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# Property, plant and equipment

## Accounting Policy Manual

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**Property, plant and equipment**


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## Property, plant and equipment

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### 1 PURPOSE

The objective of this policy is to prescribe the accounting treatment for property, plant and equipment. This policy complies with the requirements of AASB 116 *Property, plant and equipment*.

The principal accounting issues addressed by this policy are the measurement, presentation, and depreciation of assets once they have been capitalised to the Fixed Asset Register.

### 2 SCOPE

This policy applies to the treatment of items of property, plant and equipment once they have been cleared and transferred to the Fixed Asset Register. For policies regarding the initial recognition of assets, refer to FIN 10-11 *Capex vs. Opex*.

This policy does not apply to items of property, plant and equipment:

- acquired under a finance lease (refer to FIN 10-25 *Leases*); or
- those classified as “held for sale” (refer to FIN-27 *Assets Held for Sale*).

### 3 DEFINITIONS

An asset is a resource:

- (a) controlled by an entity as a result of past events; and
- (b) from which future economic benefits are expected to flow to the entity.

Property, plant and equipment are tangible items that:

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

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

Decommissioning costs are costs incurred to dismantle, decommission, remove and/or make safe assets at the end of their useful life and to restore the site

Useful life is either:

- (a) the period over which an asset is expected to be available for use; or
- (b) the number of production or similar units expected to be obtained from the asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated amortisation and accumulated impairment losses.

Assets held for sale are assets for which the carrying amount will be recovered principally through a sale transaction rather than through continuing use.

### 4 MEASUREMENT

Property, plant and equipment shall be measured at cost.

The cost for contributed assets (as defined in FIN 10-42 *Customer Contributions*) is deemed to be the fair value at the date we gain control of the asset. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The elements that make up cost are defined in FIN 10-11 *Capex vs. Opex*.

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### 5 CLASSIFICATION

Property, plant and equipment is classified into various classes in the financial statements, being:

- Land
- Buildings
- Easements
- Transmission network
- Electricity distribution network
- Gas distribution network
- Other plant and equipment
- Capital works in progress (covered by FIN 10-11)

These classes correspond to aggregations of asset classes in the Fixed Asset Register. Refer to Appendix 1 for a list of asset classes and their mapping to the classes in the financial statements.

### 6 UNITS AND COMPONENT ACCOUNTING

**Component accounting:** Often, items of property, plant and equipment will be comprised of a number of sub-components. AusNet Services accounts for components of property, plant and equipment separately in the Fixed Asset Register using separate useful lives. Often, components must be replaced or overhauled mid-way through the life of the overall asset. When this occurs, the component (which should have a carrying value of zero) should be derecognised and the replacement component recognised in its place.

**Aggregated small value assets:** FIN 10-11 *Capex vs. Opex* outlines low value items (less than \$500) which can be capitalised. These will sometimes be aggregated into a single asset in the Fixed Asset Register (for example, for contestable metering assets). When individual items are replaced, the Asset Accounting and Control team will effect a partial de-recognition of the aggregated asset.

**Units that are not components:** Parts of an asset that are not significant in value and are not allowed to be capitalised separately under FIN 10-11 *Capex vs. Opex* form part of the overall cost of a larger asset. When such units are replaced, they are recognised as opex immediately in the P&L.

Specific guidance to determine what constitutes each of the above items is contained in the Capitalisation Guides maintained by the Asset Accounting and Control team.

### 7 DEPRECIATION

Property, plant and equipment, excluding land and easements, have finite useful lives. That is, they will cease to provide economic benefits to AusNet Services at some point in the future. Accordingly the cost of the asset (being its value to AusNet Services), is amortised over its useful life via a depreciation expense in the P&L. Land and easements have indefinite useful lives and are therefore not depreciated.

There are four main determinants of the amount of depreciation to be charged:

- useful life;
- depreciable amount;
- depreciation method.

Depreciation shall commence when the asset is capable of operating in the manner intended by management. For the majority of network assets, this is deemed to be when the assets are recognised and placed in service (in-service date). In some cases, an asset may be deemed to be available for use, and therefore depreciation will commence, even though it is currently not in use.

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### 7.1 USEFUL LIFE

The useful life of all assets is determined by the Asset Accounting and Control Manager in consultation with the relevant subject matter experts across the business. The useful lives, including any amendment, must then be approved by the Group Financial Controller.

#### 7.1.1 REASSESSMENT OF USEFUL LIFE

The useful lives of assets are reviewed as part of the Assets Capitalisation Guides (which include the effective lives of assets) review. As a minimum, this review should be done at the end of each annual reporting period. If the circumstances surrounding the original assessment of the useful life of an asset change, or the expectations about the usefulness of an asset change, then the useful life of the asset should be reassessed at that point in time.

For example, if a capital project which is under construction will result in the replacement or decommissioning of existing assets before the end of their current useful lives, the useful lives of the assets should be reassessed downwards. Alternatively additions, replacements or extensions can potentially extend the useful life of an asset, which would result in the useful life being reassessed upwards. The reassessment of the useful life of an asset is accounted for as a change in accounting estimate in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and depreciation is adjusted prospectively.

When an asset's life is reassessed upwards, its carrying value as of the date of the reassessment is depreciated over the revised useful life.

#### Accelerated depreciation vs. disposal costs

When an asset's life is reassessed downwards, there are two common accounting choices:

- (a) for the carrying value at the date of reassessment, accelerate depreciation over the reduced useful life
- (b) depreciate the asset over its original useful life and write-off the asset at the end date of its revised useful life and record a loss on disposal.

Typically option (a) will be used, unless a downwards reassessment of useful life results in an end of life date that is within 12 months of the reassessment date.

### 7.2 DEPRECIABLE AMOUNT AND RESIDUAL VALUE

Depreciable amount is the cost of an asset (before any accumulated depreciation), less its residual value. The residual value is the estimated amount that an entity would currently receive from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The residual value of the majority of AusNet Services' assets is generally considered to be insignificant, and therefore deemed to be zero.

If however, it is expected that the residual value of an asset is significant, can be readily ascertained and is probable to materialise at the end of the useful life of an asset, it should be included in the measurement of the depreciable amount. For example, motor vehicles will usually meet such criteria, hence a residual value should be considered when calculating the depreciable amount.

Residual values shall be reviewed annually by the Asset Accounting and Control Manager in consultation with the relevant parties.

#### 7.2.1 ASSETS TAKEN OUT OF SERVICE

Depreciation should continue to be calculated even if an asset is temporarily idle or taken out of service and held for future use. However judgement should be used to ensure that in such a situation, the asset has not become a rotatable asset or a depreciable spare as described in FIN 10-22 *Inventory*.

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### 7.3 DEPRECIATION METHOD

The depreciation method chosen shall reflect the pattern in which the asset's future economic benefits are expected to be consumed or utilised.

AusNet Services' assets are generally in constant use and therefore a depreciation method that results in a constant charge over the useful life of the asset is considered most appropriate. The straight-line depreciation method is therefore used for all depreciable assets.

Depreciation under the straight line method is calculated as (depreciable amount / useful life).

Each component of an item of property, plant and equipment shall be depreciated separately.

Useful lives and residual values as outlined in this section are as determined for accounting purposes only. Assets may have different useful lives and residual values for taxation and regulatory purposes.

## 8 SUBSEQUENT COSTS

Recognition of costs in the carrying amount of property, plant and equipment ceases when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. This is deemed to occur when depreciation of the asset commences.

However, additions, replacements or extensions can potentially extend the useful life of an asset. If it is estimated that the addition, replacement or extension increases the useful life of an asset by more than 5%, or more than one year (whichever is greater), or adds new functionality, then the cost of the asset should be adjusted accordingly. The revised carrying amount is then depreciated over the revised useful life.

### 8.1 DECOMMISSIONING COSTS

Decommissioning costs should be capitalised as part of the initial cost of the asset (refer to FIN 10-11 *Capex vs. Opex*). However, decommissioning costs can be added to the cost of an asset during its life, provided it is not fully depreciated. If the asset is fully depreciated, there is no time period over which to allocate the decommissioning costs and as such, they should be recognised immediately in the P&L.

## 9 TRANSFERS TO ROTATABLE ASSETS

When an asset is taken out of service, but it is kept as a spare by AusNet Services and it is deemed that it still meets the definition of an asset, it will be treated as a rotatable asset. Refer to FIN 10-22 *Inventory* for the appropriate treatment in this scenario. Depreciation should cease once the transfer occurs. The asset should be derecognised and re-recognised as a rotatable asset (inventory).

## 10 TRANSFERS TO HELD FOR SALE

Assets reclassified as held for sale will be accounted for under FIN 10-27 *Assets Held for Sale*. Depreciation ceases when an asset is reclassified as held for sale.

## 11 RETIREMENT, REPLACEMENT AND DISPOSAL

The carrying amount of an item of property, plant and equipment shall be de-recognised if it is retired, replaced or disposed of, or when no future economic benefits are expected from its use.

The gain or loss on de-recognition should be included in the profit or loss. However, any gain should not be classified as revenue but as a negative expense.

The gain or loss is computed as follows:

Gain or loss = Sale proceeds – (related costs of disposal + carrying amount at the date of de-recognition).

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### 12 TAX TREATMENT

Certain elements of the cost of property, plant and equipment are capitalised for accounting but immediately deductible for tax. These include capitalised finance charges, capitalised overheads relating to labour and certain pole replacement expenditure.

Finance should seek guidance from the Tax Compliance team to ensure that the tax asset register is being regularly reviewed and updated.

### 13 SCHEDULE OF REVISIONS

Issue	Date	Author	Details of Change
1	01/03/2017	Heath Preston	Published

### APPENDIX A – ASSET CLASSES

Refer to the attached document for the aggregation of asset classes in the Fixed Asset Register and into the classes of Property, plant and equipment presented in the Financial Statements.



FIN 10-10 -  
Appendix 1.xlsx