Asset Procedure - Investments and other Financial Assets Accounting

Section 1 - Background and Purpose

(1) The University classes its investments and other financial assets in the following areas:

a. financial assets at fair value through profit or loss;
b. loans and receivables;
c. held-to-maturity investments; and
d. available-for-sale financial assets.

(2) Each of these classifications depends on the purpose for which the investments and other financial assets were acquired. University management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

Section 2 - Scope

(3) Refer to the Accounting (Financial) Policy.

Section 3 - Policy Statement

(4) Refer to the Accounting (Financial) Policy.

Section 4 - Procedures

Part A - Financial Assets at Fair Value through Profit and Loss

(5) A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by university management. The policy of the University is to designate a financial asset in this category if there exists the possibility it will be sold in the short term and if the asset is subject to frequent changes in fair value. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. Derivatives are classified as held for trading unless they are designated as hedges.

Initial Measurement

(6) Assets in this category shall be measured at fair value, and transaction costs are expensed through the income statement.

Subsequent Measurement

(7) After initial recognition, assets in this category shall be measured at fair values, without any deductions for transaction costs that may be incurred on sale or other disposal.

Gains and Losses

(8) A gain or loss on a financial asset classified as at fair value through profit or loss shall be recognised in the income statement.

Part B - Loans and Receivables

(9) Loans and receivables arise when the University provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date; these are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

Initial Measurement

(10) Loans and receivables shall be measured at fair value plus any transaction costs that are directly attributable to the acquisition or issue of the financial asset.

Subsequent Measurement

(11) After initial recognition, loans and receivables shall be measured at amortised cost using the effective interest method.

Gains and Losses

(12) A gain or loss shall be recorded in the income statement, when loans and receivables are derecognised or impaired, and through the amortisation process.

Impairment of Loans and Receivables

(13) The University shall assess at each reporting date whether there is any objective evidence that a loan and receivable is impaired. If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the loans and receivables shall be reduced either directly or through the use of a provision account. The amount of the loss shall be recognised in the income statement.

Part C - Held-to-Maturity Investments

(14) Held-to-maturity investments are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets. Equity instruments cannot be classified as held-to-maturity investments because they either have indefinite lives or because the amounts the University may receive can vary in a manner that is not predetermined.

Initial Measurement

(15) Held-to-maturity investment shall be measured at fair value plus any transaction costs that are directly attributable to the acquisition or issue of the investment.

Subsequent Measurement

(16) After initial recognition, held-to-maturity investments shall be measured at amortised cost using the effective interest rate method.

Gains and Losses

(17) A gain or loss shall be recorded in the income statement, when held-to-maturity investments are derecognised or impaired, and through the amortisation process.

Impairment of Held-to-Maturity Investments

(18) The University shall assess at each reporting date whether there is any objective evidence that a held-to-maturity investment is impaired. If there is objective evidence that an impairment loss on held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the investments shall be reduced either directly or through the use of a provision account. The amount of the loss shall be recognised in the income statement.

Part D - Available-for-Sale Financial Assets

(19) Available-for-sale financial assets are included in non-current assets unless the University intends to dispose of the investment within 12 months of the balance sheet date.

Initial Measurement

(20) Available-for-sale financial assets shall be measured at fair value plus any transaction costs that are directly attributable to the acquisition or issue of the financial assets.

Subsequent Measurement

(21) After initial recognition, available-for-sale financial assets shall be measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal.

(22) Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured shall be measured at cost less impairment losses.

Gains and Losses

(23) A gain or loss on an available-for-sale financial asset shall be recognised directly in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity shall be recognised in the income statement.

(24) Interest calculated using the effective interest method is recognised in the income statement. Dividends on an available-for-sale equity instrument are recognised in the income statement when the University's right to receive payment is established.

Impairment of Available-for-sale Financial Assets

(25) The University shall assess at each reporting date whether there is any objective evidence that an available-for-sale financial asset is impaired. A significant or prolonged decline in the fair value of a security below its cost shall be considered in determining whether the security is impaired.

(26) When an available-for-sale financial asset is impaired, the cumulative loss that has been recognised directly in equity shall be removed from equity and recognised in the income statement even though the financial asset has not been derecognised. The amount of the cumulative loss shall be the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

(27) Impairment losses recognised in the income statement on equity instruments shall not be reversed through the income statement, but are recognised in equity in the available-for-sale financial assets revaluation reserve.

Part E - Recognition and De-Recognition

(28) The University shall recognise a financial asset on its balance sheet when, and only when, the University becomes a party to the contractual provisions of the instrument. Purchases and sales of investments are recognised on the trade date - the date on which the University commits to purchase or sell the asset. A financial asset is derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred, and the University has transferred substantially all the risks and rewards of ownership.

(29) When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement as gains and losses from investment securities.

Part F - Fair Value

(30) The fair value of certain financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the University is the current bid price. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The University uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

Part G - Fair Value Estimation

(31) The fair value of financial assets and financial liabilities must be measured for recognition and for disclosure purposes. The University classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices for identical assets or liabilities at the balance sheet date (Level 1). The quoted market price used for financial assets held by the University is the current bid price.

(32) The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. Quoted market prices or dealer quotes for similar instruments (Level 2) are used for long-term debt instruments held. Other techniques that are not based on observable market data (Level 3) such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date. The level in the fair value hierarchy shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

Part H - Derivatives

(33) Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in other income or other expenses.

Section 5 - Definitions

(34) For the purpose of this Procedure:

a. Available-for-sale financial assets: comprising principally of marketable equity securities (held through managed funds), are non-derivatives that are either designated as available for sale or that are not classified in any of the other investment categories.
b. Effective interest method: is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
c. Effective interest rate: is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the University shall estimate cash flows considering all contractual terms of the financial instrument (e.g., prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.
d. Fair Value: is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
e. Held-to-maturity investments: are non-derivative financial assets with fixed or determinable payments and fixed maturities that the University has the positive intention and ability to hold to maturity. Debt instruments with a variable interest rate can also satisfy the criteria for a held-to maturity investment.
f. Loans and receivables: are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
    i. those that the University intends to sell immediately;
    ii. those that the University designates as available for sale; or
    iii. those for which the University may not recover substantially all of its initial investment.
g. The Group: means the University and its controlled entities.
h. The University: means La Trobe University.

Status and Details

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