# Finance Procedure - Constructed Assets

# Section 1 - Purpose

(1) This document sets out Charles Sturt University's (the University) procedure 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 procedure only apply to the accounting of the capital projects. The management procedures and controls relating to the assets remain at the discretion of Facilities Management.

(3) The purpose of this procedure 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 Facilities Management. It ensures the University's capital assets are accurately recorded in the asset register and general/operating ledgers.

### Scope

(4) This procedure applies to the Facilities Management and the Division of Finance.

(5) This procedure 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 infrastructure
c. leased buildings (the University as the lessee, i.e. occupying a leased premises).

### References

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

# Section 2 - Policy

(7) See the Finance Management Policy.

# Section 3 - Procedures

## 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 procedure. 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 |

| Item | Capitalisation threshold ($AUD GST Exclusive) |
|---|---|
| Land | Nil |
| Buildings | $10,000 and above |
| Infrastructure | $10,000 and above |
| Refurbishment (buildings and infrastructure) and other works | $10,000 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 (subject to review if over capitalisation threshold) |
| Major replacements | Capitalised (plant and equipment/buildings/infrastructure as required) |
| Demolition | Expensed (when no intention to rebuild)<br>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:

a. it is probable that future economic benefits associated with the item, beyond the year of purchase, will flow to the entity, and
b. the cost of the item can be measured reliably.

(12) Expenditure will only be capitalised as a depreciable asset if the cost of the asset is equal to or greater than the relevant capitalisation threshold in clause 8.

(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) Expenditure incurred by Facilities Management for general planning, advice and consultancy, for example, program code 5145 'DFM – 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, a capital determination provided by the Financial Accountant (Assets) 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 Accounting Standards Board (AASB) Standard 116: Property, Plant and Equipment, 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 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 below the capitalisation threshold, and the asset is not 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 in clause 11, and exceeds the capitalisation threshold, 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
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 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 that are 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 Facilities Management shall 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 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
d. preventative and general maintenance, repairing plumbing and electrical systems.

(32) Major repairs and maintenance expenditure above the capitalisation threshold 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 the capitalisation threshold must be expensed.

### Refurbishments

(33) 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.

(34) 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
e. air conditioning systems.

(35) The University will recognise all refurbishments as capital expenditure if the cost of that refurbishment is equal to or greater than the capitalisation threshold, and it is considered to be a complete building refurbishment.

### Measurement after initial recognition

(36) 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 | Formal appraisals by external independent valuer at least every 5 years, with informal determinations every other year |

| Class of asset | Measurement model | Measurement/appraisal frequency |
|---|---|---|
| Buildings | Revaluation | Formal appraisals by external independent valuer at least every 5 years, with informal determinations every other year |
| Infrastructure | Revaluation | Formal appraisals by external independent valuer at least every 5 years, with informal determinations every other year |
| Leasehold improvements | Cost | Annually |
| Intangible assets | Cost | Annually |

### Cost model

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

### Revaluation model

(38) 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.

(39) Depreciated replacement cost must be determined by an appraisal from an independent, professional valuer. A formal depreciated replacement cost appraisal is acquired every three to five years from an external independent valuer, for each class of asset. For any reporting period where a formal appraisal is not acquired, depreciated replacement cost increment or decrement factors for each class of asset reflecting relevant market and economic indicators will be acquired from an external independent valuer.

## Part E - Reporting to the Division of Finance

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

| | | | |
|---|---|---|---|
| Level 1 Account category code | | | |
| 23 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).<br>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 are not an item of equipment. | Expense |
| 234 | Services and infrastructure | Items such as site preparation expenses, car parking infrastructure, external lighting etc.<br>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 |

(41) This account structure will only apply to programs that are funded (or potentially funded) under the University's capital development plan where the capitalisation threshold is met.

(42) The initial identification of capital assets resulting from Facilities Management expenditure rests with Facilities Management, who will advise the Division of Finance of potential new capital development projects prior to any expenditure being incurred. A determination will be made as to whether the project is eligible for capitalisation and, if applicable, the project will be assigned to an asset class.

(43) New capital program codes will be requested by Facilities Management to track expenditure relating to each key stage of the project (that is preliminary, planning and feasibility costs, 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). New program codes will be assigned as follows:

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.

(44) Facilities Management will charge purchases and expenses (project costs) during the quarter to the above-mentioned account codes utilising the program codes to differentiate current projects.  Each month the Financial Accountant (Assets) will review and transfer these expenses to general ledger account for 716 buildings / 759 infrastructure - work in progress.

(45) Once a project has been formally approved, Facilities Management will publish a project brief as a formal record of approval. Facilities Management will subsequently send the project brief to the Financial Accountant (Assets) for capital determination.

(46) Once Facilities Management has assessed a project as complete, they will submit a completion memorandum to the Division of Finance as a formal record of completion.

(47) Facilities Management will provide a list of assets to the Financial Accountant (Assets) in respect of each completed capital development project to be potentially reclassified as plant and equipment or minor assets. 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.

## Part F - Assets subject to grant/funding conditions

(48) 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.

(49) 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 - Guidelines

(50) Nil.

# Section 5 - Glossary

(51) For the purpose of this procedure:

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.

## Status and Details

| | |
|---|---|
| **Status** | Current |
| **Effective Date** | 13th October 2023 |
| **Review Date** | 13th October 2028 |
| **Approval Authority** | Chief Operating Officer |
| **Approval Date** | 13th October 2023 |
| **Expiry Date** | Not Applicable |
| **Unit Head** | Meg McKenchnie<br>Chief Financial Officer |
| **Author** | Grant Jones<br>Chief Financial Officer |
| **Enquiries Contact** | Division of Finance |