Kowanyama Aboriginal Shire Council

Non-Current Asset Accounting Policy

Number: **Admin. 8**

Responsible Manager: **Executive Manager Finance**

Head Policy: **N/A**

Legislation:

- **Local Government Act 2009;**
- **Local Government Regulation 2012;**
- **AASB 13 Fair Value Measurement;**
- **AASB 101 Presentation of Financial Statements;**
- **AASB 116 Property, Plant and Equipment;**
- **AASB 117 Leases;**
- **AASB 120 Accounting for Government Grants and Disclosure of Government Assistance;**
- **AASB 136 Impairment of Assets;**
- **AASB 138 Intangible Assets;**
- **AASB 140 Investment Property;**
- **AASB 5 Non-Current Assets Held for Sale and Discontinued Operations; and**
- **Relevant AASB Interpretations.**

Purpose

The purpose of this policy is to regulate and guide the identification, recording and writing-off non-current physical and intangible assets of the Kowanyama Aboriginal Shire Council to ensure compliance with the *Local Government Act 2009*, *Local Government Regulation 2012* and Australian Accounting Standards. In particular, the policies aim to:

- clarify the definition of, and accounting recognition concepts for, assets;
- provide guidance on determining the periodic cost of using assets (depreciation/amortisation);
- specify a basis for valuing non-current assets; and
- set out the approach to be adopted in regularly reviewing the carrying amount of assets and, where appropriate, writing down or revaluing assets.

All requirements of applicable accounting standards are not repeated within these policies, Accordingly, these policies must be read and interpreted in conjunction with the Strategic Asset Management Plan and the relevant Australian Accounting Standards and are not intended to be read in substitution for them. Specifically, the policies must be read in conjunction with the accounting and disclosure requirements contained in:

- the Local Government Act 2009;
- the Local Government Regulation 2012;
- AASB 13 Fair Value Measurement;
- AASB 101 Presentation of Financial Statements;
- AASB 116 Property, Plant and Equipment;
- AASB 117 Leases;
- AASB 120 Accounting for Government Grants and Disclosure of Government Assistance;
- AASB 136 Impairment of Assets;
- AASB 138 Intangible Assets;
- AASB 140 Investment Property;
- AASB 5 Non-Current Assets Held for Sale and Discontinued Operations; and
- relevant AASB Interpretations.

1. SCOPE

This policy applies to all asset accounting related activities for property, plant and equipment, assets. Please refer to the following asset classification section for specific details of the asset classes and examples of assets in each class.

This policy does not apply to property, plant and equipment that are held for sale which will be recorded in accordance with Accounting Standard *AASB 5 Non-Current Assets held for Sale and Discontinued Operations*, and disposed in accordance with the *Local Government Act 2009*, and other relevant Council policies and procedures.

2. OBJECTIVES

The objectives of this policy are to:

a) Ensure compliance with prescribed legislation and Australian Accounting Standards.

b) Outline the accounting principles to be followed by Council employees when identifying, recognising, recording and valuing Kowanyama Aboriginal Shire Council's property, plant and equipment.

3. DEFINITIONS

- ***Asset*** is a resource controlled by the Council as a result of past events and from which future economic benefits are expected to flow to the Council. The asset can be tangible, i.e. have a physical substance (e.g. land, buildings) or intangible, i.e. no physical substance (e.g. computer software).
- ***Asset Class*** is a grouping of assets of a similar nature and use, e.g. land, buildings, machinery.

- ***Asset Custodian*** is a Council officer who has the day–to–day management of a Council asset.
- ***Cost*** is the amount of cash or cash equivalents paid, or the fair value of the other consideration given, to acquire an asset at the time of its acquisition or construction, e.g. contributed physical asset.
- ***Council Control*** - Council has control of an asset if Council has the power to obtain the future economic benefits flowing from the resource and to restrict the access of others to those benefits.
- ***Depreciable Amount*** is the cost of an asset, or other amount substituted for cost, less its residual value.
- ***Depreciation*** is the systematic allocation of the depreciable amount of an asset over its useful life.
- ***Depreciated replacement cost*** is the Gross Current Replacement Cost less the Accumulated Depreciation (physical deterioration, obsolescence).
- ***Economic Benefit*** is the potential to contribute, directly or indirectly, to the flow of cash or cash equivalents to the Council. It includes Social, Environmental and Financial benefits to Council.
- ***Expenditure Definitions***
- **Operating expenditure** is recurrent expenditure that is continuously required, e.g. electricity, staff, overheads, fuel.
- **Maintenance expenditure** is recurrent asset expenditure that is periodically or regularly required as part of the anticipated schedule of works required ensuring the asset achieves its useful life. It can include, minor parts, painting, servicing, repairs, etc.
- **Capital expenditure** is major expenditure that has benefits beyond 12 months. It includes renewal/replacement, upgrade and new assets.
- **Capital renewal/replacement** is periodical expenditure on existing assets that returns the service potential or the life of the asset up to that which it had originally.
- **Capital upgrade** is expenditure that enhances an existing asset to provide a higher level of service or increase the life of the asset beyond its original life, e.g. widening of road, building extension.
- ***Fair Value*** is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
- ***First Principles*** – Current purchase prices are obtained for components of the asset together with the costs to install, which may include plant, labour and sundry material costs.
- ***Impairment*** – an asset is impaired when its recoverable amount is less than its carrying amount.

- ***Infrastructure Assets*** – typically these assets are large interconnected networks or composite assets that meet the needs of the community, e.g. roads, water, sewerage. Generally, these assets have long lives and often have no market value.
- ***Materiality*** – “Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.” AASB1031
- ***Minor assets*** are items that would meet most of the asset recognition tests but have been acquired for cost less than $1 (land) or $5,000 (all other assets). These assets are treated as an expense as they are under the capitalisation threshold.
- ***Nominal Cost*** means an asset provided to Council at no cost or a very small amount.
- ***Non-Current Asset*** is an asset that provides an economic benefit for a period greater than one year.
- ***Recoverable Amount*** is the higher of an asset’s net selling price and its value in use.
- ***Remaining Useful Life*** is the remaining operational life of an asset, irrespective of the period an asset has been in use and its initial estimate of useful life.
- ***Residual Value*** is the estimated amount that the council would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
- ***Useful Life*** is the period over which an asset is expected to be available for use by Council.

5 POLICY STATEMENT

5.1 Asset Classifications

A class of property, plant and equipment is a grouping of assets of a similar nature and use.

The classes of property, plant and equipment assets relevant to the Kowanyama Aboriginal Shire Council are:

Asset Class	Examples of Assets Forming the Asset Class
Residential Housing	Residential dwellings, including houses and duplex buildings
Buildings	Corporate and cultural buildings and demountables
Roads, Drainage and Culverts	Road structures, culverts, floodways, grids, kerbs, pavements
Water	Pipe lines, assets including reservoirs, bores, pumps and related equipment

Sewerage	Sewer lines, manholes, pump stations, sheds, switchboards, aerators
Plant and Equipment	Sheds and other minor structures, equipment and tools, airbridge network, repeater stations, fencing, heavy equipment, trailers, mowers, boats & motors
Furniture	Equipment and furniture assets, computer hard and software, air conditioners
Motor Vehicles and Heavy Equipment	Motor vehicles on and off-road.
Other Infrastructure	Airport runway, aprons and carparks
Work in Progress and Fixed Assets Clearing	Property, plant and equipment, and intangible assets under construction or in progress, which are not yet in a location and condition necessary for it to be capable of operating in the manner intended by management

5.2 Asset Recognition

Property, plant and equipment is defined in AASB 116 Property, Plant and Equipment (AASB 116) as:

> *tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period.*

The following criteria must be met for an item to be recognised as an asset in the Council's financial asset register:

- It is probable that future economic benefits associated with the item will flow to Council;
- The cost or fair value of the item can be measured reliably;
- Council has control over the asset;
- The cost or fair value exceeds Council's asset recognition threshold; and
- Expected to be used for more than one financial year.

An item of property, plant and equipment that qualifies for recognition as an asset shall initially be measured at cost.

5.3 Asset Recognition Thresholds

Council is required under the Local Government Regulation 2012 s 206 (2) by resolution to set an amount for each different type of physical asset below which the value of the asset must be treated as an expense.

If the expenditure for the item is equal to or above the threshold it may be capitalised as an asset if it meets all the recognition criteria. Capitalisation is the process of recognising an asset in council's financial statements as a non-current asset.

The threshold to recognise costs as an asset are as follows:

Asset Type	Threshold (GST
All Asset Types	$5,000

5.4 Donated or Contributed Assets

All council assets that qualify for recognition are to be measured initially at cost. Where Council acquires an asset at nil cost or nominal value the asset is called a contributed asset. This can occur by way of contracts with developers, State Government arrangements or bequests to Council.

If the contributed asset is land, Council takes ownership when the title passes to Council.

If the contributed asset is infrastructure, Council takes ownership when a practical completion inspection has been undertaken and the asset becomes "on Council maintenance".

The cost of a contributed asset is the fair value at the date of acquisition as assessed by a suitably qualified person. This is not considered a revaluation of the asset at that time.

5.5 Not Previously Recognised Assets

Where material assets are identified from prior accounting periods that have not been recognised in the financial statements they should be treated as a correction of an error under *AASB108 Accounting Policies, Changes in Accounting Estimates and Errors*. Prior period comparative information will need to be adjusted to reflect the not previously recognised assets when they are material.

5.6 Networked Assets

A network is a grouping of multiple assets that are individually below the capitalisation threshold. These assets perform a whole service and require recognition in the financial statements due to their collective value.

5.7 Asset Expenditure

It is imperative that costs are classified correctly as either:

a) An expense, which is accounted for in the Comprehensive Income Statement and affects the Council's operating result, OR

b) Capital, which is included in the cost of an asset. Capital costs are accounted for in the Statement of Financial Position of the Council and depreciated. They can be for a new, upgrade/renew or replacement of an asset.

Costs may be initial or subsequently incurred after initial purchase.

Initial ***capital costs*** include those to purchase or construct an asset and getting it ready for use.

Examples include:

- Purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended, e.g. employee expenses directly from construction or acquisition; costs of site preparation; initial delivery and handling costs; costs of testing whether asset is functioning properly; professional fees; design costs
- Initial estimate of costs to dismantle and remove the item and restore site location where the obligation is recognised and measured under *AASB137 Provisions, Contingent Liabilities and Contingent Assets*, e.g. Landfill restoration.

Once the asset is in the location and condition necessary for it to be capable of being operated in the manner intended, the capitalising of costs cease.

The following initial costs ***are expensed*** and are not capitalised:

- General administration and other indirect overhead costs
- Training costs

Expenditure after Initial Purchase

Where costs are incurred subsequent to the initial purchase of the asset, they can only be capitalised when it improves the condition of the asset beyond its originally assessed standard of performance or capacity. This can occur through:

  - extending the annual service potential provided by the asset, or
  - extending the useful life of the asset

Repairs and maintenance are to be expensed as incurred e.g. repairs for damage or wear or tear that would have prevented the asset reaching its original estimated useful life, such as day to day servicing.

Spare Parts

Minor items of spare parts are charged to the item of plant and expensed to the Comprehensive Income Statement.

Major spare parts and stand-by equipment are recognised as plant and equipment when:

  - The expenditure exceeds the asset recognition threshold, and
  - The benefits from the item will be for more than one financial year.

5.8 Asset Disposal

An asset is to be derecognised in the financial asset register when it is sold, traded, scrapped, lost, stolen, destroyed, decommissioned, or abandoned. Refer to the Asset Disposal policy Admin.PO11.

If the asset is to be sold, the provisions of *AASB5 Non-Current Assets Held for Sale and Discontinued Operations* may apply.

When an asset is destroyed, scrapped, lost, or stolen, it is written-off and a loss is recorded in the Comprehensive Income Statement.

5.9 Assets withdrawn permanently from use and demolition/removal

Where an asset is permanently retired from use, the fair value of the asset must be reviewed. If the asset class to which the asset belongs is not being revalued then the provisions of *AASB136 Impairment of Assets* may apply.

Where an asset is demolished and a new asset is constructed in its place, the carrying amount of the old asset is derecognised in accordance with *AASB116 Property Plant & Equipment*. The cost of demolition or removal of the old asset can be capitalised as site preparation costs of the new asset only if there is:

- No provision for restoration of the old asset, and
- Prior to demolition a formal Council commitment to demolish and build on the site of the old asset, e.g. Council meeting minute.

If an asset is demolished or removed and there is no formal commitment to rebuild on the site prior to demolition or removal, the costs are to be expensed.

If the asset is valued at fair value and the costs of demolition or removal have been capitalised as site preparation costs, consideration should be given to impairment tests to ensure the asset value is not overstated.

5.10 Register of Non-Current Assets

A list of all of the Council's non-current assets, other than those items which are under the asset threshold and treated as an expense, must be recorded in a register which is to be kept by the Council.

The asset register is to record as a minimum:

(i) opening and closing balances; and

(ii) capital expenditures; and

(iii) depreciation charges; and

(iv) revaluation increments and decrements; and

(v) disposals/write offs; and

(vi) not previously recognised and contributed assets; and

(vii) internal transfers; and

(viii) impairment losses; and

(ix) all relevant dates of the above.

5.11 Complex Assets

A complex asset is one where it can be apportioned to significant components.

Complex assets include buildings (e.g. major community and corporate building), road networks, and water and sewerage distribution networks.

The significant components of a complex asset are identified and depreciated separately. This provides more reliable and relevant information for users of the financial statements and asset management.

A significant component is one that meets the following criteria:

a) Can be separately identifiable and measurable and is able to be separated from the complex asset, AND

b) Requires replacement at regular intervals during the life of the complex asset that is different to other components, AND

c) Has a significant value in relation to the total cost of the complex asset, AND

d) Has a different estimated useful life from the complex asset so that failure to depreciate it separately would result in a material difference in the annual depreciation expense for that asset?

Examples of complex assets and their potential significant components are:

- Roads **–** subgrade, pavement, seal, kerb and channelling, footpaths,
- Buildings **–** substructure, superstructure, roof, finishes, fittings, services

On replacement of a component of a complex asset the existing written down value of the original component should be derecognised.

5.12 Depreciation and Amortisation

Where non-current assets have a limited useful life they must be depreciated in accordance with *AASB116 Property, Plant and Equipment* and AASB 138 Intangible Assets.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciation begins when an asset is available for use and ceases at the earlier of:

- The date the asset is classified as held for sale, and
- The date that the asset is derecognised.

The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Useful life is the period over which an asset is expected to be available for use by an entity.

Each part of an item of property, plant & equipment with a cost significant to the total cost shall be depreciated separately (complex assets).

The depreciation charge for each period is classified as an expense in the Statement of Comprehensive Income. Depreciation forms part of the cost of operations and contributes directly to Council's net operating result.

The depreciable amount of improvements to or on leasehold land is allocated progressively over the estimated useful lives of the improvement to the Council or the unexpired period of the lease, whichever is the shorter.

The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. The straight-line method of depreciation is adopted by Council to reflect patterns of consumption for all non-current assets other than Land and Heritage Assets which are not subject to depreciation.

Work in progress cannot be depreciated as the assets are not available for use.

Re-Life Fully Depreciated Assets

Where an asset is valued at cost and it has been fully depreciated but is still in use, a re-life of the asset is not possible.

Where an asset is valued at fair value the revaluation process should ensure that an asset still in use has some useful life. Where however the fair value has been written down to zero and the assets are still in use they can be re-lifed and revalued if they are material.

5.13 Asset Reviews

Asset depreciation rate, remaining useful life, impairment and residual value are to be reviewed on an annual basis by either a review of unit rates or a comprehensive revaluation conducted by a suitably qualified contractor.

5.14 Valuation of Assets

An item of property, plant and equipment that qualifies for recognition as an asset shall initially be measured at cost.

Subsequent to initial recognition, Council can determine to use either the Cost or Revaluation Models for valuation of non-current assets.

Council adopts to apply the:

- Cost Model for Plant and Equipment, Leasehold Improvements and Intangibles,
- Revaluation Model for Land and Improvements, Buildings, Roads and Bridges, Water, Sewerage, Drainage and Other Assets.

Valuation Method by Asset Class

The revaluation model requires the determination of the fair value of an asset which is measured to be either:

  - market value, or
  - income (e.g. discounted cash flow), or
  - depreciated replacement cost if there is no market evidence.

This policy takes the position that, for the most part, the characteristics of relevance and reliability will be met by valuing non-current physical assets at their fair value, as defined in AASB 13 Fair Value Measurement rather than at cost.

The majority of Council's assets, in particular infrastructure assets are rarely if ever sold on the open market. They do not generally have an income stream and are not held for their profit generating potential. Therefore, for these assets depreciated replacement cost is an appropriate valuation method.

To calculate depreciated replacement cost the current replacement cost of the asset is calculated then accumulated depreciation is deducted. Accumulated depreciation represents the expired portion of the economic benefits of the asset.

The valuation method for each Asset Class subsequent to initial recognition is:

Asset Class	Valuation Method
Residential Housing, Buildings, Roads drainage culverts	Fair value
Plant and Equipment, Motor Vehicles, and furniture	At cost

5.15 Revaluation of Assets

For all assets other than those valued at cost:

At least once during each financial year non-current assets valuations should be reviewed to ascertain if there has been a material movement in fair value (depreciated replacement cost/market value) since the last financial year.

If there has been a material movement of fair value of the class of asset since the last financial year a revaluation is to be undertaken. This can be achieved by either engaging an independent, professionally qualified valuer or Council staff to determine the fair value of the assets. This process involves the valuer/staff physically sighting a representative sample of Council assets across the asset class and making their own assessments of the condition of the assets at the date of inspection and determining the fair value. It may be appropriate in particular circumstances to have a combination of internal and external expertise.

If there has been no material movement of fair value, indices/desktop updates as supplied by a qualified valuer/internal qualified staff may be applied for the intervening years until a full revaluation is undertaken. There must be sufficient evidence retained that the index used is robust, valid and appropriate to the asset class. If an index is not applied in the prior year the index will then be cumulative.

A full revaluation of all applicable asset classes should be undertaken at least once every three to five years. However, when an asset class has significant and volatile changes in fair value a revaluation should be undertaken annually.

If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. A class of assets may be revalued on a rolling basis provided the revaluation of the assets is completed within a short period and revaluations are kept up to date.

Complex asset components are measured on the same basis as the assets to which they relate, e.g. Building asset class is valued at fair value therefore each building component is valued at fair value.

Revaluation and accumulated depreciation

When an item of property plant and equipment is revalued, accumulated depreciation is restated proportionately with the change in the carrying amount of the asset and any change in the estimate of the remaining useful life.

Revaluation increments and decrements

If the fair value of the asset class increased as a result of the revaluation, the net increment must be credited to the asset revaluation surplus for that asset class. However, when the net revaluation increase reverses a previous decrement that was recognised in the profit and loss as an expense for that asset class, the net revaluation increase must be recognised in the profit and loss as income to the extent of the previous decrement.

Net revaluation decrements for each asset class must be recognised in the profit and loss, except to the extent it reverses a previous increment for that asset class which was recognised in the asset revaluation surplus and there is a positive balance in the asset revaluation surplus to absorb the new decrement.

Increments and decrements for individual asset revaluations are offset within the relevant asset class revaluation surplus.

Asset revaluation surplus – disposal of assets

When an asset is disposed of, the amount reported in the asset revaluation surplus in respect of that asset is retained in the asset revaluation surplus and not transferred to retained surplus.

5.16 Asset Impairment

All non-current assets including intangible assets are to be reviewed on an annual basis for indicators of impairment by Asset custodians and management.

Where the fair value of the asset exceeds the recoverable amount it is recorded as an impairment loss. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Where assets have been revalued at fair value there should not be any impairment loss as the recoverable amount should be equal to the fair value.

An impairment loss is recognised as an expense in the Statement of Comprehensive Income, except where the asset is at fair value. When there is an impairment loss on a revalued asset the impairment loss is offset against the asset revaluation surplus of the relevant asset class to the extent available. Any remaining loss is then expensed in the Statement of Comprehensive Income.

5.17 Materiality

Materiality plays an essential part in the decision making process and preparation of the financial statements. This is because information contained or omitted from the financial statements can impair its usefulness to users.

Materiality is a concept which requires professional judgement. An omission or misstatement of an item is material if, individually or collectively, it would influence the economic decisions of users of the financial statements or the accountability of management or governing body.

In assessing materiality the size and nature of the omission or misstatement are usually evaluated together. The surrounding circumstances should also be considered.

As guidance in considering materiality thresholds the following can be used:

- an amount equal to or greater than 10% of the appropriate base may be presumed to be material
- an amount equal to or less than 5% of the appropriate base amount may be presumed to be not material
- an amount between 5% and 10% requires judgement

For non-current assets an appropriate base may be:

- Statement of Comprehensive Income, e.g. depreciation, impairment losses, revaluation surplus movements
- Financial position – total assets, asset revaluation surplus, equity
- Property, plant and equipment – asset class
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6 LEGISLATION

Local Government Act 2009

Local Government Regulation 2012

Australian Accounting Standards

Review

This policy is to remain in force until otherwise determined by Council.

Resolution

Adopted by Council on the 20 September 2017.

Approval

This policy was duly authorised by Council as the Kowanyama Aboriginal Shire Council 20 September 2017 and shall hereby supersede any previous policies of the same intent.

Chief Executive Officer, Fabian Williams

Date 20 September 2017