



# QUEENSLAND TREASURY

## 2022-23 FINANCIAL REPORTING REQUIREMENTS

### FOR QUEENSLAND GOVERNMENT AGENCIES

## FRR 4B Assets

### INTRODUCTION

*Policy items*, indicated by **shaded bold print**, form the Minimum Reporting Requirements (MRRs).

Pursuant to sections 38(2) and 39(2) of the *Financial and Performance Management Standard 2019* (FPMS), departments and statutory bodies must prepare their financial statements in accordance with the MRRs. All of the MRRs are mandatory for departments. Statutory bodies comply with the FPMS by applying the parts of the MRRs that are considered relevant to their circumstances.

*Application Guidance*, indicated by plain text under the “Application Guidance” sub-headings, provides support on interpreting and applying the mandatory policy items and other matters.

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### 4B.1 APPLICATION OF NON-CURRENT ASSET POLICIES

#### REFERENCES

- Non-Current Asset Policies for the Queensland Public Sector (NCAPs)

#### POLICY

- **Agencies must comply with the following Non-Current Asset Policies (NCAPs) when accounting for its non-current assets (including property, plant and equipment, intangibles, investment property), subject to other specific legislative provisions for particular agencies.**
  - **NCAP 1 Recognition of Non-Current Assets**
  - **NCAP 2 Complex Assets**
  - **NCAP 3 Valuation of Non-Current Assets**
  - **NCAP 4 Impairment of Non-Current Assets**
  - **NCAP 5 Depreciation and Amortisation**
  - **NCAP 6 Disposal of Non-Current Assets**
- **NCAP 1, Appendix 1.1 Non-Current Asset Classes and Thresholds specifies the mandatory asset recognition threshold and subsequent measurement method (at cost or fair value) for each asset class, to the extent that such assets are not classified as investment property or as held for sale.**

- **In respect of land under roads, the notes to the financial statements must disclose, in addition to the disclosures applicable to the entire land class:**
  - **the aggregate value of land under roads at reporting date;**
  - **the methodology to identify land under roads;**
  - **the valuation methodology applied to determine the fair value of land under roads; and**
  - **if no reliable value can be determined, the nature of the contingent asset.**

## **APPLICATION GUIDANCE**

Agencies are directed to Treasury's website for the latest version of the NCAPs.

Asset valuation methods must be consistent within asset classes presented in note disclosures. Agencies should refer to the Sunshine Department Illustrative Financial Statements for a suggested approach to the disclosure requirements of AASB 13.

Asset revaluation issues have, in past years, been the most common cause of agencies not meeting deadlines under the FA Act for the preparation and audit of annual financial statements. Treasury recommends agencies undertake early engagement with valuers in July/August to plan their revaluation process, to enable most of the revaluation effort to be accomplished by 31 May. By 31 May it is recommended that the valuations are obtained for all material classes of assets carried at fair value, and that all supporting workpapers are prepared and reviewed by management. This should enable adequate time for external audit review and negotiation of any contentious issues.

Treasury does not require the disclosures "encouraged" in paragraph 79 of AASB 116 or paragraph 128 of AASB 138 to be disclosed in agency financial statements.

## **4B.2 INVESTMENT PROPERTY**

**(withdrawn, refer instead to FRR 4B.1)**

## **4B.3 INTANGIBLE ASSETS**

**(withdrawn, refer instead to FRR 4B.1)**

## 4B.4 INVENTORIES

### REFERENCES

- AASB 102 *Inventories*

### APPLICATION GUIDANCE

A not-for-profit agency may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. For example, hospitals may hold stores of medicines or surgical supplies that are given to patients, or used in their treatment, either free of charge or for a fraction of their cost. These types of stores may qualify as inventories held for distribution.

Agencies should use professional judgement in determining which inventories should be classified as held for distribution. However, the inventories should be integral to the agency's service delivery.

It is considered that the following generally would not constitute inventory held for distribution:

- annual reports;
- pamphlets;
- promotional material;
- forms; and
- guidelines.

Inventories held for distribution are measured at cost, adjusted, where applicable, for any loss of service potential in accordance with paragraph Aus9.2 of AASB 102.

## 4B.5 ASSETS ACQUIRED AT NO OR NOMINAL COST

(withdrawn, refer instead to FRR 4B.1)

## 4B.6 IMPAIRMENT

(withdrawn, refer instead to FRR 4B.1)

## 4B.7 RESTRICTED ASSETS

### REFERENCES

- AASB 7 *Financial Instruments: Disclosures*
- AASB 107 *Statement of Cash Flows*
- AASB 116 *Property, Plant and Equipment*
- AASB 138 *Intangible Assets*
- NCAP 3.4 Application of Fair Value Concepts (Highest and Best Use)

### POLICY

- **Where restrictions have been imposed, whether by legislation or otherwise, on the manner in which an agency can utilise assets under its control, and such restrictions are material, the nature of the restrictions and the carrying amount of the affected assets must be disclosed in the notes to the financial statements.**

### APPLICATION GUIDANCE

For the purposes of the policy, any gifts/bequests of assets that have conditions attached as to how they are to be utilised are considered to be restricted assets and, as such, are to be included in the restricted assets disclosure. Assets that need to be considered for this disclosure include financial instruments (including cash) in addition to property, plant & equipment and intangible assets.

This disclosure should also consider assets with restrictions that have been identified in determining fair value for the purposes of AASB 13.

## 4B.8 GOODS AND SERVICES TAX (GST) RECEIVABLES/PAYABLES

### REFERENCES

- Interpretation 1031 *Accounting for the Goods and Services Tax (GST)*

### POLICY

- **At each reporting date:**
  - **the net receivable from/payable to the ATO must be classified according to the 'net' position; and**
  - **the gross amount of input tax credits receivable from the ATO and the gross GST payable to the ATO, must be separately disclosed in the notes.**

**APPLICATION GUIDANCE**

Interpretation 1031 requires GST relating to receivables and payables be recognised, but is silent on the issue of GST relating to accrued revenues and expenses.

GST legislation states that a liability (i.e. GST payable) occurs when a tax invoice has been issued for a taxable supply or a payment received for a taxable supply, whichever occurs earlier. The same rule applies to the entitlement to claim an input tax credit (i.e. GST receivable) either when a tax invoice is received for a taxable supply or a payment is made for a taxable supply, whichever occurs first.

An 'accrual' becomes a 'creditor' when an invoice is received with an invoice date within the financial reporting period. As a general rule, accrued liabilities are to be recognised exclusive of GST while creditors are inclusive of GST.

Invoices received after financial year end must be recognised as liabilities inclusive of GST (if material) if the tax invoice is dated prior to year-end. These represent creditors at balance date due to the supply of goods or services prior to the end of the financial year.

If the invoice is dated after year end for services provided prior to the year end, there is no entitlement to an input tax credit at balance date and therefore, the liability is an accrual and must be recorded exclusive of GST.

Any GST-inclusive liabilities recognised after the submission of the BAS will result in the need for a reconciliation of figures between the financial statements and the BAS (the latter having been determined based on general ledger figures as at the dated submission of the BAS).

Payments received in advance of a tax invoice being issued by the agency trigger a GST liability and corresponding liability to remit GST according to the GST legislation. Such a prepayment received prior to the year-end must be reported inclusive of GST.

When no tax invoice has been issued or no payment has occurred, accruals for revenues and expenses (that result in receivables and payables) should be reported exclusive of GST, as they represent an estimate only of charges that have been neither invoiced nor paid.

For information on the policy regarding the disclosure of GST in the Statement of Cash Flows, refer to FRR 5A Statement of Cash Flows.

## 4B.9 LEASES

### REFERENCES

- AASB 16 *Leases*

### POLICY

- Agencies are not to apply AASB 16 to leases of intangible assets.
- Agencies shall apply AASB 16 paragraphs 6–7 to account for all short-term leases. A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less and does not contain a purchase option.
- Agencies may choose, on a lease-by-lease basis, to account for leases of low value assets either on balance sheet or by applying AASB 16 paragraph 6. A low value asset is an asset that costs less than AUD \$10,000 when new.
- Non-lease components within lease contracts must be accounted for separately for all leases except for leases of plant and equipment. For leases of plant and equipment, the lease component and non-lease components must be accounted for as a single lease component.
- Right-of-use assets for peppercorn leases must be measured at cost on initial recognition.
- Subsequent to initial recognition, all right-of-use assets shall be measured at cost.
- Where the interest rate implicit in the lease is not specified in the lease agreement or otherwise provided by the lessor, agencies shall use their incremental borrowing rate to discount the lease liability.
- For incremental borrowing rates, agencies shall use agency-specific loan rates provided by QTC where applicable, or otherwise use QTC Fixed Rate Loan rates that correspond with the lease commencement month and lease term.
- Where internal-to-government finance lease arrangements exist, the head lessor agency shall, in order to facilitate whole-of-government reporting, be responsible for ensuring accurate accounting records are maintained (either by

**themselves or the lessee) for the underlying asset so it is properly accounted for by whole-of-Government under the applicable Standard (e.g. AASB 116).**

## **APPLICATION GUIDANCE – LESSEES**

Under AASB 16 Leases, a lessee no longer distinguishes between operating leases and finance leases. The lessee is required to recognise a right-of-use asset and a lease liability for all leases other than short-term leases and leases of low value assets.

### **Right-of-use asset**

A right-of-use asset recognised under AASB 16 represents the agency's intangible right to use the underlying asset over the lease term, rather than the underlying asset itself.

Valuation of the right-of-use can be significantly more complex than valuing the physical asset, as it needs to take into account, for example, the period of use and any restrictions on the use of the asset. Accordingly, Treasury requires that right-of-use assets be measured using the cost model.

Because the low value asset threshold already determines whether or not leases need to be accounted for on balance sheet, the asset recognition thresholds in NCAP 1 are not applicable to right-of-use assets.

### **Concessionary ("Peppercorn") leases**

AASB 16 currently allows not-for-profit lessees to elect, on a class-by-class basis, to measure right-of-use assets arising from concessionary leases at fair value at initial recognition. For this purpose, AASB 2019-8 also permits that right-of-use assets arising from concessionary leases can be treated as a separate class to right-of-use assets arising from other leases, despite their similar nature and use in the entity's operations.

However, due to the cost and complexity in determining the fair value of right-of-use assets, Treasury currently requires agencies to measure all right-of-use assets arising from concessionary leases at cost on initial recognition – i.e. by applying AASB 16 paragraphs 23-25. This may result in small or nominal right-of-use asset values. Treasury's policy directive will be reviewed in future financial years in response to any amendments to the Standard as foreshadowed by the AASB.

### **Determining the lease term**

It is important to correctly assess the lease term as only those lease payments during the lease term are included in the lease liability measurement. The lease term is the non-cancellable period plus extension periods that the lessee is reasonably certain to exercise and



early termination periods that the lessee is reasonably certain not to exercise. "Reasonably certain" should reflect a very high probability.

For example, an agency enters into a 5-year lease of a building with a 2-year extension option, and the agency can cancel the lease at any time without penalty by giving 6 months' notice. In this case:

- The minimum non-cancellable period is 6 months.
- The agency must assess whether it is reasonably certain to not terminate the lease before the 5-year lease term is up. The agency determines that it is reasonably certain to lease the building for the full 5 years (i.e. not terminate early), so it adds an additional 4 years and 6 months to the lease term.
- The agency then assesses whether it is reasonably certain to exercise the 2-year extension option. It determines that it is not reasonably certain to extend, so the lease term remains at 5 years.

Some leases may have an indefinite lease term and continue an ongoing basis into perpetuity until a party terminates the arrangement. For such leases, agencies should consider the following when determining the lease term for such arrangements:

- Whether there is an implied lease term or a reliably estimable time period over which the agency is reasonably certain to lease the asset that may be appropriate to use as the lease term
- For assets with finite useful lives, such as buildings, the lease term cannot exceed the economic life of the asset itself.
- For leases of land which has an infinite life, the agency should assess whether it is reasonably certain to lease the land indefinitely. In some situations, agencies may be able to use a perpetuity formula to calculate the lease liability and not depreciate the right-of-use asset. Often these perpetual land leases are also peppercorn leases and will be immaterial for the lessee.

### **Revising the lease term**

In certain circumstances during the life of a lease, the agency is required to reassess whether it is reasonably certain to exercise or not to exercise an option, and revise the lease term – refer to AASB 16 paragraphs 20-21.

When an agency terminates a lease early, Treasury expects that at some point before the actual termination date, the conditions in paragraph 20-21 would have been met to necessitate a revision of the lease term. This downward revision would adjust the lease liability to reflect the remaining lease payments, and reduce the right-of-use asset and the

remaining depreciation period. The result is that there should be minimal (if not zero) right-of-use asset and lease liability balances left on termination date, and no material gains or losses recognised on “disposal” of a lease.

### **Fixed vs variable rent escalation clauses**

Rent escalation clauses that provide for a fixed percentage or dollar increase are included in the initial measurement of the lease liability. Rent escalation clauses that depend on a future index or rate (e.g. consumer price index or market rentals) are considered variable lease payments. AASB 16 requires these variable lease payments that depend on an index or rate to be included in the measurement of the lease liability. However, unlike fixed rent increases, these increases are only included in the liability measurement when there is a change in cash flows. Agencies should not attempt to estimate/predict future variable increases, and instead should assume no change (0% increase) until the future change happens.

For example, if rent increases on 1 July each year following a market rent review, the liability is remeasured on 1 July when the change in rent payments takes effect. At 30 June of the previous year, the lease liability does not take into account this increase or any estimate of future changes yet to be quantified.

### **Discount rate**

The discount rate used to calculate the present value of the lease liability should be the interest rate implicit in the lease, if that rate can be readily determined, or if not, the lessee’s incremental borrowing rate. Calculating the interest rate implicit in the lease requires some information that may only be available to the lessor. Because of this, Treasury’s policy is that if the interest rate implicit in the lease is specified in the lease agreement or otherwise provided by the lessor, agencies should use that rate, otherwise agencies can use their incremental borrowing rate. To determine an incremental borrowing rate:

- Agencies **with** existing loan facilities with QTC should be able to readily ascertain from their loan agreements (or from QTC) what rate they would pay if they were to borrow to obtain an asset of similar value over a similar term.
- Agencies **without** QTC loan facilities should use the Fixed Rate Loan rates that are published monthly on the [QTC Link](#) website, selecting the rate that corresponds with the lease commencement date and the lease term. For example, for a 10-year lease commencing 1 September 202X, the agency would use the 10-year Fixed Rate Loan rate at 31 August 202X to as the incremental borrowing rate.

**Revising the discount rate**

Changes to market interest rates do not automatically necessitate revising the discount rate used to measure the lease liability - only certain circumstances trigger remeasurement of the lease liability under AASB 16 using a revised discount rate, as listed in the table below.

<b>AASB 16 Paragraph</b>	<b><i>Situations where lease liability is remeasured with a <u>revised</u> discount rate</i></b>
40	There's a change in the lease term, or a change in the assessment of a purchase option
43	There's a change in lease payments that result from a change in floating interest rates
45	The lease is modified, and the modification is not accounted for as a separate lease

**Internal-to-Government Accommodation and Vehicle Fleet Arrangements facilitated by the Department of Energy and Public Works**

Due to amendments to the governing frameworks and policy documents effective from 1 July 2019, non-specialised commercial office accommodation under the Queensland Government Accommodation Office (QGAO) Office Accommodation Management Framework (OAMF), residential accommodation properties under the Government Employee Housing (GEH) program, and fleet vehicles provided to agencies through QFleet **will not meet the definition of a lease under AASB 16.**

This is because DEPW has substantive substitution rights over the assets provided such that they are considered as the provision of services by DEPW to the user agencies. Accordingly, **agencies are not to account for these arrangements as leases and should instead recognise the rental payments as operating expenses when incurred.**

***Accounting for asset fit-outs under QGAO arrangements***

For QGAO arrangements that are not accounted for as leases, it is necessary to recognise fit-outs in a manner that ensures whole-of-Government reporting outcomes are properly reflected upon consolidation of agency financial data.

Queensland Treasury's expectations for DEPW and occupant agencies are outlined below:

- DEPW and occupant agencies should continue to recognise, in their own books, any existing fit-outs accounted for under AASB 116 prior to 1 July 2019, and any fit-outs capitalised from 1 July 2019 to 30 June 2022 in line with the applicable FRRs for those financial years.
- DEPW should recognise new fit-outs where the fit-out project is managed by DEPW using *Office Accommodation Program* (OAP) funding, lease incentives funds, or a combination of OAP funding, lease incentives funds and occupant agency funds.
- Fit-outs that DEPW receives as lease incentives from the head lessor are usually considered a part or feature of the leased asset and are captured in the initial right-of-use asset. But where these fit-outs qualify for separate recognition as PP&E, they should be recorded in DEPW's books.
- Occupant agencies should recognise new fit-outs where the acquisition and construction is solely undertaken and funded by the occupying agency itself.

A fit-out asset is to be recorded wholly in the books of one agency to avoid double counting by whole-of-government reporting. Situations where DEPW and the occupant agency each recognises a portion of the asset would ordinarily require 'joint control' to be demonstrated under accounting standards. Such situations would be rare - agencies should consult Queensland Treasury if they believe a fit-out asset transaction gives rise to joint control.

**Illustrative Example 1.** The occupant agency pays for fit-out costs that will be reimbursed by DEPW from its lease incentives funds.

*Accounting Consequence:* DEPW should recognise the fit-out asset along with a payable for the reimbursement. The occupant agency records a receivable from DEPW as monies are spent on the fit-outs and reduces the receivable when reimbursement is received. The occupant agency does not recognise any expense or revenue for the fit-out costs that will be reimbursed by DEPW.

**Illustrative Example 2.** DEPW installs new fit-outs in the occupant agency's premises and the occupant agency contributes 50% of the cost of the fit-outs.

*Accounting Consequence:* DEPW should recognise the whole fit-out asset. In respect of the occupant agency's contribution, DEPW recognises income, and the occupant agency recognises operating expense.

**Illustrative Example 3.** The occupant agency installs new fit-out using its own budget and funds, and it arranges the construction of the fit-out without DEPW's involvement.

*Accounting Consequence:* The occupant agency should capitalise the fit-out asset in its financial statements and depreciate the fit-out asset over the fit-out's useful life. DEPW would not recognise any fit-out asset in this scenario.

In addition to the above guidance, certain fit-out or improvements in QGAO arrangements may be demonstrably controlled by the occupant agency rather than by DEPW, in circumstances where:

- a fit-out can be economically removed from the premises and moved to a different location or sold, and the occupant agency is permitted to remove the asset and relocate, sell or dispose of it at its discretion, or the occupant agency is required to remove the fit-out before vacating the premises; or
- a fit-out, due to its nature, can only be used by the occupant agency and will have no value to DEPW or another tenant. For example – highly specialised / customised fit-outs, or signage bearing the occupant agency's name or logo.

Such fit-outs are ordinarily controlled by the occupant agency and should be recognised by the occupant agency (rather than DEPW).

Office and specialised equipment, such as photocopiers, printers, AV equipment and specialised medical equipment, that are self-funded and controlled by the occupant agency are separate from fit-outs discussed in this section. Such equipment should be capitalised and accounted for by the occupant agency.

The guidance in this section is expected to cover the typical fit-out projects and funding scenarios encountered by agencies under QGAO arrangements. Where it is unclear which agency should capitalise the fit-out asset, or if the agency believes an alternative accounting treatment is more appropriate, the occupant agency should consult with DEPW and Queensland Treasury's Accounting Policy Team for accounting advice.

**Leases transferred as part of a Machinery-of-Government change**

When a lease arrangement is transferred between agencies in a MoG, the recipient agency takes on the ROU asset and lease liability balances of the transferor. The lease received is not considered a new lease by the recipient. As such, the recipient agency does **not** consider the short-term lease exemption in this situation and must recognise the balances even if the remaining lease term is 12 months or less.

**APPLICATION GUIDANCE – LESSORS****Internal-to-Government finance leases**

Lessor accounting has not changed significantly under AASB 16, compared to AASB 117. The lessor still classifies leases as operating leases or finance leases, and a finance lease requires derecognition of the underlying asset (which can be a right-of-use asset under a head lease) and recognition of a lease receivable.

From a whole-of-government perspective, the effect of inter-agency leases is eliminated, and the underlying asset must be properly accounted for – including aspects such as depreciation, revaluation and impairment. The lessee's accounting for the right-of-use asset can differ significantly from what is required for the underlying asset. For example, the right-of-use asset will be carried at cost, which will differ from the fair value of the underlying asset. In the case of peppercorn leases, such right-of-use assets may be recorded at a nominal amount which will not reflect the fair value of the actual asset controlled by the State.

To permit accurate whole-of-government reporting, **Treasury requires that the lessor agency in an internal-to-Government finance lease be responsible for ensuring accurate accounting records are kept for the underlying asset by at least one of the agencies party to the lease.** In an arrangement involving multiple internal-to-Government finance leases (e.g. one agency leases the asset to a second agency, who in turn leases it to a third agency), this requirement applies to the head lessor, being the agency that owns the underlying asset.

Consequently, the lessor agency will need to negotiate with QAO, Treasury and the lessee agency in each situation to agree on the most effective method of properly accounting for the underlying asset. **There are a number of ways a lessor agency can approach this,** including:

- If permitted by audit, such as on grounds of materiality, the agency may account for the finance lease the same as an operating lease (thus retaining the underlying asset on the lessor's books) and provide additional disclosures to explain the finance lease

arrangement. This approach has the benefit of reflecting the whole-of-Government accounting position; or

- maintaining a separate set of records for the underlying asset and report the related transactions and balances in Tridata separately. The disadvantage of this method is there will be a difference between the agency's own statements and their Tridata entries; or
- explore whether a transfer of ownership or accounting control for the underlying asset to the lessee agency can be made – in this case, the lessee agency would then be responsible for accounting for the underlying asset (which would also reflect the whole-of-Government accounting position); or
- restructure the lease so that it is, in substance, no longer a finance lease (i.e. it is an operating lease).

The lessor agency can also negotiate with the lessee agency to delegate tasks such as accounting or revaluations to the lessee agency.

### **Classification of subleases**

AASB 16 paragraph 58 requires lessors to classify subleases by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. For example, when assessing whether the lease term is for the major part of the economic life of the asset, the sub-lessor agency would compare the lease term of the sublease with the economic life of its right-of-use asset (being the lease term of the head lease), rather than the economic life of the underlying asset like a building.

### **Finance leases of a portion of an asset**

This section is relevant to lessors (including sub-lessors) who lease out a portion of an asset, such as floor space in an office building or a retail shop within a hospital facility, and the lease of that portion is classified as a finance lease.

Treasury's guidance is that where a material portion of the asset is leased out under a finance lease, the lessor shall derecognise that portion of the asset in line with AASB 16's finance lease accounting requirements. Where the leased portion is not material, the lessor can instead account for it as an operating lease and will not need to derecognise a portion of the asset nor recognise a lease receivable. To estimate the value of the leased portion, agencies can use techniques such as (i) allocating the carrying amount of the whole asset to the leased area based on floor space; or (ii) calculating a market value for the leased area using the rent charged on the lease, where the rent is at a market rate.