

# **ACT ACCOUNTING POLICY**



## **Finance Leases - ACT Passenger and Light Commercial Motor Vehicle Using SG Fleet Australia Pty Limited**

**For Reporting Periods Ending on or after 30 June 2010**

## TABLE OF CONTENTS

<b>1</b>	<b>INTRODUCTION</b> .....	<b>2</b>
1.1	APPLICATION .....	2
1.1.1	<i>This Policy</i> .....	2
1.1.2	<i>Relationship to International Financial Reporting Standards</i> .....	2
1.1.3	<i>Which agencies this policy applies to:</i> .....	2
1.1.4	<i>ACT Fleet Vehicles</i> .....	3
<b>2</b>	<b>ACT ACCOUNTING POLICIES</b> .....	<b>3</b>
2.1	AASB 117 LEASES .....	3
2.1.1	<i>Definition of Finance Lease</i> .....	3
2.1.2	<i>Approval of Finance Leases</i> .....	3
2.2	RECOGNITION .....	4
2.2.1	<i>Recording asset and liability for ACT Fleet Vehicles</i> .....	4
2.2.2	<i>Initial value of ACT Fleet Vehicles</i> .....	4
2.3	LEASE PAYMENTS (INCLUDES REGISTRATION, INSURANCE, CTP AND MANAGEMENT FEE) .....	5
2.4	DEPRECIATION.....	6
2.5	REIMBURSEMENT OF EXPENSES – REPAIRS AND MAINTENANCE .....	6
2.6	DISPOSAL.....	6
2.7	ANNUAL FINANCIAL REPORT DISCLOSURE.....	7
2.8	AASB 5 - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS.....	7
2.9	AASB 136 IMPAIRMENT OF ASSETS .....	8
2.10	CASH FLOW STATEMENT .....	8
	<b>EXAMPLE</b> .....	<b>9</b>

# 1 Introduction

## 1.1 Application

### 1.1.1 *This Policy*

This ACT Accounting Policy applies to Finance Leases entered into by departments and territory authorities with SG Fleet Australia Pty Limited (SG Fleet) for the lease of ACT Passenger and Light Commercial Motor Vehicles (ACT Fleet Vehicles). When accounting for ACT Fleet Vehicles, agencies must follow the relevant Australian Equivalents to International Financial Reporting Standards (AIFRS). Consequently, this Policy is to be read in conjunction with the following:

- AASB 117 *Leases*
- AASB 116 *Property, Plant and Equipment*;
- AASB 136 *Impairment of Assets*; and
- AASB 1049 *Whole of Government and General Government Sector Financial Reporting*

In reading this Policy, agencies may also need to refer to the following agreements:

- Master Lease Agreement Finance Lease Between SG Fleet and Australian Capital Territory; and
- Services Agreement between Australian Capital Territory and SG Fleet – Leasing and Fleet Management Services (Services Agreement).

### 1.1.2 *Relationship to International Financial Reporting Standards*

ACT Accounting Policies are to be read in conjunction with the applicable AIFRS. The policies provide additional ACT specific accounting policies and guidance over and above those contained in the AIFRS, both of which must be applied by ACT agencies.

There is, however, no intention that the ACT Accounting Policies will replicate the AIFRS. Consequently, agencies should ensure that they have a good understanding of the content of AIFRS before reading and applying relevant ACT Accounting Policies.

### 1.1.3 *Which agencies this policy applies to:*

All departments and territory authorities are required to follow this policy.

#### 1.1.4 ACT Fleet Vehicles

All agreements entered into with SG Fleet under this arrangement must be made in accordance with the prevailing *ACT Public Sector Management Standards* and Policy in relation to ACT Fleet Vehicles intended use, as either:

- a non-executive vehicle as defined in the *Public Sector Management Standards* and by the ACTPS Non-Executive ACT Fleet Vehicle Management Policy; or
- an executive vehicle as defined in the *Public Sector Management Standards* and by the relevant Remuneration Tribunal determinations applicable to the class of executive, made under the *Remuneration Tribunal Act 1995*.

## 2 ACT Accounting Policies

### 2.1 AASB 117 Leases

#### 2.1.1 Definition of Finance Lease

AASB 117 paragraph 8 defines a finance lease as a lease that transfers substantially all the risks and rewards incidental to ownership. Conversely, an operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership.

***From 1 June 2009 all new ACT Fleet Vehicles will be leased through SG Fleet under a finance lease arrangement. The majority of the leases held by Rhodium prior to 1 June 2009 have been sold to SG Fleet and accordingly continue to be recognised as finance leases. All vehicles leased from Rhodium prior to 1 July 2006 should continue to be treated as operating leases.***

#### 2.1.2 Approval of Finance Leases

***All finance leases with SG Fleet must be approved by a person with the appropriate delegation.***

#### Departments

Finance leases entered into by departments must be approved under a section 40(c) of the *Financial Management Act 1996* (FMA) which allows the Treasurer to enter into finance leases on behalf of the Territory.

Chief executives of departments have been provided with limited delegation under section 40(c) to approve ACT Fleet Vehicle finance leases with SG Fleet. Chief executives may subdelegate this power (see section 36(4)(6) of the *Public Sector Management Act 1994*) to relevant officers through the Chief Executive Financial Instructions for their respective department.

## Territory Authorities

Finance leases entered into by territory authorities must be approved under section 42(1)(a) of the FMA which allows a territory authority to borrow, including enter into a finance lease, if the Treasurer has approved the borrowing in writing.

The Treasurer has given limited approval under section 42(1)(a) to the territory authorities to enter into finance leases in relation to ACT Fleet Vehicle leases with SG Fleet. These territory authorities are list below:

- ACT Gambling and Racing Commission;
- ACT Insurance Authority;
- ACT Public Cemeteries Authority;
- Canberra Institute of Technology;
- Cultural Facilities Corporation;
- Independent Competition and Regulatory Commission;
- Land Development Agency;
- Exhibition Park Corporation;
- Public Trustee for the Australian Capital Territory; and
- Legal Aid Commission (ACT).

Territory authorities will need to ensure that their Chief Executive Financial Instructions provide appropriate guidance about the internal procedures for entering into a vehicle leased under this arrangement.

## **2.2 Recognition**

### *2.2.1 Recording asset and liability for ACT Fleet Vehicles*

AASB 117 paragraph 20 requires that the lessee recognises finance leases as assets and liabilities in their balance sheet. ***Agencies must disclose an ACT Fleet Vehicle finance lease as:***

- ***plant and equipment asset class<sup>1</sup>; and***
- ***finance lease liability, under Interest Bearing Liabilities (current and non current).***

**Section A.1 Attachment A** provides a working example of a journal used to recognise an ACT Fleet Vehicle finance lease.

### *2.2.2 Initial value of ACT Fleet Vehicles*

AASB 117 paragraph 20 also requires that the lessee recognises finance leases at:

- the fair value of the leased property; or if lower
- the present value of the minimum lease payments.

---

<sup>1</sup> ACT Accounting Policy – Property, Plant and Equipment and the relevant AIFRS for this Policy

When recognising the initial value of the finance lease, the following should be included in the fair value:

- “base” vehicle cost;
- extra accessories (eg towbars, etc);
- stamp duty (where relevant); and
- dealer and delivery charges.

If the present value of minimum lease payments is used to initially value the ACT Fleet Vehicles, the present value will include the residual value. According to the Service Agreement, agencies must pay the residual payment with the second last lease payment of the finance lease agreement. The final lease payment is due one month later.

Generally, the total of these will be reflected in the Total Vehicle Cost (Excl GST) amount disclosed in the Vehicle Schedule at Item 11.

Agencies must ensure the following costs are excluded from the initial value of the lease:

- GST;
- registration;
- CTP greenslip and CTP greenslip stamp duty;
- comprehensive insurance;
- roadside assistance; and
- borrowing costs.

### **2.3 Lease Payments (includes registration, insurance, CTP and management fee)**

In accordance with the lease agreement, SG Fleet will forward a tax invoice each month that will outline the lease rental due. This lease payment will be inclusive of GST.

When recording the lease repayment the following journal will need to take place:

Debit	Lease Liability – Current
Debit	Motor Vehicle Expenses
Debit	GST Purchases
Credit	Cash at Bank

**Section A.2 Attachment A** provides a working example of a journal used to recognise a lease repayment.

## 2.4 Depreciation

AASB 116 Property Plant and Equipment, specifies that the depreciable amount of an asset:

- will be allocated on a systematic basis over its useful life (paragraph 50); and
- is determined after deducting the asset's residual value (paragraph 53).

The Vehicle Schedule discloses the purchase price of the ACT Fleet Vehicle (Excl GST), the residual percentage, the residual value, and the term of the agreement in months. This information is used to calculate agencies' monthly depreciation expense.

**Depreciable Amount** is calculated as follows:

$$\text{Depreciation Amount} = \frac{\text{Purchase price of ACT Fleet Vehicle (GST exclusive)}}{\text{Residual Value (GST exclusive)}}$$

**Monthly Depreciation Expense** is calculated as follows:

$$\text{Depreciation Expense} = \text{Depreciable Amount} \div \text{Term (in months)}$$

**Section A.3 Attachment A** provides a working example of calculating the depreciable amount and depreciation expense. Note that for finance leases entered into part way through a month, the depreciation expense for the first and last calendar month of the agreement will be an appropriate fraction of the full monthly depreciation expense.

## 2.5 Reimbursement of Expenses – Repairs and Maintenance

When agencies enter into a finance lease with SG Fleet, the cost for repairs and maintenance cost are estimated for the term of the lease. In accordance with the Service Agreement, once the term of the lease has ended, SG Fleet will compare the actual cost for repairs and maintenance over the lease term to the estimated amount paid by the agency and:

- refund the agency the difference if the estimated payment was higher than the actual payment; or
- bill the agency for the difference if the actual payment was higher than the estimated payment.

## 2.6 Disposal

In line with the Service Agreement all ACT Fleet Vehicles must be returned promptly and in good condition at the end of the agreement for SG Fleet to arrange appropriate disposal of the vehicles.

The terms of the agreement require agencies to pay SG Fleet the residual value with the second last lease payment of the finance lease agreement i.e. if the lease term is 24 months, the residual value will be paid with the 23<sup>rd</sup> lease payment. The final lease

payment is due one month later. SG Fleet is unable to sell a vehicle until all payments are received. Once an agency has paid the final lease payment and returned the vehicle to SG Fleet, the asset must be transferred from Property, Plant and Equipment to Assets Held for Sale. Section 2.8 discusses in further detail the transfer to Assets Held for Sale.

Once the vehicle is sold by SG Fleet, agencies will receive a credit on their next invoice for the actual sale price of the vehicle. The difference between the residual value and the actual sale price will either result in a gain on sale or loss on sale. The other side of this transaction will be netted against Assets Held for Sale.

Agencies must recognise any difference in their operating statement as a gain or loss on sale of assets, as appropriate, when removing the vehicle from their balance sheet. An example of the disposal journals can be found at **Sections A.6 and A.7 Attachment A**.

## **2.7 Annual Financial Report Disclosure**

AASB 117 paragraph 31 outlines the disclosure requirements for lessees in regard to finance leases. All finance lease liabilities must be disclosed in the notes to the annual financial report. **Section A.5 Attachment A** provides an example of an appropriate note for financial leases.

For further details on disclosing finance leases refer to the relevant Model Financial Report at <http://www.treasury.act.gov.au/accounting/html/statements.htm>.

## **2.8 AASB 5 - Non-current Assets Held for Sale and Discontinued Operations**

AASB 5 paragraph 6 states an agency shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Further AASB 5 paragraph 7 and 8 require the asset to be available for immediate sale, the sale is highly probable and that the sale will occur within 12 months. If an agency can not satisfy these requirements then the vehicle may need to be classified as Property, Plant and Equipment.

Once an agency returns the vehicle to SG Fleet and all lease payments and the residual payment has been paid, the agency will recover the residual amount paid to SG Fleet principally through the sale of the vehicle. If the agency is satisfied the vehicle is available for sale, for example, there are no insurance repairs required before sale, the sale is highly probable and will occur within 12 months, an agency is required to transfer the written down value of the vehicle (being the residual value) from Property, Plant and Equipment to the asset class Assets Held for Sale.

The transfer to Assets Held for Sale will help agencies identify the vehicles they no longer hold in their possession (agencies still maintain control over the vehicle until the sale proceeds are received) and can follow up SG Fleet to confirm when sale proceeds will be received. Once an agency receives the sale proceeds, the agency can then dispose of the vehicle from the balance sheet. **Sections A.6 and A.7 Attachment A** will provide the journals for transferring the vehicle to Assets Held for Sale.

For further details on disclosing assets held for sale refer to the relevant Model Financial Report at <http://www.treasury.act.gov.au/accounting/html/statements.htm>.

## 2.9 AASB 136 Impairment of Assets

For further details on impairment of assets refer to the *ACT Accounting Policy – Property, Plant and Equipment*<sup>2</sup>.

## 2.10 Cash Flow Statement

Detailed below are the areas of the cash flow statement agencies should use to recognise payments to SG Fleet along with the sale proceeds. Amounts entered into the cash flow statement must be the gross amount.

<b><i>Cash Flows from Operating Activities - Receipts</i></b>	
Goods and Services Tax Input Tax Credits from the Australian Taxation Office	GST credits received from the ATO.
<b><i>Cash Flows from Operating Activities - Payments</i></b>	
Borrowing Costs	Monthly interest component of the finance lease payment.
Supplies and Services	Payments to SG Fleet for repairs & maintenance, insurance, management fee etc.
Goods and Services Tax Paid to Suppliers	Tax invoices received from suppliers which include GST.
<b><i>Cash Flows from Investing Activities – Receipts</i></b>	
Proceeds from Sale of Property, Plant and Equipment	Sale proceeds received from SG Fleet.
<b><i>Cash Flows from Financing Activities - Payments</i></b>	
Repayment of Finance Lease Liabilities	Monthly capital component of the finance lease payment. Total residual payment.

For further details on cash flow disclosure, refer to the relevant Model Financial Report at <http://www.treasury.act.gov.au/accounting/html/statements.htm>.

---

<sup>2</sup> <http://www.treasury.act.gov.au/accounting/html/accounting.htm>

## EXAMPLE

On 26 July 2009, Agency "Z" entered a finance lease to purchase an ACT Fleet Vehicle with SG Fleet. The vehicle schedule will include the motor vehicle details along with the lease repayment schedule. Detailed below is information provided by SG Fleet to Agency Z:



www.sgfleet.com.au

SG Fleet Australia Pty Limited  
 ABN 15 003 429 356  
 Level 2 Building 3, 20 Bridge Street, Pymble, NSW 2073  
 Ph: 02 9494 1000 Fax: 02 9391 5600  
 PO Box 252 Pymble NSW 2073

## VEHICLE SCHEDULE

<b>Agency Z</b>	Quote No:	111834 / 1
	Contract No:	93497
	Driver Name:	
Fleet Manager GPO Box 158 CANBERRA ACT 2601		

We are pleased to provide the relevant Vehicle Schedule for the leased vehicle referred to within "Item 1". The Vehicle Schedule is an integral part of the lease agreement and confirms the lease rental amount and the specific inclusions for the lease contract. It should be kept with your copy of the lease documentation.

Item 1	Description of the Vehicle to be leased : HONDA Registration Number: _____ Chassis Number: JHMRB38309C201262 FBT Base Price: \$ 43,785.10 Engine Number: K24Z21301268
Item 2	Fleet Manager GPO Box 158 CANBERRA ACT 2601
Item 3	Term : 24 months. Commencement Date: 26 July 2009
Item 4	24 Rental Instalments of \$1,246.19 Comprising Rent of \$1,132.90 Rental Stamp Duty of \$0.00 and GST of \$113.29
Item 5	
Item 6	Maximum Kilometres: 40,000 Start Km reading: 10 End Kilometres: 40,010
Item 7	Annual Registration (and CTP) renewal allowance of \$1,124.40.
Item 8	Maintenance budget of \$2,028.40 including GST is included in the sum of all the Leases Rental Instalments (Item 4). Roadside Assistance is borne by the Lessor.
Item 9	Maximum number of replacement tyres for this vehicle is 0
Item 10	Discount Rate of 6.35% (being the lease interest rate of 6.35% less 0.00%). Residual Value of \$ 22,988.65 (excluding GST)
Item 11	<b>Vehicle Cost \$43,785.10 (incl GST)</b> <b>(Excluding Rego &amp; CTP \$1,116.50 + Purchase Stamp Duty 0.00)</b> <b>Total Cost \$44,901.60</b>
Item 12	Comprehensive Insurance Premium per month of \$69.26 including GST of \$6.30 is included in the Rental Instalment (Item 4)
Item 13	All fuel costs are borne by the lessee
Item 14	N/A
Note	Items referred to above as "N/A" are not included within the lease contract.

## Principal and Interest Splits for the Lease

Registration Number	
Lease id	93497
Lease Start Date	26/06/2009
Lease End Day	25/06/2011
Principal	40,921.14
Residual %	56.18
Residual (RV)	22,988.65
Interest %	6.35
Term	24
PMT in Arrear	\$919.26

Term	Financial		Capital / RV	
	Rental	Interest	Repayment	Balance
1	919.26	216.54	702.72	40,218.42
2	919.26	212.82	706.44	39,511.99
3	919.26	209.08	710.17	38,801.81
4	919.26	205.33	713.93	38,087.88
5	919.26	201.55	717.71	37,370.17
6	919.26	197.75	721.51	36,648.66
7	919.26	193.93	725.33	35,923.34
8	919.26	190.09	729.16	35,194.17
9	919.26	186.24	733.02	34,461.15
10	919.26	182.36	736.90	33,724.25
11	919.26	178.46	740.80	32,983.45
12	919.26	174.54	744.72	32,238.73
13	919.26	170.60	748.66	31,490.07
14	919.26	166.63	752.62	30,737.44
15	919.26	162.65	756.61	29,980.84
16	919.26	158.65	760.61	29,220.23
17	919.26	154.62	764.63	28,455.59
18	919.26	150.58	768.68	27,686.91
19	919.26	146.51	772.75	26,914.16
20	919.26	142.42	776.84	26,137.33
21	919.26	138.31	780.95	25,356.38
22	919.26	134.18	785.08	24,571.30
23	919.26	130.02	789.24	23,782.06
24	919.26	125.85	793.41	22,988.65
25	-	-	22,988.65	-

Note – The vehicle cost shown on the vehicle schedule is inclusive of GST. The amount financed (principal amount) by Agency Z must be the GST exclusive amount as SG Fleet has already collected the GST from the Australian Taxation Office when they purchased the car on behalf of Agency Z. Therefore the principal amount of \$40,921.14 is calculated as follows:

$$\text{Vehicle Cost} / 1.1 + \text{Rego} + \text{CTP} = \text{Principal Amount}$$

$$\$43,785.10 / 1.1 + \$1,116.50 = \$40,921.14$$

**A.1: Record ACT Fleet Vehicle in balance sheet along with finance lease:**

To record the finance lease for the ACT Fleet Vehicle the following journals will need to be recorded.

Description	Amount
DR Plant and Equipment	\$39,804.64
DR Motor Vehicle Expenses	\$1,116.50
CR Lease Liability – Current	\$7,937.69
CR Lease Liability – Non Current	\$32,983.45

The current and non-current liability split can be obtained at **Section A.4 and A.5.**

**A.2: August repayment to SG Fleet made monthly but in arrears. First payment is due on 26 August 2009 (month after the date of signing the lease).**

SG Fleet will forward an invoice to Agency “Z” each month requesting \$1,246.19 be paid. The two parts that will change in the journal below each month will be the principal component (lease liability) and the interest component (finance charges). Agencies should refer to the principal and interest table (see above) for this split.

Description	Amount
DR Lease Liability – <i>Current</i>	\$702.72
DR Finance Charges	\$216.54
DR Motor Vehicle Expenses	\$213.64 <sup>3</sup>
DR GST Refund from ATO <sup>4</sup>	\$113.29
CR Bank	\$1,246.19

---

<sup>3</sup> This amount is the total of the maintenance, management fee, registration, CTP and comprehensive insurance pro rated over 24 months i.e. term of the finance lease.

<sup>4</sup> The GST account is a swinging account. This means it can change between being an asset and liability from month to month.

**A.3: Depreciation on the ACT Fleet Vehicle for the month of July 2009:**

Depreciable Amount = \$39,804.64 - \$22,988.65 = \$16,815.99

Useful Life = 24 months

Depreciation Expense = \$16,816 / 24 months = \$700.67

Description	Amount
DR Depreciation Expense	\$700.67
CR Plant and Equipment – Acc Depn	\$700.67

**A.4: Year-end adjustment to split the lease liability recorded in the balance sheet between current and non-current:**

To help with this calculation, the finance repayment schedule has been summarised into the following table below:

**Revised Lease Repayment Schedule Provided by SG Fleet to Calculate Current and Non Current Liabilities**

Lease Receivables from Agencies (in arrears) Ex-GST					
Monthly repayment (P&I) not including fees & other charges	Financial Rental	Interest	Capital / RV Repayment	Balance	
Months (term)					
1-11	\$ 10,111.84	\$ 2,174.15	\$ 7,937.69	\$ 32,983.45	Paid by 30/6/10
12-23	\$ 11,031.10	\$ 1,829.71	\$ 9,201.39	\$ 23,782.06	Within one year
24	\$ 919.26	\$ 125.85	\$ 793.41	\$ 22,988.65	Later than one year
Residual Payment			\$ 22,988.65	\$ 0.00	Due with last payment
Totals	\$ 22,062.20	\$ 4,129.71	\$ 40,921.14	\$ 0.00	

At 30 June 2010, \$7,937.69 of principal has been repaid on lease liability i.e. first 11 lease payments have been repaid to SG Fleet. To finalise the financial statements as at 30 June 2010 the current and non-current lease liabilities need to be calculated for the following financial year.

From the above table the principal amount payable “within one year” is classified as a current lease liability i.e. the \$9,201.39, as this amount is due for payment within the next 12 months.

The balance of the lease liability is classified as a non-current liability ie the final repayment and residual of \$23,782.06.

As the current lease liability amount is \$Nil, we need to move \$9,201.39 from non-current lease liability to current lease liability. Detailed below is the journal required:

<b>Description</b>	<b>Amount</b>
DR Lease Liability – Non Current	\$9,201.39
CR Lease Liability – Current	\$9,201.39

## A.5: Notes to Financial Statements

When the financial statements are prepared, the notes to the financial statements need to be reported in accordance with model financial report. The note below shows how the finance lease would be disclosed in the note for the year ended 30 June 2010 report:

### Note 31: INTEREST-BEARING LIABILITIES<sup>5</sup>

#### Finance Leases

The leasing arrangements give Agency “Z” the option to purchase the leased assets when the lease expires. The weighted average interest rate in the lease is 6.35%.

	<b>2010</b>
	<b>\$</b>
Finance lease commitments are payable as follows:	
Within one year	11,031 <sup>6</sup>
Later than one year but not later than five years	23,908 <sup>7</sup>
Later than five years	0
<b>Minimum Lease Payments</b>	<b>34,939</b>
Less: Future Finance Lease Charges	(1,955) <sup>8</sup>
<b>Amount Recognised as a Liability</b>	<b>32,984</b>
Add: Lease incentive involved with non-cancellable operating lease <sup>9</sup>	0
<b>Total Present Value of Minimum Lease Payments</b>	<b>32,984</b>
The present value of the minimum lease payments are as follows:	
Within one year	9,201
Later than one year but not later than five years	23,783
Later than five years	0
<b>Total Present Value of Minimum Lease Payments</b>	<b>32,984</b>
The future minimum lease payments for non-cancellable financing sub-leases expected to be received	0

<sup>5</sup> Model financial report can be found at <http://www.treasury.act.gov.au/accounting/html/statements.htm>

<sup>6</sup> Amount obtained from summary table in A.4 Attachment A

<sup>7</sup> Amount obtained from summary table in A.4 Attachment A. Calculated by adding the amount in the total column “later than one year” plus the residual amount

<sup>8</sup> Amount obtained from summary table in A.4 Attachment A: Addition of the finance charges for “within one year” and “later than one year”

<sup>9</sup> This reporting line shows where a financial incentive has been provided to the lessee. It would be uncommon for an agency to record any amounts here.

**Note 31 (continued)**

	<b>2010</b>
	<b>\$</b>
<b>Split on the Balance Sheet Interest-Bearing Liabilities</b>	
<b>Finance Lease Liabilities</b>	
Current Finance Lease Liability	9,201
Non-Current Finance Lease Liability	23,783
<b>Total Interest-Bearing Liabilities</b>	<b>32,984</b>

**A.6: Sale of ACT Fleet Vehicle – Assets Held for Sale**

SG Fleet requests residual payments are paid with the 23<sup>rd</sup> lease payment. The 24<sup>th</sup> and final lease payment is not due to the following month. Once SG Fleet receives the 24<sup>th</sup> lease payment, Agency “Z” will return the ACT Fleet Vehicle to SG Fleet to organise for the vehicle to be sold.

Once Agency “Z” has returned the vehicle to SG Fleet, the vehicle is made available for sale. Agency “Z” is required to transfer the asset from Property, Plant and Equipment to Assets Held for Sale. The table below shows an extract from the balance sheet after the final lease payment was made and before Agency “Z” has returned the ACT Fleet Vehicle to SG Fleet.

<b>Balance Sheet</b>	<b>\$</b>
<i><b>Current Assets</b></i>	
Assets Held for Sale	\$0
<i><b>Non Current Assets</b></i>	
Plant & Equipment and Equipment	\$39,805
Accumulated Depreciation	(\$16,816)
Total Non Current Assets	\$22,989

Detailed below are the journals for the 23<sup>rd</sup> lease payment and the residual payment to SG Fleet, the 24<sup>th</sup> lease payment to SG Fleet and the journal for transferring the vehicle from Property, Plant and Equipment to Assets Held for Sale:

Journal for the 23<sup>rd</sup> lease payment and residual payment to SG Fleet:

Description	Amount
DR Lease Liability - Current	\$22,988.65
DR Lease Liability - Current	\$789.24
DR Finance Charges	\$130.02
DR Motor Vehicle Expenses	\$213.64
DR GST Refund from ATO	\$2,412.16
CR Bank	\$26,533.71

Journal for the 24<sup>th</sup> and final lease payment to SG Fleet:

Description	Amount
DR Lease Liability - Current	\$793.41
DR Finance Charges	\$125.85
DR Motor Vehicle Expenses	\$213.64
DR GST Refund from ATO	\$113.29
CR Bank	\$1,246.19

Journal to transfer the vehicle to Assets Held for Sale once vehicle is returned to SG Fleet and all lease payments and the residual payment has been paid.

Description	Amount
DR Assets Held for Sale	\$22,989
DR Accumulated Depreciation (PPE)	\$16,816
CR Property, Plant and Equipment	\$39,805

#### A.7: Sale of ACT Fleet Vehicle by SG Fleet

SG Fleet sells the car at auction for \$22,000 incl GST. The details of the sale are below:

Date Sold	31 July 2010
Sale Price Excl GST	\$20,000
GST	\$2,000
Total Sale Price Inc GST	\$22,000
Residual Value / Assets Held for Sale	\$22,989

In this case the sale price is lower than the residual value, therefore Agency “Z” will need to recognise a loss on sale of \$2,989.

Detailed below is the loss on sale journal once Agency “Z” receives the sale proceeds:

<b>Description</b>	<b>Amount</b>
DR Loss on sale of ACT Fleet Vehicle	\$2,989
DR Bank <sup>10</sup>	\$22,000
CR GST Payable to ATO	\$2,000
CR Assets Held for Sale	\$22,989

#### **A.7: Refund of Repairs and Maintenance**

At the end of the lease term, SG Fleet compare the actual cost of repairs and maintenance to the vehicle to the estimated amount paid by Agency “Z”. The comparison shows Agency “Z” is entitled to a refund of \$200 + GST (estimated amount exceeded actual amount). Detailed below is the journal to recognise the refund:

<b>Description</b>	<b>Amount</b>
DR Bank	\$220
CR GST Payable to ATO	\$20
CR Motor Vehicle Expenses	\$200

---

<sup>10</sup> In most situations agencies will receive a credit on their next tax invoice as opposed to receiving the sale proceeds in cash. When an agency receives the sale proceeds as a credit, the journals to the profit and loss, balance sheet and cash flow must be grossed up to reflect the actual amounts paid, not the net amount.