Accounting Procedure - Property, Plant and Equipment

Section 1 - Background and Purpose

(1) This Procedure is applied in accounting for property, plant and equipment including the following categories:

a. land;
b. works of art;
c. rare books;
d. buildings;
e. student accommodation;
f. leasehold improvements;
g. computer equipment;
h. library holdings;
i. motor vehicles; and
j. other equipment;

(2) This Procedure does not apply to property, plant and equipment classified as held for sale in accordance with the Non-current Assets Held for Sale and Discontinued Operations Policy.

Section 2 - Scope

(3) Refer to the Accounting (Financial) Policy.

Section 3 - Policy Statement

(4) Refer to the Accounting (Financial) Policy.

Section 4 - Procedure

Recognition Criteria

(5) The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

a. it is probable that future economic benefits associated with the item will flow to the University; and
b. the cost of the item can be measured reliably.

(6) Sufficient certainty that future economic benefits will flow to the University is normally achieved only when the risks and rewards of the asset have passed on to the University. In practice, this often occurs when the asset is delivered.

(7) The University does not recognise in the carrying amount of property, plant and equipment the costs of the day-to-day servicing of the item. These costs are recognised in the income statement as incurred.

Land, Works of Art and Rare Books

Initial Recognition

(8) Land, works of art and rare books that qualify for recognition as an asset are measured at cost on acquisition. The cost of acquisition includes both the purchase price and other directly attributable costs.

(9) Land and buildings are accounted for separately, even when they are acquired together.

(10) Where an asset is acquired for no cost, or for a nominal cost, the cost recorded reflects the fair value as at the date of acquisition.

Subsequent Measurement

(11) After initial recognition, these assets are measured at their revalued amounts. The revalued amounts are their fair values based on valuations performed by a qualified valuer.

(12) Revaluations are carried out annually to ensure that the carrying amount does not differ materially from the revalued amount.

Depreciation

(13) Land, works of art and rare books are not depreciated due to their estimated unlimited useful life.

Buildings and Student Accommodation

Initial Recognition

(14) Buildings and student accommodation that qualify for recognition as an asset are initially measured at cost.

(15) The cost of buildings and student accommodation comprises:

a. the purchase price; including import duties and non-refundable purchase taxes less any trade discounts and rebates;
b. directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
c. the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

(16) Where an item of building and student accommodation is acquired for no cost, or for a nominal cost, the cost recorded reflects the fair value as at the date of acquisition.

Subsequent Measurement

(17) After initial recognition as assets, buildings and student accommodation are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses.

(18) Revaluations are carried out annually to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

(19) When an item of building or student accommodation is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying

amount of the asset after revaluation equals its revalued amount.

Depreciation

(20) Depreciation on buildings is calculated using the straight line method to allocate each building component's cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Asset Class	Useful Life (Yrs.)
Buildings	50
Infrastructure	20
Leasehold Improvements	Yrs./LOL
Library Books and E- resources	10
Plant & Equipment 10YR	10
Plant & Equipment 20YR (New)	20
Furniture, Fixtures & Office Equipment	10
Motor Vehicles (Commercial)	10
Motor Vehicles (Passenger)	15
Hardware (Computer/Technical)	3
Software (10YR)	10
Software (5YR) (New)	5

(21) Depreciation on student accommodation is calculated using the straight line method to allocate their costs or revalued amounts, net of their residual values, over their estimated useful lives of 40 years.

Public Private Partnerships (PPP)

(22) The University enters into PPP with the private sector in relation to the construction and operation of new student accommodation. Each individual PPP is accounted for in accordance with its substance and economic reality, and not merely its legal form. The University recognises the new building that is the subject of the PPP as an asset only when it determines it has the majority of the risks and benefits in relation to those buildings. Land leased to the private sector and any other service elements that are part of the PPP, but are not the buildings, are accounted for separately in accordance with the accounting policy for land.

Leasehold Improvement

Initial Recognition

(23) Leasehold Improvements that qualify for recognition as an asset are initially measured at cost.

(24) The cost of leasehold improvement comprises:

a. directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
b. the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent Measurement

(25) After initial recognition as assets, leasehold improvements are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses.

(26) Revaluations are carried out annually to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

(27) When a leasehold improvement is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Depreciation

(28) Depreciation on leasehold improvements is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives. The useful life of leasehold improvement is usually, depending on the leasing agreements, between 5 and 40 years.

Equipment and Other Tangible Assets

Initial Measurement

(29) Equipment and other tangible assets that qualify for recognition as an asset are initially measured at cost.

(30) The cost of equipment and other tangible assets comprises:

a. the purchase price, including import duties and non-refundable purchase taxes less any trade discounts and rebates; and
b. directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Measurement Subsequent to Initial Recognition

(31) After the initial recognition of an asset, equipment and other tangible assets are stated at cost less any accumulated depreciation and impairment losses.

Depreciation

(32) Depreciation on equipment and other tangible assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. See table above.

Fair Value Valuation

Basis of Valuation

(33) The fair value of items of property, plant and equipment is usually determined from market- based evidence by an appraisal that is normally undertaken by a qualified valuer. Where there is no market-based evidence of fair value, because of the specialised nature of items of property, plant and equipment and because the items are rarely sold except as part of a continuing business, they are valued using the replacement cost approach.

(34) Please refer to Appendix I for the Fair Value decision tree.

Revaluation Gains and Losses

(35) If the carrying amount of a class of assets is increased as a result of a revaluation, the net revaluation increase is

credited directly to equity under the heading of revaluation reserve. However, the net revaluation increase is recognised in the income statement to the extent that it reverses a net revaluation decrease of the same class of assets previously recognised in the income statement.

(36) If the carrying amount of a class of assets decreased as a result of the revaluation, the net revaluation decrease is recognised in the income statement. However, the net revaluation decrease is debited directly to equity under the heading of revaluation reserve to the extent of any credit balance existing in any revaluation reserve in respect of that same class of asset.

(37) Revaluation increases and revaluation decreases relating to individual assets within a class of property, plant and equipment shall be offset against one another within that class but shall not be offset in respect of assets in different classes.

(38) The revaluation reserve included in equity in respect of an item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Impairment

(39) An impairment assessment is made each year when there is any indication that an asset is impaired. If the recoverable amount is below an asset’s carrying amount, the asset is written down to its recoverable amount.

(40) Please refer to the Asset Procedure - Impairment of Assets Accounting for more details.

De-Recognition

(41) The carrying amount of an item of property, plant and equipment shall be derecognised:

a. on disposal; or
b. when no future economic benefits are expected from its use or disposal.

(42) The gain or loss arising from the de-recognition of an item of property, plant and equipment shall be included in the income statement when the item is derecognised. It is determined by comparing net disposal proceeds with the carrying amount. When revalued assets are sold, the amounts included in property, plant and equipment revaluation reserves in respect of those assets shall be transferred to retained surplus.

Section 5 - Definitions

a. Cost is 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.
b. Examples of directly attributable costs are:
    i. the cost of employee benefits that arise directly from the construction or acquisition of the item;
    ii. the costs of site preparation;
    iii. initial delivery and handling costs;
    iv. professional fees;
    v. commissioning costs; and
    vi. finance costs.
c. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.
d. Property, plant and equipment are tangible items that:
    i. are held for use in the production or supply of goods or services, for rental to others, or for administrative

purposes; and

ii. are expected to be used during more than one year.

e. Replacement cost is the lowest cost at which the gross future economic benefits of that asset could currently be obtained in the normal course of business. Replacement cost is not necessarily the cost of replicating the asset.

f. The University means La Trobe University.

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