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| <b>Accounting standards</b>  | Accounting standards referred to in Part 2 of this series are the Australian Accounting Standards (AAS). The Australian Accounting Standards are documents that detail the accounting requirements that will apply for most departments and agencies. Any body registered as a corporate entity under the Commonwealth Corporations Act should refer to the equivalent Australian Accounting Standards Board (AASB) standard(s).           |
| <b>Accrual accounting</b>    | The system of recording and reporting of financial transactions for which an entity is responsible. It identifies and records revenues and expenses as they occur, without regard to the date of receipt or payment of cash.   |
| <b>Administrative policy</b> | The policies that detail and execute Government policy. Focuses on process–procedures and propriety, and is the more detailed level of policy that determines ‘how’ Government policy is executed.   |
| <b>Asset</b>                 | In this series, an asset is defined as an item possessing the following characteristics: <ul style="list-style-type: none"> <li>▸ it is a physical item of significant value;</li> <li>▸ it possesses service potential or future economic benefit;</li> <li>▸ it is controlled by the entity; and</li> <li>▸ it originates as a result of a past transaction or event.</li> </ul> Such an asset is called a ‘non-current physical asset’. |
| <b>Asset acquisition</b>     | The process by which an entity assumes control of an asset.  |
| <b>Asset disposal</b>        | The process by which an entity relinquishes control of an asset.   |
| <b>Asset life cycle</b>      | The life of an asset, from when a need for it is first established, through its acquisition, operation and any maintenance or upgrading, to its disposal.  |
| <b>Asset management</b>      | The process of guiding the acquisition, use and disposal of assets to make the most of their service delivery potential and manage the related risks and costs over their entire life.   |
| <b>Asset register</b>        | A data source that records information on individual assets, usually only those over a certain value. Information may include the assets’ location, condition, utilisation and ownership details, as well as the value (and depreciation) of the asset and its major components.   |
| <b>Asset strategy</b>        | The means by which an entity proposes to manage its assets (across all phases of their life cycle) to meet service delivery needs most cost-effectively.   |
| <b>Asset utilisation</b>     | A measure of how effectively an asset is being used to meet the entity’s service delivery objectives.  |

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| <b>Business Plan</b>                | A document that details how the strategies defined in the Corporate Plan are to be implemented, as well as the financial implications of these actions.   |
| <b>Capital</b>                      | The amount invested in an entity.   |
| <b>Capital budgeting</b>            | The process of determining how best to spend/allocate capital.  |
| <b>Capital charge</b>               | The means used to measure the cost of capital that entities have invested in the assets under their control.  |
| <b>Capital costs</b>                | The costs incurred by the entity in procuring additional or upgraded assets.  |
| <b>Capitalisation</b>               | The process whereby expenditure is charged to a capital account rather than to an expense account.  |
| <b>Chart of Accounts</b>            | The Chart of Accounts for a department identifies the structure of the ledger and represents the framework upon which the ledger and associated management reports are based.   |
| <b>Community service obligation</b> | A service provided for less than its full cost (sometimes free of charge).  |
| <b>Condition assessment</b>         | An assessment of the current condition of an asset (and its components) in relation to its service performance, as well as the maintenance or renovation required and associated costs.   |
| <b>Constructed assets</b>           | Building and related works and other capital improvements on land.  |
| <b>Control of an asset</b>          | An entity is deemed to control an asset if it: <ul style="list-style-type: none"> <li>▸ has the capacity to benefit from the asset in pursuing its objectives;</li> <li>▸ is able to deny or regulate the access of others to that benefit; and</li> <li>▸ has the ability to secure the service potential or the future economic benefit.</li> </ul> |
| <b>Core asset</b>                   | An asset that is central to the obligations of Government.  |
| <b>Core services</b>                | Those services that must continue to be provided to the community (eg health care, road maintenance etc).   |
| <b>Corporate Plan</b>               | A document or statement setting out the strategies that the entity intends to follow in the medium term in order to achieve the Government's policy objectives.   |
| <b>Cost</b>                         | The money outlaid to procure the resources used for a particular purpose.   |
| <b>Costing</b>                      | The process of determining the costs of operating an asset to deliver services. Cost is a key element in pricing services.  |
| <b>Cost plus pricing</b>            | A method whereby the price charged is based on the full cost of providing the product or service, plus a mark-up on the cost.   |

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| <b>Demand management</b>     | A management technique used to identify and control demand for services.   |
| <b>Depreciation</b>          | A system of accounting used to allocate the cost of an asset (less residual value if any) over its estimated useful life. Depreciation recognises the gradual exhaustion of the asset's service capacity.  |
| <b>Direct costs</b>          | Costs that can be specifically assigned and directly attributed to an asset.   |
| <b>Discounted Cash Flows</b> | An investment appraisal technique which takes into account both the time value of money (ie the conversion of cash flows that occur over time to an equivalent amount at a particular point in time) and the total profitability over a project's life.  |
| <b>Disposal</b>              | The process whereby an asset is disposed of or decommissioned.   |
| <b>Economic appraisal</b>    | The analysis of the costs and benefits of each service delivery option identified. In essence, it shows: <ul style="list-style-type: none"> <li>› whether the benefits of an option exceed its costs;</li> <li>› which option is the most cost-effective, if project benefits are equivalent; and</li> <li>› which option has the highest net benefit.</li> </ul> This analysis is also referred to as investment appraisal. |
| <b>Effectiveness</b>         | The evaluation of whether resources have been deployed in the best possible way to achieve objectives.   |
| <b>Efficiency</b>            | The evaluation of how well the resources have been used, irrespective of the purpose for which they have been deployed.  |
| <b>Enhancement</b>           | The work needed to increase an asset's service potential, which is regarded as capital expenditure. Enhancement extends an asset's useful life.  |
| <b>Entity</b>                | The term used to apply to each or any of the Victorian Government departments and agencies that are wholly or partly funded through the State budget and accountable to the Parliament.  |
| <b>Finance lease</b>         | A lease which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property without transferring the legal ownership.  |
| <b>Financial statement</b>   | A formal accounting report of an entity, such as a balance sheet, statement of accounts, statement of operations etc.  |
| <b>Full cost pricing</b>     | A method whereby the price charged is based on the actual full costs of holding and using the asset. No profit is allowed.   |
| <b>Government policy</b>     | The policy made by Government Ministers pursuant to powers enacted upon them by the Parliament of Victoria.  |

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| <b>Gross replacement cost</b>  | The total current cost of replacing an asset or its equivalent as new.   |
| <b>Hurdle rates</b>            | In investment appraisal, the minimum acceptable rate of return of a project for it to proceed.   |
| <b>Indirect costs</b>          | Costs that cannot be directly associated with one particular asset, but which can be attributable to the entity's total asset base.  |
| <b>Internal rate of return</b> | The rate of return at which a project is expected to achieve break even or for which the net present value is zero.  |
| <b>Investment</b>              | An asset (or money outlaid to acquire an asset) that delivers, or is expected to deliver, services, and that yields, or is expected to yield, revenue for the entity.                      |
| <b>Lease</b>                   | An agreement that conveys the right to use an asset, usually for a specified purpose and duration, and for an agreed cost.   |
| <b>Life cycle costing</b>      | The full cost of an asset over its life. This includes all costs associated with acquiring, controlling, operating and disposing of the asset.   |
| <b>Maintenance</b>             | The work needed to maintain an asset in a condition that enables it to reach its service potential. Maintenance does not extend an asset's useful life.                                    |
| <b>Needs analysis</b>          | A thorough analysis to compare community demands, expectations and needs with current and possible sources of service supply.  |
| <b>Net Present Value</b>       | The value of an asset, at current prices, from its continued operation and subsequent disposal.  |
| <b>Net realisable value</b>    | The current market value of an asset, less all costs to dispose or redeploy it.  |
| <b>Non-asset option</b>        | A means of increasing service capacity without creating or acquiring additional assets.  |
| <b>Non-core assets</b>         | An asset that is not central to the obligations of Government.   |
| <b>Non-current asset</b>       | An asset having a potential service life longer than one year.   |
| <b>Operating lease</b>         | A lease where the risks and benefits incidental to ownership are not substantially transferred to the lessee.  |
| <b>Opportunity cost</b>        | The income or benefit foregone by not using resources for the best other alternative.  |
| <b>Overhead costs</b>          | Costs that cannot be directly associated either with the entity's total asset base or with one particular asset, but which are incurred by the entity in delivering the services involved. |
| <b>Performance indicator</b>   | A specific qualitative or quantitative measure that allows performance against a benchmark to be assessed.   |

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| <b>Pricing</b>               | The process of developing the rates for charging an entity's products and services. Prices can be based on market rates, full cost or partial cost. Products and services can also be supplied at no cost, reflecting community service obligations. |
| <b>Recurrent costs</b>       | All costs, including the cost of finance, incurred in holding and operating the asset.   |
| <b>Refurbishment</b>         | Modification works carried out on an asset to restore it to acceptable condition. Some refurbishment works do not extend the life of the asset, but are necessary for the planned life to be achieved.   |
| <b>Residual value</b>        | The net market value or recoverable value which is (or expected to be) realised from the disposal of an asset at the end of its life.  |
| <b>Revaluation</b>           | The recording of an increase in the book value of an asset, to be reflected in the entity's financial statements.  |
| <b>Revenue</b>               | The gross proceeds from the sale of goods and services.  |
| <b>Risk management</b>       | A management technique used to identify and analyse potential risks, and to implement appropriate responses.   |
| <b>Sensitivity analysis</b>  | The testing of the variation in the outcome of an evaluation by altering the values of key factors about which there may be uncertainty.   |
| <b>Service potential</b>     | A measure of an asset's ability at any point in its life to contribute to the delivery of a service. Service potential is also referred to as future economic benefit.   |
| <b>Service strategy</b>      | A plan of action for the supply of appropriate services to the community, which is consistent with the entity's corporate goals.   |
| <b>Standard cost pricing</b> | A method whereby the price charged is based on actual full cost, adjusted to remove inefficiencies.  |
| <b>Target profit pricing</b> | A method whereby the price charged is based on a target profit, which can be either a specific dollar amount or another variable such as return on assets.   |
| <b>Transaction</b>           | An event or condition which is recorded in the accounting records in monetary terms.   |
| <b>Useful life</b>           | The time period over which an asset is expected to provide the entity with service potential.  |
| <b>User charge</b>           | A fee or charge imposed on the users of services.  |
| <b>Valuation</b>             | The process of assigning and recording a monetary value for an asset (initially, the cost at acquisition).   |

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| <b>Value management</b>              | A management technique that aims to provide all the functions needed to deliver services at the lowest total cost, consistent with required levels of performance and quality. |
| <b>Whole-of-life cycle approach</b>  | Asset management across the whole life of the asset.   |
| <b>Written-down replacement cost</b> | Current costs less, where appropriate, accumulated depreciation to reflect the amount of potential that has already been consumed.   |

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