

Financial Reporting Alert

Significant accounting developments

2026–2 | 21 April 2026

Learn about the latest financial reporting developments and our guidance on how to respond.

In this alert

1

[DTF adopts cost model for subsequent measurement of non-concessionary ROU assets](#)

Update 1: DTF adopts cost model for subsequent measurement of non-concessionary ROU assets

Key message This alert deals only with non-concessionary leases. DTF has amended FRD 104 *Leases* to change the subsequent measurement of right-of-use (RoU) assets arising from non-concessionary leases – moving from the revaluation model to the cost model, effective from periods ending on or after 30 June 2026.

Concessionary leases are not affected by this change. For clarity, concessionary leases are those leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives [Basis of conclusion AASB 2018-8].

In summary

Lease type	Initial recognition	Subsequent measurement basis
Concessionary leases	Cost – apply usual principles of AASB 16 (No change)	Cost model (No change)
Non-Concessionary leases	Cost – apply usual principles of AASB 16 (No change)	Cost model (Changed from revaluation model)

Impacted entities

All Victorian public sector entities controlled by the State who are lessees and governed by FRD 103.

Transition approach

- The change is treated as a change in accounting policy which entities shall disclose in their financial statements in the first year of change.
- Entities must apply a modified retrospective approach to transition to the cost model, whereby:
 - the closing carrying amount of ROU assets measured under the revaluation model at the end of the previous reporting period becomes the opening carrying amount (deemed cost)
 - thereafter entities apply the cost model as usual, which includes, assessing the ROU asset balance for impairment, application of depreciation and adjusting the carrying amount of ROU asset for any remeasurement of the lease liability
 - comparative information is not restated and
 - any revaluation surplus relating to ROU assets recognised in prior periods will be transferred to accumulated surplus only when the asset is derecognised.

What we recommend

Given the change applies to financial statements for the year ending 30 June 2026, entities need to take action now to support smooth implementation. In particular, we recommend that entities:

- identify all non-concessionary leases within their lease portfolio, particularly where ROU asset balances are significant
- understand, plan for and prepare impairment assessments, including reviewing systems and models required to support impairment calculations and related estimates
- review and apply relevant DTF guidance, as appropriate
- prepare documentation to support the required financial statement disclosures.

**Transition
resources**

- DTF have developed [guidance](#) to assist entities in transitioning to the cost model, particularly in undertaking impairment assessments of ROU assets.
 - They have also updated [model financial statements](#) to reflect the required disclosures.
 - In addition to FRD 104, they have also updated other FRDs, including FRD 103 *Non-financial physical assets* and FRD 106 *Impairment of Assets* to reflect consequential amendments. These are available on [DTF's website](#).
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