

# ASSET CAPITALISATION POLICY



## 1. PURPOSE

To provide consistent guidelines, in accordance with relevant Accounting Standards, regarding classification of assets between capital expenditure and operational expenditure. The policy and the decision tree should be referred to at each of the Project Management Methodology stages of concept and design.

## 2. SCOPE

This policy is for use by the General Manager of each of the Ports, Project Managers, Asset Managers and the Finance Department.

## 3. EFFECTIVE DATE

This Policy is effective from 17 November 2016.

## 4. POLICY STATEMENT

### 4.1 Terms

#### Definition of an Asset

The Australian Accounting Standards Board (AASB) Framework defines an asset as: *a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.* The key features are that:

- SPA must control the asset;
- There was a past transaction or event which gave rise to the control; and
- There must be future economic benefits expected to flow to SPA.

#### Control

SPA controls an asset if it has the power to obtain the future economic benefits flowing from the resource and to restrict the access of others to those benefits. In determining the existence of an asset, the right of ownership is not essential. SPA must simply have the ability to control the benefits which are expected to flow from the asset. Control is demonstrated by the ability of SPA to:

- Use the asset to achieve its objectives;
- Obtain a benefit from the sale of the asset;
- Charge for the use of the asset; and
- Deny use of the asset to others.

#### Future Economic Benefits

Future economic benefits embodied in an asset have the potential to contribute, directly or indirectly, to the flow of cash or cash equivalents to SPA. Future economic benefits are synonymous with the notion of service potential and need not necessarily be in the form of cash but can include revenue from a future sale, cost saving or other benefits resulting from the use of the asset by SPA.

### 4.2 ASSET CAPITALISATION

AASB 116 – Property, Plant and Equipment requires a distinction to be made between expenditure that is consumed immediately in operations (or within one financial year) and expenditure on physical assets that will provide service over more than one financial year. Plant and Equipment assets are categorised in classes. Existing SPA asset categories are:

- Channels, breakwaters, dredging and navigation aids;
- Land;
- Buildings and improvements;
- Plant and equipment;
- Berths, jetties and infrastructure; and
- Works in progress.

This policy is to provide staff involved in budgeting and expenditure decisions, including Port General Manager, Project Manager, Asset Manager and Finance Staff, clear guidance when classifying expenditure in the corporate finance system. It establishes the capitalisation criteria at the point of recognising an asset.

The recording of expenditure as an asset means that it is recorded in SPA's balance sheet and the details are entered into the corporate asset register. The process is often referred to as capitalisation. Such expenditure on assets is referred to as capital expenditure.

For an item to be considered capital the following items need to be considered;

- The transaction or event gives control of the object to SPA; and
- If the costs are site preparation costs, they are as a result of an approved capital project; and
- SPA will have the capacity to benefit from the right or object, and deny or regulate the access of others to that benefit; and
- The object provides SPA with future economic benefits; and
- The expenditure leads to an increase in service potential of the asset by way of extended useful life, increased capacity or a decreased risk of impairment; and
- The amount of expenditure is greater than or equal to the current asset capitalisation threshold of SPA; and
- The benefits provided by the object will last longer than 12 months; and
- The cost of the object can be reliably measured.

#### **4.3 CAPITALISATION THRESHOLD**

SPA's current capitalisation policy is that all individual assets will have a cost exceeding \$5,000 ("capitalisation threshold") and effective life of one year or less.

Where a non-current asset's value is considered to be below the threshold and as such is not capitalised, it is referred to as a minor asset and is expensed to the Profit and Loss Statement at the time of purchase.

For capital projects, which include multiple asset Categories or Components, the capital expense for each Asset Category or Asset Component needs to be separated out in order to apply the asset recognition rules within this Asset Capitalisation Policy.

### **5. RESPONSIBILITIES**

#### **5.1 COMPLIANCE, MONITORING AND REVIEW**

The CEO and delegated staff member of each SPA Office are responsible for ensuring compliance with this Policy. A review of the effectiveness and relevance of the Policy will be conducted annually on the anniversary of the effective date of the Policy.

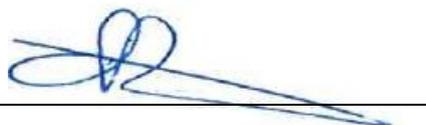
#### **5.2 RECORDS MANAGEMENT**

All records relevant to asset capitalisation are to be maintained in accordance with the SPA's Recordkeeping Plan.

Approved by the Board at the meeting held on 17 November 2016.



Chairman



CEO