GENERAL POLICY

Capitalisation of Non-Current Assets

2017

MAPOON ABORIGINAL SHIRE COUNCIL
Main St. Mapoon, Qld 4874

1. Purpose

The purpose of this policy is to guide the capitalisation of non-current assets as required by Section 206 of the *Local Government Regulation 2012* and in accordance with Australian Accounting Standards and Queensland Government Guidelines and Policy.

2. Objectives

This Policy aims to ensure that the recognition of assets is consistently applied and in accordance with Australian Accounting Standard AASB116 – Property, Plant and Equipment and the Non-Current Asset Policies for the Queensland Public Sector issued by the Queensland State Government.

3. Scope

This policy applies to all Council controlled assets regardless of how they were acquired.

4. Definitions

Recognition of Assets

AASB116 states that:

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

a) it is probable that future economic benefits associated with the item will flow to the entity; and
b) the cost of the item can be measured reliably.

Assets are defined as "future economic benefits controlled by the entity as a result of past transactions or other past events".

The following criteria **must** be satisfied for expenditure to be considered as capital and before a non-current asset will be recognised:

1. must possess future economic benefits;
2. must be controlled by Council;
3. a transaction or event must have occurred;
4. the cost can be reliably measured;
5. must last longer than 1 year; and
6. the cost must be greater than the listed threshold values.

Control - Council controls an asset if it has the power to obtain the future economic benefits flowing from the resource and to restrict the access of others to those benefits. In determining the existence of an asset, the right of ownership is not essential. Council must simply have the ability to control the benefits which are expected to flow from the asset.

In respect of Council owned land and buildings leased to third parties, Council is deemed to have control where it retains substantially all the risk and rewards associated with the property.

Council gains control over contributed infrastructure assets on commencement of the “On Maintenance” Period. During this period the assets are covered by a warranty and the developer is required to cover all costs to maintain the asset.

Future Economic Benefits – Council’s assets typically provide future economic benefits by enabling Council to provide services to the community.

An expenditure that does not create or directly link to certain future economic benefits is not considered to be an asset or part of an asset. For example, a feasibility study may not always result in the immediate construction of infrastructure.

5. Policy Statement

Capitalisation Threshold

The non-current asset capitalisation thresholds are shown below:

Asset Class	Asset Recognition threshold
Buildings and Infrastructure	$10,000
Heritage and Cultural Assets	$5,000
Intangible Assets	$25,000
Land	$1
Plant and Equipment	$5,000
Work in Progress	Not applicable

If expenditure does not meet the capitalisation threshold, it is to be treated as an expense in the current period except for network assets. Network assets are capitalised where the aggregated cost is greater than $10,000. A network asset is a chain of interconnected but dissimilar assets connected for the provision of one simultaneous service, such as a computer network that may include the network operating system, the connecting cables and the supporting hardware in between such as bridges, routers and switches.

Acquisitions

Council may acquire assets in several ways. The most common methods of acquisition are:

- the placement of a purchase order with external suppliers;
- construction (by either internal or external contractors)
- a compulsory or agreed acquisition; or
- donations or transfers.

Movements of assets will not constitute acquisitions but should be treated as transfers.

All non-current assets, are to be recorded in the Asset Register. All other expenditures are to be treated as an operating expense in the period in which it incurred. Acquisitions of non-current assets must be approved in accordance with Council's delegations of authority and be in accordance with budget approvals. Costs are to be appropriately recorded within financial records of Council.

Purchased Assets

Acquisitions of assets are initially recorded at cost (All costs must be brought to account). Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including design costs, other establishment costs etc.

The cost of purchasing an asset will include:

- purchase price including duty and taxes;
- freight costs;
- installation and assembly costs;
- costs of employee expenses arising directly from the construction or acquisition of the asset;
- costs of site preparation;
- other incidental costs such as legal and design fees.

When all costs in relation to the acquisition of an asset have been identified, approved and processed, the asset should be included in the non-current Asset Register.

Constructed Assets (Work in Progress)

Capitalised amounts will include all direct costs of acquiring the future economic benefit of the asset:

- materials;
- direct and contract labour;
- plant hire; and
- an appropriate proportion of labour and local overheads.

Capitalised amounts will include, where these costs can be reliably attributed, all indirect costs of acquiring the future economic benefit of the asset:

- costs of design and technical activities;
- public consultation;
- project overhead i.e. direct administration and holding costs; and
- financing costs.

Details of financing costs, such as interest and other finance costs, are to be disclosed separately in the notes to the financial statements.

Capitalisation will only occur upon commissioning of a project. The date following project completion and sign off will be the point where no further costs will be charged to the project.

Where a project is completed in stages, capitalisation of each stage may still occur. Depreciation of assets constituting the stage will only commence when the stage capitalised is capable of delivering the services for which it was constructed or the assets begin to experience depletion in their estimated future economic benefit/economic lives.

Assets received for no consideration (including donations)

Assets received for no consideration including property, subdivisions, plant and equipment received in the form of grants or donations are to be recognised and valued at their Fair Value.

Verification of assets

Stocktakes (or verifications) of assets must occur at least once every 3 years.

Assets identified but not previously recognised

Where an asset has been identified but not previously recognised, it is to be treated as the correction of an error under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.* Such errors can also include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretation of facts, and fraud.

Asset Classes

Assets are assigned to one of the following Asset Classes:

- Transport (Roads, drainage and airport
- Buildings and Facilities
- Parks and Recreation
- Water
- Waste Management
- IT & Communications
- Plant and Equipment

Capital costs incurred after recognition/acquisition

There are some costs incurred during the life of an asset that may be capitalised. These include extensions, renewals or upgrades. These costs may be capitalised. Examples of expenditure that may be capitalised include:

Extension – where the service potential of the asset increased by providing services to a greater area, e.g. the extension of a pipe network, or road.

Renewal – where a major component is replaced, e.g. road reseal.

Upgrade – enhances an asset to provide a higher level of service, e.g. widening and/or lengthening an airport runway.

Manager Responsible for Review:	Accountant
Originally Adopted:	20/10/15
Currently Adopted:	19/04/17
Due For Revision:	30/06/18
Revoked/Superseded:	