

ASSET CAPITALISATION POLICY

Purpose

To define whether the purchase of an asset, or component of an asset should be capitalised or expensed.

Background

Generally accepted accounting practices (GAAP) requires that fixed assets that

- (a) are held by the Council for use in the production or supply of goods and services; and
- (b) have been acquired or constructed with the intention of being used on a continuing basis; and
- (c) are not intended for sale in the ordinary course of business;

should be capitalised and depreciated over their expected useful lives.

Issues

With small assets, and components of larger assets, it is normal practice to place a dollar value threshold below which capitalisation does not take place.

It is also necessary to determine at what point a component of an asset becomes capitalised rather than be expensed as maintenance.

Policies

The threshold value for various classes of assets is:

Land	No threshold
Buildings	No threshold
Motor Vehicles	\$ 500
Office furniture and fittings	\$ 500
Computer software and hardware	\$ 500
Plant	\$ 500
Parks, furniture and equipment	\$ 500
Water, wastewater and stormwater	\$1,000
Roads and bridges	\$1,000
Footpaths	\$1,000
Library collections	No threshold

New assets must be capitalised if they exceed the threshold value as above. Where multiples of one asset are purchased at the same time, the individual asset value will be used to determine whether each asset is capitalised.

Capitalisation of components of an existing asset will be determined as follows:

- If the component replaces an existing component identified by a unique identity number in the fixed asset register, then the component will be capitalised and the remaining value of the existing component will be expensed.
- If the component is not identified by a unique identity number in the fixed asset register; then

If the value exceeds the threshold value it will be capitalised.

If the value is less than the threshold, the item will be capitalised only if it will significantly extend the life of the asset of which it is a part.

Method

The attached flowchart will assist Managers to determine whether any budget or actual expenditure is to be capitalised or expensed. Advice regarding this issue is available from the Accountant or the General Manager Customer Services.

Amended by the Gore District Council at its meeting held on 24 June 2003

ASSET CAPITALISATION FLOW CHART

