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POLICY

LOGAN
CITY COUNCIL

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Policy title:	**ACQUISITION OF NON-CURRENT ASSETS**
Directorate:	ORGANISATIONAL SERVICES
Branch:	FINANCE
Policy objective:	To develop a system of accounting for asset acquisitions that will comply with the requirements of *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 statement in relation to accounting for asset acquisitions will ensure that the value of the Council's asset base represents fair value on and subsequent to initial acquisition.

Definitions:

TERM	DEFINITION
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.
Control of an asset	Means the capacity of the Council to control the benefits that flow from the asset in pursuit of the Council's objectives and to deny or regulate access of others to that benefit.
Capital works in progress	Means the activities to produce assets purchased or constructed over a period of time that cannot be put to use until such time as the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.
Elements of cost	The cost of an item of property, plant and equipment comprises: (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item.
Class of assets	Means a grouping of assets with similar properties, nature or function in operations which for the purpose of accounting is reported as a single item without further dissection.

TERM	DEFINITION
Depreciation	Means the systematic allocation of the depreciable amount of an asset over its useful life.
Non-current asset	Means assets where the future economic benefits are not expected to expire within twelve months after the current reporting period.
Network assets	Means assets that are either not separately identifiable or are networked for operational purposes. A single asset is captured to represent the entire network cost and the asset acquisition threshold applies to the consolidated network asset in total.
Recognition	Means reported on the face of the financial statements.
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 an entity.

Policy statement:

The following procedure is to be undertaken for this policy:

1. References
   - (a) the *Local Government Act 2009*
   - (b) the Local Government Regulation 2012
   - (c) Statement of Accounting Concepts SAC 4 “Definition and Recognition of the Elements of Financial Statements”
   - (d) Australian Accounting Standard AASB 116 “Property, Plant and Equipment”
   - (e) Australian Accounting Standard ASSB1051 "Land under roads".
2. Preamble

   This policy addresses the timing and measurement of internally and externally sourced new asset acquisitions, and requirements for asset recognition.

   Externally sourced assets are recognised at the time that legal ownership passes between an external organisation and the Council. Assets acquired through financial leases are also recognised as Council assets due to the transfer of substantially all the risks and rewards incidental to ownership of an asset at the time of lease. Donated assets are recognised according to development agreements at the time of final Council approval or when these assets are authorised as "on maintenance".

   Internally constructed assets are recognised once construction projects have been completed and the assets are available for use

   All assets are initially measured at cost and thereafter at either cost or valuation depending on the class of asset.

   - (a) An asset shall be recognised in the financial statements of the Council when:
     - (i) it is probable that the future economic benefits embodied in the asset will flow to Council
     - (ii) the asset possesses a cost or other value that can be measured reliably.

   Asset acquisition threshold

   - (b) An asset acquisition threshold of $5,000 applies to all classes of assets except land.

(c) The asset acquisition threshold for land is $1.

(d) The threshold is applied on a per asset basis for stand-alone assets and in total to network assets.

3. Direct purchases

(a) **Direct purchases at cost**

(i) A direct purchase will be by purchase order or tender (contract), approved per Council's delegation of authority management directive.

(ii) Where an asset is acquired by direct purchase, the asset will be recognised in Council's corporate asset registers when received by Council in the location and condition necessary for it to be capable of operating in a manner intended by management.

(iii) A direct purchase will be supported by an asset acquisition form and an invoice substantiating the amount charged for the asset, as well as other asset details such as:

a. description

b. serial number

c. manufacturer

d. model

e. model number

f. vendor

g. classification of land and buildings as property plant and equipment, investment property or land held for sale (inventory).

(iv) Directly purchased assets are initially measured at fair value being the cost of the new asset including all costs to bring the asset to its location and condition necessary for operation.

(b) **Direct purchases - trade-ins**

(i) Where an asset purchase involves the trade-in of an existing asset, the new asset is recognised at the full gross cost of purchase prior to trade-in.

(ii) The traded asset is processed separately as a disposal.

4. Internally constructed assets

Where an asset is constructed internally the asset will be recognised in the Council's corporate asset registers when the project is completed and the asset is in the location and condition necessary for it to be capable of operating in a manner intended by management:

(a) **Internally constructed infrastructure**

(i) When an asset is taken up from internally constructed works, a journal is completed to transfer the asset from capital works in progress to the infrastructure control account in the general ledger.

(ii) The amount recorded in the general ledger will be the actual (full) construction cost of the asset including earthworks and direct transaction costs.

(iii) Actual cost will also include a provision for the future restoration of the asset where appropriate and borrowing costs directly attributable to the acquisition.

(iv) A project completion form including engineering approval will be provided to the Asset Accountant for project closure and asset commissioning purposes.

(v) Branch managers are to review in-progress projects for their branches to ensure that projects are closed and resulting assets recognised in a timely manner. In-progress projects lists are to be reviewed annually at financial year end to ensure that all completed projects have been closed.

(b) **Internally constructed assets (non infrastructure)**

(i) Where an asset other than infrastructure (such as buildings) has been constructed, a journal is completed transferring the asset from capital works in progress to a non infrastructure asset control account relevant for the class of asset in the general ledger.

(ii) The amount recognised in the general ledger will be the actual costs incurred in the process of constructing the asset. Actual costs include a provision for future restoration of the asset where appropriate and borrowing costs directly attributable to the acquisition.

(iii) A project completion form including engineering approval will be provided to the Asset Accountant for project closure and asset commissioning purposes.

5. Externally constructed assets

Where an asset is constructed externally the asset will be recognised in the Council's corporate asset registers when the project is completed and the asset is in the location and condition necessary for it to be capable of operating in a manner intended by management:

(a) **Externally constructed infrastructure**

(i) When an asset is taken up from externally constructed works, a journal is completed to transfer the asset from capital works in progress to the infrastructure control account in the general ledger.

(ii) The amount recognised in the general ledger will be the actual contracted construction price of the asset.

(iii) Actual costs include a provision for future restoration of the asset where appropriate and borrowing costs directly attributable to the acquisition.

(iv) A project completion form including engineering approval will be provided to the Asset Accountant for project closure and asset commissioning purposes.

(b) **Externally constructed assets (non infrastructure)**

(i) Where an asset other than infrastructure (such as buildings) has been constructed, a journal is completed transferring the asset from capital works in progress to a non infrastructure asset control account relevant for the class of asset in the general ledger.

(ii) The amount recorded in the general ledger will be the actual contract price incurred in the process of constructing the asset.

(iii) A project completion form including engineering approval will be provided to the Asset Accountant for project closure and asset commissioning purposes.

6. Donated assets

Where an asset has been purchased or constructed by an individual or organisation outside of the Council, and is donated at no or nominal cost to the Council, the asset is recognised at fair value in Council's corporate asset registers and an equivalent amount is recognised as donated assets revenue.

(a) **Infrastructure**

(i) When an infrastructure asset (such as a road asset provided as part of a development) has been donated to the Council, the date of acquisition is determined according to the development agreement and is the date of final Council approval or the date that the asset comes "on maintenance".

(ii) Council gains control of donated assets on the commencement of the on maintenance period. During the on maintenance period, the assets are covered by a warranty and the developer is required to cover all costs to maintain the asset. Once Council completes the asset's final inspection, the asset will become off maintenance, and all costs associated with managing and maintaining the asset are covered by Council.

(iii) Donated infrastructure assets are initially recognised at fair value based on gross replacement cost being the standard cost of replacement that would be incurred if constructed by Council.

(iv) Donated infrastructure assets will be recognised in Council's infrastructure asset registers administered by responsible branches during the course of the financial year that the asset is created.

(b) **Non infrastructure assets**

(i) Where an asset other than infrastructure is donated to the Council, the date of acquisition is the date that the asset was received by the Council.

(b) Donated assets are recognised at fair value at the time of acquisition

(c) An asset acquisition form stating the date received, the asset type and the amount (value) of the asset will be provided to the Asset Accountant for asset commissioning purposes.

7. <u>Transfers from other Councils or other government entities</u>

(a) Where an asset or assets have been received by the Council from other Councils or other government entities as a result of legislative processes, the date of acquisition is the date that the legislation becomes effective.

(b) The value of the assets to be recognised in Council's corporate asset registers is the carrying value of the asset at time of transfer.

(c) A legislated transfer notice will be provided to the Asset Accountant for asset commissioning purposes.

8. <u>Land under roads</u>

(a) Council owned land under roads assets are recognised as separate land assets when purchased.

(b) Land under roads assets are initially measured at fair value being the costs paid for the asset, and subsequently at fair value through external valuation, as stipulated in Council's policy "Revaluation of Non Current Assets".

9. <u>Asset registers maintained outside of the Finance branch</u>

(a) Where an asset register is maintained outside of the Finance branch, it is the responsibility of the branch that controls the asset register to ensure that there are adequate procedures in place:

(i) so that access to amend the register is limited to the necessary number of employees

(ii) to ensure that all asset additions are captured in a timely, accurate manner

(iii) to protect against asset duplication

(iv) to retain sufficient documentation approvals to support asset processing

(v) to ensure that the values of additions are captured in compliance with the relevant Australian Accounting Standards and the requirements of this policy.

(b) All asset registers, regardless of the branch, are to have sufficient controls to satisfy auditing requirements and to safeguard Council assets.

10. Asset recognition processes

(a) Asset recognition processes are to be completed immediately on completion of material asset projects or on receipt of purchased or donated assets on a continuous basis during the year.

(b) The final infrastructure asset recognition process in a financial year is to commence on 30 April each year and will be completed per financial year end reporting requirements. Any material in-progress projects are to be reviewed and closed at 30 April annually if materially complete.

(c) Asset additions during the period 1 May to 30 June are to be recorded as capital work in progress and capitalised in the following year of operation.

(d) Operational costs included in capital projects are to be brought to account in operational statements on a monthly basis. “Operational costs” include repairs and maintenance and day-to-day running costs typically excluded from final asset values.

12. Repairs and maintenance expenditure reviews

(a) Council engineers (or other specialist employees) are to undertake a regular review of repairs and maintenance expenditure codes during the financial year.

(b) Unrecorded capital items evidenced through the review are approved and forwarded on asset acquisition forms to the Asset Accountant for inclusion in corporate asset registers.

Related policies/legislation/other documents:

DOC ID	DOCUMENT TYPE	DOCUMENT NAME
5969021	Policy	Capitalised Expenditure