



Asset Accounting Policy

Classification	Policy
Reference number	
Strategic reference	Goal 4 Organisational : Effective governance and organisational efficiencies
Relevant legislation	Nil
Relevant documents	Nil
Responsible officer	Manager Corporate Services
Previous review date	June 2016
Date adopted	June 2018
Next review date	June 2020

1 Purpose

The purpose of this policy is to provide guidance, clarity and consistency regarding the treatment of capital expenditure, which will provide for greater understanding and accuracy of Council's capital requirements and depreciation expenses. The existence of this policy will assist 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 Definitions

"Capital Expenditure" - Capital expenditure can be broken down into two categories:

Costs incurred in the creation of a new asset - including design costs, planning and development compliance costs, construction costs.

Costs incurred for replacement and repair of an existing asset - these costs can be considered capital when the replacement or repair results in an extension of the useful life of the asset.

"Carrying Value" - The carrying value of an asset is the value of the asset held on Council's balance sheet. It can be based on the cost of installation of a new asset or can be based on an independently revalued replacement cost for an existing asset.

"Cost" - the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.

"Depreciation" - Depreciation is the mechanism by which the carrying value of an asset is expensed over its useful life. It represents the amount by which Council's asset stock is being consumed annually.

"Maintenance" - Maintenance of an asset is periodic expenditure required to ensure that the asset lasts as long as it is expected to last and that it provides and continues to provide future economic benefits or expenditure on non-current assets that do not meet the capitalisation criteria. Maintenance costs are expensed annually as they are incurred.



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2 Definitions

“Residual Value” - The residual value of an asset is the estimated amount that an entity would currently obtain from the disposal of an 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” - The useful life is, the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

3 Policy Statement

Assets shall be recognised and accounted for in accordance with Australian Accounting Standards and the details contained in this policy.

3.1 Assets

“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.”

There are three specific elements that define an asset:

- a) Future economic benefits – in the case of public sector entities, future economic benefits (or service potential) are the goods and services to be provided by the asset, whether or not the entity receives a net cash inflow for their provision.
- b) Control by the entity - control means the ability of the entity to benefit from the future economic benefits or to restrict the access of others to those benefits.
- c) Occurrence of past event – the asset must be in existence. A contract to purchase an asset does not give rise to an asset, nor does the intent to acquire an asset.

3.2 Recognition of an Asset

“An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.”

3.3 Measurement at Recognition

The basis for measurement of the value of an asset, upon recognition, is its cost.

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

In respect of not-for-profit entities, where an asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition.



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3 Policy Statement

3.4 Depreciation of Assets

Two definitions are useful to understand the concept of depreciation. They are:

- a) “Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life”
- b) “Depreciation amount is the cost of an asset, or other amount substituted for cost, less its residual value”

Depreciation provides two key information sets for public sector entities:

- a) The rate at which the entity’s asset base is used up; and
- b) Information for the pricing of services.

In the context of asset capitalisation, depreciation is an important determinant of the current fair value of an asset. Paragraphs 43 to 47 of “AASB 116 – Property Plant and Equipment” provide guidance in applying the concept of depreciation to parts of assets:

- 43. *Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.*
- 44. *An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease.*
- 45. *A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.*
- 46. *To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item.*
- 47. *An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.”*

3.5 Materiality

The relevance of information is affected by its nature and materiality. Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.



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4 Capitalisation Thresholds

The following table provides guidance when determining whether expenditure is both capital and material in nature. Refer to Note 1 in the General Purpose Financial Reports for Thresholds.

	Maintenance	Capital
Fleet & Plant Assets	Expenditure <\$5,000 for individual items or items that cannot be easily grouped.	Expenditure >\$5,000 for individual assets, or assets that can be easily grouped.
Sealed Roads and Car Parks	Minor road patching. Shoulder grading. Line marking. Road cleaning & sweeping. General kerb maintenance.	Road patching other than minor works >\$5,000 New road construction. Resealing >\$5,000 Reconstruction >\$5,000 Repairs to kerb & channel >\$5,000 New kerb construction
Unsealed Roads	Grading. Sweeping. Scrub Clearing.	Other Treatments >\$5,000
IT	Expenditure <\$5,000 for individual assets or assets that cannot be easily grouped.	Expenditure >\$5,000 for individual assets, or assets that can be easily grouped.



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4 Capitalisation Thresholds

	Maintenance	Capital
Stormwater & CWMS	Minor repairs.	Pipe and structure replacement >\$5,000 New pipes and structures New wetlands Purchase or replacement of pump and bore equipment >\$5,000
Office Furniture & Equipment	Purchases <\$5,000	Expenditure >\$5,000 for individual item or items which can be grouped
Signs	Repairs to existing individual signs & posts	New signs and/or posts Replacement of existing signs >\$5,000
Footpaths	Footpath maintenance (pothole repair, joint grinding, segment paving resetting) <\$5,000	Footpath replacement New footpath construction
Research, Design & Project Management Costs	All research, design & project management costs incurred on projects which have not proceeded.	Subject to the tests of AASB 136 Impairment of assets
Traffic Calming Devices	All line marking. Any maintenance to existing devices <\$5,000	Any new or complete replacement of kerb, fence and component of the device New traffic islands
Irrigation	Maintenance to existing irrigation equipment <\$5,000	New irrigation equipment Major repairs/replacement of irrigation equipment >\$5,000



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4 Capitalisation Thresholds

	Maintenance	Capital
Land and Reserves	Maintenance of landscaping structures Renewal of mulch and garden beds Plants and Trees Maintenance to existing park furniture	New pavers and concrete paths New irrigation New park furniture Replacement of existing park furniture
Sporting Ovals and Playing Courts	Line Marking Lawn mowing Light tower bulb replacements	Major Earthworks Court construction and resurfacing Light tower construction and replacement
Playground Equipment	Maintenance to existing playground equipment	New playground equipment Repairs/replacement of playground equipment
Buildings	All maintenance of building components.	Any structural addition to the buildings >\$5,000 Repairs/renewal of building components

5 Depreciation of Non-current Assets

All non-current assets having a limited useful life are systematically depreciated over their useful lives in a manner which reflects the consumption of the economic benefits provided by those assets. Land is not a depreciable asset. The depreciation method applied shall be the straight line basis. Depreciation rates shall be reviewed each year. Refer to Note 1 in the General Purpose Financial Reports for Useful Lives.



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6 Useful Lives of Council Assets

Road Infrastructure	Useful Lives (years)
Spray Seal	15 - 25
Sheeted	35
Pavement	20 - 50
Kerbing	50 - 60
Footpath - Concrete	50 - 60
Footpath - Spray Seal	25 - 35
Footpath - Gravel	15 - 25
Plant & Equipment	Useful Lives (years)
Office Equipment	5 - 10
Office Furniture	10 - 20
Vehicle & Road Making Equipment	5 - 8
Other Plant & Equipment	5 - 20
Building & Other Structures	Useful Lives (years)
Buildings - Masonry	50 - 100
Buildings - Other Constructions	20 - 40
CWMS	Useful Lives (years)
CWMS - Pipes	70 - 80
CWMS - Mechanical & Electrical	25
CWMS - Other	50
Water Supply	Useful Lives (years)
Water Supply - Pipes	65 - 70
Water Supply - Pumps & Meters	15 - 25
Stormwater	Useful Lives (years)
Stormwater - Pipes	65 - 70
Stormwater - Other	25 - 75
Other Assets	Useful Lives (years)
Library Books	10 - 15



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7 Revaluations

When an asset is recognised, its value can be recognised either by the cost model or by the revaluation model. The cost model recognises the original cost of an asset less any accumulated depreciation and impairment losses. The revaluation model recognises assets at their fair value only if that can be measured reliably. If an asset is revalued, its value is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluation of assets will be undertaken with sufficient regularity to ensure the carrying amount of the asset does not differ materially. Revaluations of a whole asset class are scheduled to occur on a five yearly basis as per the below schedule, but dependant on the asset class more frequent revaluations may be required.

Assets will be revalued annually by at least applying a suitable price escalator with a more rigorous review of asset valuations (conducted on a 'fair value' accounting basis) occurring at an interval of no more than 5 years in accordance with Councils Financial Governance Code of Practice.

* Other Assets include street furniture, land improvements, park and reserve furniture and other assets.

** Road Infrastructure has sub classes and revaluations of these classes may occur more frequently.

8 Impairment

Assets that have an indefinite useful life are not subject to depreciation and are reviewed annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable

9 Land held for resale

Land held for development and/or resale is valued at the lower of cost and net realisable value. Costs include:

- The cost of acquisition, development and interest incurred on financing of that land during its development
- Interest and other holding charges incurred after development is complete are recognised immediately as expenses

Realisable value. Cost includes the cost of acquisition and development



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10 Land under Roads

For reporting periods commencing on or after 1 July 2008, “AASB1051 - Land under roads” came into effect. In accordance with this Standard, Council has elected not to recognise values for land under roads held as at 30 June 2008 as it has determined that there is no reliable measurement; an essential criteria for asset recognition.

From 1st July 2008 onwards all newly acquired land under roads must be recognised in accordance with AASB116 –Property, Plant and Equipment, paragraph 7 of which states that an asset should only be recognised if, and only if;

- a) It is probable that the future economic benefits associated with the item will flow to Council; and
- b) The cost of the item can be measured reliably

A reliable method has been unable to be determined; hence land under roads will not be recognised in reporting period from 1 July 2008.

11 Grievances

Any grievances in relation to this policy or its application should be forwarded in writing addressed to the Chief Executive of the Council.

12 Policy Review

The effectiveness of this policy will be reviewed every three years or as necessary.

13 Further Information

This document is available on Council’s website www.southernmallee.sa.gov.au and at the principal office of the Southern Mallee District Council at Day Street, Pinnaroo SA 5304.

A copy of this document may be purchased from Council.

