

Constructed Assets Policy

Section 1 - Purpose

- (1) This document sets out Charles Sturt University's (the University) policy on the accounting requirements for the capitalisation of work in progress of buildings, infrastructure and related refurbishments of related assets.
- (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.
- (3) The purpose of this policy is to provide guidance on the process of asset definition, asset recognition and details required by the Division of Finance for capital projects undertaken by the Division of Facilities Management. It ensures the University's capital assets are accurately recorded in the asset register and general/operating ledgers.

Scope

- (4) This policy applies to the Division of Facilities Management and the Division of Finance.
- (5) This policy applies to new or additional expenditure to the following range of assets:
- a. constructed assets (for example buildings, infrastructure and roads);
 - b. existing buildings; and
 - c. leased buildings (the University as the lessee, i.e. occupying a leased premises).

References

- (6) This policy should be read in conjunction with the current version of the [Australian Accounting Standards Board \(AASB\) Standard 116: Property, Plant and Equipment](#).

Section 2 - Glossary

- (7) For the purpose of this policy:
- a. Infrastructure – means 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.

Section 3 - Policy

Part A - Capitalisation thresholds summary

- (8) The capitalisation thresholds below exclude preliminary and post-implementation costs that are expensed in accordance with the accounting treatments stipulated in this policy. All capitalisation thresholds are measured at the spot rate and exclude any refundable taxes (e.g. Goods and Services Tax).

Item	Capitalisation Threshold (\$AUD GST Exclusive)
Plant and equipment	\$10,000 and above
Land	Nil
Buildings	\$10,000 and above
Infrastructure	\$100,000 and above
Refurbishment (buildings and infrastructure) and other works	\$100,000 and above
Defects <3 months	N/A- all defects capitalised
Leasehold improvements	\$10,000 and above
Intangible assets	\$10,000 and above

Part B - Lifecycle and accounting treatment of a constructed asset

(9) Expenditure incurred during the planning and feasibility stage of a project is expensed, as the project has typically not yet received formal approval or been allocated a capital budget. Upon formal approval and the allocation of a capital budget, it becomes probable that the project will be realised. All expenditure forming part of the initial cost of the asset will then be recorded as work in progress/capitalised from the start of the month, following that in which the project was approved.

Stage	Treatment
Planning and feasibility studies	Expensed (if project is uncertain)
Site preparation and applications	Capitalised - work in progress
Construction	Capitalised - work in progress
Costs in defects period	Capitalised - buildings/infrastructure
Repairs and maintenance	Expensed
Major replacements	Capitalised (plant and equipment/buildings/infrastructure as required)
Demolition	Expensed (when no intention to rebuild) Capitalised (when intention to reconstruct in near future)

Part C - Recognition of assets

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

(11) Under the [Australian Accounting Standards Board \(AASB\) Standard 116: Property, Plant and Equipment](#), the cost of an item of property, plant and equipment will be recognised as 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.

(12) In accordance with the capitalisation thresholds above, expenditure will only be capitalised as a depreciable asset if the cost of the asset is equal to or greater than \$10,000.

(13) The initial cost of an asset should include the following items ([Australian Accounting Standards Board \(AASB\) Standard 116: Property, Plant and Equipment](#), paragraph 16):

- a. purchase price, including import duties and non-refundable taxes after deducting trade discounts and rebates;
- b. 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
- c. 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 reliably measured (i.e. make good provisions).

(14) Internal costs directly relating to the construction of buildings, infrastructure or intangible assets (e.g. project management fees) are to be recognised as a directly attributable cost and capitalised as part of the initial cost of the asset.

Work in progress

(15) During the development phase of construction projects, project expenditure will accumulate as a work in progress asset.

(16) General planning and advice expenditure incurred by the Division of Facilities Management (for example, program code 5145 'Division of Facilities Management Master Planning'; approximately \$500,000 per annum) must be expensed. Any expenditure that is directly attributable and separately identifiable to an individual project is to be capitalised as part of the initial cost of the asset, providing that it has been incurred in a month subsequent to the project being approved.

(17) Project expenditure is only recognised as work in progress from the point that the project has been formally approved and allocated a capital budget. All preliminary, planning and feasibility expenditure incurred prior to the project being approved is to be expensed in the period that it is incurred. Any internal planning and advice costs incurred subsequent to the approval of a construction project is to be recognised as work in progress, providing that they are a necessary part of the construction process and directly attributable to the cost of the asset.

(18) Once a construction project has been assessed as complete and ready for use, the accumulated expenditure will be transferred to the relevant asset classification, recognised as an asset in the asset register and depreciated in accordance with the asset's useful life.

Buildings

(19) The cost of major components of building assets must be capitalised and included as a component of the primary asset (AASB 116, paragraph 43). The useful life assessment and depreciation expense for major components will be separate to that of the primary asset ([Australian Access Federation Assurance Framework](#) 116, paragraph 44).

(20) Expenditure that is incurred in the course of a construction project that can be identified as an item of plant and equipment (that is, the cost exceeds the \$10,000 capitalisation threshold, it is not a permanent fixture of the construction project and can be readily utilised for its intended purpose in an alternative physical location), will be separately recognised as a depreciable asset, rather than a part of the initial cost of the construction project.

(21) Expenditure that can be identified as a minor asset (where the cost is less than the \$10,000 capitalisation threshold, and the asset does not form an integral part of a larger system or network of assets that together exceeds the capitalisation threshold), will be expensed during the period that it is incurred.

Infrastructure

(22) Expenditure incurred on infrastructure projects that meet the recognition criteria above, and exceeds the capitalisation threshold of \$10,000, must be recognised as an asset.

(23) 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 possible projects of infrastructure:

- a. water and waste systems;
- b. gas supply systems;
- c. electrical supply systems;
- d. bridges;
- e. street lighting;
- f. roadworks;
- g. car parks; and
- h. fencing.

(24) The cost of major components of infrastructure assets must be capitalised and included as a component of the primary asset ([Australian Accounting Standards Board \(AASB\) Standard 116: Property, Plant and Equipment](#), paragraph 43). The useful life assessment and depreciation expense for major components will be separate to that of the primary asset ([Australian Accounting Standards Board \(AASB\) Standard 116: Property, Plant and Equipment](#), paragraph 44).

Leasehold improvements

(25) Leasehold improvements in excess of the \$10,000 capitalisation threshold will be recognised as an asset and depreciated over the life of the lease.

(26) Leasehold improvements include all costs incurred for the purpose of improving or altering leased land or buildings for the University's benefit over the term of the lease. Leasehold improvements generally cannot readily be removed upon termination of the lease. Expenditure that can be separately identified as plant and equipment or a minor asset should be treated in accordance with the guidance under clauses (19) to (21).

Part D - Expenditure subsequent to initial purchase

(27) 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:

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

Construction defects

(28) Defective construction costs arising within three months of the completion date of a capital development project will be capitalised as part of the cost of the asset.

(29) Costs incurred subsequent to the completion date of a capital development project that are in respect of a major defective construction matter will continue to be capitalised as part of the asset, until there are four consecutive quarters where no further defect costs are incurred. The Division of Facilities Management will be required to advise the Division of Finance if there is a major defective construction matter.

Major components

(30) The cost of replacements and upgrades of major components of existing capitalised assets (plant, buildings and infrastructure etc.) must be capitalised and included as a component of the primary asset ([Australian Accounting Standards Board \(AASB\) Standard 116: Property, Plant and Equipment](#), paragraph 43). The useful life assessment and

depreciation expense for major components will be separate to that of the primary asset ([Australian Accounting Standards Board \(AASB\) Standard 116: Property, Plant and Equipment](#), paragraph 44). Upon recognition of an asset component, the book value of the replaced asset or asset component is to be de-recognised ([Australian Accounting Standards Board \(AASB\) Standard 116: Property, Plant and Equipment](#), paragraph 70).

Repairs and maintenance

(31) 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. Examples of this may include:

- a. replacing carpet;
- b. painting;
- c. repairing physical damage; and
- d. maintaining or repairing plumbing and electrical systems.

(32) Major repairs and maintenance expenditure above \$10,000 will be subject to review to determine whether it is correctly classified as repairs and maintenance or should otherwise be capitalised. All repairs and maintenance expenditure under \$10,000 must be expensed.

(33) Division of Facilities Management produce a “special projects report” on a monthly basis that will be used to identify repairs and maintenance programs that should be capitalised.

Refurbishments

(34) Parts of some items of property, plant and equipment may require replacement at regular intervals, such as replacing a hot water service, 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, the University would move internal walls or undertake a complete building refurbishment which are deemed to extend the useful life of a building, and should be capitalised.

(35) A complete building refurbishment is considered to be the repair or replacement of substantially all features and fixtures of a building that are generally subject to wear and tear during the life of a building, such as:

- a. painting;
- b. floor covering;
- c. kitchen fixtures;
- d. bathroom fixtures; and
- e. air conditioning systems.

(36) The University will recognise all refurbishments as capital expenditure if the cost of that refurbishment is equal to or greater than \$10,000, and are considered to be a complete building refurbishment.

Minor works

(37) Minor works costing less than \$10,000 will be expensed in the period that they are incurred.

(38) Other works costing less than \$10,000 may be expensed if they are not deemed to be repairs and maintenance.

Measurement after initial recognition

(39) Capital assets will be measured in reporting periods subsequent to their initial recognition in accordance with the measurement models applied to each class of assets by the Division of Finance.

Class of Asset	Measurement Model	Measurement/Appraisal Frequency
Plant and equipment	Cost	Annually
Land	Revaluation	Appraisals at least every 5 years, with informal Division of Finance determinations every other year
Buildings	Revaluation	Appraisals at least every 5 years, with informal Division of Finance determinations every other year
Infrastructure	Revaluation	Appraisals at least every 5 years, with informal Division of Finance determinations every other year
Leasehold improvements	Cost	Annually
Intangible assets	Cost	Annually

Cost model

(40) Capital assets are carried at their initial cost, less any accumulated depreciation and any accumulated impairment losses.

Revaluation model

(41) Capital assets that are in their first year of capitalisation are carried at their initial cost, less any accumulated depreciation and any accumulated impairment losses. Subsequent to their first year of capitalisation, capital assets are carried at their depreciated replacement cost. For assets that have not yet been subject to a formal appraisal, depreciated replacement cost increment or decrement factors will be applied to the initial asset cost.

(42) Depreciated replacement cost must be determined by an appraisal from an independent, professional valuer. A depreciated replacement cost appraisal is acquired every three to five years, as determined by the Division of Finance for each class of asset. For any reporting period where a formal appraisal is not acquired, the Division of Finance will determine appropriate depreciated replacement cost increment or decrement factors for each class of asset in accordance with relevant market and economic indicators.

Part E - Reporting to the Division of Finance

(43) Below is the account code hierarchy to be used by the Division of Facilities Management to record capital development project costs.

Level 1 Account category code			
23 Capital development projects (for Division of 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 and 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 and infrastructure	Items such as site preparation expenses, car parking infrastructure, external lighting etc. Please consider utility upgrades and road works; while they are not part of the building contract, they may be necessary for it to operate.	Capitalise
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(44) This account structure will only apply to programs that are funded (or potentially funded) under the University's capital development plan, excluding minor works and backlog maintenance.

(45) The initial identification of capital assets resulting from Division of Facilities Management expenditure rests with the Division of Facilities Management. The Manager, Facilities Business and Finance will advise the Division of Finance of potential new capital development projects prior to any expenditure being incurred. The Manager, Facilities Business and Finance and the Division of Finance will make a determination as to whether the project is eligible for capitalisation and, if applicable, assign the project to an asset class.

(46) Division of Facilities Management will provide the Division of Finance with their "special projects report" on a monthly basis and this will be used to facilitate capitalisation discussions between the Manager, Facilities Business and Finance and the Division of Finance.

(47) New capital program codes will be requested by the Division of Facilities Management to track expenditure relating to each key stage of the project (that is preliminary, planning and feasibility costs to be expensed, post-approval construction costs to be recognised as work in progress and post-completion costs, including work in progress costs to be capitalised and defect period costs).

(48) New program code forms are to be jointly authorised by the Manager, Facilities Business and Finance and the Division of Finance for all programs exceeding \$10,000 and these forms will be used to document the determination made for each program.

- a. All programs that are to be capitalised will be allocated a "C" program code.
- b. Programs that are to be expensed will be allocated a "P" program code.

(49) Division of Facilities Management 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 Division of Finance and the Division of Facilities Management will liaise to review the expenditure. The Division of Finance will then transfer these expenses to general ledger account for 716 buildings / 759 infrastructure - work in progress.

(50) Once a project has been formally approved, the Division of Facilities Management will upload a project approval memorandum on to the University's intranet site ('Interact') as a formal record of approval.

(51) Once the Division of Facilities Management has assessed a project as complete, they will upload an occupancy certificate or completion memorandum on to the University's intranet site ('Interact') as a formal record of completion.

(52) Division of Facilities Management will provide a list of assets to the Division of Finance in respect of each completed capital development project to be potentially reclassified as plant and equipment or minor assets. Division of Facilities Management will also advise the Division of Finance of the breakdown of the major components and equipment in order to accurately depreciate the asset. Major components and equipment will be recognised as an asset component in Banner to allow for that component to be derecognised and/or replaced in future periods, if appropriate.

(53) To assist in regular reporting, the Division of Facilities Management will liaise with the Division of Finance 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

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

(55) Division of Finance will require assistance from the Division of Facilities Management (in particular, the Manager, Facilities Business and Finance) to prioritise during the first week following the end of each quarter in order to meet the above reporting dates.

Part F - Assets subject to grant/funding conditions

(56) 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.

(57) Division of Facilities Management to advise the Division of Finance whereby any such known agreement or condition applies at the commencement of a project so that it can reflect the correct treatment on the asset register.

Section 4 - Procedures

(58) Nil.

Section 5 - Guidelines

(59) Nil.

Status and Details

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