PRACTICAL IMPLICATION OF ACCOUNTING FOR ROADS UNDER IFRS

Summary of key changes

- All maintenance that maintains the service potential of the road network will be capitalised. Currently all maintenance is expensed
- Depreciation will be the sum of the capitalised maintenance and the movement in condition as measured by the Roads Asset Valuation models (RAVs). Currently only the condition movement is charged as depreciation
- The road surface element of the road network will be considered a single asset.
- Impairment will be taken where there is a loss in service potential for more than 1 year.

Budgeting implications

The following changes would be required to the budgeting:

1. **Capitalised maintenance** – classification switch from near cash resource to capital

2. **Depreciation** – increased non cash resource budget equivalent to the amount of capitalised maintenance

Disclosure

The information from the RAVs models will be used in the same way as before. Additional entries are required for the capitalised maintenance:

Dr additions
Cr depreciation

The amount of capitalised maintenance should be disclosed either in the fixed asset table or just below it.

If this is the only entry, the level of gross current replacement cost and accumulated depreciation will increase every year in respect of the capitalised maintenance. It therefore needs to be removed and the options are as a transfer, revaluation, adjustment or disposal. While the road surface is a single asset and as such we should not be disposing of the maintenance, it was agreed that this best reflected the true position. (Carrying amount of parts that are replaced by the maintenance programme should be derecognised.) The accounting entries to remove the cost of maintenance and depreciation from the fixed asset table as a fully depreciated disposal is:

Dr disposals in accumulated deprecation
Cr disposals in cost or valuation