing PPE asset has a net value of \$1 million with a gross value of \$1.5 million and accumulated depreciation of \$0.5 million. The net balance of PP&E is required to be reclassified as a SCA, calculated by writing back accumulated depreciation against PP&E. Therefore the initial recognition journal for the SCA be as follows:

Dr PPE - Service Concession Asset	\$1.0 million	
Dr PPE asset - Accumulated depreciation	\$0.5 million	
Cr PPE asset - Cost		\$1.5 million

How should service concession assets be restated in subsequent revaluations?

The standard requires that subsequent to the initial recognition or reclassification of the asset, the service concession asset is accounted for in accordance with *AASB 116 Property, Plant and Equipment (AASB 116)* or *AASB 138 Intangible Assets*, as appropriate.

TPP14-01 *Valuation of Physical Non-Current Assets at Fair Value* mandates the use of:

- Gross restatement where an asset is revalued using the cost approach
- Net restatement where an asset is revalued using the income approach or market approach

Going forward service concession assets should be restated using the **gross restatement method**.