Acquisition and Recognition of Assets Policy		Longreach Regional Council
Policy Number:	1.17	
Policy Category:	Financial	
Authorised by:	Res-2024-12-334	
Date approved:	12 December 2024	
Review Date:	12 December 2026	

PURPOSE

This non-current asset policy describes the framework and principles underlying the acquisition and recognition of all classes of assets.

OBJECTIVE

The objectives of this policy are:

- Ensure Longreach Regional Council (Council) complies with all relevant legislation and is closely aligned with Queensland Treasury's Non-Current Asset Policies.
- Manages its assets in a sustainable manner and for the purpose of delivering services.
- Prepares financial statements that present a fair and true representation of Council's financial position.

LEGISLATION

Local Government Act 2009 (Act)

Local Government Regulation 2012 (Regulation)

Australian Accounting Standards

REFERENCES

Queensland Treasury Non-Current Asset Policies (NCAP).[1]

Australian Accounting Standards

Council's Strategic Asset Management Plan

Council's Project Decision Making Framework

DEFINITIONS AND CONCEPTS

Asset	• A resource ***controlled*** by Council as a result of ***past events*** and from which ***future economic benefits*** are expected to flow to the entity.

ACQUIRING ASSETS

Council's Strategic Asset Management Plan and Project Decision Making Framework will set out the conditions and processes by which an asset investment decision is made. Assets may be acquired or constructed to replace or upgrade an existing asset or to add a new

[1] This policy has been derived from this document and amended to suit Council's circumstances.

asset to LRC's portfolio. Any asset addition must first be approved during the annual budget process or during a budget review process approved by Council resolution.

INITIAL RECOGNITION OF ASSETS

Circumstances resulting in the initial recognition of assets include:

- Acquisition involving consideration.
- Construction of assets by Council.
- Assets acquired at no cost or for nominal consideration.
- Assets not previously recognised.

Assets involving consideration

Property, plant and equipment acquired for consideration are accounted for in accordance with AASB 116. This Standard requires that an item of property, plant and equipment that qualifies for recognition as an asset shall initially be measured at its cost.

The cost of the right to use an item of property, plant and equipment held by a lessee under a lease is determined in accordance with AASB 16 Leases.

Construction of assets by Council

Council's costs that are incurred in constructing the asset and getting it ready for use are capitalised in a work in progress accounts until the construction has been completed and a new asset is recognised at its cost.

Assets acquired at no cost or for nominal consideration

Assets acquired at no cost or for a nominal consideration must be recognised initially at fair value as at the date of acquisition (refer to Valuation of Assets Policy). In such cases, the initial recognition is as a revenue item classified under 'Grants and Other Contributions', not as a credit to an asset revaluation surplus.

Further guidance regarding assets acquired at no cost or for nominal consideration is provided in paragraphs Aus15.1 to Aus15.3 of AASB 116. In the case of any intangible assets acquired at no cost or for a nominal consideration, fair value must only be recognised where there is an active market for the asset(s) concerned.

Assets not previously recognised

Changes in Accounting Estimates

Assets not recognised in previous periods that subsequently meet the recognition criteria (not as a result of an error) shall be recognised from the date that the criteria are met.

Example

An amount may have been initially expensed because it was assessed as not probable that future economic benefits would result, based on the information available at that time e.g. costs of $50,000 relating to the development of a software product were expensed as there was no viable asset at that time.

If new information comes to light to change that assessment, for example, there is now demand for the software product (i.e. probable future economic benefits will flow); an asset should be recognised in relation to any subsequent expenditure that exceeds the asset recognition threshold. If we now spend $150,000 on further developing the item, the $150,000 will be capitalised but not the previous $50,000.

Revisions may be made to estimates if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

Example

An entity purchased a painting for $2,000. This amount was expensed at the time as the asset recognition threshold was $5,000. Three years later, demand for the works of this particular artist increased, such that the painting is now valued at $50,000.

This is considered a change in an accounting estimate, as new information has become available since the previous estimate was made. The entity cannot reverse the $2,000 previously expensed, but should recognise the asset at its current fair value of $50,000. The increase in value is treated as a revaluation of an asset recognised at zero value.

Asset	Dr	50,000	
Asset Revaluation Surplus	Cr		50,000

Errors

Where assets are identified that have not been previously recognised due to error e.g. during asset verification, this is treated as the correction of an error under AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. Refer also to FRR 2C Changes in Accounting Policies and Estimates. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretation of facts, and fraud.

Material errors made and discovered in the same reporting period are generally corrected before the financial report is authorised for issue. However, where material errors are not discovered until a subsequent period, these prior period errors must be corrected in the comparative information presented in the financial report for that subsequent period. If the error occurred before the earliest period presented, the opening balances of assets, liabilities and equity shall be restated for the earliest prior period presented.

CAPITALISATION VS EXPENSING OF COSTS INCURRED

On initial recognition of an asset, or where subsequent costs are incurred, a decision must be made as to whether those costs are capitalised into the value of the asset or expensed through the Statement of Comprehensive Income.

On initial recognition, all costs incurred in purchasing or constructing the asset and getting it ready for use (including work in progress) are capitalised to the value of the asset. Examples of these costs are provided below. Costs incurred initially to purchase or construct an asset must be distinguished from costs incurred subsequently to add to, or replace part of, a completed asset, or to purchase or construct a separately identifiable asset.

In relation to costs incurred subsequent to the initial purchase, expenditure on assets must be capitalised (i.e. added to the carrying amount of the asset) when it improves the condition of the asset beyond its originally assessed standard of performance or capacity.

This can occur through:

• an increase in the annual service potential provided by the asset; or

• increasing the useful life of the asset.

Initial Purchases – Costs capitalised

The following costs are included in the cost of an item of property, plant and equipment upon initial purchase or construction and are capitalised:

• the purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

• 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. Examples of directly attributable costs include:

- costs of employee expenses arising directly from the construction or acquisition of the item of property, plant and equipment;
- costs of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;
- costs of testing whether the asset is functioning properly (after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition, such as samples produced when testing equipment); and
- professional fees.

• the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, where that obligation is recognised and measured in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets.*

In the case of work in progress, Council Officers must ensure they assess the suitability of costs for capitalisation at the time they are incurred, to reduce the need for a subsequent impairment write-down.

Once the item of property, plant and equipment is in the location and condition necessary for it to be capable of being operated in the manner intended, the capitalising of costs must cease.

Initial Purchases – Costs expensed

General administration and other indirect/overhead costs and training costs are not to be capitalised.

Incidental Operations

Incidental operations may occur before or during construction or development activities. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognised in the Statement of Comprehensive Income and included in their respective classifications of income and expense in the relevant reporting period.

Third-Party Costs

In the course of constructing assets, particularly infrastructure assets, it may be necessary to relocate or replace assets belonging to another entity, e.g. removing and replacing pipes, relocating trees, relocating power lines, etc. Such costs may actually relate to assets which are controlled by another reporting entity (i.e. a third party). Third party costs that are directly attributable to, not just associated with, bringing Council's asset to the location and condition necessary for its intended operation, may be capitalised as per AASB 116 paragraph 16(b). To capitalise third party costs there must be a discernible nexus to evidence that such a cost is necessary in bringing the asset into the location and condition for its intended use.

Directly attributable costs need to be distinguished from costs incurred in connection with the acquisition of an asset but which are not necessary to bring the asset to the location and condition necessary for it to operate as intended. Examples of costs that are not considered to be directly attributable costs include:

• Ex gratia or special payments such as compensation for relocation costs paid to land occupants who are not legal owners of the land.

• Payments of a compensatory nature made to individuals, community groups or other organisations to ensure they are not disadvantaged by the construction work.

• Compensation paid to local businesses for loss of trade as a result of changes to the roads resulting in traffic being diverted around the location of their business are not be considered directly attributable costs and, therefore, should be expensed when incurred.

Demolition/Restoration Costs

Where an asset is to be demolished and a new asset constructed in its place, the carrying amount of the old asset must be written off in accordance with the provisions of AASB 116 and is not to be capitalised into the cost of the new asset under any circumstances.

Expenditure subsequent to Initial Purchase

Parts

Parts are generally classified as inventory and are recognised in the Statement of Comprehensive Income when consumed. However, major parts may be capitalised into the cost of the item of property, plant and equipment if the recognition principles as outlined in this policy are satisfied and either:

• Council expects to use the major parts or stand-by equipment during more than one period; or

• spare parts are purchased specifically for a particular asset or class of assets and would become redundant if that asset or class were discontinued.

If parts are capitalised, the remaining carrying amount of the replaced parts must be derecognised.

Repairs and Maintenance

Outlays that do not meet the criteria for recognition as an asset must be expensed as repairs and maintenance as incurred. For example, expenditure that merely restores an asset to its original functionality, or repairs damage or wear and tear that would have prevented the asset reaching its original estimated useful life, must be expensed as repairs and maintenance.

Replacement of Components

For some complex assets, significant components with different estimated useful lives are separately identified for accounting purposes. Deciding whether expenditure on asset components should be capitalised follows the same process outlined for assets above, i.e. does the expenditure increase the annual service potential or useful life of the component beyond the originally assessed standard. (Refer also to the Complex Assets Policy)

Day-to-Day Servicing

General day-to-day servicing of an item of property, plant and equipment is not to be capitalised into the cost of an asset. Generally, these costs will primarily be the costs of labour and consumables and may include the cost of immaterial parts. They are generally described as 'repairs and maintenance' and are recognised in the Statement of Comprehensive Income as incurred.

Overhauls/Refurbishments

Some items of property, plant and equipment may have parts which require replacement at regular intervals. For example, a furnace may need to be relined after a certain number of hours of use or aircraft interiors such as seats may require replacement several times during the life of the airframe of the aircraft. In other instances, items of property, plant and equipment may be renewed on an unplanned or ad hoc basis, such as replacing the interior walls of a building. In these instances, an agency recognises the cost of replacing part of such an item in the carrying amount of the item of property, plant and equipment when that cost is incurred only if the asset recognition criteria are met. The carrying amount of those parts that are replaced must be derecognised (refer to AASB 116 paragraphs 13 and 14).

Regular Major Inspections

As a condition of continuing to operate an item of plant and equipment, some agencies will be required to undertake regular major inspections for faults, regardless of whether faults are indicated or parts of the item are replaced. For example, some aircraft must have a major inspection every 5,000 flying hours (this may equate to approximately every five years). When each major inspection is performed, its cost is recognised as a replacement in the carrying amount of the item of property, plant and equipment if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection must be derecognised. Costs of performing every-day inspections are not to be capitalised.

No Provisions for Future Maintenance

The creation of a provision for future maintenance of non-current assets is not permitted as such action would be inconsistent with the principles for the recognition of provisions as detailed in AASB 137 Provisions, Contingent Liabilities and Contingent Assets. A provision is a liability and for a liability to be recognised, a past event must have occurred.

ASSET CLASSES AND RECOGNITION THRESHOLDS

A class of non-current assets is a grouping of assets of a similar nature and use in an entity's operations, which, for the purposes of disclosure, is shown as a single item in the financial report without supplementary dissection. That is, a class is the lowest note level disclosure in the financial statements. A description of each asset class adopted by Council is illustrated below.

Asset Class	Examples of Assets Forming the Asset Class
Land	Freehold and Trustee land including town common. Land under roads and reserve land is controlled by the Queensland Government and not recognised by Council.
Buildings	Buildings and building fit outs.
Road network	Roads, stormwater, bridges, culverts, footpaths, gutters.
Water and sewer network	Water treatment plants, sewer treatment plants, water mains, sewer mains, water storage areas.
Open spaces assets	Amenities, car parks, swimming pools, showgrounds.
Plant and equipment	Motor vehicles, construction equipment, office equipment.
Other plant and equipment	Office equipment, computer equipment.
Work in progress	Property, plant and equipment under construction or in the process of being constructed but yet to meet the recognition criteria of being in the location and condition necessary for it to be capable of operating in the manner intended.

Asset Class	Asset Recognition Threshold	Measurement Method
Land	$1 (all land)	Revaluation
Buildings	$10,000	Revaluation
Road network	$10,000	Revaluation
Water and sewer network	$10,000	Revaluation

Open spaces assets	$10,000	Revaluation
Plant and equipment	$5,000	Cost
Other plant and equipment	$5,000	Cost
Work in Progress	n/a	Cost

GROUPING OF ASSETS

Council will not group similar or like-natured assets, including personal computers, which do not meet the definition of a network. Only assets that form a network or part of a network are to be grouped for capitalisation. For the purposes of this policy, a network is defined as "A chain of interconnected but dissimilar assets connected for the provision of the one simultaneous service." Examples of a network of assets include:

• Computer network (excluding personal computers): the network includes the network operating system in the client and server machines, the cables connecting them and all supporting hardware in between such as bridges, routers and switches.

• Leasehold improvements: leasehold improvements include wall construction, painting, cabling, carpeting, glazing, joinery, built in desks, cabinets and work stations.

• Land improvements: including landscaping, sheds, retaining wall, parking lots, covered play areas, etc

PORTABLE AND ATTRACTIVE ITEMS

Certain items that have values below the asset recognition threshold are, by their nature, susceptible to theft or loss. Such items, termed portable and attractive, may include personal computers, programmable calculators, cameras, power tools, ladders and like items.

Regardless of the treatment of these types of assets for financial reporting purposes, such items must be registered for physical control purposes. It may be appropriate to specify a control threshold to exclude very low value items. Portable and attractive items are not reported in an agency's financial statements.

STOCKTAKES

Stocktake of assets (also known as asset verifications) are to be undertaken on a regular basis. That is, the existence of assets (including inventories), are to be verified on a regular basis.

The frequency of the asset verification procedure should be decided after considering the risk profile and materiality of each class of asset. For the purposes of this policy, 'regular' means, as a minimum, all assets are physically verified at least once every 3 years, on a rolling basis.

In undertaking the asset verification process, it is expected that the assets are sighted. Assets not located during this process are to be written off in that year, subject to materiality, in accordance with Council's Disposal of Non-Current Asset Policy, and authorised by an appropriately delegated officer.

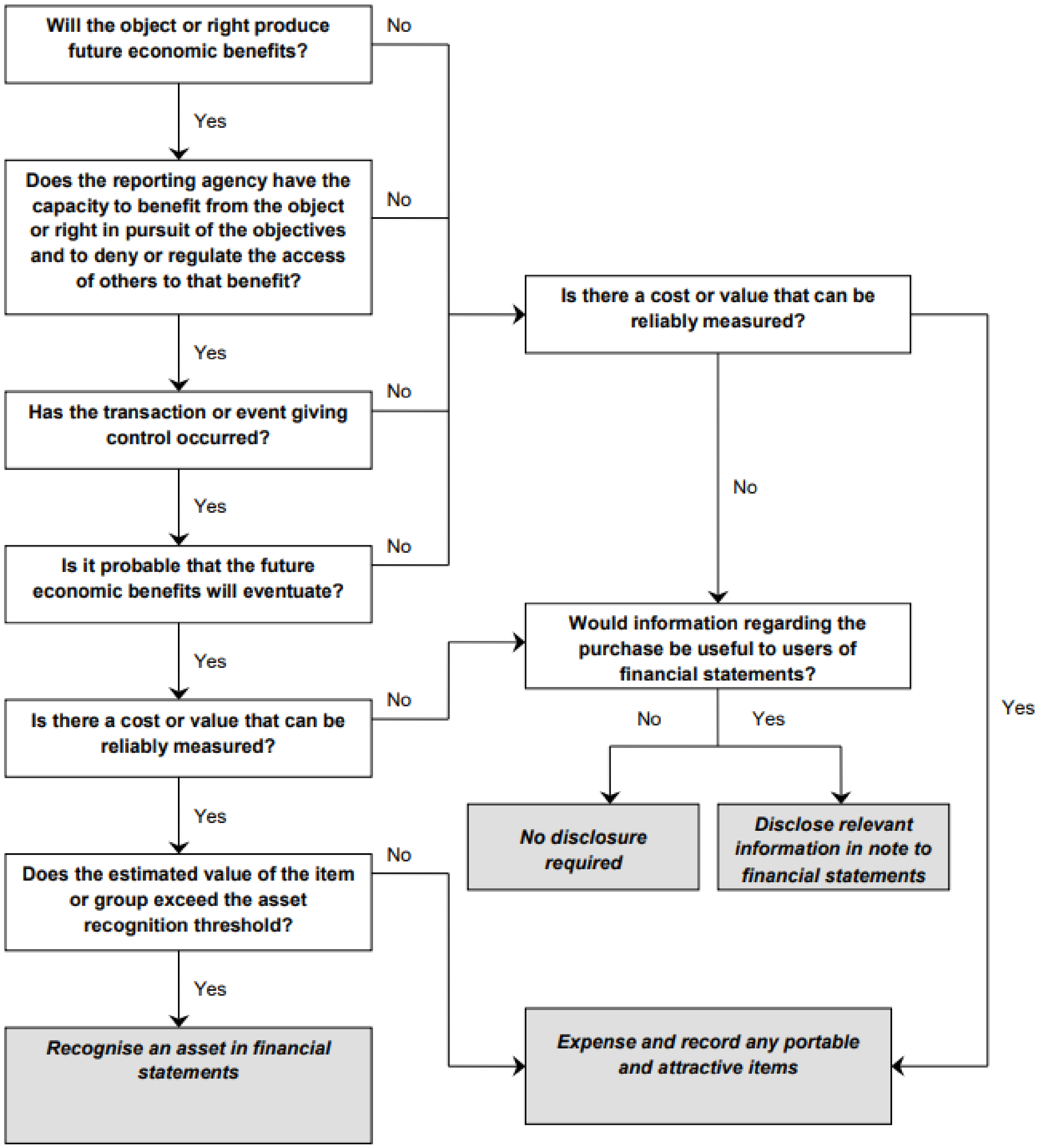
Land, building and infrastructure assets are generally verified during condition assessments or revaluations which are undertaken by an independent professional valuer or internal expert.

Authorised by resolution as at 12 December 2024:

____

Chief Executive Officer

APPENDIX 1 – ASSET RECOGNITION



APPENDIX 2 – CAPITALISING VS EXPENSING EXAMPLES

Example Costs Incurred	Treatment
Cost to purchase an asset (including import duties, non-refundable purchase taxes) minus any trade discounts and rebates.	Capitalise – this represents initial cost to acquire the asset.
Initial delivery and handling of an asset.	Capitalise – these costs are directly attributable in bringing the asset to the location necessary for it to be capable of operating in its intended manner.
Installation and assembly of an asset.	Capitalise – directly attributable in bringing the asset into the condition necessary for it to be capable of operating in its intended manner.
Removing and replacing pipes owned by another entity in the process of building a weir.	Capitalise – necessarily incurred in completing the project of building the weir (i.e. unavoidable in constructing the weir).
Major refurbishment of an office in a building resulting in increased capacity (accommodates more staff or changes its function).	Capitalise – improves the condition of the room of the building beyond its originally assessed standard of capacity through increased annual service potential.
Costs incurred in training staff on a asset.	Expense – not directly attributable in preparing the asset for use.
Minor works done to maintain the asset to ensure it continues at the current level of service until the end of its useful life.	Expense – does not improve the condition of the asset beyond its originally assessed standard or performance or capacity i.e. it does not increase the annual service potential, nor does it increase its useful life.
Repainting walls in a building.	Expense – maintaining the condition of the building and does not improve the condition of the building such that it increases its annual service potential or its useful life.
Re-grading an unsealed road that has been damaged by flood waters and restoring it to its original condition.	Expense – does not improve the condition of the asset beyond its originally assessed standard or performance or capacity i.e. it does not increase the annual service potential, nor does it increase its useful life.
Improving a road that has been damaged by flood waters as part of a betterment project.	Capitalise – improves the condition of the road beyond its originally assessed standard of capacity.
Feasibility study and business case development for a project.	Expense – not directly attributable in preparing an asset for use. At this stage the acquisition of the asset is uncertain.
Software licences and cloud-based services including IaaS, SaaS.	Expense – AASB 138 does not allow capitalisation unless Council controls the development of the software.