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POLICY

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

Directorate: ORGANISATIONAL SERVICES

Branch: FINANCE

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

Policy scope:

This policy statement in relation to accounting for depreciation of the Council's assets will ensure that depreciation represents the systematic allocation of the depreciable amount of an asset over its useful life on a basis that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

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.
Carrying amount	The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses. This is the written down value of the asset.
Class of assets	Means a category 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.
Consumption based depreciation	A measure of the reduction in the future economic benefits of an asset based on consumption factors relevant to the asset.
Cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
Current cost	The cost currently recorded as the cost of the asset.
Depreciable amount	The cost of an asset, or other amount substituted for cost, less its residual value. Depreciable amount is the amount on which depreciation is calculated.
Depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.
Fair value	Means the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

TERM	DEFINITION
	Where there is no active and liquid market for assets, Council uses a cost approach to determine fair value. Under the cost approach, Council uses the asset's net (depreciated) replacement cost to determine fair value.
Non current asset	Assets where the future economic benefit will not expire in the current period.
Replacement cost	Means the cost of replacing an existing asset. Gross replacement cost is the cost of replacing an existing asset as new, while net (depreciated) replacement cost is the cost of replacing an asset as the cost to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence.
Residual value	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.
Revaluation	The process of valuing an asset at fair value.
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. Standards
   (a) Australian Accounting Standard AASB 116 “Property Plant and Equipment”
   (b) Australian Accounting Standard AASB138 "Intangible Assets"
   (c) Australian Accounting Standard AASB136 "Impairment"
   (d) Australian Accounting Standard AASB140 "Investment Property"
   (e) Local Government Regulation 2012.
2. Preamble

   Accounting depreciation policy is governed by accounting standard AASB116 "Property, Plant and Equipment".

   Depreciable assets are to be depreciated at a rate that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

   Separate requirements exist for Intangible assets as specified in AASB138 and Council's policy on intangible assets.

   All assets are subject to review and accounting for impairment as specified in accounting standard AASB136 and in Council's policy on impairment.
3. Policy

   All non-current assets with a limited useful life will be depreciated progressively in accordance with SAP 1 and AASB 116. Reduction in depreciable amount shall be recognised in the operating statement as a depreciation expense.
4. Determination of depreciation expense
   (a) The depreciation expense of any asset should best reflect the underlying consumption factors that materially affect the future economic benefits and the useful life of the asset. Consumption factors may be of an internal (entity specific) or external (environmental) nature and include physical, technical, commercial and legal factors.
   (b) In the long term, the remaining economic benefits of an asset may decline to a point where the asset is used up or lost. Factors which affect this decline are:

(i) wear and tear through physical use beyond which repairs and maintenance can sustain

(ii) technological advancement and improvement rendering the assets obsolete

(iii) a fall in the demand for the goods or services produced by the asset rendering it redundant.

(c) Depreciation expense should not exceed the depreciable amount of an asset over the asset's life.

5. <u>Basis of depreciation</u>

(a) Depreciation is commonly calculated on a time basis although any depreciation method must be reviewed to ensure that it correctly reflects the pattern of consumption of the asset's future economic benefits.

(b) The depreciation method is determined by management takes account of underlying facts such as:

(i) Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.

(ii) Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.

(iii) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.

(iv) Legal or similar limits on the use of the asset, such as the expiry dates of related leases.

(c) The *depreciable amount* of an asset shall be allocated on a systematic basis over its useful life.

(d) The *residual value* and the useful life of an asset shall be reviewed at least at the end of each annual reporting period and, if expectations differ from previous estimates, the change(s) will be adjusted for in Council's corporate asset registers.

(e) The Council's policy is to calculate depreciation for all categories of assets, at a rate that reflects the consumption of the future economic benefits embodied in the asset. The net amount to be recovered on disposal (salvage or residual value) is set at an expected level of recovery by Council management and is reviewed annually.

6. <u>Categories</u>

(a) Council's assets are classified into categories within each major class of assets.

(b) Major categories of assets are identified separately in Council's asset registers to support Council's asset management and accounting practices.

7. <u>Useful lives</u>

(a) The useful life for all newly acquired assets within a category is the same unless otherwise determined by management.

(b) Useful lives of existing assets are advised on acquisition and are reviewed and confirmed annually by Council management.

(c) Most commonly the useful life of an asset is determined on a time basis with consideration to the following:

(i) for physical assets, the period of time over which the asset can be expected to last, assuming adequate maintenance and average usage

(ii) for all assets, the period of time that the asset can be expected to remain efficient having regard to technical obsolescence

(iii) for all assets, the period of time over which the asset can be expected to produce its products or outputs

(iv) for all assets, any alternative use for the asset following the expiry of its current function

(v) the period of time over which any legal entitlements may cease.

(d) The Council will review factors that affect the rate of asset consumption annually so that depreciation expense most accurately reflects the rate of consumption of the future economic benefits of the asset.

8. Extensions to existing assets

(a) Any addition or extension to an existing asset which becomes an integral part of that asset will be depreciated over the remaining useful life of the asset.

(b) Any part, extension or addition to an existing asset which retains a separate identity, is of a material value and has a useful life that is different from the main asset, will be depreciated independently of the existing asset, based on its own useful life.

9. Depreciation on land

(a) The future economic benefits of land are not normally consumed by Council operations and as such land assets are not depreciated.

10. Depreciation on buildings and leasehold improvements

(a) Buildings are classified as physical assets having a limited useful life and should be depreciated progressively. For the purpose of calculating depreciation, the historic or revalued amount of freehold land and buildings should be apportioned between the land itself and the buildings erected on it. Only depreciation to the building should be charged to the operating statement.

(b) Any depreciation charges on leasehold improvements should be recognised over the unexpired period of the lease or the useful lives of the improvements, whichever is shorter.

11. Depreciation of investment property

(a) Investment property is held to earn rentals or for capital appreciation or both and is measured at fair value as specified in Australian Accounting Standard AASB140.

(b) Investment properties measured at fair value are not depreciated.

(c) A separate Council policy provides a framework for the recognition and measurement of investment properties.

12. Depreciation of artwork

(a) Artwork increases in value over time.

(b) Unless otherwise determined, artwork is not depreciated.

13. Depreciation of capital works in progress

Depreciation expense will be charged from the point in time when a depreciable asset is first held ready for use or put to use. Accordingly, no depreciation should be charged to capital works in progress or newly acquired assets awaiting installation.

14. Depreciation on revalued assets

There are two factors that can affect depreciation calculations for assets accounted for under the fair value model according to AASB116 (i.e. assets that are revalued). On revaluation it is typical that there will be changes in both remaining useful life and asset carrying value:

(a) Remaining useful life

Where an asset has been relifed as part of the process of evaluating the current useful life of an asset, there is no adjustment to the current depreciation expense or accumulated depreciation. The subsequent depreciation expense is calculated by reference to the remaining useful life and fair value of the asset.

(b) Asset carrying value

Where an asset has been revalued and the accumulated depreciation is adjusted as part of the revaluation to reflect the current condition of the asset, there is no adjustment to the current depreciation expense. The subsequent depreciation expense is calculated by reference to the fair value and remaining life of the asset.

15. Complex assets

(a) Where an asset consists of material components with differing useful lives (e.g. a building may consist of a roof, superstructure, elevators, fittings, air conditioning etc) each component is recognised as a separate asset and is depreciated according to its useful life.

(b) Component asset lives are set based on management's or an expert's assessment of the expected consumption of each component.

(c) Major components are those that are separately identifiable, of material value and with differing expected lives.

16. Funding of depreciation

The Council will review the amount of depreciation funded annually. As a guideline, the Council will assess the amount of depreciation required to fund the Council’s capital works and loan redemption payments. Where there is an excess of capital funding sources, the Council may unfund depreciation to this extent.

Related policies/legislation/other documents:

DOC ID	DOCUMENT TYPE	DOCUMENT NAME
-	Legislation	*Local Government Act 2009*
-	Legislation	Local Government Regulation 2012
-	Standards	Australian Accounting Standards