

# POLICY



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**Policy title:** ACCOUNTING FOR NON-CURRENT ASSETS

**Directorate:** ORGANISATIONAL SERVICES

**Branch:** FINANCE

**Policy objective:** To develop a system of accounting for non-current assets that will comply with the requirements of the *Local Government Act 2009*, the Local Government Regulation 2012 and Australian Accounting Conceptual Framework and Standards. This policy statement represents minimum standards.

**Policy scope:**

This policy provides a framework for the accounting and control of Council non current assets based on legislative requirements and in support of Council asset management policy.

**Definitions:**

TERM	DEFINITION
Fair value	The amount obtainable from the sale of an asset or cash-generating unit in an arm’s length transaction between knowledgeable, willing parties.
Recoverable amount	The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.
Value in use	The present value of the future cash flows expected to be derived from an asset or cash-generating unit.

**Reference to legislation and accounting standards**

This policy has been developed with reference to the following legislation and accounting standards:

1. the *Local Government Act 2009*
2. the Local Government Regulation 2012
3. Australian Accounting Standards
  - 3.1 Framework for the preparation and preparation of financial statements
  - 3.2 AASB116 – “Property, Plant and Equipment”
  - 3.3 AASB117 – “Leases”
  - 3.4 AASB136 - "Impairment".

**Policy statement:**

The following is the procedure to be undertaken for this policy:

1. Asset identification and recognition
  - (a) An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

- (b) The cost of an item of property, plant and equipment shall be recognised in the financial statements if and only if:
    - (i) it is probable that the future economic benefits associated with the item will flow to the entity
    - (ii) the cost of the item can be measured reliably.
  - (c) When an asset cannot be reliably measured, details of those assets are not recognised in the financial statements due to the "reliable measurement" criterion not being met. However, if material, they may warrant disclosure in the notes to the accounts because knowledge of the asset is considered to be relevant to the users of the statement of financial position.
2. Asset recording
- (a) Assets are to be recorded and maintained in corporate asset registers or in a portable and attractive items registers if the initial purchase price is less than Council's asset acquisition threshold.
  - (b) The asset acquisition threshold is specified in Council's asset acquisition policy and represents the minimum threshold for corporate asset register inclusions.
  - (c) A separate register of portable and attractive (P and A) items shall be maintained by each branch independent of Council corporate asset registers. The Finance branch will provide guidance, but P and A inclusions are at the discretion of branch management.
  - (d) Asset owners, nominated by Council's Asset Service Delivery Coordination Team (SDCT) as responsible for assets must ensure that asset registers are current and include all Council assets that meet with the asset definition criteria provided in this policy.
  - (e) Detailed Infrastructure Asset Registers are maintained at branch level due to the specialist nature of and the detailed data records required for infrastructure assets.
  - (f) All of Council's non-current assets will be recorded in Council Corporate Asset Registers individually or at a summary level per asset category where separate asset registers are maintained by branches.
3. Asset valuations
- (a) On initial recognition, non-current assets will be measured at fair value based on the cost of the asset or an initial valuation undertaken by Council engineers for donated assets.
  - (b) Subsequent to initial recognition, non current assets will be measured at fair value, except for minor plant and equipment and software assets, which are measured at cost. Fair value and valuation procedures are documented in Council's 'Asset Revaluation' policy.
  - (c) Assets acquired in the current financial year by way of gifts, bequests, subsidised purchase, compulsory acquisitions or donated assets as part of the land development process must be valued at fair value on acquisition.
  - (d) All non-current assets measured at fair value are revalued when the fair value of the asset class is considered to be materially different from its carrying amount. Revaluation encompasses indexation, although a full valuation exercise must be undertaken at least every five years.
  - (e) Assets held for sale will be measured at their net current market selling price.

- (f) Finance leased assets will be capitalised at the present value of the lease payments in accordance with Australian Accounting Standards AASB117, "Accounting for Leases".
4. Depreciation
- (a) All of the Council's property plant and equipment will be depreciated over useful life based on the original cost or gross carrying value of the assets as specified in Council's 'Depreciation' policy.
  - (b) Land assets and appreciating artwork assets are not depreciated.
  - (c) The method of depreciation chosen shall reflect the pattern in which the asset's future economic benefits are expected to be consumed.
5. Impairment
- (a) All Council assets will be periodically assessed for impairment.
  - (b) Asset management plans will specify steps to be taken to renew or replace impaired assets.
  - (c) Due to their specialist nature and community use there is no active and liquid market for certain Council assets to determine recoverable amount as the higher of fair (market) value or value in use for impairment purposes. Value in use for these assets is measured as depreciated replacement cost.
  - (d) As the carrying (fair) value of specialist assets is also based on depreciated replacement cost, any impairment of specialist assets will be accounted for as a revaluation adjustment.
6. Internal Controls
- (a) The following internal controls are to be adopted for asset registers:
    - (i) All inputs to Council corporate asset registers are to be supported by authorised source documentation in the form of approved asset invoices or project completion notices retained in an auditable format.
    - (ii) All systems and processes connected with the maintenance of corporate asset registers are to be documented as established procedures and compiled in a way that is comprehensible to multi-disciplinary interest groups.
    - (iii) Corporate asset registers are to be capable of tracking and reporting asset movements.
    - (iv) Corporate asset registers are to be reconciled on a regular basis to control accounts maintained in Council's general ledger.
    - (v) Asset stocktakes are to be undertaken on a cyclical basis to ensure actual assets support reported financial information per Council Asset Verification procedures administered in the Finance branch:
      - a. Asset owners are to maintain work papers in support of asset verification.
      - b. All differences between assets register records and physical counts are to be explained and communicated to the Finance branch for adjustment.
      - c. A full stock of assets is to be completed within each 12 month period or per operational procedures.
      - d. Stocktake processes are to provide record of asset impairment per Council impairment policy.

7. Capital versus maintenance expenditure

- (a) Expenditure will be classified as capital expenditure where the expenditure:
- (i) results in the acquisition or construction of a new and separately identifiable asset
  - (ii) extends the asset's useful life
  - (iii) improves the asset's revenue earning capacity, service potential or future economic benefit, often by taking advantage of more modern technology; or
  - (iv) adds attributes which were not previously part of the asset.
- (b) Expenditure will be classified as maintenance where it is necessarily incurred in maintaining the predetermined service potential or economic life of an asset and includes expenditure on road assets and water and sewerage assets where:
- (i) it is part of a routine maintenance program; or
  - (ii) it does not significantly increase the design life or useful life of the assets; or
  - (iii) it relates to localised problems such as subsidence, breaking up etc., of part of the asset; or
  - (iv) the basic qualities of the asset are not being upgraded.
- (c) Capital expenditure must be recorded as an increase in the current carrying amount of the asset.

8. Transfer and disposal of assets

- (a) All movements of assets must be notified as soon as possible to the Asset Accountant by use of the "Asset Movement Form" where detailed assets are kept in a Central Financial Asset System.
- (b) Where a separate asset register is in place, the appropriate employees of the Council, who are responsible for managing the asset register(s), will ensure that the integrity of the asset register(s) is/are maintained at all times and ensure that data is updated in a timely manner.
- (c) The Council's projects will be closed on a regular basis as projects are completed to allow for the timely update of Corporate Asset Register(s). A quarterly review is to be undertaken to ensure that projects are current.
- (d) The Asset Accountant will ensure that relevant general ledger control accounts are updated with regard to cost, depreciation, revaluations, donated assets and sales as appropriate.
- (e) Assets will be disposed of in line with Council's 'Disposal of Non-Current Assets' policy.

9. Procedures

Procedural documentation will be developed to support these policies and implemented at the direction of the Chief Executive Officer or delegate.

**Related policies/legislation/other documents:**

DOC ID	DOCUMENT TYPE	DOCUMENT NAME
<a href="#">4941482</a>	Policy	Acquisition of Non-Current Assets
<a href="#">5968731</a>	Policy	Asset Management - Impairment
<a href="#">5972755</a>	Policy	Disposal of Non-Current Assets
<a href="#">5974644</a>	Policy	Revaluation of Non-Current Assets

