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Opinion n° 2014-01 of 17 October 2014 relating to the classification and reporting date measurement of Central Government's tangible assets

On 17 October 2014, the Public Sector Accounting Standards Council adopted this Opinion relating to the classification and reporting date measurement of Central Government's tangible assets, including a certain number of minor amendments of Standard 6 "Tangible Assets" of the Central Government's Accounting Standards Manual[1].

This Opinion mainly introduces changes to recognition and measurement requirements at the reporting date for certain of Central Government's tangible assets, and in particular for property.

The Glossary of the Central Government's Accounting Standards Manual has also been amended to bring it into line with the changes in Standard 6 "Tangible Assets".

[1] The requirements of this Opinion and the proposed amendments are based on the Central Government's Accounting Standards Manual as approved by the Order of 18 February 2013 introducing changes to the accrual accounting rules for Central Government.

1. New definition of the classification of tangible assets

This Opinion provides a new definition of the accounting classes and sub-classes which form the basis for the recognition and measurement principles for tangible assets. The distinction "specialised / non-specialised" for Central Government property, which proved to be unsuitable, has been removed from Standard 6.

The following accounting classes have been added to the initial list: natural sites and cemeteries, dams, Ministry of Defence properties that form a class of their own and other infrastructures.

Property is more precisely defined. It is broken down into two sub-classes: on the one hand, property other than residential buildings or offices and the land on which they are built and, on the other hand, residential property and offices and the land on which they are built.

2. Measurement of tangible assets at the reporting date

In the Opinion, the preferred measurement basis at the reporting date is amortised cost. This approach is consistent with the requirements of the conceptual framework for the public sector and Opinions previously published by the Council.

As stated above, property is to be broken down into two sub-classes at the latest by the end of the financial year 2018: on the one hand, property other than residential buildings or offices and the land on which they are built and, on the other hand, residential property and offices and the land on which they are built. Each of these sub-classes has its own measurement requirements. Property other than residential buildings or offices and the land on which they are built will, in the future, be measured at amortised cost at the reporting date, because market value at the reporting date has been abandoned as it is not consistent with the long term asset management policy of Central Government. Only residential property and offices and the land on which they are built continue to be measured at market value at the reporting date.

In addition, the redefinition of accounting classes provided the opportunity to introduce cost, amortised where appropriate, as the measurement basis at the reporting date for land and other infrastructures. Natural sites and cemeteries are measured at a token or non-revisable fixed amount.

Ministry of Defence properties that form a class of their own are identified on an exclusive comprehensive list. As these properties contribute to the Central Government's sovereign activity of defence, the Opinion recommends that they should also be measured at a token or non-revisable fixed amount at the reporting date.

As shown in the table in the appendix, certain classes of assets continue to be measured at depreciated replacement cost, fair value or at a token or non-revisable fixed amount.

3. Other amendments to Standard 6 "Tangible Assets"

The other amendments to Standard 6 relate to subsequent expenditure and the concept of net selling price.

This Opinion clarifies the requirements of Standard 6"Tangible Assets" in relation to the treatment of subsequent expenditure and the concept of components.

The term "fair value" (defined in the Glossary of the Central Government's Accounting Standards Manual see below) replaces "market value" throughout the Standard as a matter of consistency and compliance with general accounting regulations. "Market value" and "fair value" are similar concepts and this change in terminology has no effect on the accounting treatment.

The paragraphs dealing with assets transferred to public entities have been supplemented to include the requirements of Opinion n° 2013-04 of 12 April 2013 of the Public Sector Accounting Standards Council relating to tangible asset transfers between public sector entities.

In addition, the paragraphs relating to inventories (Standard 8 of the Central Government's Accounting Standards Manual), heritage assets (Standard 17) and contracts for the provision of public services (Standard 18) have been deleted to avoid overlapping requirements.

4. Amendment of the Glossary of the Central Government's Accounting Standards Manual

The Glossary of the Central Government's Accounting Standards Manual has also been revised or supplemented, as appropriate, in respect of the following terms: fair value, service potential, military site, current value, gross value, carrying amount, inventory value, value in use, recoverable amount, residual value, net selling price and market value.

5. Qualification of the change

The proposed changes relating to the new definitions of classes and sub-classes and to the measurement at the reporting date of Central Government property (including the land on which it is built), land which does not form part of a property asset, natural sites, cemeteries, nuclear air bases, arsenals equipped with nuclear reception and storage facilities, centres of military expertise of the Directorate General for Armaments in Bourges and Vert-le-Petit, fuel depots of the army fuel unit operational on 1 January 2006, military equipment withdrawn from active service, dams and other infrastructures are qualified as changes in accounting policy according to Standard 14 "Changes in Accounting Policy, Changes in Accounting Estimates and Corrections of Errors" of the Central Government's Accounting Standards Manual.

On the grounds that it is considered impracticable to determine the cumulative effect of the retrospective adjustments necessary to make financial information for previous periods comparable to that of the period of introduction of the changes in accounting policy relating to the new definitions of classes and measurement at the reporting date (see above), and that it is also impracticable to reconstitute this information, the new accounting policy is applied prospectively from the beginning of the period during which the effects of the change in accounting policy can be calculated and therefore does not take account of the cumulative adjustment to assets, liabilities and net assets/equity resulting from transactions or events prior to this date.

The other amendments to Standard 6 and to the Glossary are not within the scope of Standard 14 "Changes in Accounting Policy, Changes in Accounting Estimates and Corrections of Errors" of the Central Government's Accounting Standards Manual.

6. Effective Date

The Public Sector Accounting Standards Council is of the opinion that these changes in accounting policy should be applied prospectively and not retrospectively (see above) at the latest by the reporting period ending in 2018, that is in the financial statements of Central Government for the period ending the 31 December 2018, with earlier application permitted.

The other amendments to Standard 6 “Tangible Assets” and the definition changes in the Glossary are for immediate application.

7. Transitional Provisions

By way of simplification, on introduction of the new measurement basis for property previously measured at market value at the reporting date and which, from now on, will be measured at amortised cost, the market value at the 31 December in the financial statements of the previous period is deemed to be the opening depreciable amount carried forward. These assets are depreciated over their estimated life, which may be set by instruction of the Director General of Public Finances. Otherwise, by way of simplification, these assets are depreciated over a fixed period of 50 years. The date of the change in accounting policy is the starting date for depreciation. The prospective approach has the advantage of not being based on the date the asset was first put into service, which is often unknown.

In the case of assets classified as “other infrastructures” measured at market value or at a fixed amount, the carrying amount on the 31 December of the period prior to the change in measurement basis is deemed to be the opening depreciable amount carried forward.

With regard to natural sites, cemeteries, nuclear air bases, arsenals equipped with nuclear reception and storage facilities, centres of military expertise of the Directorate General for Armaments in Bourges and Vert-le-Petit, fuel depots of the army fuel unit operational on 1 January 2006, military equipment withdrawn from active service measured from now on at a token or non-revisable fixed amount:

- Assets already controlled but not recognised are recognised for a token or non-revisable fixed amount;

- Assets belonging to Central Government recognised for a token or non-revisable fixed amount continue to be recognised for that amount;

- Assets belonging to Central Government measured at market value prior to the change in accounting policy continue to be measured at that amount which becomes the new opening value.

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APPENDIX

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STANDARD 6 TANGIBLE ASSETS:

CLASSES AND SUB-CLASSES IDENTIFIED

AND MEASUREMENT BASES

Classes	Definitions	Sub-classes	Measurement basis at reporting date	Examples
Land	This class consists of built or unbuilt land controlled by Central Government that does not form part of a property asset. This class does not include the land on which property assets are situated (other than that of prisons), and the natural sites and cemeteries mentioned below.		Cost	Land on which prisons are built, training camps, quarries, firing ranges, practice facilities, rubbish dumps, open-sky archaeological deposits and excavations and mines.
Natural sites and cemeteries	This class consists of land with a service potential intrinsically linked to considerations of public interest and which is not within the scope of Standard 17 "Heritage Assets".		Token or non-revisable fixed amount	Moors, beaches, dunes, ponds, lakes, etc.
Property	This class consists of property assets controlled by Central Government other than prisons, unique Ministry of Defence properties that form a class of their own mentioned below and infrastructures. The land on which the property is built is included in the valuation. Property is extremely diversified due to its age and the long period of acquisition by Central Government, as well as to the varied ways in which it is used.	Property other than residential buildings or offices and the land on which they are built	Amortised cost	Buildings of an industrial, commercial or cultural nature and those used for State education, health, social, technical, sporting, agricultural, breeding or religious purposes, State monuments and memorials (other than those within the scope of Standard 17 “Heritage Assets”). This sub-class also includes all military sites other than those included in the sub-class of residential or office property or in the class of unique Ministry of Defence property which forms a class of its own.
		Residential buildings or offices and the land on which they are built	Fair value	Embassies, consulates, police stations, tax offices, office buildings occupied by ministries , inspectorates of education, prefectures, educational authorities, sub prefectures, courts, furnished buildings and accommodation, residential buildings and individual houses. This sub-class also includes town barracks and military premises used only as accommodation and offices.

New requirement

Classes	Definitions	Sub-classes	Measurement basis at reporting date	Examples
Ministry of Defence properties that form a class of their own	These are assets identified on an exclusive comprehensive list as vital to the accomplishment of the Central Government's sovereign mission of defence, which have no equivalent in the private sector and would require extensive conversion work to be suitable for everyday use, if ever it made sense or were feasible to do so.		Token or non-revisable fixed amount	Exclusive list: nuclear air bases, arsenals equipped with nuclear reception and storage facilities, centres of military expertise and testing facilities of the Directorate General for Armaments in Bourges and Vert-le-Petit, fuel depots of the army fuel unit operational on 1 January 2006.
Prisons			Depreciated replacement cost	
Roads and motorways controlled by Central Government and related structures			Depreciated replacement cost	
Dams controlled by Central Government and related structures			Depreciated replacement cost	Hydroelectric dams
Other infrastructures			Amortised cost	Railways and related structures, network, signalling and telecommunication structures, port and airport facilities controlled by Central Government.
Military equipment	It is made up of military equipment held and controlled by Central Government with its different components: air, land and sea.		Amortised cost	
Other tangible assets	They consist of sundry fixtures and fittings, equipment and movable goods not within the scope of Standard 17 "Heritage Assets". Other tangible assets include military equipment withdrawn from active service: this is military equipment withdrawn from active service, not for sale, which is intended for training purposes on the ground, or for museums, static displays, cannibalisation or destruction.		Amortised cost / Token value for military equipment withdrawn from active service	

New requirement

STANDARD 6
TANGIBLE ASSETS

STANDARD 6 – TANGIBLE ASSETS

INTRODUCTION

Foreword: This Standard applies to all tangible assets except heritage assets and contracts for the provision of public services, which are dealt with in specific standards.

I. DEFINITION AND RECOGNITION CRITERIA FOR TANGIBLE ASSETS

The definition and recognition criteria for tangible assets adopted for this Standard are similar to those applicable to business entities, subject to the following specific features.

I.1 Definition of an asset in public sector accounting

Central Government's tangible assets are assets that can be used to generate future cash flows, but also non cash-generating assets with service potential.

I.2 Recognition criteria: general principles

This Standard requires both of the two following conditions for recognition of a tangible asset to be met:

- the tangible asset is controlled by Central Government;
- its cost or value can be measured with sufficient reliability.

The control criterion is of particular importance for Central Government. This is because, a large number of assets belonging to the Central Government are transferred to other entities, which control the conditions of use of the assets and can derive economic benefit or service potential from them. Similarly, Central Government may control assets transferred to it by other public entities which retain legal ownership of the assets.

Apart from these situations where assets become available for use through transfers, a certain number of other specific circumstances made it necessary for the Standard to include requirements relating to control as a recognition criterion.

The reliability criterion is applied without prejudice to the measurement requirements specified by the Standard for certain fixed assets.

Materiality thresholds

Central Government may fix materiality thresholds per item[2] taking into account the diversity of its tangible asset portfolio and the sometimes slender distinction between tangible assets and expense. These thresholds may also be fixed, for example, by class of items or type of activity.

[2] The grouping of items is not allowed; therefore the thresholds may apply only to individual items of fixed assets or potentially capitalised subsequent expenditure.

I.3 Recognition criteria: specific cases

I.3.1 Assets covered by finance leases

The Standard bases its approach on the contractual effects of finance leases which transfer substantially all of the risks and rewards of ownership of the leased asset to the lessee. Title to the asset may or may not eventually be transferred.

Consequently, the lease is recognised both as an asset and as an obligation to make future lease payments.

This view is based on an assessment of the economic substance of a finance lease, whereby the lessee acquires the economic benefits of use of the leased asset for most of its useful life and undertakes to pay an amount that is approximately equal to the fair value of the asset, plus the corresponding financing costs, in exchange for this right.

The European System of National Accounts (ESA 2010) also applies an approach based on control over assets. "Under a financial lease, the legal owner is shown as issuing a loan to the lessee, which the lessee uses to acquire the asset. Thereafter the asset is shown on the balance sheet of the lessee and not the lessor; the corresponding loan is shown as an asset of the lessor and a liability of the lessee. Payments under a financial lease are treated not as rentals but as the payment of interest and repayment of principal on the imputed loan." (ESA 2010 – Section 15.14).

I.3.2 Transferred assets

These may be assets transferred to Central Government or transferred by the latter to other entities. Opinion n° 2013-04 of 12 April 2013 of the Public Sector Accounting Standards Council relating to tangible asset transfers between public sector entities applies to assets made available by one public entity to another (also known as transfers).

The Standard requires such legal entities' balance sheets to recognise all of the assets that they manage and control and not just the controlled assets that they own. According to this logic, the purpose of the balance sheet is not only to determine the rights of other third parties with regard to the public entity, but to provide the reader of the financial statements, the authorities that manage, monitor and, where applicable, control the entity with accurate information about the substance and the value of the assets available to the entity on a permanent basis, and in any form whatsoever, in order to enable the entity to fulfil its mission. The assets are transferred free of charge or for a nominal rent. Often the assets in question are buildings used as offices under an agreement.

For this reason, assets belonging to Central Government that are transferred to other public entities, without transfer of title, are recognised in the balance sheet of the transferee. These resources provided in the form of transfers between public entities are considered, from a balance sheet point of view, to be capital contributions or long term investments. The control criteria apply equally to transfers made to private entities. Similarly, assets belonging to another public entity that are transferred to Central Government without transfer of title are recognised by Central Government if the latter controls them.

The measurement basis applicable on transfer of a Central Government asset to a transferee and on return to Central Government is set out in the requirements below.

I.3.3. Concession assets handed over or returned

General recognition and measurement requirements per class of asset apply where concession assets are handed over or returned to Central Government.

I.3.4. Spares and safety stocks

Spare parts are usually recognised as inventory and expensed when they are used. However, where they are acquired at the same time as a fixed asset for which they are intended, the main spare parts[3] and safety stocks[4] are tangible assets if the Central Government expects to use them over more than one accounting period, i.e. over a period of more than 12 months. In the same way, if the spare parts can only be used for one tangible asset, they are recognised as a tangible asset. Where the main spares and safety stocks are acquired after the fixed asset for which they are intended, the requirements for subsequent expenditure are applicable (see below).

I.3.5. Specific case of spares for Central Government military equipment

Central Government holds spares essential for the maintenance of military equipment in operational condition. Despite their value, these items are inventories, provided the meet the current definition of an asset.

I.3.6. Distinction between fixed assets and inventories

Ammunition is by definition part of inventories.

However, ammunition classified as a nuclear deterrent, and therefore by definition not intended for use, is recognised as a fixed asset.

I.4. Recognition by component

The recognition of individual components of an asset, where these components have characteristics different to those of the main asset, would require analysis which is complex and difficult to implement for Central Government, given the number and variety of assets it controls. In addition, this approach is not applicable to tangible assets measured at fair value or depreciated replacement cost at the reporting date. The principle of recognition by component has not therefore been adopted.

[3] According to the Opinion of the Urgent Topic Committee of the National Accounting Board (CNC) n°2005-D of 1 June 2005, the purpose of spare parts is to replace or be incorporated into a main asset, or possible subsequent expenditure of a capital nature. The economic benefits related to this asset will only be obtained once the part is effectively in use, after the replacement. Depreciation begins at the date of replacement of the part (i.e. on installation) and is calculated on the same basis as the related component or the fixed asset into which it is incorporated.

[4] According to the Opinion of the Urgent Topic Committee of the National Accounting Board (CNC) n°2005-D of 1 June 2005, safety stock is composed of major components of plant acquired for use in case of breakdown or accidental damage, in order to avoid a long interruption in the production process or a safety risk. Their replacement is not planned. The economic benefits related to these assets are a result of their immediate availability during the use of the main asset. Depreciation begins on acquisition [of the main asset] and is spread over the same lifespan.

I.5. Subsequent expenditure

I.5.1. General Principles

Subsequent expenditure is capitalised if it is probable that future economic benefits or service potential will flow to Central Government, which is greater than the most recent assessment of the level of performance originally defined for the existing asset or defined when the expenditure is incurred. The difference compared to the original level represents an increase in the useful life of the asset, an expansion of its capacity, a decrease in the cost of use or a substantial improvement in production quality.

Minor repairs, routine upkeep and maintenance, one for one replacement or restoration without improvement are recognised as expense of the period in which they are incurred.

Assets measured at cost or a token or non-revisable fixed amount at the reporting date

Any subsequent expenditure of a capital nature is recognised as an asset separately from the main asset to which it relates. The applicable depreciation schedule is based on the nature of the asset. If the capitalisable subsequent expenditure is a replacement of all or part of the main asset, and the latter is not fully depreciated, then depreciation schedule will be reviewed accordingly.

Assets measured at fair value or at depreciated replacement cost at the reporting date

Any subsequent expenditure of a capital nature is taken into account in determining the fair value or depreciated replacement cost of the relevant assets at the reporting date. It is not, therefore, recognised separately in the Central Government's balance sheet, and does not require a depreciation schedule.

In the case of roads or motorways, which are measured at depreciated replacement cost at the reporting date, subsequent expenditure relating to preventive maintenance or rehabilitation is considered to be of a capital nature.

I.5.2. Upgrading and compliance expenditure

General accounting regulations[5] apply to tangible assets acquired by Central Government for safety or environmental purposes[6].

[5] Article 321-10.2 of Regulation n° 99-03 of the Accounting Regulation Committee (CRC) relating to the General Chart of Accounts: "Tangible assets acquired by Central Government for safety or environmental purposes, although they do not directly increase the future economic benefits generated by a particular existing asset, are capitalised if they are instrumental in obtaining the economic benefits from its other assets – or the expected service potential in the case of entities applying Regulation n° 99-01 [of the CRC relating to the accounting rules applicable to the annual accounts of associations and foundations] or belong to the public sector." As stated in Opinion n°2005-D of 1 June 2005 of the Urgent Topic Committee of the National Accounting Board (CNC), the recognition requirements for these fixed assets constitute an exception to the provisions of Article 311-1 of Regulation n° 99-03 of the CRC relating to the General Chart of Accounts. This is so because, although they do not directly increase the future economic benefits generated by the fixed asset to which they relate, they are capitalised if they are instrumental in obtaining the economic benefits from related fixed assets. The assessment of economic benefits is no longer limited to the existing asset but extended to the group of related assets.

[6] Subsequent expenditure incurred for the purposes of environmental compliance in response to the Grenelle environment conference, is capitalised if it represents improvement to existing assets, as it contributes to an increase in the level of economic benefits. This occurs where the cost of use of equipment is significantly reduced (reduction in energy costs for buildings).

Thus, subsequent upgrading and compliance expenditure is essential in maintaining the level of future economic benefits and service potential. This expenditure is capitalised.

This applies to compliance expenditure meeting one of the three following conditions:

> expenditure incurred for safety reasons, to improve accessibility for people or for environmental reasons ;

> legal obligations ;

> non-implementation would degrade service potential or lead to a shutdown of the activity or prevent the use of the asset by Central Government.

I.5.3. Dismantling and restoration of Central Government's tangible assets

The accounting treatment depends on whether or not the deterioration which creates the obligation to restore is a consequence of future operational needs:

> If the deterioration is an inevitable consequence of future operating activity (such as plant used for an activity which will be dismantled when the activity ceases), the deterioration is deemed to occur immediately. The obligation is a consequence of the very nature of the asset and the obligation is identified from the outset. Thus, the costs of dismantling an asset are costs that Central Government is obliged to incur on ceasing its activity. The total liability for dismantling costs must be recognised as a provision when the asset is put into service or when there is a legal or regulatory obligation to do so. Where a provision for restoration cost is set up, the cost of the asset is incremented accordingly on initial recognition of the latter. If any outside event modifies the obligation to dismantle (for example, reinforcement of environmental regulations), a new estimation is carried out and treated as change in estimation.

> Expenditure in response to immediate deterioration, which is not related to future operating activity (for example, accidental pollution caused by an unforeseen accident) is recognised when the cost is incurred. This applies in particular to expenditure incurred due to asbestos removal obligations. Indeed, when the quantity of asbestos detected gives rise to a legal obligation to remove it, the future cost is provided for to the extent that the deterioration already exists and the repair is not linked to future activity, as it would be carried out even if the activity ceased. When the expense is incurred, it is recognised in expense and the corresponding provision is reversed.

> Expenditure resulting from "progressive" deterioration, i.e. observed progressively over the useful life of the asset, is recognised as and when the deterioration is observed. This applies to expenditure resulting from depollution obligations that are proportional to the level of activity. When there is a legal or regulatory obligation to restore, a provision for expense is recognised as and when the deterioration is observed, for the amount of restoration work required based on the actual deterioration at the reporting date.

I.6. Classes and sub-classes of tangible assets

The measurement rules for the Central Government's tangible assets are defined by class and sub-class of assets.

A class of tangible assets is a group of assets with similar characteristics, included in the same line item in the financial statements.

A class is made up of sub-classes which are groups of assets with similar characteristics but different uses.

Thus, property is made up of the two following sub-classes:

> property other than residential buildings and offices ;

> residential buildings and offices.

Property is therefore classified into one of these two sub-classes according to use.

The land on which the property asset [7] is built follows the same classification as the buildings with the exception of the land on which prisons are built.

The following classes and sub-classes of assets shall be presented separately in the Central Government's financial statements:

> **Land:** this class consists of built or unbuilt land controlled by Central Government that does not form part of a property asset. This class includes the land on which prisons are built, training camps, quarries, firing ranges, practice facilities, rubbish dumps, open-sky archaeological deposits and excavations and mines. This class does not include land on which property is built other than that of prisons, natural sites and cemeteries indicated below.

> **Natural sites** (moors, beaches, dunes, ponds, lakes, etc.) **and cemeteries outside the scope of Standard 17** Heritage Assets. This class consists of land with a service potential intrinsically linked to considerations of public interest. It forms a class of its own.

> **Property**: this class consists of property assets controlled by Central Government other than prisons, unique Ministry of Defence Property which constitutes a class of its own mentioned below and other infrastructures. The land on which the property is built is included in its valuation. Property is extremely diversified due to its age and the long period of acquisition by Central Government, as well as to the varied ways in which it is used. There are two sub-classes :

- Property other than residential buildings or offices and the land on which they are built. It includes buildings of an industrial, commercial or cultural nature and those used for State education, health, social, technical, sporting, agricultural, breeding or religious purposes, State

[7] In this context, the term "property asset" means the class of "property" in the restricted sense, prisons, unique Ministry of Defence properties that form a class of their own and other infrastructures.

monuments and memorials (other than those within the scope of Standard 17 “Heritage Assets”). This sub-class also includes all military sites other than those included in the sub-class of residential or office property or in unique Ministry of Defence property which forms a class of its own.[8]

- Property including residential buildings or offices and the land on which they are built. This sub-class is comprised of embassies, consulates, police stations, tax offices, office buildings occupied by ministries, inspectorates of education, prefectures, educational authorities, sub prefectures, courts, furnished buildings and accommodation, residential buildings and individual houses. This sub-class also includes town barracks and military premises used only as accommodation and offices.

> **Certain Ministry of Defence properties that form a class of their own**. Hereafter is the exclusive comprehensive list of these assets vital to the accomplishment of the Central Government’s sovereign mission of defence, which are not intended to be replaced [9] and which moreover have no equivalent in the private sector and would require extensive conversion work to be suitable for everyday use, if ever it made sense or were feasible to do so:

- Nuclear air bases (“BAVN”): the features of these bases include storage facilities for nuclear warheads and delivery vehicles, and protected areas for nuclear strike and refuelling aircraft as well as underground shelters for staff;
- Arsenals with nuclear reception and storage facilities (arsenals of Brest including the “Ile Longue”, Toulon and Cherbourg);
- Centres of military expertise of the Directorate General for Armaments(DGA) in Bourges and Vert-le-Petit;
- Fuel depots of the army fuel unit (“SEA”) operational on 1 January 2006, with common characteristics, namely that, in spite of their age, they have not undergone deterioration over time or wear due to use, because the storage facilities have indestructible concrete walls and other characteristics specific to army requirements: half buried depots, with reinforced walls, spread out and inconspicuous to meet these requirements.

> **Prisons:** in view of their purpose and characteristics, they represent a separate class.

[8] Military sites are built and unbuilt property controlled by Central Government and used by military and other Ministry of Defence organisations to prepare the forces, logistics, support, research, and activities of a technical nature for the preparation and conduct of armament programmes. They are coherent property units measured on a global basis, which means that all the parts of the site are considered to secondary to the main asset and irrespective of their characteristics and functions are subject to the requirements of the class to which the main asset belongs.

[9] This justifies the fact they are not depreciated.

> **Roads and motorways controlled by** Central Government and the related structures.

> **Dams controlled by** Central Government and the related structures.

> **Other infrastructures:** they consist of railways and related structures, network, signalling and telecommunication structures, port and airport facilities controlled by Central Government.

> **Military equipment:** it consists of military equipment held and controlled by Central Government made up of different components[10], except equipment withdrawn from active service and classified as other tangible assets.

> **Other tangible assets**: They consist of sundry fixtures and fittings, equipment and movable goods not within the scope of Standard 17 "Heritage Assets". Other tangible assets include military equipment withdrawn from active service: this is military equipment withdrawn from active service, not for sale, which is intended for training purposes on the ground, or for museums, static displays, cannibalisation or destruction.

> **Tangible assets in progress**

II. MEASUREMENT

II.1 Measurement on initial recognition

II.1.1. General Principles

General business accounting rules are applicable on initial recognition of Central Government's tangible assets, except for the capitalisation of borrowing costs[11] which is not allowed.

Natural sites (moors, beaches, dunes, ponds, lakes, etc.) and cemeteries outside the scope of Standard 17 "Heritage Assets" are measured at a token or non-revisable fixed amount.

Unique Ministry of Defence properties that form a class of their own is defined in an exclusive exhaustive list included in the Standard. Accounting requirements for this class of asset are set out in the transitional provisions.

The Standard sets out requirements for tangible assets transferred from one public sector entity to another (when taking or re-taking control).

II.1.2. Transferred Assets

In order to reflect the continuity of the mission of public service a transferred asset is measured in the financial statements of Central Government at the carrying value in the accounts of the transferor at the transfer date, including where applicable the gross value, accumulated depreciation and any related impairment or provisions. For different reasons, sometimes the transferred tangible assets may not be recognised in the accounts of the transferor (where

[10] Air, land, sea, police.

[11] Borrowing costs are recognised in the period in which they accrue.

recognition was not required by previous accounting rules or due to measurement difficulties, etc.). In these circumstances, it may prove difficult or impossible to reconstitute the historical value of the transferred asset. In these circumstances, for practical reasons, the market value of the asset at the transfer date is deemed to be the historical value.

Returned transferred assets are subject to the same requirements as those set out above.

The balancing entry for transferred assets is in net assets/equity: on the credit side for the transferee and on the debit side for the transferor.

II.2. Measurement at the reporting date

II.2.1. General Principles

A depreciable asset is a fixed asset with determinable use by Central Government. Use is measured by reference to the consumption of the expected economic benefits or the achievement of the service potential of the asset by Central Government, according to the probable pattern of use over a limited period of time. The useful life and depreciation schedule are defined by Central Government on the basis of the characteristics of the fixed assets. The depreciable amount of the fixed asset consists of the gross amount after deducting a reliable estimate of its residual value. Consequently, a depreciable asset is depreciated by the systematic allocation of the depreciable amount of the asset, reflecting the pattern in which the asset's future economic benefits or service potential is expected to be consumed.

In addition, impairment tests are conducted where a deterioration of the physical state of the asset gives rise to a decrease in its service potential**.** Impairment is recognised when a significant decrease in service potential occurs.

II.2.2. Property

Central Government property and the land on which it is built are measured at amortised cost at the reporting date.

However, as an exception, residential property and offices and the land on which they are built, as defined above (I.6), are measured at fair value at the reporting date.

II.2.3. Other cases

The reporting date measurement requirements for land, natural sites, cemeteries, unique Ministry of Defence properties that form a class of their own, prisons, roads and motorways, dams, other infrastructures, military equipment, and other tangible assets are set out in the body of the Standard.

III. OPENING BALANCE SHEET ON 1 JANUARY 2006

In order to draw up the opening balance sheet, several transitional provisions were defined.

A valuation of tangible assets on the date of the first financial statements under the new standards was required. When drawing up the opening balance sheet, the general measurement principle of acquisition or production cost was therefore applicable in accordance with the French General Chart of Accounts.

However, unlike a business whose start-up date is known precisely, one of the specific characteristics of Central Government is the long-standing nature of its activity as a result of which historical cost, which is either an acquisition or a production cost, may either be unknown or without signification, because it is so ancient. Where historical cost could not be determined, an appropriate measurement basis had to be identified.

Those assets for which no historical cost could be determined fall into two categories: those for which an observable market value existed (for example office premises) and those for which no such value was observable (for example, road infrastructures); even if in theory it is not possible

to exclude its existence. If the market value was observable it was used as an entry value, otherwise suitable alternative approaches, such as depreciated replacement cost, have been defined in the Standard.

IV. POSITION OF THE STANDARD WITH REGARD TO OTHER ACCOUNTING STANDARDS ON FIRST APPROVAL OF THE MANUAL OF CENTRAL GOVERNMENT ACCOUNTING STANDARDS IN 2004

In accordance with article 30 of the Constitutional bylaw of the 1st August 2001 relating to budget acts, this Standard has been drawn up in compliance with the general principles applicable to business accounting, except for differences warranted by the specific nature of Central Government activity.

Standard 6 is based on the regulations of the Accounting Regulation Committee, set out below, and is consistent with the French General Chart of Accounts. The principles and rules set out in International Public Sector Accounting Standards (IPSAS) drawn up by the IPSAS Board have been adopted in the cases described hereafter, whenever the specific nature of the Central Government's activity required it or when they are consistent with the French General Chart of Accounts.

The concept of control adopted in this Standard is the one recommended by the French National Accounting Board for the purposes of defining assets (see exposure draft of 22nd October 2002). It is also consistent with the principles set out in IPSAS 17 and IAS 16 Plant, Property and Equipment.

The following were the references for the specific items listed below:

The finance lease requirements are based on the order of the 22nd June 1999 approving regulation n°99-02 of the Accounting Regulation Committee of the 29th April 1999 relating to the consolidated financial statements of commercial companies and government business enterprises, as well as on IAS 17 "Leases" and IPSAS 13 "Leases" which require the lessee to recognise items under this kind of leasing agreement as assets.

Requirements relating to co-financing are based on the accounting rules for capital grants (article 362-1 of the French General Chart of Accounts).

The requirements of the French Chart of Accounts (article 321-1) are applicable to the measurement of a tangible asset on initial recognition.

The specific issue of dismantling and restoration costs is based on the French National Accounting Board's Opinion 00-01 of 20th April 2000 on liabilities and French Accounting Regulation Committee Regulation 2000-06 of 7th December 2000 on liabilities.

The general principle of depreciation with impairment testing when there is evidence of impairment loss is applied to the measurement of assets at the reporting date, in accordance with regulation n°2002-10 of the 12th December 2002 relating to the depreciation and impairment of assets.

V. POSITION WITH REGARD TO OTHER ACCOUNTING STANDARDS AFTER SUBSEQUENT AMENDMENT

Opinion n° 2013-04 of 12 April 2013 of the Public Sector Accounting Standards Council relating to transfers of tangible assets between public sector entities applies to these transactions.

The treatment of subsequent expenditure is based on Opinion n° 2012-07 of the Public Sector Accounting Standards Council relating to heritage assets, which treats such expenditure like components.

The requirements of Opinion n° 2012-02 of 4 May 2012 of the Public Sector Accounting Standards Council in respect of the initial recognition of assets which, for particular reasons, were not previously recognised should not normally apply to Central Government because its opening balance sheet on 1 January 2006 was adjusted as part of an accounting improvements programme. It is stressed that this Opinion does not give rise to any adjustment of the measurement of assets recognised on that occasion under the transitional provisions of Standard 6 of the Central Government Accounting Standards Manual (RNCE). Nevertheless, the application of the Opinion to Central Government is dealt with as a matter of consistency within the public sector.

The measurement of residential and office buildings and the land on which they are built is comparable to the alternative treatment allowed in IPSAS 17 "Property, Plant and Equipment". Similarly, the reporting date measurement of roads and motorways at depreciated replacement cost is based on the treatment set out in IPSAS 21 "Impairment of Non-Cash-Generating Assets".

As a matter of consistency and compliance with the French General Chart of Accounts, the term "fair value" is used throughout the Standard. Initially, the term "market value" was chosen. "Market value" and "fair value" are similar concepts and this change in terminology has no effect on the accounting treatment at the effective date of the Standard. Both terms are defined in the Glossary.

In addition, the accounting classes and sub-classes have been redefined in an objective and consistent manner and are now the single entry point for the recognition and measurement of tangible assets. As a result of this redefinition, the distinction “specialised/non-specialised” for Central Government property has been withdrawn.

The measurement of natural sites, cemeteries and certain property assets specific to the Ministry of Defence is based on Opinion n° 2012-07 of the Public Sector Accounting Standards Council relating to heritage assets.

General accounting regulations relating to the treatment of spare parts and safety stocks and upgrading and compliance expenditure apply to Central Government, with the exception of certain spares for military equipment which are recognised as inventories.

The option of capitalising borrowing costs that exists in the French Commercial Code and General Chart of Accounts (Commercial Code. Article. R 123-178-2° and General Chart of Accounts (“PCG”), Article. 321-5.1) is not available to Central Government. This option was not introduced, because the principle adopted by the Central Government is that loans cover its funding requirements and cannot be allocated to specific tangible assets.

STANDARD 6 – TANGIBLE ASSETS

REQUIREMENTS

1. DEFINITION AND RECOGNITION CRITERIA OF A TANGIBLE ASSET

1.1. Definition

A tangible asset is an identifiable physical asset for use over more than one accounting period that has a positive economic value for Central Government.

This positive economic value is represented by the expected future economic benefits or service potential to be derived from the use of the asset.

1.2. Recognition criteria: general principles

This standard requires both of the two following conditions for recognition of a tangible asset to be met:

> the tangible asset is controlled by Central Government;

> its cost or value can be measured with sufficient reliability.

Central Government applies these recognition criteria to costs when they are incurred.

1.2.1. Control criterion

Control generally takes a specific legal form (ownership or right of use) and is characterised by:

> the ability to govern the conditions of use of the asset;

> the ability to govern the service potential and/or future economic benefits derived from using the asset.

The fact that the Central Government bears the risks and expenses associated with holding the asset also constitutes a presumption of control.

Recognition of a tangible asset takes place on the date control is transferred, which is usually the date of the transfer of the risks and rewards associated with holding the asset.

1.2.2. Reliable measurement criterion

A tangible asset is recognised on the condition that its cost or value is capable of being reliably measured.

1.3. Recognition criteria: specific cases

1.3.1. Assets Covered by Finance Leases

This Standard applies to assets that Central Government holds under the terms of leases, other than operating leases, where both the above control criterion and the tangible asset definition are met.

To meet the control criterion, the finance lease must transfer substantially the entire risks and rewards incident to ownership of the asset to the Central Government. The transfer takes place at the inception of the finance lease, which is on signature of the lease, or on the date the parties commit to the principal provisions of the lease, where this is earlier.

The risks are the losses associated with under-utilisation of the asset compared to its initial potential, technical obsolescence or a decline in profitability.

The rewards are the expected profitability of the asset over its useful life, the gains arising from the increase in the value of the asset or the realisation of its residual value.

1.3.2. Jointly controlled assets

Central Government tangible assets that are jointly funded by other entities are recognised in the Central Government's balance sheet, provided they meet the recognition criteria.

1.3.3. Transferred assets

Assets transferred to Central Government

To qualify for balance sheet recognition, an asset must be controlled by Central Government, which means the latter must have the power to manage the asset and bear the associated risks and expense.

Assets transferred to public sector entities by Central Government

Central Government assets that are under the control of any other public sector entities are recognised in the balance sheet of those entities and not in the balance sheet of Central Government.

1.3.4. Central Government as project owner

Where Central Government is the project owner for work that will no longer be under its control after delivery, the work in progress is deemed to be under the control of Central Government.

1.3.5. Spares and safety stocks

The recognition criteria for an asset apply as follows:

- major spares and safety stocks that Central Government expects to use over a period in excess of 12 months are tangible assets;
- specific items that can only be used with a particular fixed asset (spares and servicing equipment) are always tangible assets.

Central Government holds spare parts essential to maintaining its military equipment in operational condition. Despite their value, these items are inventories, provided the meet the current definition of an asset.

Moreover, ammunition is by definition an item of inventory.

However, ammunition held as a nuclear deterrent is not intended to be used and is therefore a fixed asset.

1.4. Subsequent expenditure

1.4.1. General principles

Subsequent expenditure is capitalised if it is probable that future economic benefits or service potential will flow to Central Government, which is greater than the most recent assessment of the level of performance originally defined for the existing asset or defined when the expenditure is incurred. The difference compared to the original level represents an increase in the useful life of the asset, an expansion of its capacity, a decrease in the cost of use or a substantial improvement in production quality. Consequently, minor repairs, routine upkeep and maintenance, one for one replacement or restoration without improvement are recognised as expense of the period in which they are incurred.

Assets measured at cost or a token or non-revisable fixed amount at the reporting date

Any subsequent expenditure of a capital nature is recognised as an asset separately from the main asset to which it relates. The applicable depreciation schedule is based on the nature of the asset. If the capitalisable subsequent expenditure is a replacement of all or part of the main asset, and the latter is not fully depreciated, then depreciation schedule will be reviewed accordingly.

Assets measured at fair value or at depreciated replacement cost at the reporting date

Any subsequent expenditure of a capital nature is taken into account in determining the fair value or depreciated replacement cost of the relevant assets at the reporting date. It is not, therefore, recognised separately in the Central Government's balance sheet, and does not require a depreciation schedule.

In the case of roads or motorways, which are measured at depreciated replacement cost at the reporting date, subsequent expenditure relating to preventive maintenance or rehabilitation is considered to be of a capital nature.

1.4.2. Dismantling and restoration of Central Government's tangible assets

The accounting treatment depends on whether or not the deterioration which creates the obligation to restore is a consequence of future operational needs:

> If the deterioration is an inevitable consequence of future operating activity (such as plant used for an activity which will be dismantled when the activity ceases), the deterioration is deemed to occur immediately. The obligation is a consequence of the very nature of the asset and the obligation is identified from the outset. Thus, the costs of dismantling an asset are costs that Central

Government is obliged to incur on ceasing its activity. The total liability for dismantling costs must be recognised as a provision when the asset is put into service or when there is a legal or regulatory obligation to do so. Where a provision for restoration cost is set up the cost of the asset is incremented accordingly on initial recognition of the latter.

> Expenditure in response to immediate deterioration, which is not related to future operating activity (for example, accidental pollution or asbestos removal), is recognised when the cost is incurred. Where a legal or regulatory obligation exists, the future cost is provided for as the deterioration occurs.

> Expenditure resulting from "progressive" deterioration (such as pollution proportional to the level of activity), is recognised as and when the deterioration is observed. When there is a legal or regulatory obligation to restore, a provision for expense is recognised as and when the deterioration is observed.

1.5. Classes and sub-classes of tangible assets

The accounting classification for tangible assets is as follows:

> Land

> Natural sites and cemeteries outside the scope of Standard 17 "Heritage Assets"

> Property

> Ministry of Defence properties that form a class of their own. This includes nuclear air bases (BAVN), arsenals equipped with nuclear reception and storage facilities, centres of military expertise and testing facilities of the Directorate General for Armaments in Bourges and Vert-le-Petit, fuel depots of the army fuel unit.

> Prisons

> Roads and motorways controlled and related structures

> Dams and related structures

> Other infrastructures

> Military equipment

> Other tangible assets

> Tangible assets in progress

Property is divided into two sub-classes:

> Property (other) than residential buildings and offices;

> Residential buildings and offices and the land on which they are built.

2. MEASUREMENT

The measurement rules for the Central Government's tangible assets are defined by class and sub-class of assets.

The land on which the property asset is built follows the same classification as the buildings with the exception of the land on which prisons are built.

2.1. Measurement on initial recognition

2.1.1. General Principles

On initial recognition, subject to the specific exceptions set out below, fixed assets are measured at acquisition cost, production cost, fair value or a token or non-revisable fixed amount.

Acquisition cost

Assets acquired for purchase consideration are measured at acquisition cost.

This cost comprises the purchase price, including import duties and non-refundable purchase taxes, and any costs directly attributable to bringing the asset to the working condition necessary for its intended use; any trade discounts and rebates are deducted from the purchase price. Ancillary costs to be added to the purchase price include:

- costs for site preparation ;
- initial delivery and handling costs;
- installation costs;
- professional fees such as for architects and engineers.

Administrative costs and other general overheads directly attributable to the acquisition of the asset, or to bringing it into working condition, form part of the acquisition cost of the asset. Similarly, start-up and similar pre-operating costs necessary to bring the asset to its working condition form part of the acquisition cost of the asset.

However, borrowing costs are excluded from acquisition cost.

Production cost

Assets produced by Central Government are measured at production cost.

Production cost includes the costs of purchase and the other costs incurred by Central Government during the production process to bring the asset to its present condition and location.

It is made up of the acquisition cost of materials consumed, direct and indirect production costs, the initial estimate of dismantling costs, removal costs and the cost of restoring the site on which the produced asset is situated.

Projects that generate capitalisable applied research and development costs are within the scope of the standard on intangible assets. In exceptional circumstances, where this expenditure contributes to the creation of a tangible asset (for example, the creation of laboratory), it is recognised in the relevant fixed asset account.

Borrowing costs do not form part of production cost.

Fair value

Assets acquired free of charge (through donations and bequests to the Central Government, vacant and abandoned property, assets from escheated estates, confiscation of criminal assets, etc.) are measured at their fair value at the acquisition date, or failing that at the so called “tax” value or valuer’s estimation.

A tangible asset may be acquired in exchange or part exchange for another tangible or other type of asset. The cost of such assets is determined by reference to the fair value of the exchanged asset, adjusted for the amount of cash transferred in the exchange. If no reliable valuation can be determined, the carrying amount of the exchanged asset is deemed to represent the cost of the asset acquired in the exchange.

Token or non-revisable fixed amount

Natural sites and cemeteries not within the scope of Standard 17 "Heritage Assets" as well as certain property assets specific to the Ministry of Defence which form a class of their own are measured at a token or non-revisable fixed amount.

2.1.2. Specific cases

Assets held under finance leases

At the inception of the lease term, assets acquired under finance leases shall be recognised at an amount equal to the lease obligations in the Central Government’s balance sheet, at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. A finance lease is therefore recognised both as an asset and as an obligation to make the future lease payments.

Initial direct costs may be incurred in connection with specific leasing activities, such as the costs of negotiating and securing the leasing arrangements. These costs are included in the amount recognised as an asset under the terms of the lease.

Lease payments shall be broken down into finance expense and the amortisation of the outstanding debt.

Jointly controlled assets

Jointly funded assets are recognised at cost including the part funded by third parties. The funding provided to Central Government by other entities is presented as a liability in the Central Government’s balance sheet as prepaid revenue.

The amount of joint funding from outside Central Government is recognised in the operating surplus/deficit as follows:

- if the jointly funded asset is depreciable, at the same rate and over the same period as the depreciation for each period;
- if the jointly funded asset is not depreciable, in ten equal annual instalments.

Assets transferred to Central Government

Assets transferred to Central Government are measured in its balance sheet at the carrying value in the accounts of the transferor at the transfer date, including where applicable the gross value, accumulated depreciation and any related impairment or provisions.

If the tangible asset transferred is not recognised in the accounts of the original transferor, measurement is at fair value, which is deemed to be the historical cost of the asset.

The above requirements also apply to transferred assets which are returned.

Ministry of Defence properties that form a class of their own

Unique Ministry of Defence properties that form a class of their own are defined in an exclusive exhaustive list included in the Standard. Accounting requirements for this class of asset are set out in the transitional provisions.

2.2. Measurement at the reporting date

The rules set out hereafter, apply to all assets which are controlled by or belong to Central Government, as well as those held by or available to the latter under a finance lease or transfer agreement. Thus, assets funded by a finance lease are subject to the rules applicable to other assets of the same accounting class, but have the particularity of being depreciated over the shorter of the lease term and their useful lives, if acquisition at the end of the lease is not reasonably certain.

2.2.1. General Principle

Reporting date measurement rules apply by class and sub-class of tangible asset.

In the case of depreciable assets, the reporting date value is the initial value after deducting accumulated depreciation and, where applicable, impairment.

Tangible assets are not subject to revaluation at the reporting date.

Depreciation

At the end of each reporting period depreciation expense is recognised in accordance with the depreciation schedule. For each reporting period the corresponding depreciation allocation is recognised as an expense.

The starting point for depreciation is when the tangible asset is put into use.

An adjustment of depreciation schedules (useful life and depreciation method) may be considered following a substantial change in the use or nature of the asset, or on impairment.

Impairment

An impairment loss occurs when the recoverable amount of an asset is substantially lower than its net carrying amount, which no longer corresponds to the expected residual economic benefits or service potential for Central Government if use of the asset continues.

Impairment is recognised when a significant deterioration in the physical condition of the asset occurs, caused by exceptional circumstances (for example, terrorist attacks, flooding fire, etc.), which prevent its normal use. Impairment is also recognised where there is evidence of technical obsolescence caused by an event preventing its normal use in the short term.

Therefore, if the recoverable amount of a fixed asset is lower than its carrying amount, the latter is adjusted to the recoverable amount by the recognition of an impairment loss. However, if the recoverable amount is not considered significantly lower than the carrying amount, no adjustment is made in the balance sheet and no impairment is recognised.

Recognition of impairment, whether initially or as subsequent changes to the initial amount, modifies the depreciable amount of the impaired asset for future periods as well as its depreciation schedule.

2.2.2. Land

Land is not depreciated, but may in some circumstances be impaired.

2.2.3. Natural sites and cemeteries

Natural sites and cemeteries measured at a token or non-revisable fixed amount at the reporting date are not subject to impairment.

2.2.4. Property

In General

Property assets and the land on which they are built are recognised at their initial value after deducting accumulated depreciation and impairment.

Specific Case

Residential property and offices and the land on which they are built included in the sub-class defined above (I.6.) are measured at fair value at the reporting date. The fair value of these assets is determined by reference to recent transactions for similar assets in comparable circumstances in the same geographical zone for the purpose of the property fair. The valuation of each asset is based on the assumption that it will continue to be used for the same or similar purposes.

The fair value is compared to the carrying value at the reporting date in order to determine the revaluation difference. The carrying value corresponds to the fair value at the previous reporting date increased, if applicable, by the amount of additions for the period. The resulting surplus or deficit, if any, is recognised directly in net assets/equity as a “revaluation difference”.

2.2.5. Unique Ministry of Defence properties

Properties specific to the Ministry of Defence that form a class of their own are measured at a token or non-revisable fixed amount on the reporting date. These are neither depreciable nor subject to impairment.

2.2.6. Prisons, roads, motorways and dams

Prisons, roads, motorways, dams and related structures are measured at depreciated replacement cost at the reporting date. This measurement basis consists of the estimated replacement cost of the asset by a similar asset that would offer identical service potential.

The gross value is equivalent to the cost of constructing new assets after deducting an allowance for the estimated cost of restoring the existing assets at the reporting date.

This calculated amount is compared to the carrying value at the reporting date. The carrying value corresponds to the depreciated replacement cost at the previous reporting date increased, if applicable, by the amount of additions for the period and the change in the allowance for restoration costs since the last reporting date. The resulting surplus or deficit, if any, is recognised directly in net assets/equity as a "revaluation difference".

2.2.7. Other infrastructures, military equipment and other tangible assets

Other infrastructures, military equipment and other tangible assets of Central Government are measured at amortised cost at the reporting date, with the exception of military equipment withdrawn from active service, not for sale, intended for training purposes on the ground, or for museums, static displays, cannibalisation or destruction, which is measured at a token amount.

2.2.8. Specific cases of assets held under finance leases, jointly controlled and transferred assets

Assets held under finance leases, jointly funded assets and assets transferred to Central Government are measured on the same basis as other assets in the same accounting class which are not funded in these ways.

3. DERECOGNITION AND MEASUREMENT ON DERECOGNITION

3.1. Derecognition

A tangible asset shall be derecognised when Central Government no longer has control over it.

3.1.1. Disposals

Profits and losses on disposal of a cash-generating tangible asset, shall be determined as the difference between the estimated net income on disposal and the carrying value of the asset and recognised in the surplus/deficit statement.

3.1.2. Transferred assets

Two different situations exist according to whether or not identifiable consideration is given in exchange for the disposal:

Identifiable consideration is given

This occurs, for example, when Central Government transfers assets to a public entity in which Central Government holds an interest, the value of which is increased accordingly.

In this case, the asset disposal results in the recognition of a financial asset. It is a transfer between balance sheet items and has no effect on the surplus/deficit.

No identifiable consideration is given

This occurs, for example, when title to an asset is transferred to a local authority under decentralisation legislation.

The disposal is recognised directly in net assets/equity without effect on the surplus/deficit for the period.

3.1.3. Scrapping

Items which are no longer part of Central Government's net assets, because they no longer exist or have been destroyed, are retired from fixed assets.

The scrapping of assets is recognised in surplus/deficit.

3.2. Assets that continue to be recognised although no longer in use

These assets are held with a view to subsequent disposal or scrapping. They continue to be recognised at their carrying amount at the time they ceased to be used. Where applicable, impairment is recognised.

Where an asset ceases to be used because it is no longer compliant with new standards, the carrying amount is depreciated over the residual useful life of the asset up until the deadline for application of the new standard. The depreciation schedule shall be modified accordingly.

Specific case of military equipment withdrawn from active service

Military equipment withdrawn from active service, not for sale, intended for training purposes on the ground, or for museums, static displays, cannibalisation or destruction, is measured at a token or non-revisable fixed amount and not depreciated at the reporting date.

3.3. Sale and leaseback transaction

A sale and leaseback transaction is a transaction by which Central Government sells an asset to a third party and leases it back. The lease payments and the selling price are generally negotiated as a package. The accounting treatment of sale and leaseback transactions depends on the type of lease involved.

3.3.1. The transaction results in a finance lease

If the sale and leaseback results in a finance lease, the recognition of any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

In substance, the transaction is a means by which the lessor provides funding to Central Government, with the asset as security. The excess of sales proceeds over the carrying value is recognised as deferred income, and amortised over the lease term proportionally to the lease payments.

3.3.2. The transaction results in an operating lease

If the sale and leaseback results in an operating lease and if the lease payments and the selling price are at fair value, any profit or loss shall be recognised immediately.

If the sale price is below fair value, the loss shall be recognised immediately; however, if the loss is compensated for by future lease payments at below market price, it shall be deferred (deferred expenses) and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

If the sale price is above fair value, the excess shall be deferred and amortised over the period for which the asset is expected to be used.

4. DISCLOSURES IN THE NOTES

4.1. General Disclosures

The notes shall contain the following general disclosures:

- measurement bases on initial recognition and at the reporting date by class of fixed asset, as well as for assets transferred to Central Government
- measurement conventions used to determine the gross carrying amount
- depreciation methods used
- depreciable lives and depreciation rates
- gross carrying amount and accumulated depreciation at the beginning and the end of the period
- the accounting policy for estimating the cost of site restoration
- the nature and effects of changes in accounting estimates having a significant impact on the current period or subsequent periods with regard to residual values, estimated dismantling, removal and site restoration costs, useful lives and depreciation methods
- the amount of expenditure capitalised for work in progress
- the gross carrying amount of fully depreciated assets still in use
- the gross carrying amount, depreciation and impairment, if any, of retired tangible assets being held for disposal
- fixed asset transfers

4.2. Disclosures relating to specific Central Government transactions

The amount of commitments for the acquisition of tangible assets shall be disclosed in the notes. These disclosures should include the net carrying amount of assets under finance leases by asset class at the reporting date.

4.2.1. Finance Leases

Disclosure is required of the total of future minimum lease payments at the reporting date, and their present value, for each of the following periods: not later than one year; later than one year not later than five years; later than five years.

A reconciliation shall be provided of the total of minimum lease payments at the reporting date and their present value.

A general description of the lessee's material leasing arrangements (including renewal options, purchase options, index linking, etc.) shall be provided in the notes.

4.2.2. Other disclosures

The notes shall provide information about the main provisions of contracts relating to jointly controlled assets, with details of the part funded by Central Government and the part funded by other partners.

Disclosure is made in the notes of financial liabilities arising under contracts for which the corresponding investment is not yet recognised in the balance sheet.

4.3. Table of tangible assets by class and sub-class

The notes shall contain tables setting out the changes in gross and net values of each asset class: acquisitions, disposals, transfers, revaluations, impairment losses, depreciation and similar events, etc.

5. REQUIREMENTS RELATING TO THE OPENING BALANCE SHEET ON 1ST JANUARY 2006

Specific requirements are applicable to the measurement of assets in the Central Government's opening balance sheet.

5.1. General Requirements

In the Central Government's first opening balance sheet, assets are measured at acquisition or production cost. This applies in particular to tangible assets such as:

- civil equipment (office equipment, furniture, computer hardware, vehicles…);
- military equipment (tanks, fighter aircraft, submarines…).

Acquisition costs are generally available for this type of asset.

If not, statistical methods may be employed to reconstitute costs which are unavailable, in particular due to the age of the assets (use of catalogue prices and application of a lifespan to reconstitute the net value for example).

5.2. Specific measurement rules for certain Central Government assets

For certain assets, acquisition or production cost is not relevant, either because it is unknown or because of it is too old.

5.2.1. Assets for which a market value is directly observable

This class of assets is measured at market value on initial recognition.

This requirement applies to general purpose land and property.

5.2.2. Assets for which a market value is not directly observable

For certain public assets the historical cost is unknown, and there is no known identifiable market value.

This is true of specific assets such as road infrastructures and prisons. These assets are measured at depreciated replacement cost. However, assets with an unmeasurable service potential (such as natural sites) directly related to their nature or symbolic value are measured at a token or fixed non-revisable amount.

N.B: the accounting treatment for works of art and heritage assets is dealt with in Standard 17 of this Manual, and the accounting treatment of contracts for the provision of public services in Standard 18.

6. TRANSITIONAL PROVISIONS RELATING TO SUBSEQUENT CHANGES IN MEASUREMENT BASES FOR TANGIBLE ASSETS

For historical reasons, after drawing up the Central Government's opening balance sheet on 1 January 2006, the Central Government's general purpose land and property were measured at market value at the reporting date.

Central Government property (including the land on which it is built) is to be measured at amortised cost for the reporting period ending in 2018, at the latest. By exception, only residential buildings and offices, including the land on which they are built, shall continue to be measured at fair value at the reporting date.

Land not forming part of a property asset is measured at cost and other infrastructures at amortised cost for the reporting period ending in 2018, at the latest.

At the latest for the reporting period ending in 2018, natural sites, cemeteries, nuclear air bases, arsenals equipped with nuclear reception and storage facilities, centres of military expertise of the Directorate General for Armaments in Bourges and Vert-le-Petit, fuel depots of the army fuel unit operational on 1 January 2006 and military equipment withdrawn from active service are to be measured at a token or non-revisable fixed amount. These assets are not subject to depreciation or impairment.

Application of changes in measurement bases

In application of the new measurement requirements for property, previously measured at market value at the reporting date and which, from now on, will be measured at amortised cost, the market value at the 31 December in the financial statements of the previous period is deemed, as a simplification, to be the opening depreciable amount carried forward. These assets are depreciated over their estimated life set by instruction of the Director General of Public Finances. Otherwise, by way of simplification, these assets are depreciated over a fixed period of 50 years. The date of the change in accounting policy is the starting date for depreciation. The prospective approach has the advantage of not being based on the date the asset was first put into service, which is often unknown.

An appropriate disclosure is made in the notes.

In the case of assets classed as “other infrastructures” measured at market value or at a fixed amount, the carrying amount on the 31 December of the period prior to the change in measurement basis is deemed to be the opening depreciable amount carried forward.

With regard to natural sites, cemeteries, nuclear air bases, arsenals equipped with nuclear reception and storage facilities, centres of military expertise of the Directorate General for Armaments in Bourges and Vert-le-Petit, fuel depots of the army fuel unit operational on 1 January 2006 and military equipment withdrawn from active service measured hereafter at a token or non-revisable fixed amount:

> Assets already controlled but not recognised are recognised at a token or non-revisable fixed amount;

> Where Central Government assets are already recognised at a token or non-revisable fixed amount, the latter amount remains unchanged;

> Where Central Government assets are already recognised at market value, their new initial value is a token or non-revisable fixed amount.

STANDARD 6 – TANGIBLE ASSETS

EXAMPLES

FINANCE LEASES AND LEGAL PROVISIONS FOR PROPERTY

In order for a lease to qualify as a finance lease, it must stipulate that the leased asset is in one of the three following types of situation:

- ownership of the asset :
  - at the expiry of the lease, ownership of the asset is transferred to the Central Government.
  - the Central Government's exercise of its purchase option at the expiry of the lease must be at a price that is so low compared to the fair value that the exercise of the option appears to be reasonably certain from the inception of the lease. Title to the asset may or may not eventually be transferred.
  - the specific nature of the asset means that it can be used exclusively by the Central Government without requiring major modifications.
  - the Central Government is able to renew the lease on terms that are more favourable than the prevailing market terms.
- holding period:
  - the lease term covers most of the useful life of the asset, even when ownership is not transferred.
- transfer of risks and rewards to lessee:
  - at the inception of the lease, the present value of the payments is close to the fair value of the leased asset.
  - if the Central Government rescinds the lease, the resulting losses for the lessor are borne by the Central Government.
  - gains and losses resulting from changes in the fair value of the residual value accrue to Central Government.

These rules apply to assets that are explicitly covered by finance leases, as well as to asset transfers, and in particular to property transactions, where the legal arrangements transfer all of the risks and rewards associated with ownership to the Central Government.

The analysis of certain legal arrangements shows that some leases that appear to be operating leases are in substance finance leases. This applies to purchase options in connection with long-term leases involving private property, lease agreements for buildings constructed by private operators that are authorised to occupy government property on a temporary basis.

This analysis is especially important in circumstances where the government may enter finance lease arrangements for buildings.

Article 3 of the Internal Security Act of 29 August 2002 provides an illustration of this. Under the terms of this Article, the legal rules on property transactions have been made more flexible to promote the pre-financing of projects by the private sector on government property. The Article facilitates the use of private sector project ownership and makes it more secure by enabling the Central Government to sign a lease with an entity holding a temporary authorisation to occupy public property in which the terms dealing with the buildings to be built for the needs of the judicial system and the police include a purchase option for Central Government whilst authorising the use of finance leases to fund construction projects. Article 6 will extend the scope of Article 3 to cover other needs in respect of cooperation contracts between private sector and public-sector entities set out in the bill on simplification and codification of legislation.

GLOSSARY

Fair value

Concept close to market value or value in use.

Service potential

Service potential is defined as the capacity to produce goods and services which contribute to achieving the objectives of the entity, without necessarily generating economic benefits in the form of cash for the entity. This service potential benefits the entity or third parties, according to its mission and purpose.

Service potential may consist of an economic benefit such as a cash inflow, or the reduction of a cash outflow.

Military site

Military sites are built and unbuilt property controlled by Central Government and used by military and other Ministry of Defence organisations to prepare the forces, logistics, support, research, and activities of a technical nature for the preparation and conduct of armament programmes. They are coherent property units measured on a global basis, which means that all the parts of the site are considered to secondary to the main asset and irrespective of their characteristics and functions are subject to the requirements of the class to which the main asset belongs.

Current value

Current value is the higher of net selling price and value in use.

Gross value

Gross value is the initial value for which an asset is first recognised.

Net carrying amount

Amount at which an asset is recognised in the financial statements after deducting accumulated depreciation and impairment losses.

Inventory value

The inventory value is equal to the current value.

Value in use

Value of the future economic benefits expected from the use and disposal of an asset. It is calculated on the basis of the estimated expected future economic benefits. As a general rule, it is determined on the basis of expected net cash flows. If such cash flows are not meaningful for the entity, other criteria may be used to value the expected future benefits. When the entity owns assets that do not generate cash flows, the criterion used is the expected service potential

Recoverable amount

The recoverable amount is the higher of net selling price and value in use (see current value).

Residual value

Net amount that the entity expects to obtain for an asset at the end of its useful life after deducting expected disposal costs.

Market value

The amount which could be obtained, at the reporting date, for the sale of an asset in a transaction carried out at normal market conditions, les costs to sell, is termed “market value.” Normal market conditions refer to arm’s length transactions between knowledgeable, willing parties.

It is determined on the basis of current use, by reference to prices observed for recent transactions for similar assets in comparable circumstances in the same geographical zone.

Net selling price

See definition of market value.