FP1 – ACCOUNTING FOR NON-CURRENT ASSETS POLICY

MANAGEMENT PRACTICE: N/A

DELEGATION: N/A

OBJECTIVE

The purpose of this policy is to provide appropriate accounting guidelines for the capitalisation and depreciation of Council assets.

SCOPE

To provide a consistent standard for accounting for non-current assets. This policy aims to:

a. Ensure compliance with legislation and Accounting Standards
b. Identify asset classifications that will be adopted for financial accounting
c. Specify financial accounting treatments of non-current asset transactions
d. Advise of valuation methodologies used in valuing non-current assets for financial accounting purposes
e. Prescribe the disclosure requirements for financial reporting

POLICY STATEMENT

To comply with accounting standards and legislative requirements for accounting and reporting of non-current assets. This policy is directly applicable to all custodians who have a role in delivering services related to non-current assets.

1. **Non Current Asset Classification**

Classifications used to group all non-current assets under The Shire's ownership and/or control is shown in Table 1.

Table 1 – Asset Classifications

Infrastructure – Roads and Streets	Land
Infrastructure – Footpaths	Land Held for Resale
Infrastructure – Drainage	Furniture and Equipment
Infrastructure – Parks and Ovals	Plant and Equipment
Infrastructure – Sewerage	Buildings
Infrastructure – Aerodromes	
Infrastructure – Other	

Note: The Shire applies a minimum threshold of $5,000 which is applicable for the purposes of Capitalisation and Revaluation.

2. Capitalisation Threshold

The minimum amount for recognition of any non-current asset is set at $5,000. Items of low value are to be expensed through the statement of comprehensive income on the basis of materiality.

The minimum threshold is consistent with the *Local Government (Financial Management) Regulations 1996*.

3. Revaluation Threshold

Revaluation threshold provides for assets of greater than $5,000 to require revaluation. While only a portion of the total asset class is comprehensively inspected and revalued, the entire asset class is deemed to be revalued at fair value because the final result is not materially incorrect.

The minimum threshold is consistent with the *Local Government (Financial Management) Regulations 1996*.

4. Asset Register

A record of all asset information is stored in a centralised asset register for completeness and accuracy within the Shire's Asset Management Information System. The asset register includes all financial and operating asset details and attribute information.

All other sources of asset data stored in a separate database is to be reconciled to the asset register at least on an annual basis.

5. Accounting for Non-Current Assets

(1) Recognition and Control

The recognition of initial and subsequent costs of a non-current asset should be consistent with requirements set out in applicable Australian Accounting Standards Board.

(2) Measurement at Recognition

An item of that qualifies for recognition as a non-current asset will be measured at its cost or fair value according to applicable Australian Accounting Standards Board.

Elements of cost and measurement of cost should be consistent with relevant standards.

(3) Measurement after Recognition

Subsequent Expenditure

Expenditure subsequent to initial acquisition is to either be expensed through the profit and loss account as maintenance or capitalised against the asset as capital expenditure.

Where expenditure meets the following criteria, costs are considered capital in nature and will be capitalised against the asset:

- Exceeds the capitalisation threshold
- Extends the useful life of the asset, by a period of greater than 12 months, and
- Provides additional economic benefits or service potential

Depreciation Method

The depreciable amounts of all non-current assets are to be depreciated on a systematic basis over their useful life using straight line depreciation. This shall reflect the pattern in which the value of the asset's future economic benefits is expected to be consumed by the Shire.

Consideration is required to ensure:

- Where the asset has a number of different components with varying patterns of consumption, each component is depreciated separately.
- Depreciation is to be calculated on a systematic basis over the asset's useful life.
- Where residual value has been determined, ensure the depreciation is allocated against the depreciable amount only

Annual Reviews (Including Impairment)

All non-current assets are subject to an annual review to ascertain whether there has been any material changes to its carrying amount. The following aspects are reviewed:

- Replacement Cost/Unit Rates
- Condition
- Useful life
- Residual value
- Recoverable amount (if there are indicators of Impairment)

Where the impact of changes in any of the key assumptions used to determine the fair value would result in a material difference between the carrying amount and the fair value the appropriate accounting treatment will be processed according to the relevant standards.

(4) Management of Work in Progress

Capital projects are regularly reviewed to ensure that capital costs are capitalised to appropriate assets (whether new or additions to existing assets) in a timely manner.

The timing that expenditure no longer belongs in Work In Progress is the point at which the asset is put into service or use.

(5) Assets Written Down to Nil but still in use

Where an asset is still in use but has been completely depreciated, The Shire will assess the asset for its remaining service potential. If it’s deemed to be material in value the asset will be revalued in accordance with the relevant Australian Accounting Standards Board.

6. De-Recognition

Non-current assets are to be removed from the asset register on its disposal, trade-in, retirement, decommissioning, abandonment, confirmation of any theft or loss, or when it is withdrawn from use and no future economic benefits are expected from the asset.

All decisions to derecognise an asset must be authorised and supported by appropriate documentation.

The gain or loss on disposal will be treated in accordance with the relevant Australian Accounting Standards Board.

7. Revaluation of Non Current Assets

Regulation 17A of the *Local Government (Financial Management) Regulations 1996* requires local governments to revalue its assets:

a. Whenever it is of the opinion that the fair value of the asset is likely to be materially different from its carrying amount, and
b. In any event, within a period of at least three years but no more than five years after the day on which the asset was last valued or revalued.

The Shire will be consistent with these requirements as set out in *Local Government (Financial Management) Regulations 1996*.

Fair Value Methods

Fair value methods selected and applied by the Shire will be consistent with one or more of the approaches listed in AASB 13 Fair Value Measurement.

8. Assets Held for Sale

At the time when it is resolved that a non-current asset will be sold and the disposal is likely to occur within 12 months, then that asset will be classified as a current asset as “Asset Held for Sale”. The value of this asset will be the carrying value in the asset register as at the date of the resolution. Any further costs incurred in the development of such asset will also be included as part of the value of the asset held for sale.

Items that are classified as assets held for sale are to be assessed on an annual basis at the end of the reporting period. If circumstances change and it is deemed that the asset will not be sold within the following 12 months then the asset is to be re-classified as a non-current asset and valued in accordance with the relevant valuation methodologies.

9. Leases

The recognition and treatment of leased assets should be consistent with requirements set out in International Financial Reporting Standard 16 whereby the lessee is required to recognise its leases on the Statement of Financial Position, This involves recognising:

c. A right of use asset, and
d. A lease liability

10. Financial Statement Disclosures

The financial statement disclosure requirements will be consistent with the Australian Accounting Standard Board and other prescribed requirements.

Relevant Legislation:	*Local Government Act 1995* *Local Government (Financial Management) Regulations 1996* *Australian Accounting Standards Board*
Related Documents:	N/A
Related Local Law:	N/A
Related Policies:	FP9 – Portable and Attractive Items Policy FP10 – Asset Management Policy
Adopted:	21 August 2013 OC130810
Last Reviewed:	26 April 2023
Next Review Date:	2024