NON CURRENT ASSET CAPITALISATION POLICY

Minute Number: (2014/7/22/11.1)
Adopted on: (22 July 2014)

1. LEGISLATIVE AUTHORITY

Australian Accounting Standards

- AASB 5 – Non-current Assets Held for Sale and Discontinued Operations
- AASB 116 – Property, Plant & Equipment and all standards it supersedes
- AASB 013 – New Fair Value Standards

2. BACKGROUND AND/OR PRINCIPLES

This Policy is based on the principle that to be a professional organisation that delivers sustainability and a positive financial outcome there is a requirement to have robust definitions and procedures to collect and maintain financial data to the best of our ability

3. DEFINITIONS

Recognition of Assets

AASB116 states that:

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

Assets are defined as "future economic benefits controlled by the entity as a result of past transactions or other past events".

The following criteria **must** be satisfied for expenditure to be considered as capital and before a non-current asset will be recognised:

1. must possess future economic benefits;
2. must be controlled by Council;
3. transaction or event must have occurred;
4. it must be probable that the future economic benefits will be realised;
5. it must be capable of reliable measurement;
6. must last longer than 1 year;
7. expenditure must be greater than the listed threshold values.

4. POLICY STATEMENT

Capitalisation Threshold

The general non-current asset capitalisation threshold is **$7,500** and will normally apply per project.

The capitalisation threshold is a guide for determining what constitutes a capital project. Most infrastructure projects under $7,500 would not directly result in a physical non-current asset. However, **if a project falls within the range of > $5,000 and < $7,500** and results in a physical non-current asset then the project expenditure should be referred to the Asset Accountant for final determination.

If expenditure does not meet the capitalisation threshold, it is to be treated as an expense in the current period.

Acquisitions

Council may acquire assets in several ways. They can be purchased, written-on, taken up, constructed or received for no consideration i.e. contributed assets.

Assets may be acquired by the following methods:

- the placement of orders with external suppliers;
- construction (by external contractors)
- a compulsory or agreed acquisition; or
- donations or transfers.

Movements of assets will not constitute acquisitions but should be treated as transfers.

All non-current assets, including those acquired without purchase consideration, are to be recorded in the Asset Register. All other expenditures are to be treated as an operating expense in the period in which it is incurred.

Acquisitions of non-current assets must be approved in accordance with Council's delegations of authority and be in accordance with budget approvals. Costs are to be appropriately recorded within financial records of Council.

Purchased Assets

Acquisitions of assets are initially recorded at cost (All costs must be brought to account). Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including design costs, other establishment costs etc.

The cost of purchasing an asset will include:

- purchase price including duty and taxes;
- freight costs;
- installation or other costs to get the asset into a useable state (can include labour and other on-costs); and
- other incidental costs such as legal and design costs.

When all costs in relation to the acquisition of an asset have been identified, approved and processed, the asset should be included in the non-current Asset Register.

Constructed Assets (Work in Progress)

Capitalised amounts will include all direct costs of acquiring the future economic benefit of the asset:

- materials;

- direct and contract labour;
- plant hire; and
- an appropriate proportion of labour and local overheads.

Capitalised amounts will include, where these costs can be reliably attributed, all indirect costs of acquiring the future economic benefit of the asset:

- costs of design and technical activities;
- public consultation;
- project overhead i.e. direct administration and holding costs; and
- financing costs.

Details of financing costs, such as interest and other finance costs, are to be disclosed separately in the notes to the financial statements.

Capitalisation will only occur upon commissioning of a project. The date following project completion and sign off will be the point where no further costs will be charged to the project.

Where a project is completed in stages, capitalisation of each stage may still occur. Depreciation of assets constituting the stage will only commence when the stage capitalised is capable of delivering the services for which it was constructed or the assets begin to experience depletion in their estimated future economic benefit/economic lives.

Assets Held for Sale

Assets constructed for resale are to be classified in accordance with AASB5 Non-current Assets Held for Sale and Discontinued Operations.

Assets received for no consideration (including donations)

Assets received for no consideration including property, subdivisions, plant and equipment received in the form of grants or donations are to be recognised in accordance with the **Contributed Assets Policy**.

Classification

Non-Current assets are to be recognised according to their relevant asset class, sub-class and asset hierarchy at the time of acquisition, construction or donation.

Classes and sub-classes are logical groupings of assets that result in a platform of meaningful financial information upon which decisions can be based.

The following asset classes and their capitalisation thresholds are used by Council for reporting and valuation purposes:

Land	$1
Office Furniture & Equipment	$7,500
Computer Equipment	$7,500
Communication Equipment	$7,500
Plant & Equipment	$7,500
Buildings	$10,000 or 40% of the component, whichever is greater
Road Infrastructure	$10,000 or 40% of the component, whichever is greater

Drainage	$10,000 or 40% of the component, whichever is greater
Parks Infrastructure	$10,000 or 40% of the component, whichever is greater
Water	$10,000 or 40% of the component, whichever is greater
Sewerage	$10,000 or 40% of the component, whichever is greater

Depreciation

With the exception of land, all non-current assets controlled by Council will be subject to depreciation charges in accordance with this Policy.

Asset Useful Lives

Council's infrastructure assets are to be given the longest sustainable life possible. Other assets such as Plant, Equipment and Fleet are to be given useful lives consistent with industry information and standards.

Infrastructure estimated useful lives for all Council assets are outlined in the Asset Revaluation Policy.

Where accurate comparative information on asset useful lives is not available, a determination should be made by the Asset Accountant on the most appropriate useful life to use.

Basis of Depreciation

The written-down current cost of a depreciable asset reflects the remaining economic benefits of the asset. That is, the asset valuation determined is reduced to reflect the already consumed or expensed economic benefit of the asset.

Method of Depreciation

Council calculates depreciation generally based on straight-line using condition data (where applicable) for the assets to determine remaining useful life

Under the straight-line depreciation method, the current cost of each asset, less the anticipated residual value, is depreciated evenly over the asset's useful life.

e.g. A road pavement costing $200,000 with an estimated useful life of 70 years and with no residual value, would be depreciated at $2,857 per year i.e. $200,000 consumed evenly over 70 years.

Minimum Written Down Value (Residual Value)

Assets may be replaced in advance of total useful life for economic or technical reasons. For this reason, residual values are to be reviewed annually and updated within the non-current asset register in a timely manner.

Depreciation charges

Depreciation charges are to be made from the date the asset is first put into use or held ready for use. For practical purposes, this date will be the first day of the month following acquisition or completion of construction.

Review of Depreciation Rates and Minimum Written Down Value

Depreciation rates are to be reviewed at the time of revaluation and if necessary, adjusted so that they reflect the most recent assessment of the useful lives of the respective depreciable assets.

Fully depreciated assets

Where such an asset is found to exist, its remaining useful life shall be re-assessed and the current cost of the asset, together with related depreciation, shall be recorded and reinstated.

Materiality Threshold

Only expenditure which meets the criteria outlined in this Policy will be recorded as a non-current asset.

5. POLICY OBJECTIVES

The purpose of this Policy is to provide a framework for identifying, valuing and recording of non-current physical and intangible assets.

This Policy aims to ensure that recognition, classification and depreciation of assets is consistently applied and in accordance with Australian Accounting Standard AASB116 – Property, Plant and Equipment and the Non current Asset policies of the Queensland Public Sector.

6. RELATED POLICIES

Contributed Assets Policy.

Asset Disposal Policy.

7. REFERENCES

http://lgam.wdfiles.com/local--files/non-current-asset-policies-for-the-queensland-public-sector/non-current-asset-policies.pdf

http://www.aasb.gov.au/Pronouncements/Current-standards.aspx

8. DATE REVIEWED

15 January 2014

9. NEXT REVIEW

15 January 2015