

## Complex Assets And Components - Council Policy

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Related Documents	Nil

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		Council/Organisational Policy

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### POLICY OBJECTIVES/PURPOSE

To provide a framework for identifying and prescribing the requirements for the accounting for complex assets and their significant components.

### POLICY

Complex assets include infrastructure assets, such as, road infrastructure, water and waste water distributions networks and special purpose buildings. Infrastructure assets are typically large, interconnected networks or portfolios of composite assets.

The requirement to separately identify and depreciate significant components of assets is provided for in AASB 116 *Property, Plant and Equipment*.

The separate identification, recognition and depreciation of significant components of complex assets will provide more reliable and relevant information to users of the financial statements and assets managers. Where significant components have materially different lives from the complex asset, the impact on depreciation expense may be material.

### DEFINITION OF A COMPLEX ASSET

For the purposes of this policy a complex asset is defined as:

*a physical asset capable of disaggregation into significant components.*

The following are examples of complex assets that are capable of being broken into components which are potentially significant:

- *Road Infrastructure:* The components may include: initial earthworks, formation, pavement, seal, kerb and channelling, road furniture, footpaths, roundabouts and culverts.
- *Water Distribution Network:* The components of this type of network may include water reservoirs (dams), water treatment works, major delivery pipes, pump stations and water distribution systems.

### DEFINITION OF A SIGNIFICANT COMPONENT OF A COMPLEX ASSET

To satisfy the definition of a significant component of a complex asset, the component must meet all the following criteria. The component must:

- Be separately identifiable and measureable and able to be separated for the complex assets; and
- Require replacement at regular intervals during the life of the complex asset to which it relates i.e. its life differs in duration from another component of the complex assets; and
- Exceed the asset recognition threshold for the Council; and
- Have a significant value in relation to the total cost of the complex asset; and
- Have a different estimated useful life from the complex asset so that failure to depreciate it separately would result in a material difference in the annual depreciation expense for that asset.

### *Replacement at Regular Intervals*



Regular interval suggests a system of organisation or planned timeframe, generally occurring more than one replacement cycle.

While not conclusive evidence of the regular replacement of assets, the following may demonstrate a planned replacement schedule is in place:

- Historical data that clearly shows evidence of replacement at regular intervals; and/or
- Manufacturer's instructions recommending replacement of components at regular intervals,
- Funding has been allocated from previous budgets for future, regular upgrades;
- Replacement has been identified in Council asset management plan.

### ***Significant value***

The significant value test is to assess whether the component is a significant part of the value of the complex asset and whether identifying it separately will have an impact or effect.

On this basis, a component that has a value within the range of 5 – 10% compared to the total cost of the complex asset is at the discretion of the asset management team, a difference greater than 10% will generally be considered material in relation to the complex assets.

### ***Material difference in depreciation***

Any difference in depreciation greater than 10% will be considered material in relation to the complex asset. Any difference in depreciation between 5% - 10% will require determination based on the complex asset being considered.

Dissimilar components of a complex asset will not be combined to test for materiality. E.g. a communication system should not be added to an air conditioning system. However, where multiple similar units/parts exist and are treated as one component e.g. multiple air conditioning units within a single complex asset it would be appropriate to group these parts in testing whether the impact on depreciation expense is material. The same will apply for culverts. If there are a number of culverts in a single area then it would be appropriate to group these in testing whether the impact on depreciation is material.

### ***Measurement***

Components must be measured on the same basis as the complex asset to which they belong, i.e. if the asset is valued at cost, the component must also be valued at cost but if the revaluation method is used, both the asset and its components must be fair valued.

## **DEPRECIATION OF SIGNIFICANT COMPONENTS**

Where a significant component is identified (i.e. it meets both the definition criteria and the materiality test for depreciation against the class of asset) Council will account for the significant component as a separate asset and depreciate it separately from the complex asset.

The remaining components of a complex asset will be depreciated over the estimated useful life of the complex asset itself.

## **COMPLEX ASSET THRESHOLD**



Council will not establish a threshold for complex assets. Thresholds are set at the asset class level and are outlined in the Asset Recognition Policy.

### REPLACEMENT OF SIGNIFICANT COMPONENTS

Expenditure on the replacement of significant components of complex assets is to be capitalised and the written down value of the original significant component de-recognised. If a part of the original significant component is not replaced and adjustment should be made to reinstate it as a part of the replacement, i.e. new, significant component.

The separate recording of significant components is important in allocating the correct cost of assets over the period they provide benefit to the user. It is also useful in assisting management to plan for the removal, replacement and maintenance of the components in both accounting and asset management terms. This is consistent with AASB 116 which specifies that the replacement of components of an asset can be distinguished from expenditure on repairs or maintenance made to help maintain the future economic benefits expected from the asset.

### DISCLOSURE

Significant components of a complex asset will not be separately disclosed in the financial statements. Rather, significant components will be disclosed in the same class as the complex asset to which they relate.



# IDENTIFICATION OF THE SIGNIFICANT COMPONENTS OF A COMPLEX ASSET FLOWCHART

