

## Transition arrangements – Property Plant and Equipment

Transactions in relation to assets classified as held for sale and sold (i.e. derecognised) during 2009/10 will need to be restated in line with the Code. The required entries to restate the 2009/10 transactions are included in step 4 of the transition section of non-current assets held for sale and discontinued operations.

The Code introduces the concept of fair value as a basis of valuation for certain classes of assets. There will be no transition issues with regard to the use of fair value for assets valued at market value under the SORP. In addition the valuation methods under the Code of; existing use value-social housing (EUV-SH) for council dwellings and depreciated replacement cost (DRC) for specialist properties where there is no market-based evidence of fair value, will be same as under the SORP.

It is anticipated that in most cases the carrying amounts of assets valued on the basis of existing use value (EUV) under the SORP will not be different to the fair value of the asset. However, in some cases the carrying amount of the asset based on EUV maybe different to fair value and therefore will have an impact on transition.

Where there is a difference between the SORP and the Code with regard to the carrying amount of an asset, immediately prior to the reclassification to held for sale, authorities should follow the applicable step(s) below.

### Step 1 - Restate Opening IFRS Balance Sheet as at 1 April 2009

The Code (following *IFRS 1*) requires local authorities to classify and account for property plant and equipment in their opening IFRS balance sheet (1 April 2009) in accordance with chapter 4 section 1 of the Code (see also *IAS 16* and *IPSAS 17*). The Code requires the historical cost to be carried forward from the existing UK GAAP accounting in the SORP (mainly in relation to infrastructure assets and community assets). Valuing some classes of assets based on fair value following *IAS 16* is a change of accounting policy that will require authorities to restate their opening balances where there are differences between the carrying amount and fair value.

The opening balance sheet (1 April 2009) will need to be restated in the event that an asset's fair value is different from its carrying amount. Authorities should have regard to the materiality of any differences and the need to make adjustments. Where authorities have a policy of revaluing assets at the end of a financial year, for the purposes of transition where there are differences in the carrying amount and fair value, authorities should re-value assets as at 1 April 2009.

### Step 2 - Restate Comparative Figures for 2009/10 (revaluations carried out on 1 April 2009)

Transactions during 2009/10 will need to be restated in line with the Code. The required transactions will lead on from the revaluation adjustments carried out in step 1. It is anticipated that the transactions will be limited to the reversal of any depreciation charge under the SORP and the recognition of the depreciation charge of the restated carrying value based on fair value. Where authorities have followed step 1, it is not anticipated that a further revaluation would be required unless in exceptional circumstances the carrying value has materially increased or decreased during 2009/10.

### Step 3 - Restate Comparative Figures for 2009/10 (revaluations carried out during 2009/10)

Transactions in relation to revaluations and impairments carried out in 2009/10 on assets whose carrying amount has been restated at 1 April 2009 (see step 1) will need to be restated in line with the Code.

The revaluations and impairments carried out in line with the SORP will need to be reversed in addition to the reversal of any depreciation charge under the SORP and the recognition of the depreciation charge of the restated carrying value based on fair value.