ACCOUNTING POLICY – PROPERTY, PLANT AND EQUIPMENT

Responsible Officer
Director, Financial Control

Contact Officer
Financial Reporting Manager, Financial Control

Review
Every year

File Number
2009/4325

Associated Documents

<table>
<thead>
<tr>
<th>Version</th>
<th>Authorisation</th>
<th>Approval Date</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0</td>
<td>Authorised by the acting Vice-Chancellor</td>
<td>14 October 2009</td>
<td>1 January 2009</td>
</tr>
</tbody>
</table>

Purpose
To establish decisions, directions and precedents which act as a reference for financial reporting and are the basis from which the University’s accounting procedures are determined.

Scope
This Policy should be consistently applied by the University, as well as all of its controlled entities, for both their financial reporting responsibilities and group consolidation purposes.

This Policy is applied in accounting for property, plant and equipment including the following categories:
- land;
- works of art;
- rare books;
- buildings;
- student accommodation;
- leasehold improvements;
- computer equipment;
- library holdings;
- motor vehicles; and
- other equipment;

This Policy does not apply to property, plant and equipment classified as held for sale in accordance with the Non-current Assets Held for Sale and Discontinued Operations Policy.

Recognition Criteria
The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:
(a) it is probable that future economic benefits associated with the item will flow to the University; and
(b) the cost of the item can be measured reliably.

Sufficient certainty that future economic benefits will flow to the University is normally achieved only when the risks and rewards of the asset have passed on to the University. In practice, this often occurs when the asset is delivered.

The University does not recognise in the carrying amount of property, plant and equipment the costs of the day-to-day servicing of the item. These costs are recognised in the income statement as incurred.

**Land, Works of Art and Rare Books**

*Initial Recognition*

Land, works of art and rare books that qualify for recognition as an asset are measured at cost on acquisition. The cost of acquisition includes both the purchase price and other directly attributable costs.

Land and buildings are accounted for separately, even when they are acquired together.

Where an asset is acquired for no cost, or for a nominal cost, the cost recorded reflects the fair value as at the date of acquisition.

*Subsequent Measurement*

After initial recognition, these assets are measured at their revalued amounts. The revalued amounts are their fair values based on valuations performed by a qualified valuer.

Revaluations are carried out annually to ensure that the carrying amount does not differ materially from the revalued amount.

*Depreciation*

Land, works of art and rare books are not depreciated due to their estimated unlimited useful life.

**Buildings and Student Accommodation**

*Initial Recognition*

Buildings and student accommodation that qualify for recognition as an asset are initially measured at cost.
The cost of buildings and student accommodation comprises:

(a) the purchase price; including import duties and non-refundable purchase taxes less any trade discounts and rebates;
(b) directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Where an item of building and student accommodation is acquired for no cost, or for a nominal cost, the cost recorded reflects the fair value as at the date of acquisition.

**Subsequent Measurement**

After initial recognition as assets, buildings and student accommodation are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses.

Revaluations are carried out annually to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

When an item of building or student accommodation is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

**Depreciation**

Depreciation on buildings is calculated using the straight line method to allocate each building component’s cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

<table>
<thead>
<tr>
<th>Building Components</th>
<th>Useful Lives</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Structure</td>
<td>40</td>
</tr>
<tr>
<td>- Roof Membrane</td>
<td>20</td>
</tr>
<tr>
<td>- Fit-out (including finishes &amp; fitments)</td>
<td>15</td>
</tr>
<tr>
<td>- Electrical (including security)</td>
<td>30</td>
</tr>
<tr>
<td>- Mechanical (including air conditioning &amp; lifts)</td>
<td>25</td>
</tr>
<tr>
<td>- Fire Infrastructure</td>
<td>35</td>
</tr>
</tbody>
</table>

Depreciation on student accommodation is calculated using the straight line method to allocate their costs or revalued amounts, net of their residual values, over their estimated useful lives of 40 years.
Public Private Partnerships (PPP)

The University enters into PPP with the private sector in relation to the construction and operation of new student accommodation. Each individual PPP is accounted for in accordance with its substance and economic reality, and not merely its legal form. The University recognises the new building that is the subject of the PPP as an asset only when it determines it has the majority of the risks and benefits in relation to those buildings. Land leased to the private sector and any other service elements that are part of the PPP, but are not the buildings, are accounted for separately in accordance with the accounting policy for land.

Leasehold Improvement

Initial Recognition

Leasehold Improvements that qualify for recognition as an asset are initially measured at cost.

The cost of leasehold improvement comprises:

(a) directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
(b) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent Measurement

After initial recognition as assets, leasehold improvements are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses.

Revaluations are carried out annually to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

When a leasehold improvement is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Depreciation

Depreciation on leasehold improvements is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives.
The useful life of leasehold improvement is usually, depending on the leasing agreements, between 5 and 40 years.

Equipment and other tangible assets

*Initial Measurement*

Equipment and other tangible assets that qualify for recognition as an asset are initially measured at cost.

The cost of equipment and other tangible assets comprises:

(a) the purchase price, including import duties and non-refundable purchase taxes less any trade discounts and rebates; and

(b) directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

*Measurement Subsequent to Initial Recognition*

After the initial recognition of an asset, equipment and other tangible assets are stated at cost less any accumulated depreciation and impairment losses.

*Depreciation*

Depreciation on equipment and other tangible assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives. The depreciation rates are as follows:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Controlled Entities</th>
<th>University</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Computer equipment</td>
<td>20% to 33%</td>
<td>33.3%</td>
</tr>
<tr>
<td>- Motor vehicles</td>
<td>12% to 30%</td>
<td>12%</td>
</tr>
<tr>
<td>- Other equipment</td>
<td>10%</td>
<td>10% to 20%</td>
</tr>
<tr>
<td>- Library holdings</td>
<td>20%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Fair Value Valuation

Basis of Valuation

The fair value of items of property, plant and equipment is usually determined from market-based evidence by an appraisal that is normally undertaken by a qualified valuer. Where there is no market-based evidence of fair value, because of the specialised nature of items of property, plant and equipment and because the items are rarely sold except as part of a continuing business, they are valued using the replacement cost approach.

Please refer to Appendix I for a valuation decision tree.

Revaluation Gains and Losses

If the carrying amount of a class of assets is increased as a result of a revaluation, the net revaluation increase is credited directly to equity under the heading of revaluation reserve. However, the net revaluation increase is recognised in the income statement to the extent that it reverses a net revaluation decrease of the same class of assets previously recognised in the income statement.

If the carrying amount of a class of assets decreased as a result of the revaluation, the net revaluation decrease is recognised in the income statement. However, the net revaluation decrease is debited directly to equity under the heading of revaluation reserve to the extent of any credit balance existing in any revaluation reserve in respect of that same class of asset.

Revaluation increases and revaluation decreases relating to individual assets within a class of property, plant and equipment shall be offset against one another within that class but shall not be offset in respect of assets in different classes.

The revaluation reserve included in equity in respect of an item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Impairment

An impairment assessment is made each year when there is any indication that an asset is impaired. If the recoverable amount is below an asset’s carrying amount, the asset is written down to its recoverable amount.

Please refer to the Impairment of Assets accounting policy for more details.

Derecognition

The carrying amount of an item of property, plant and equipment shall be derecognised:

(a) on disposal; or
(b) when no future economic benefits are expected from its use or disposal.
The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in the income statement when the item is derecognised. It is determined by comparing net disposal proceeds with the carrying amount. When revalued assets are sold, the amounts included in property, plant and equipment revaluation reserves in respect of those assets shall be transferred to retained surplus.

**Definitions**

**Cost** is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition.

Examples of *directly attributable costs* are:

- the cost of employee benefits that arise directly from the construction or acquisition of the item;
- the costs of site preparation;
- initial delivery and handling costs;
- professional fees;
- commissioning costs; and
- finance costs.

**Fair value** is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

**Property, plant and equipment** are tangible items that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one year.

**Replacement cost** is the lowest cost at which the gross future economic benefits of that asset could currently be obtained in the normal course of business. Replacement cost is not necessarily the cost of replicating the asset.

**The University** means the University of New South Wales.

**References**

AASB 116 – *Property, Plant and Equipment*
AASB 136 – *Impairment of Assets*
Appendix I - Fair Value Decision Tree

Are there feasible alternative uses for the asset? i.e. a use that is feasible in the existing natural, legal, financial and socio-political environment

- Yes
  - Measure Fair Value at highest and best use of feasible alternatives
    - Is a quoted market price in an active and liquid market available for the asset?
      - Yes
        - Best evidence of Fair Value
      - No
        - Estimate of Fair Value
          - Where no market-based evidence is available, fair value is estimated using a depreciated replacement cost.
            - Replacement cost means the minimum cost of an optimised modern equivalent asset.

- No
  - Fair Value at highest and best use means existing use value
    - What is the best available market evidence available? Are there current market selling prices or recent transaction prices available for the same assets or assets that are similar in use, type and condition? This includes observable current market rentals for non-specialised property

Revaluation: Assess at each reporting date whether there is any indication that a revalued asset’s carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. Consider external and internal sources of information.
Appendix II: History

<table>
<thead>
<tr>
<th>Version</th>
<th>Authorised by</th>
<th>Approval Date</th>
<th>Effective Date</th>
<th>Sections modified</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0</td>
<td>Acting Vice-Chancellor</td>
<td>14 October 2009</td>
<td>1 January 2009 to 30 December 2012</td>
<td></td>
</tr>
</tbody>
</table>