

FinanceBrief 35 (Revised)

Land Under Roads

FinanceBriefs are issued by Accounting Policy Branch as guidance on specific accounting and reporting topics. FinanceBriefs do not take precedence over the financial reporting regulatory framework, which encompasses the Finance Minister's Orders, Australian Accounting Standards and AASB Interpretations.

Purpose of FinanceBrief 35

The purpose of FinanceBrief 35 is to convey the Australian Governments accounting treatment of land under roads in accordance with AASB 1051.

Background

Land under roads is land under roadways, and road reserves, including land under footpaths, nature strips and medium strips.¹

Land under roads acquired after 30 June 2008 is required to be recognised per AASB 116 *Property, Plant and Equipment* (AASB 116).

AASB 1051 requires entities to make an election to recognise or not to recognise land under roads acquired before 1 July 2008.

The road constructed on the land is recognised and measured per AASB 116.

Land under roads acquired before 1 July 2008

Transitional provisions in AAS 27, 29 and 31 allow Governments the option not to recognise land under roads acquired prior to 31 December 2007.

AASB 1051 requires Governments to elect to extend the relief indefinitely for land under roads acquired before 1 July 2008.

To ensure consistency across the Commonwealth the Department of Finance and Deregulation have elected that reporting entities covered by:

- a. Section 49 of the *Financial Management and Accountability Act 1997*; or
- b. Clause 2 of Schedule 1 to the *Commonwealth Authorities and Companies Act 1997*

will not recognise land under roads acquired before 1 July 2008.

Land under roads acquired after 30 June 2008

Land under roads acquired on or after 1 July 2008 shall only be recognised if and only if:

- i) It is probable that future economic benefits associated with the item will flow to the entity;
- ii) The cost or other value of the item can be measured reliably; and
- iii) The amount is material.

Future Economic Benefit

The AASB *Framework* states that for not-for-profit entities, assets provide a means for entities to achieve their objectives. Future economic benefits are synonymous with the notion of service potential, and are used in the AASB *Framework* as a reference also to service potential.²

¹ AASB 1051 Appendix A

² AASB Framework Aus 49.1

The AASB *Framework* is silent in regards to the degree of the contribution necessary to meet this requirement.

Therefore the future economic benefits test is satisfied. Agencies will need to assess land under roads contribution to their objectives regularly.

Reliably Measured

AASB 116 determines fair value based on highest and best possible use. Therefore, the valuation of the land under roads would be based on its potential rather than as a road. For example, if the land on which the roads in the Parliamentary triangle is zoned as commercial it would be valued based on its potential to put an office building upon it, rather than as a road. However, in many cases the dimensions of the road, the need for continued road access and planning restrictions on surrounding areas will mean that the land under the roads cannot be applied to alternative uses.

As at 31 January 2009 it is understood that Valuer-Generals in Australia have not come to agreement on a method that both objectively and reliably measures the value of land under roads.

Given the difficulties in reliably measuring land under roads Finance requests agencies contact Finance to assist in the determination of whether the land under roads can be reliably measured.

Where land under roads is acquired on 1 July 2008 or later and does not satisfy the asset recognition criteria, it shall not be recognised.

Materiality

Even where the value of land under roads can be determined, it may only be recognised as an asset when material (in accordance with AASB 1031).

Contacts

For further advice in relation to this Finance*Brief* email the Accounting Policy Branch at accountingpolicy@finance.gov.au