

## Company Procedure

<b>FINANCE MANAGEMENT</b>	Document No : GFC 0014 Amendment No : 7 Approved By : CEO Approval Date : 05/03/2018 Review Date : 05/03/2021	Review Cycle Risk Rating:  <b>HIGH</b>
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### GFC 0014 FIXED ASSET CAPITALISATION AND DISPOSAL

#### 1.0 PURPOSE

To outline accounting processes related to recognition of capital expenditure, works in progress, capitalisation to the Fixed Asset Register (FAR) and Tax Asset Register (TAR), and disposal of fixed assets.

#### 2.0 SCOPE

This procedure applies to the process for acquiring, capitalising, maintaining and disposing of fixed assets in the FAR and TAR.

#### 3.0 REFERENCES

##### Internal

[Company Policy \(Finance Management\) 6.11](#) – System Capital Expenditure Measurement and Control

[Company Policy \(Procurement & Logistics\) 12.5](#) – Disposal

[Company Procedure \(Finance Management\) GFC 0005](#) – Capital Expenditure

[Company Procedure \(Procurement & Logistics\) GSU 0006](#) – Disposal of Surplus Goods and Equipment

[Endeavour Energy Chart of Accounts](#)

##### External

*Income Tax Assessment Act 1936 (Cth)*

*Income Tax Assessment Act 1997 (Cth)*

AASB 116 – Property, Plant and Equipment

General Retention and Disposal Authority: Administrative Records GA28

Handbook HB 5031–2011 Records classification

Relevant taxation rulings and determinations

#### 4.0 DEFINITIONS

##### Account code

An account string to which an amount can be costed in the company's general ledger, consisting of an organisation unit, region, activity, sub activity and element.

##### Asset class

An identifier in the FAR and TAR which allows the accumulation of like assets.

##### Capital expenditure

Expenditure contributing to the development or purchase of a system or unit which will perform a service or function with enduring economic benefit capitalised in the accounts as an asset. Items capitalised in the FAR or TAR must be equal to or exceed the capitalisation threshold (currently

\$1,000 GST exclusive), with the exception of motor vehicle fit outs which can be less than the capitalisation threshold and are added to the initial purchase cost of the vehicle.

**Capitalisation**

The transfer of completed works in progress to a defined asset class in the FAR and TAR.

**Capitalisation threshold**

The monetary threshold for recognising an asset as a fixed asset, **that is** capitalising. The threshold is currently \$1,000 GST exclusive.

**Customer Application Management System (CAMS)**

The system used by Network Connections for managing applications for connections to the company's network.

**Depreciation**

The annual diminution of a fixed asset over its effective life, charged monthly to the profit or loss.

**Disposal**

The sale, write off or removal of a fixed asset that is surplus to the company's needs, damaged beyond repair, or reached the end of its useful life.

**Document control**

Employees who work with printed copies of documents must check the Business Management System Website regularly to monitor version control. Documents are considered "UNCONTROLLED IF PRINTED", as indicated in the footer.

**Ellipse**

Software package used by the company to capture and record data, including financial data.

**Executive Leadership Team**

Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, General Manager Asset Management, General Manager Network Services, Chief Information Officer, General Manager Regulation & Corporate Affairs, General Manager Safety, Human Resources & Environment, General Manager Strategy & Development and Company Secretary.

**Financial year**

A financial year runs from 1 July to 30 June the following year.

**Fixed asset**

A physical, non-monetary asset that has an effective life greater than one year and a cost (or acquisition value) equal to or greater than the capitalisation threshold.

**Fixed Assets Register (FAR)**

Contains financial information for each fixed asset including capital cost, depreciation rates, accumulated depreciation and written down value.

**Non cash capital contribution**

A fixed asset gifted to the company.

**Non system assets**

Assets that support the company's core business including land and buildings, furniture and fittings, office equipment, paintings, information technology and telecommunications, fleet assets, radio equipment and tools and sundry plant. Non-system assets exclude stores.

**Operating expenditure**

Expenditure incurred in the course of ordinary business, expensed in the Profit and Loss Statement in the period incurred.

**Project**

A group of work orders which contain costs relating to a project.

**Recordkeeping**

Making and maintaining complete, accurate and reliable evidence of business transactions in the form of recorded information. (Source: Handbook HB 5031–2011 Records classification)

**Review cycle**

The review cycle is the frequency with which a document is reviewed. The review cycle risk rating displayed in the title block indicates the document has been risk assessed as follows:

Risk Rating	Review Cycle
High	1, 2, or 3 years
Medium	5 years
Low	As required

A review may be mandated at any time where a need is identified due to changes in legislation, organisational changes, restructures, occurrence of an incident or changes in technology or work practice.

**Strategic Asset Management Plan (SAMP)**

A plan that sets out operating and capital expenditure requirements over a ten year period, to achieve network strategy outcomes. The SAMP capital expenditure budget is updated for actual results and re-forecasts, and allows management to monitor and report on infrastructure capital expenditure over a particular financial year.

**System assets**

Assets that provide infrastructure for the company's core business such as substations, power poles, power lines, transformers, underground cable and street lighting.

**Tax Asset Register (TAR)**

Contains tax information for each fixed asset including capital cost, tax depreciation rates, accumulated tax depreciation and tax written down value.

**Works In Progress (WIP)**

Capital expenditure on a capital item or unit of plant where works are not yet complete.

**Work order**

A means of accumulating costs relating to a particular action within Ellipse.

**Written Down Value (WDV)**

The WDV of a fixed asset at a point in time, calculated as the capital cost less accumulated depreciation.

## 5.0 ACTIONS

### 5.1 Preamble

A fixed asset is a physical, non-monetary asset that has an effective life greater than one year and a cost (or acquisition value) equal to or greater than the capitalisation threshold.

Operating expenditure is expenditure that is incurred in the course of ordinary business. Operating expenditure has no effective life, does not extend the life of an asset and is expensed in the period incurred.

Operating expenditure, for example, includes consumables and repairs and maintenance. Consumable items are disposable in nature and used up across numerous tasks. Examples include masking tape, non rechargeable batteries, industrial gloves, drill bits, etc. Repairs and maintenance expenditure is incurred to maintain equipment so that, in the case of an asset, it can achieve its effective life. If an asset is not maintained, it could fail and not achieve its effective life, for example a car (asset) requires periodic servicing (maintenance) throughout its life.

Capital expenditure, on the other hand, is expenditure that will result in the purchase, addition or creation of a fixed asset. The company's fixed assets can result from capital expenditure to purchase or manufacture an asset, or through capital contributions.

Tools and equipment used to construct an asset are not to be capitalised as part of the asset. If tools and equipment in isolation meet the definition of a fixed asset, they must be capitalised under the tools asset class. Tools and equipment that do not meet the definition of a fixed asset should be expensed to operating work orders.

Items of property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such items of property, plant and equipment, although not directly increasing the future economic benefits of any particular existing item of property, plant and equipment, may be necessary for the company to obtain the future economic benefits from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable the company to derive future economic benefits from related assets in excess of what could be derived had it not been acquired.

### 5.2 Capital expenditure

Capital expenditure is costed to either activity 91 (Capex Infrastructure company funded), activity 92 (Capex Other) or activity 94 (Non-system Network Asset Partnership), and all activities are work order mandatory.

The works can be further broken down to a sub activity level, such as SAMP Capex categories, to provide additional detail of works being performed. Costs booked to a work order can be captured in a consolidated work packet and reported up to a project level. Work orders can also provide details to aid in the classification of the asset when capital works are finalised and the WIP is capitalised into the FAR and TAR.

Work orders for the acquisition of non-system fixed assets (generally costed to activity 92) must have one equipment number per work order, to facilitate reconciliation of the fixed asset register with the equipment register.

All capital work orders must have the asset class(es) and relevant percentages of asset class(es) of fixed assets being acquired, recorded in work order Reference Code fields "810" to "849". If the asset class concerned is either TS (transmission substations), TX (power transformers), ZS (zone substations) or RT (radio transmission unit-SCADA) the asset location must also be recorded in work order Reference Code field "801".

### 5.3 Works in progress

Capital costs for works not yet completed are treated as WIP until the fixed asset being acquired is ready for service.

When the WIP is complete and the asset is ready for service, the work order **must** be closed and finalised to costing by the purchaser/Project Manager. The purchaser/Project Manager must correctly enter mandatory fixed asset information, as set out in Section 5.2. The work order is then ready for capitalisation. These activities must be carried out in a timely manner to avoid undue delay in the capitalisation of the fixed asset.

If expenditure has been incorrectly coded to capital or does not progress as expected (aborted project) costs **must** be transferred to operating expenditure.

### 5.4 Capitalisation

When the WIP is complete and the fixed asset is ready for service, it is capitalised into the Ellipse FAR and TAR by asset class. The capitalisation process involves allocations of the relevant financial and tax depreciation rates and depreciation methods respectively, plus other details which allow the company to report the fixed assets both internally and externally.

Costs to be capitalised in the FAR and TAR may differ for particular assets. **For example, there may be costs which** result in the creation of or an increase to the cost of, assets from a taxation viewpoint but not from a financial accounting viewpoint, and vice versa. Examples include environmental protection expenditure, expenditure on major repairs/refurbishment of existing assets and costs in relation to failed/abandoned projects. Where such costs come to the attention of the Asset Accounting Section, the Fixed Asset Coordinator should confer with the **Taxation Manager** on the appropriate tax treatment so that the TAR can be updated accordingly.

The Fixed Asset Coordinator should also confer with the **Taxation Manager** on appropriate taxation treatments should any new or unusual types of capital transactions or costs be encountered.

The following points are noted in relation to items which are considered to be capital assets for income tax purposes, but which are not to be included in the TAR:

- A separate low value pool is maintained by the **Taxation Manager** for assets which cost less than \$1,000. Only assets which cost \$1,000 or more **will** be capitalised within the TAR.
- A separate record of easement costs, expensed for accounting purposes but not claimed as income tax deductions, is kept by the **Taxation Manager**.
- The company is deemed, for taxation purposes, to be the owner of cars which are subject to novated leases, where the individual values of those cars exceed the depreciation cost limit, **for example** over \$57,466 for the year ending 30 June 2013. A separate record of such cars is maintained by the **Taxation Manager** so that relevant depreciation can be calculated for income tax purposes.

The **Taxation Manager** will advise the Fixed Asset Coordinator of any changes to capitalisation practices which may become necessary due to changes in tax laws.

### 5.5 Depreciation

The capital cost of an asset resides on the company's Balance Sheet and, on a monthly basis, a portion is allocated to the Profit and Loss Statement as depreciation. The depreciation charge reflects diminution of the capital cost of the asset over the effective life of the asset.

The amount of depreciation is calculated using the “straight line” method of depreciation for accounts purposes. This method of depreciation involves the company estimating the salvage value of the asset at the end of the period during which it will be used to generate revenues (useful life), and expensing a portion of the original cost in equal increments over that period.

Depreciation rates and methods applicable for taxation and accounting purposes may differ. The Taxation Manager will advise the Fixed Asset Coordinator of any changes required to tax depreciation rates for particular asset classes.

Dates of commencement for depreciation of assets should be the same for tax and accounting purposes, unless otherwise advised by the Taxation Manager.

## 5.6 Disposal

When an asset is sold, deemed obsolete or unable to be located, it is disposed of in accordance with the company's disposal process.

When an asset is sold, any proceeds received are applied when disposing of the asset from the FAR and TAR. If the proceeds received exceed the written down value of the asset, a profit on disposal is recognised, otherwise it will be a loss on the disposal. The resulting profit or loss is recognised in the Profit and Loss Statement in the financial year in which the disposal took place.

The process of disposal differs between infrastructure and non infrastructure assets and, for non infrastructure assets, the process differs by asset class. Relevant processes are detailed in a series of workplace instructions.

## 5.7 Capital contributions

Assets may be acquired by the company as a result of a contribution from an external party. Contributions are usually made towards system assets where a customer requires network connection works that are contestable. The contribution is usually in the form of a gift of the asset to the company. The company acquires control of the asset after the issuance of a Letter of Acceptance to the customer for the gifted asset.

Capital contributions of this nature are managed by the Network Connections Branch using CAMS.

Information on the acquisition and valuation of these assets is held within CAMS and the assets are capitalised by the Asset Accounting Section on a monthly basis.

The value of assets capitalised is taken up as a capital contribution in the company's Profit and Loss Statement.

Assets arising from capital contributions are capitalised and depreciated in both the FAR and TAR.

## 6.0 RECORDKEEPING

The table below identifies the types of records relating to the process, their storage location and retention period.

Type of Record	Storage Location	Retention Period*
Acquisitions	Ellipse	7 years after land, buildings or interests therein are disposed of  7 years after end of financial year following acquisition – as determined by GA28 sections 5.1.1 and 7.1.1 for

Type of Record	Storage Location	Retention Period*
		assets other than land, buildings or interests therein
Disposals	Ellipse	7 years after asset is disposed of or destroyed and retired from FAR – as determined by GA28 section 7.5.1

\* The following retention periods are subject to change, for example if the records are required for legal matters or legislative changes. Before disposal, retention periods must be checked and authorised by the Records Manager.

## 7.0 AUTHORITIES AND RESPONSIBILITIES

**Chief Executive Officer** has the authority and responsibility for approving this procedure.

**Executive Leadership Team members** have the authority and responsibility for allocating appropriate resources to maintain compliance with this procedure.

**Manager Network Connections** has the authority and responsibility for:

- developing and implementing procedures and processes to accurately record gifted assets on a timely basis; and
- providing information regarding the acquisition and valuation of capital contributed assets, derived from CAMS, in an accurate and timely manner.

**Financial Accounting Manager** has the authority and responsibility for:

- verifying that the FAR is reconciled to the Ellipse general ledger on a monthly basis; and
- confirming that the FAR accurately reflects the fair value of the company's fixed assets.

**Fixed Asset Coordinator** has the authority and responsibility for:

- capitalising completed WIP to the FAR and TAR in a timely and accurate manner; and
- overseeing reconciliation of the FAR to the Ellipse general ledger on a monthly basis.

**Project Manager/purchaser** has the authority and responsibility for:

- costing capital expenditure correctly to a capital work order;
- providing the necessary information to enable correct capitalisation; and
- closing work orders and finalising to costing, as appropriate.

**Taxation Manager** has the authority and responsibility for advising the Fixed Asset Coordinator of changes to taxation law and depreciation rates which impact upon the TAR.

**Manager** with delegated authority has the authority and responsibility for authorising relevant capital expenditure.

## 8.0 DOCUMENT CONTROL

**Content Coordinator** : Financial Controller

**Process Coordinator** : GRC Process Coordinator