

TREASURER'S DIRECTIONS

ACCOUNTING – ASSETS

Section A2.2 : Property, Plant and Equipment

STATEMENT OF INTENT

Property, plant and equipment assets represent a significant portion of all Territory assets and it is important that these assets are appropriately managed and recorded in each Agency's financial records. This Section addresses the definition, recognition, measurement and minimum control requirements relating to property, plant and equipment assets.

MAIN FEATURES

Section 38 of the *Financial Management Act* requires every Accountable Officer and every employee of an Agency to comply with the Treasurer's Directions.

Property, Plant and Equipment Assets

- Property, plant and equipment assets are non-current tangible items used in the delivery of goods and services including outputs.

Recognition of Property, Plant and Equipment

- Property, plant and equipment items with an original cost or fair value greater than or equal to \$5,000 are to be recognised and recorded as non-current assets.
- Property, plant and equipment items with an original cost or fair value less than \$5,000 are to be expensed in the Operating Statement at the time of purchase. These items will not be recognised as assets in accounting records.

Asset Management

- Property, plant and equipment assets are to be subject to appropriate management, accountability and control arrangements, including the maintenance and stocktake of a Register of Assets.
- The write-off of Agency assets requires approval under the *Financial Management Act*.

Disposal of Assets

- Agency property, plant and equipment assets are to be disposed of in a fair, accountable and transparent manner that provides maximum return to the Territory.
- Property, plant and equipment disposals are to be undertaken via one of the approved disposal methods, with disposals by way of gift requiring the approval of the Treasurer.

For authoritative instruction and guidance, reference should be made to related Treasurer's Directions and associated commentary, relevant Australian accounting standards and other authoritative interpretations.

Section A2.2 : Assets – Property, Plant and Equipment

CONTENTS

What is Property, Plant and Equipment ?	A2.2.1
Recognition of Property, Plant and Equipment	A2.2.2
Asset Management	A2.2.7
Disposal of Property, Plant and Equipment	A2.2.11
Loan or Hire of Property, Plant and Equipment	A2.2.15
<u>Appendix A</u> Recognition of Property, Plant and Equipment – Capitalisation Examples	
<u>Appendix B</u> Register of Assets – Information Requirements	

AUTHORITIES

Financial Management Act

REFERENCES

AAS 29	Financial Reporting by Government Departments
AASB 5	Non-current Assets Held for Sale and Discontinued Operations
AASB 102	Inventories
AASB 116	Property, Plant and Equipment
AASB 136	Impairment of Assets
AASB 138	Intangible Assets
AASB 140	Investment Property
<i>Related Treasurer's Directions:</i>	
F3.3	Framework – Legislative Structure : Delegations
A2.1	Accounting – Assets : Overview
A2.3	Accounting – Assets : Depreciation and Amortisation
A2.4	Accounting – Assets : Revaluation
A2.5	Accounting – Assets : Improvements and Repairs and Maintenance
A3.6	Accounting – Liabilities : Leases
A2.10	Accounting – Assets : Impairment of Assets
G2.6	Governance – Accountability: <i>Financial Management Act</i> Approvals – Write-Offs, Postponements and Waivers.

WHAT IS PROPERTY, PLANT AND EQUIPMENT ?

A2.2.1

Property, plant and equipment assets are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one year.

- (i) Property, plant and equipment assets include:
- Land;
 - Buildings (for example, schools, hospitals, houses and police stations);
 - Infrastructure (for example, roads, bridges, wharves and reservoirs);
 - Construction (Work In Progress); and
 - Plant and Equipment (for example, motor vehicles, vessels, aircraft, machinery, medical equipment and communications equipment).
- Treasurer's Directions Section A2.1 elaborates on related asset concepts such as recognition, initial measurement and classification.
- (ii) Property, plant and equipment assets are non-current in nature as they are expected to be used during more than one reporting period. Such assets are used in the production and supply of goods and services such as outputs, for rental to others or for other administrative purposes. In addition, items of property, plant and equipment are tangible (physical) assets as opposed to intangible assets such as software or patents.
- (iii) Property, plant and equipment may also be acquired under lease arrangements. Treasurer's Directions Section A3.6 provides instruction and guidance in relation to the leasing of assets.
- (iv) Although intangible assets are not specifically dealt with in this Treasurer's Directions Section, a number of the concepts and requirements relating to tangible assets will apply equally to intangible assets.
- (v) This Treasurer's Directions Section should be read in conjunction with the following Treasurer's Directions Sections as they provide detailed instruction and guidance in relation to specific asset accounting requirements:
- A2.1 Accounting – Assets : Overview
 - A2.3 Accounting – Assets : Depreciation and Amortisation;
 - A2.4 Accounting – Assets : Revaluation;
 - A2.5 Accounting – Assets : Improvements and Repairs and Maintenance; and
 - A2.10 Accounting – Assets : Impairment of Assets.

Section A2.2 : Assets – Property, Plant and Equipment

RECOGNITION OF PROPERTY, PLANT AND EQUIPMENT

A2.2.2	Property, plant and equipment items with an original cost or fair value greater than or equal to \$5,000 are to be recognised and recorded as a non-current asset.
A2.2.3	Items of property, plant and equipment with an original cost or fair value less than \$5,000 are to be recognised as an expense in the Operating Statement at the time of purchase.
A2.2.4	Property, plant and equipment items with an individual cost or fair value less than \$5,000, that are part of an asset configuration with a total value of \$5,000 or more, are to be recognised and recorded as one non-current asset.
A2.2.5	Property, plant and equipment items with different characteristics are not to be grouped together as one asset for recognition purposes.

- (i) Agencies will not recognise property, plant and equipment assets unless the asset has an original cost (for example, purchase or construction cost) or fair value (where cost is unavailable) greater than or equal to \$5,000 (GST exclusive). Utilisation of a \$5,000 capitalisation threshold assists in reducing the cost and administrative effort associated with the recognition and ongoing administration of property, plant and equipment assets.
- (ii) When an individual item valued at less than \$5,000 is part of a configuration of equipment with a total value of \$5,000 or more, Agencies should recognise the entire configuration as one asset. In these circumstances it would be appropriate for the individual components (or parts) making up the configuration to be identified in the Register of Assets as relating to a single functional asset. Refer to the asset recognition examples in [Appendix A](#).
- (iii) Assets that have different characteristics should not be grouped as this will result in inconsistent assumptions about useful lives and depreciation. Material asset components with different useful lives may be separately identified in the Register of Assets to facilitate accurate depreciation calculations. Treasurer's Directions Section A2.3 provides requirements relating to the depreciation of assets.
- (iv) On initial recognition property, plant and equipment assets are to be recorded at cost or fair value (where cost is not available). The initial cost of an asset may also include the estimated cost of dismantling and removing the asset at the end of its useful life. However, the capitalisation of dismantling, removal and restoration costs would be expected to be rare for Agencies and should only occur where material and where these future costs can be reliably estimated.
- (v) Requirements relating to the initial recognition and measurement of assets are provided in Treasurer's Directions Section A2.1, while information in relation to subsequent or additional asset costs may be found in Treasurer's Directions Section A2.5 - Improvements and Repairs and Maintenance.

Section A2.2 : Assets – Property, Plant and Equipment

A2.2.6

Property, plant and equipment assets are not to be classified as investment property, non-current assets held for sale or inventories unless material and the assets meet the definition and recognition criteria for those asset classes.

- (i) Most if not all Agency property, plant and equipment assets will be classified as general property, plant and equipment. However, some of these assets may also meet the definition and recognition criteria of investment property, non-current assets held for sale, or inventories. The classification of property, plant and equipment assets as investment property or non-current assets held for sale is expected to be rare for not-for-profit entities (including Agencies and Government Business Divisions (GBDs)) as discussed below.
- (ii) Investment property includes land and/or buildings held to earn rentals, or for capital appreciation, or both. However, the definition of investment property excludes property:
 - held to meet service delivery objectives (for example, property held for strategic purposes or to provide a social service);
 - used in the delivery of outputs, goods and services, or for administrative purposes; or
 - held for sale.
- (iii) Land and building assets held by Agencies and GBDs are utilised to meet service delivery objectives rather than being held to earn rentals or capital gains. In addition, land and building assets would not be classified as investment property solely because the assets generate rental revenue, as the earning of rental revenue is generally incidental to the primary purpose for which those assets are held.
- (iv) In situations where property assets are classified as investment property, the property will not be depreciated and will be revalued at fair value, with valuation adjustments recognised in the Operating Statement. AASB 140 provides further instruction and guidance in relation to the recognition of investment property.
- (v) In order to be classified as a non-current asset held for sale, the carrying amount of an asset would be expected to be principally recovered through a sale transaction rather than through continuing use. In addition, such assets should be available for immediate sale in their present condition, and a sale should be highly probable (within one year, with limited exceptions).
- (vi) It would be rare for material Agency and GBD assets to be classified as held for sale, as these assets are primarily held to meet service delivery objectives. Agency and GBD assets that do not meet the definition criteria of non-current assets held for sale, will continue to be recorded as general property, plant and equipment (or inventory), and may be sold (or disposed of) from within these categories.
- (vii) Held for sale assets are reclassified as current assets, are not depreciated, and are measured at the lower of carrying amount or fair value less selling costs. AASB 5 provides further instruction and guidance in relation to the recognition and measurement of non-current assets held for sale.

Section A2.2 : Assets – Property, Plant and Equipment

- (viii) Agencies should seek advice from Treasury in relation to the reclassification of material assets as investment property or non-current assets held for sale.
- (ix) Where an item of property, plant and equipment is held for sale in the ordinary course of business or is in the process of production for such sale, it may be classified as inventory. For example land assets held for sale as part of an Agency's core business may be classified as inventory. Further instruction and guidance in relation to inventories may be found in Treasurer's Directions Section A2.8.

ASSET MANAGEMENT

A2.2.7

Property, plant and equipment assets are to be subject to appropriate management, accountability and control arrangements.

- (i) Property, plant and equipment assets invariably represent a significant portion of an Agency's asset base and play a key role in the delivery of Agency outputs. As items of 'public property', all assets, including property, plant and equipment should be subject to appropriate management, accountability and control arrangements.
- (ii) Each Agency should consider the following in the development of management, accountability and control arrangements for property, plant and equipment assets:
- full accountability for asset purchases including timely and accurate asset recognition and recording;
 - safeguarding and protection of assets against loss, damage or other risks;
 - monitoring of asset condition, use and performance, including maintenance requirements and verification of asset holdings;
 - full accountability for asset disposals and write-offs, including approval processes; and
 - asset life cycle management, taking into account asset planning, acquisition, operation (including maintenance) and disposal.

A2.2.8

A Register of Assets is to be maintained for property, plant and equipment items that are recognised as non-current assets. Each Register is to contain the necessary assets information required for financial reporting purposes.

- (i) Each Register of Assets contains asset information for financial reporting purposes as well as information to assist an Agency in the control and ongoing management of assets. A Register of Assets may include sub-registers or information from other sources where such information is appropriately linked and/or referenced.
- (ii) As an important source of information for financial reports, Registers of Assets may be subject to audit examination and review. Information required to be recorded in a Register of Assets for financial recording purposes can be found in [Appendix B](#).

Section A2.2 : Assets – Property, Plant and Equipment

A2.2.9

Agency property, plant and equipment assets are to be subject to regular stocktake that takes into account the risk profile and degree of physical security associated with different asset classes and types of assets.

- (i) In addition to other asset management procedures and controls, property, plant and equipment assets should be subject to adequate safeguards against loss or damage. Such safeguards would include ensuring physical security over assets is maintained and the conduct of systematic asset stocktakes.
- (ii) The ongoing upkeep of a Register of Assets will provide Agency management with a checklist of assets under their control. A stocktake process provides the formal means through which the accuracy of the Register of Assets is assessed. Where the stocktake process identifies errors or exceptions in the Register of Assets, these errors or exceptions should be rectified in a timely manner and the underlying integrity of internal controls reassessed where systematic errors are apparent. For example, the detection of assets in service (with a cost greater than or equal to \$5,000) that are not recorded on the Register of Assets indicates a breakdown in asset purchasing controls.
- (iii) Each Agency needs to assess how frequently asset stocktakes are required. This assessment should take into account such factors as the risk profile and degree of physical security associated with different assets. Each Agency should also recognise that asset register financial information may be subject to audit examination and review. As a guide, stocktakes of 'public property' assets should be conducted at least once every three years.
- (iv) Where possible, the stocktake process should be carried out by employees not directly responsible for asset management and among other things should ensure that assets are secured and maintained in a satisfactory condition. Stocktakes may be conducted on a cyclical basis so that all assets are subject to stocktake at least once every cycle.
- (v) Each Agency may combine asset stocktake and asset valuation exercises where part of the asset valuation process involves sighting the asset and assessing the condition of the asset. For example, certain significant assets such as land, buildings and roads are subject to regular revaluation and may fall into this category. Treasurer's Directions Section A2.4 provides instructions and guidance relating to the revaluation of non-current assets.
- (vi) Low value (less than \$5,000) portable and attractive items (such as electronic equipment, cameras, etc) that are not recognised in the accounting records as assets may be separately recorded to facilitate physical security and control. When identifying portable and attractive items, each Agency should take account of the administrative costs of recording these items versus the benefits associated with greater control. Such items should be subject to stocktake and may be recorded in a Portable and Attractive Items Register. Appendix A provides an example of the purchase of a portable and attractive item.
- (vii) Agencies should remain aware of requirements in relation to the write-off of assets, (including property, plant and equipment) discussed in the following paragraphs.

Section A2.2 : Assets – Property, Plant and Equipment

A2.2.10

Where a property, plant and equipment asset is lost, stolen or ceases to retain future economic benefits, approval is to be obtained from the Treasurer (or delegate) to write-off the carrying amount (or fair value) of the asset, in accordance with the *Financial Management Act*.

- (i) Accountability requirements in relation to items of public property require that approval under section 35 of the *Financial Management Act* is obtained prior to the value of an asset being written off. For write-off purposes, the value of the asset will be the carrying amount, including any residual value (for recognised assets), or fair value, where fair value provides a better estimate of current value.
- (ii) Under the *Financial Management Act*, asset write-off action will be required in the following situations:
 - loss of an asset;
 - theft of an asset;
 - the asset has become unserviceable;
 - the asset has become obsolete; or
 - the asset has been condemned.
- (iii) Each Agency should take adequate steps to locate assets recorded in the Register of Assets that are not initially located as a part of the stocktake process. Depending on the relative value of the asset, this could include a thorough investigation and report detailing recommendations to protect similar assets. In situations where assets cannot be located, write-off action should not occur until it is clear that the asset in question has been lost or stolen.
- (iv) Approval to write-off the value of an asset recognises that the asset ceases to retain future economic benefits and hence the asset is removed from the Register(s) of Assets (and derecognised in the Agency's Balance Sheet) and a write-off expense is recognised in the Operating Statement.
- (v) There may be a situations where a lost or stolen property, plant or equipment asset has reached the end of its useful life for accounting purposes and has a 'Nil' carrying amount in the Agency's financial records. In these situations, approval to write-off the asset under the *Financial Management Act* is required even though the asset has a nil value in the Agency's books. Accountability approval is required, as the asset may continue to possess value in the wider community (for example, the asset may have a residual value, and/or may retain some worth or intrinsic value to entities or individuals other than the Agency).
- (vi) Agencies should remain aware that there are differences between a write-off for accountability purposes under the *Financial Management Act* and requirements relating to the disposal of an asset as shown in Treasurer's Directions A2.2.11 to 14. Unless otherwise specified, an asset that has received write-off accountability approval under the *Financial Management Act* will not also fall under accountability requirements in relation to disposals. Agencies should seek advice from Treasury if uncertain of the approval requirements.

Section A2.2 : Assets – Property, Plant and Equipment

- (vii) To facilitate efficient financial management practices the power to write-off an asset under the *Financial Management Act* has been delegated to specific persons within Agencies. Additional instruction and guidance in relation to these delegations may be found in Treasurer's Directions Section F3.3, while further instruction and guidance in relation to accountability requirements relating to the write-off of assets will be provided in Treasurer's Directions Section G2.6.

DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

A2.2.11

Items of property, plant and equipment are to be disposed of in a fair, accountable and transparent manner that provides maximum return to the Territory.

A2.2.12

The disposal of Agency assets is not to result in personal benefit being obtained by an Accountable Officer, an employee of the Agency, or direct relative of an employee, unless approval to gift the asset has been obtained in accordance with the *Financial Management Act*.

- (i) Requirements in relation to asset disposals apply:
- to assets recorded in an Agency's Register of Assets; and
 - items not previously recognised as assets (for example, portable and attractive items with a value less than \$5,000).
- (ii) As items of 'public property' it is important that property, plant and equipment is disposed of in a fair, accountable and transparent manner that is capable of withstanding public scrutiny. In particular, the disposal of such assets should not result in personal benefit being obtained by an Accountable Officer, Agency employee, or direct relative.
- (iii) Agencies are reminded that the disposal of an asset by way of a gift requires the prior approval of the Treasurer under section 35 of the *Financial Management Act*.
- (iv) Property, plant and equipment assets that are surplus to an Agency's requirements may be considered for disposal or transfer to another Agency. Related Treasurer's Directions provide instruction in relation to asset disposal approval requirements, while the following Treasurer's Direction provides instruction in relation to approved disposal methods.
- (v) Agencies should remain aware that the disposal of Government land (and any associated improvements) will be carried out through the Department of Planning and Infrastructure.

Section A2.2 : Assets – Property, Plant and Equipment

A2.2.13

The following methods may be used to dispose of property, plant and equipment:

- public tender or public auction;
- trade-in for a replacement asset;
- sale or transfer to another Agency – provided prior approval is obtained for equity transfers in accordance with the *Financial Management Act*;
- gift to an external entity – provided prior approval to gift the asset is obtained in accordance with the *Financial Management Act*;
- the asset may be scrapped – provided prior approval to write-off the asset is obtained in accordance with Treasurer's Direction A2.2.10; or
- other than gifts to an external entity, minor and low value items may be disposed of by other methods as determined by the Accountable Officer.

A2.2.14

Treasury is to be approached to seek approval to use a method of disposal not listed in Treasurer's Direction A2.2.13 prior to the disposal being made.

- (i) Agency property, plant and equipment items surplus to an Agency's needs may be disposed of. In disposing of an asset, Agencies need to consider budgetary approval requirements in relation to the disposal, the method of disposal (including any restrictions on disposal) and the value of the asset being disposed.
- (ii) Among other things, the method chosen to dispose of items of property, plant and equipment will depend on:
 - the type of asset being disposed;
 - the prospective benefits to the Territory; and
 - market factors and expectations.
- (iii) Regardless of the value of an asset to an Agency, disposals by way of gift, except where another Agency is the recipient, must have the prior approval of the Treasurer, as required by section 35 of the *Financial Management Act*.
- (iv) Other than gifts to an external entity, Agencies may dispose of minor and low value items in a manner considered appropriate by the Accountable Officer. As a guide, items with a carrying amount or estimated fair value (at disposal date) below \$500 may be disposed of through methods determined by the Accountable Officer. Regardless of the disposal method chosen, the disposal is to comply with Treasurer's Directions A2.2.11 and 12.
- (v) Where an Agency believes that the methods of disposal provided in Treasurer's Direction A2.2.13 are not appropriate or suitable for a particular asset, Treasury may be approached (prior to disposal) to seek formal approval for an alternative disposal method. For example, a health provider, by law, may only be able to sell certain specialised medical equipment to another recognised health provider.

LOAN OR HIRE OF PROPERTY, PLANT AND EQUIPMENT

A2.2.15

Agency property, plant and equipment assets are only to be loaned or hired out by an Agency where strict accountability controls and records are maintained and the approval of the Accountable Officer has been provided.

- (i) In rare situations, it may be appropriate for an Agency to loan or hire out items of property, plant and equipment. The Accountable Officer of each Agency is responsible for determining those situations where the loan or hire of Agency assets is appropriate and for ensuring that such arrangements can withstand public scrutiny.
- (ii) As part of the loan or hire out of assets, each Agency should ensure that strict accountability controls and records are maintained. As a minimum these records should show that no personal benefit was obtained by the Accountable Officer or an employee of the Agency and that the loan or hire was in the interests of or beneficial to the Territory.
- (iii) The above accountability and approval processes do not apply to the lease of property made in accordance with other legislative provisions (for example, the *Crown Lands Act*), as separate accountability and approval requirements apply.
- (iv) Certain hire arrangements may be classified as lease arrangements. Treasurer's Directions Section A3.6 provides instruction and guidance in relation to leases.

RECOGNITION OF PROPERTY, PLANT AND EQUIPMENT – CAPITALISATION EXAMPLES

	Items ≥ \$5,000	Items < \$5,000 but part of a functional asset with total value ≥ \$5,000	Items < \$5,000 and Portable and/or Attractive	Items < \$5,000 and not Portable and/or Attractive
Accounting Treatment	Asset	Asset	Expense	Expense
Register of Assets	Yes	Yes	Agency Discretion *	No

* Such items should be recorded in a Portable and Attractive Items Register

Examples:

1. An Agency purchases a boat for a GST exclusive cost of \$4,500 and an outboard motor for \$3,900.

Boat	\$ 4,500
Outboard Motor	\$ <u>3,900</u>
Total	\$ <u>8,400</u>

Where items are assessed as forming part of the same functional asset that has a combined value greater than \$5,000, the items are to be recognised as one asset. In the above example, the Agency intends to use the boat and engine as a single functional asset and has no intention of using the boat without the outboard motor.

2. An Agency purchases 40 desks for a net cost \$150 each.

40 desks at \$150 each	\$ <u>6,000</u>
------------------------	-----------------

The desks would be expensed at the time of purchase and would not be recognised as assets. The desks represent 40 diverse functional items with individual values less than \$5,000. The cost of maintaining asset records and the low risk associated with such assets would also preclude these items being recorded as portable and attractive items.

3. An Agency purchases a high quality digital video camera for \$2,500. This item would be expensed at the time of purchase. However, the Agency may class such items as portable and attractive and can choose to maintain a separate record of these items for security and control purposes.

REGISTER OF ASSETS – INFORMATION REQUIREMENTS

The following information would be required to be recorded in a Register of Assets for financial recording purposes:

Description:

- description of asset, including components (where appropriate)
- date of acquisition
- manufacturer's identification numbers (for example, serial number)
- agency identification number
- location
- ownership
- source document reference (invoice, transfer or gift/donation documentation)

Valuation and Impairment:

- full original cost or value
- valuation and basis of valuation
- name of valuer and date of valuation
- expected useful life
- residual value
- accumulated impairment adjustments

Depreciation (not required for assets with indefinite useful lives, for example, land):

- depreciation method and annual rate
- annual depreciation charge
- accumulated depreciation
- carrying amount (written down value)

Disposal:

- date of disposal
- method of disposal (sale, public auction, gift, write-off, etc.)
- disposal document reference (relevant receipt number, approval ref., etc.)
- carrying amount at the date of disposal
- proceeds of sale, auction or trade-in, etc.; and gain or loss on disposal