Charles Sturt University

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POLICY FOR CONSTRUCTED ASSETS

Version	1.3
Short description	A policy on accounting for assets acquired through construction activities
Relevant to	Division of Facilities Management Division of Finance
Authority	This Policy has been approved by [name of delegated approver] under the *Governance (Policy and Procedures) Rule* 2005 of the Council and sections 20 and 32 of the *CSU Act*.
Responsible officer	Financial Accountant (Assets & Investments)
Responsible office	Division of Finance
Date introduced	1 January 2013
Date(s) modified	1 September 2013
Next scheduled review date	31 August 2014
Related University documents	Division of Finance Asset Capitalisation Policy Division of Finance Banner Asset Category & Depreciation Schedule
Related legislation	IAS 16: Property, Plant and Equipment AASB 116: Property, Plant and Equipment
Key words	Work in progress (WIP), asset, depreciation, impairment, infrastructure, refurbishment, leasehold improvement.

1. Purpose:

1.1. This document sets out Charles Sturt University's (CSU's) policy on the accounting requirements for the capitalisation of work in progress of buildings, infrastructure and related refurbishments of related assets.

1.2. The provisions contained in this policy only apply to the accounting of the capital projects. The management procedures and controls relating to the assets remain at the discretion of the Division of Facilities Management (DFM).

1.3. The purpose of this document is to provide guidance on the process of asset definition, asset recognition, and what details are required by the Division of Finance (DOF) for capital projects undertaken by DFM to ensure that the University's capital assets are accurately recorded in the Asset Register and General/Operating Ledgers.

2. Scope

2.1. This policy applies to the Division of Facilities Management and the Division of Finance.

2.2. This policy applies new or additional expenditure to the following range of assets:

- Constructed assets (buildings, infrastructure, roads etc)
- Existing buildings
- Leased buildings (as CSU as the lessee, i.e. occupying a leased premises)

3. References

3.1. This policy should be read in conjunction with the current version of the accounting standard, AASB 116: *Property, Plant and Equipment.*

4. Capitalisation thresholds summary

Item	Capitalisation threshold
Plant and equipment	> $10,000 and above
New construction	> $100,000 and above
Defects < 3 months	> $0 (All defects capitalised)
Refurbishment	> $100,000 and above Or refurbishment expenditure 25% or greater than Fair Value of the associated building/item.
Infrastructure	> $100,000 and above

5. Lifecycle of a constructed asset:

Stage	Treatment
Planning and feasibility studies	Expensed (if project is uncertain)
Site preparation and applications	Capitalised – WIP
Construction	Capitalised – WIP
Costs in defects period	Capitalised – Buildings/Infrastructure
Repairs and maintenance	Expensed
Major replacements	Capitalised (Plant & Equipment / Buildings / Infrastructure as required)

Refurbishments	Capitalised – Buildings/Infrastructure
Demolition	Expensed (when no intention to rebuild) Capitalised (when intention to reconstruct in near future)

6. Recognition of Assets

The Australian Accounting Standards prescribe the proper accounting treatment of capital expenditure.

Under which accounting standard AASB 116 recognises the cost of an item of property, plant and equipment is an asset if:

- It is probable that future economic benefits associated with the item, beyond the year of purchase, will flow to the entity; and
- The cost of the item can be measured reliably.

Charles Sturt University has an internal policy that it will only recognise an asset as a capital assets subject to capitalisation and depreciation on our Asset Register if the cost of the asset is equal to or greater than AUD $10,000 (at the spot rate and excluding any refundable taxes (GST, HST etc)).

The initial cost of an asset should include the following items (AASB 116, para 16):

- Purchase price, including import duties and non refundable taxes after deducting trade discounts and rebates;
- Any directly attributable costs associated with bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management; and
- Initial estimate of costs of decommissioning, dismantling and removing the item and restoring the site on which it is located, where the University is under an obligation to do so and the amount can be reliable measured (i.e. make good provisions).

The initial identification of capital assets resulting from DFM expenditure rests with DFM. Any uncertainty should be advised to DOF in the quarter relevant to any expenditure for capture in the Assets Register/General Ledger.

6.1. Infrastructure

Expenditure incurred on infrastructure should be treated in the same way as any other capital asset, in terms of meeting the recognition criteria (costs can be reliable measured, and provides an economic benefit in the future), and is capitalised for any expenditure equal to or greater than AUD $100,000.

For the purposes of this policy, the definition of infrastructure is as follows:

A long-life physical asset that consists of an entire system or network (including components), not otherwise defined, which provides the foundation to support University services.

An infrastructure asset is primarily stationary in nature, with a long useful life, and associated with a network or system. The following are examples of items included in the definition of infrastructure:

- Water and waste systems
- Gas Supply Systems
- Electrical Supply Systems
- Bridges
- Street Lighting
- Road works
- Car parks

7. Expenditure subsequent to initial purchase

Following initial recognition costs may be incurred directly associated with the initial capital expenditure which may need to be capitalised (i.e. added to the carrying amount of the asset) if the outlays improve the condition and value of the asset and materially increases either:

- the annual service potential (i.e. the asset has increased capacity or quality); or
- the useful life of the asset.

7.1. Major replacements

The cost of major replacements and upgrades to existing capitalised assets (plant, buildings & infrastructure etc) must be capitalised, and included as an addition to the original asset.

7.2. Repairs and maintenance

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.

7.3. Refurbishments

Parts of some items of property, plant and equipment may require replacement at regular intervals, for example replacing a hot water service are regular intervals over the life of a building. These costs are considered repairs and maintenance and do not extend the useful life of the building. However, at times, CSU would move internal walls or re fit carpet or tiles to an existing building which extend the useful life of a building and should be capitalised.

The University policy is that it will only recognise refurbishments as capital expenditure if the cost of that refurbishment is equal to or greater than AUD $100,000 at the spot rate and excluding any refundable taxes (GST, HST etc), or if the refurbishment is equal to or greater than 25% of the fair value. For example, a refurbishment of $40,000 to an asset worth $150,000 would be considered above the 25% capitalisation threshold and advised to DOF.

8. Reporting to Division of Finance

DFM report to DOF new capital fund/program code sets that require capitalisation on major projects. Since implementation of this policy, DOF introduced the following capital expense accounts to condense the parameters to avoid error and simplify project management and asset identification by reducing the Account Category Codes available for capital projects. Below is the account code hierarchy implemented 1 January 2013:

Level 1 Account Category Code			
27 (TBA) Capital Development Projects *(for Facilities Management Use Only)*			
Level 2 Account Item Code			
230	Capital Assets & Equipment (>$10,000)	Assets that are not integral (i.e. permanently fixed into the building). The test should be, can the item be sold or used independent to the building/project.	Capitalise

231	Consultants, Design Fees & Project Management	Items such as legal fees, council submission costs, architecture, surveys, engineering fees etc.	Capitalise
232	Construction	Structure, roof membrane, electrical, major fixed mechanical items i.e. lifts, hydraulics, major air conditioning systems.	Capitalise
233	Minor and Miscellaneous Expenses (<$10,000)	Items under $10,000 that are not going to be separately capitalised and an item of equipment.	Expense
234	Services & Infrastructure	Items such as site preparation expenses, car parking infrastructure, external lighting etc Please consider utility upgrades and road works whilst they are not part of the building contract they may be necessary for it to operate.	Capitalise

The intention is to ensure that DFM and DOF can better monitor capital expenditure by removing combinations that require monitoring and allowing one account level area to contain all capital construction. This account structure will only apply to programs funded under the University Capital Development Plan excluding minor works and backlog maintenance.

DFM will charge purchases and expenses (project costs) during the quarter to the above mentioned account codes (continuing to utilise program codes to differentiate current projects). Each quarter the Asset Accountant and DFM will liaise to review the expenditure. The Asset Accountant will then transfer these expenses to General Ledger account for 716 Buildings / 759 Infrastructure – Work in Progress.

Once DFM has notified that the project is completed, that either an Occupancy Certificate is held on file, or that a memorandum is advised to formally advise DOF the project has been completed, the Asset Accountant will transfer the total costs from 716 Buildings / 759 Infrastructure – WIP to the asset classification for buildings / infrastructure (672 Buildings – Complete / 689 Infrastructure - Complete). A capital asset will only commence to be depreciated once it is a complete asset.

8.1. *Additional information required on completion*

When advised that a project has been completed, DOF requires a break down of the major components and equipment in order to accurately depreciate the asset.

All program codes will then be closed, and only opened by DOF upon request from DFM for a period no longer than 3 months from completion for expenses incurred within the defects period post completion. This practice will educate project managers to have all expenditure captured in the normal capitalisation process, outside of major defects.

To assist in regular reporting, DFM to liaise with DOF in line with quarterly reporting as follows:

Quarter	Reporting date
January – March	7 April
April – June	7 July
July – September	7 September
October – December	7 January

Should the day fall on a weekend or public holiday, the next working day would apply.

9. Assets subject to grant/funding conditions

All assets purchased from funds administered by the University are formally the property of the University except where an agreement to the contrary is part of the conditions associated with a particular contract or grant.

DFM to advise DOF whereby any such known agreement or condition applies at the commencement of a project, so that we can reflect the correct treatment on the Asset Register.

10. Table of amendment

Version number	Date Issued	Author	Short description of amendment
1.0	6 June 2012	Susan Hooker	Original draft
1.1	6 September 2012	Susan Hooker	Revised draft
1.2	17 September 2012	Susan Hooker	Active document
1.3	1 September 2013	Natasha Harris	Updated content

11. Document approval

Authorising Officer	**Executive Director, Division of Finance**
Name	Paul Dowler
Date	13 September 2012