

POLICY



Date adopted: 30/05/2017
File no: 286645-1
Minute number: 148/2017

Policy title: **DISPOSAL OF NON-CURRENT ASSETS**

Directorate: ORGANISATIONAL SERVICES

Branch: FINANCE

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

Policy scope:

This policy statement in relation to accounting for the disposal of the Council's assets will ensure that assets are disposed on approval and in an accurate and timely manner.

Definitions:

TERM	DEFINITION
Accumulated depreciation	Means the cumulative amount of depreciation recognised over the life of an asset.
Asset	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.
Carrying amount	Means the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
Current cost	Means the cost currently recorded as the cost of the asset.
Depreciable amount	Means the cost of an asset, or other amount substituted for cost, less its residual value.
Depreciation	Means the systematic allocation of the depreciable amount of an asset over its useful life.
Disposal	Means the disposal, trade-in, donation, or passing of control of the asset to another organisation.
Gain or loss on sale	Means the difference between the net proceeds on sale and the carrying value of the asset.
Non current assets	Means assets where the future economic benefit will not expire in the current period.
Proceeds of sale	Means any consideration received by the Council in

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TERM	DEFINITION
	exchange for an asset.
Recognition	Means reported on the face of the financial statements.
Recoverable amount	Means the higher of an asset's net selling price and its value in use.
Residual value	Means the estimated amount that an entity would currently obtain from disposal of the 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	Means the period over which an asset is expected to be available for use by Council.
Value in use	Means the present value of future cash flows expected to be derived from an asset or a cash-generating unit.

Policy statement:

The following procedure is to be undertaken for this policy:

1. References

- Local Government Regulation 2012
- Australian Accounting Standard AASB116 "Property Plant and Equipment "
- Australian Accounting Standard AAS B118 "Revenue"
- Statement of Accounting Practices SAP 1 "Current Cost Accounting"
- Council's "Asset Management" policy
- Council's "Depreciation of Non Current Assets" policy.

2. Preamble

The point at which the Council relinquishes control of an asset is in most cases easily determined, as it is the time that legal ownership passes between the Council and an external organisation. This policy seeks to identify the point in time at which ownership is divested from the Council, the value of the profit or loss on sale of the asset, and how to record this amount.

3. Delegations

- (a) An asset may only be disposed of when the disposal is approved as specified in Council's delegation of authority titled "Disposal of Council Assets (Excluding Land)".
- (b) Where a delegate has approved a disposal by auction, the auctioneer will be deemed to be the agent for the Council for the period that he or she holds the goods available for auction.

4. Proceeds of sale

- (a) The proceeds of sale need not be cash consideration, they can consist of:
 - (i) cash
 - (ii) consumables
 - (iii) assets
 - (iv) shares
 - (v) provision of a service

(vi) repayment of liabilities.

The value of the consideration is the fair value of the good or service received by the Council.

(b) Auctions

Where an asset is auctioned at an auction house, and an amount of commission is taken out of the proceeds of sale, the consideration received for the assets is the gross amount prior to deducting the commission. The commission is treated as a "cost of sale" expense.

(c) Trade-ins

Where an asset is disposed of as a trade-in for another asset, the amount to be recorded as the proceeds on sale of the asset is the amount deducted as a trade in on the new asset. Where excess consideration is received by the Council after trade in, the proceeds on sale is the trade value of the asset plus any additional consideration received.

5. Time of recognition

The determination of the point in time that ownership is divested from the Council, not only determines the date that the Council lost legal ownership, but impacts on the net carrying value of the asset prior to disposal and thus also the profit or loss on sale of an asset. The time and date of disposal must be accurately recorded.

(a) Direct sales and auctions

Where an asset is disposed of through a direct sale, sale by tender, or an auction, the date of disposal is deemed to be the date of the sale. That is the date at which the proceeds of sale transfer from the purchaser to either the Council or an agent (auctioneer).

(b) Trade-ins

Where an asset is disposed of through a trade-in, the date of disposal is deemed to be the date that control of the new asset passes from the vendor to the Council. Until this time, control of the asset pending disposal is still vested in the Council, and so cannot be recorded as a disposal.

6. Profit or loss on sale of assets

Where an asset has been sold the profit or loss on sale is the difference between the carrying value of the asset and the net proceeds of sale (net of commission).

(a) Write offs

Where an asset has been determined to have no further service potential to the Council, the asset is to be written off to expense. The loss on write off of the asset is the carrying value of the asset plus any other costs incurred in the destruction or removal of the asset.

(b) Infrastructure

(i) Where an item of infrastructure is deemed to be no longer useful, the cost of the disposal is to be the carrying value of the asset plus any costs incurred in the removal of the asset. This amount may be offset by any amounts received from external parties for the scrap.

- (ii) Where an item of infrastructure is deemed to no longer provide service potential to the Council, but it is not economically viable to remove the asset from the network, then the asset is to be retained in the asset register. The carrying value of redundant assets is reduced to residual value.
 - (c) Other assets
 - (i) Where an asset other than infrastructure is sold, the profit or loss on sale for the asset is the difference between the net consideration received and the carrying value of the asset.
 - (ii) Where an asset has been deemed as "not to be replaced", and has been written down to its recoverable amount the profit or loss on sale should be nil.
7. Revalued assets
- (a) Revaluation surpluses in relation to disposed assets are retained in asset class revaluation reserves and not transferred to accumulated surplus on disposal or derecognition of the asset.
8. Recognition
- Where an asset has been disposed of in the financial period, any amounts of profit or loss must be disclosed in the operating statement as a gain or loss on disposal. Amounts received from the sale of non-current assets are disclosed in the notes to the financial statements.
- (a) Disposal by sale

Disclosure is made in the annual financial statements of gross sales proceeds less the carrying value of the asset disposed less any costs associated with the disposal (e.g. commissions).
 - (b) Write offs

Where an asset has been written off, the amount of the loss incurred is to be reported as an expense. These amounts do not relate to the proceeds of sale, and are purely an expense for the Council. These amounts would incorporate:

 - (i) carrying value of assets written off
 - (ii) any costs associated with the destruction or removal of the assets.
9. Funding
- (a) Proceeds of sale

The proceeds of disposal of a non-current asset are included in the Capital Funding Statement as a source of capital funding.
 - (b) Write offs
 - (i) Where an asset has been written off an adjustment to the value of the write off is processed between capital reserve and Council retained earnings.
 - (c) Council's 'Appropriations, Capital and Equity Transfers' policy provides details of Council funding adjustments.

Related policies/legislation/other documents:

DOC ID	DOCUMENT TYPE	DOCUMENT NAME
-	Legislation	<i>Local Government Act 2009</i>
-	Legislation	Local Government Regulation 2012
-	Standards	Australian Accounting Standards