District Council of Elliston
Policy

Finance
E009 Asset Accounting

Signature	
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District Council of Elliston Policy

E009 Asset Accounting

1. Introduction

The Asset Accounting Policy exists to ensure there is a distinction made between expenditure on long lived assets and expenditure on goods and services for immediate consumption. This is critically important in determining the cost of providing services.

2. Purpose

This Policy details expenditure that is to be capitalised and the associated accounting treatment for non-current assets in Council's asset register.

3. Scope

This Policy includes the accounting treatment of all Council's non-current assets.

4. Classification

Expenditure, or other transactions, which result in the creation of future economic benefits which are controlled by Council are to be capitalised when:

- it is probable that the future economic benefits embodied in an asset will eventuate, and
- the asset possesses a cost that can be measured reliably (as value) and its value at the time Council gains control over the asset is in excess of:

Buildings & Other Structures	$10,000
Road Infrastructure	$10,000
Plant & Equipment	$10,000
Furniture & Fittings	$10,000
Other Infrastructure	$10,000
CWMS	$10,000
Land	Nil

Where the value of individual assets fall below the asset threshold for capitalisation, but the assets form part of a network or asset group such as for park furniture on a reserve, consideration will be given to capitalising the individual asset based on whether the aggregate value of those assets exceeds the capitalisation threshold.

Acquisition costs of assets with less than these values will be treated as operating expenses.

Assets should have an economic useful life of greater than one year to enable capitalisation of the expenditure and should also meet a materiality or threshold test. Useful lives will be reviewed as part of the annual financial statements reporting process or when new asset classes are purchased.

All capitalised expenditure is to be recorded in Council's asset register and shall be properly identified, recorded and classified. For each asset, a determination shall be made of its total life, remaining useful life, cost for accounting purposes and method of depreciation.

Asset details shall be kept in Council's financial asset register for all capitalised assets. Accuracy of details supporting capitalised assets shall be the responsibility of the Senior Finance Officer (**SFO**) and/or Works Manager (**WM**). The SFO will be responsible for maintenance of the asset register.

Assets specifically excluded from capitalisation includes land under roads.

Community buildings, structures and associated assets (on Council owned land or Crown Land that is under the control of Council) that are managed under executed land only lease agreements will not be valued in Council's asset register and therefore will not be depreciated. Council will only recognise these assets in the event of expiration/termination of the lease and the abandonment of the building and associated assets, unless the lease agreement specifies otherwise. In the event of a loss, it is recognised that Council may not necessarily replace the building and associated assets. Council may still conduct insurance valuations as per terms of lease agreements currently in place.

All assets recorded in the fixed asset register will be correctly entered and maintained according to the information management principles applicable such as their specific Asset Class, Asset Category and Asset Group.

5. Renewal versus Upgrade

Renewal is the replacement or refurbishment of an existing asset (or component) with a new asset (or component) capable of delivering the same level of service as the existing asset including any additional legislation or regulatory requirements.

A substantial amount of upgraded asset work completed each year is partly renewing components of existing assets. For normal work cycles, components of these assets would need to be replaced when the depreciation or consumption of them had reduced their remaining life to zero, but as they are being upgraded to a better service level, they are effectively replacing asset components that would normally need to be replaced as/when due.

6. Acquisition

Council's assets may be acquired by purchase, construction, donation or received free of charge (as in the case of infrastructure assets received from developers in new land divisions).

In all cases of acquisition by purchase or construction, the requirements of Council's relevant policies including the Prudential Management Policy and the Procurement Policy must be followed.

Assets acquired by Council shall be recorded in line with applicable accounting standards using the cost method of accounting which is the fair value given as consideration plus costs incidental to acquisition including architect's fees, engineering fees and all other costs incurred in preparing the asset ready for use.

7. Internally Constructed Assets

The cost of assets constructed by the Council will include the cost of all materials used in construction, direct labour employed and an appropriate proportion of variable and fixed overheads.

8. Right of Use Assets

AASB16 *Leases* requires amounts paid, and payable, on transactions previously known as Operating Leases (rentals) and expensed on the Statement of Comprehensive Income (Profit and Loss) are now to be recorded on the Statement of Financial Position (Balance Sheet).

The liability created is a lease liability and is the sum of the present value of the remaining lease payments.

The asset created is a Right of Use Asset and is the sum of the lease liability plus initial direct costs plus demolition of the old asset plus any lease payments made prior to the lease commencement plus restoration of asset at end of lease minus lease incentives (discounts) received.

The following leases will be excluded from capitalisation:

- Short Term Leases – leases for a period of 12 months or less
- Low Value Items – items which when new have value below $10,000 e.g. laptops, tablets, computers, small items of furniture and equipment. This low value item is applied to an item, not to a group of items, and applies to the 'as new' value, not a second hand value.

9. Revaluation of Non-Current Assets

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. All infrastructure assets, land and buildings shall be revalued on a regular basis such that the carrying value does not differ materially from that which would be determined using fair value at the end of the reporting period. 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.

Council considers it appropriate to establish revaluation thresholds that will result in assets of a value greater than a certain level being revalued. In setting the thresholds Council will give consideration to the number and value of existing assets and their class and type within the total portfolio. The threshold will be set at a level where even if those assets below the threshold were not revalued, the overall impact on the total portfolio would be immaterial.

Typically, fair value is taken as being the current replacement cost owing to the specialised nature of the assets and inability to purchase or sell them on the open market. The market approach is used where there is an active and liquid market. The income approach is usually used only with for-profit entities where the asset generates income/profits then the assets must be measured on either the cost or fair value basis. Market evidence should be used for determining valuations wherever such evidence exists. Where market evidence does not exist fair value may need to be estimated by an income or current replacement cost approach.

Current replacement cost will be the basis of valuation of structures on Community Land. Structures erected or constructed on non-Community Land that have a market value will however need to be valued using a market-based approach.

The SFO and or/WM will be responsible for the maintenance and accuracy of the data relevant to the asset information in the asset register and shall with the Deputy Chief Executive Officer, be responsible for ensuring revaluations occur regularly in accordance with AASB13.

10. Assets Registers

Registers of all assets shall be maintained and shall record individual assets in sufficient detail as to permit their identification and control. The assets registers shall be updated at least annually. The assets registers shall be used for the purpose of revaluing and depreciating assets and for stocktaking. A stocktake of all plant and equipment, including computer equipment, shall be conducted regularly.

11. Impairment of Assets

Assets whose future economic benefits are not dependent on the ability to generate cashflows, and where the future economic benefits would be replaced if Council were deprived thereof, are not subject to impairment testing.

All other assets that are subject to depreciation not included above are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (which is the higher of the present value of future cash inflows or value in use). Where an asset that has been revalued is subsequently impaired, the impairment is first offset against such amount as stands to the credit of that class of assets in Asset Revaluation Reserve, any excess being recognised as an expense.

12. Physical Resources Received Free of Charge

An item of Property, Plant and Equipment may be gifted or contributed to the Council. As per AASB116 the cost of the item is its fair value as at the date it is acquired.

13. Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Straight line depreciation is the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

14. Disposal of Non-Current Assets which have a value attached to it

Assets will be disposed of in accordance with Council's Disposal of Land or Other Assets Policy. The Carrying Amount of an item of property, infrastructure, plant and equipment shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from de-recognition of an item of property, infrastructure, plant and equipment shall be included in profit or loss when the item is de-recognised.

On an annual basis, the SFO and/or WM are responsible for reviewing the useful lives of assets.

16. Associated Documents

- International Financial Reporting Standards (IFRS)
- Accounting Standard AASB116 – Property Plant and Equipment
- Accounting Standard AASB136 – Impairment of Assets
- Accounting Standard AASB13 – Fair Value Measurement
- Accounting Standard AASB108 – Accounting Policies, Changes in Estimates and Errors
- Accounting Standard AASB1051 – Land Under Roads
- Accounting Standard AASB141 – Agriculture
- Accounting Standard AASB16 - Leases
- Framework for the Preparation and Presentation of Financial Statements – Australian Accounting Standards Board – December 2007
- South Australian Model Financial Statements – Local Government Association of South Australia
- Local Government Act 1999
- Disposal of Land and Assets Policy
- Procurement Policy
- Prudential Management Policy

DOCUMENT HISTORY				
Version	**Changes since last version**	**Approved by**	**Record No**	**Issue Date**
1	Original	Council		
2	Revision of Asset Accounting & Asset Capitalisation Policy undertaken and combined with Asset Impairment Policy and Asset Revaluation Policy	Council		March 2021
3	Updated with Council format Classification thresholds have been updated Introduction added Definitions removed Right of Use Assets redefined Responsible employees updated	Council	7.63.1/1	December 2023