GUIDANCE - PROPERTY, PLANT AND EQUIPMENT

JAA FIN GU 0012

Purpose

To provide guidance on the application of the SGSPAA Accounting Management Manual, with respect to the Group's Property, Plant and Equipment (**PPE**) Accounting practices.

Scope

This guidance applies to accounting for all items of property, plant and equipment (PP&E) under control of SGSP (Australia) Assets Pty Ltd (SGSPAA) and/or its controlled entities (SGSPAA Group). This guidance does not apply for Regulatory or Taxation purposes.

Regulatory Framework

The relevant requirements relating to the accounting treatment of the Group's PP&E items are established by the Australian Accounting Standards Board (AASB) and other references in the left-hand margin.

Guidance

AASB116(22)

The cost of an item of PP&E is determined using the same principles whether acquired or self-constructed.

Allowable costs

AASB116(16) (a)

The purchase price of an item of PP&E, including duties, non-refundable purchase taxes, less any discounts or trade rebates;

AASB116(16) (b)

Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including:

AASB116(17) (a) – (f)

- Costs of employee benefits arising directly from the acquisition or construction of items of PP&E;
- Costs of site preparation;
- Initial delivery and handling costs;
- Installation and assembly costs;
- Costs of testing whether the asset is functioning properly; and
- Professional Fees;

Applicable depreciation and decommissioning costs as described by the relevant business rules.

UIG 1031(7)

GST incurred that is not recoverable from the tax authorities;

AASB116(23) [Link to Accounting Management Manual]	Interest (or borrowing costs) associated with funds borrowed expressly for the purpose of obtaining *qualifying assets*[1]. Refer to Property, Plant and Equipment in the SGSPAA Accounting Management Manual.
AASB116(11)	Items of PP&E acquired for safety or environmental reasons. Such items qualify for recognition as assets on the basis that they enable an entity to derive future economic benefits from related assets in excess of what could be derived had the item(s) not been acquired. For instance, the costs of upgrading plant and equipment to meet more stringent environmental regulations could be capitalised on the basis that the Group could not operate the assets and derive an income without first meeting the regulations and incurring the costs;
AASB116(13)	Costs of replacing parts of an item of PP&E. The carrying amount of the parts that are replaced shall be derecognised. Repairs and maintenance expenses are excluded;
AASB116(14)	The cost of performing regular major inspections for faults regardless of whether parts of the item are replaced. Any remaining carrying amount of costs capitalised from a previous inspection must first be derecognised.
	Costs Excluded from being Capitalised
AASB116(12)	Repairs and maintenance costs (considered to be the day-to-day servicing costs of an asset) including labour, consumables and small parts. Such costs must be treated as an expense as incurred;
AASB116(19) (a)	The costs of opening a new facility;
AASB116(19) (b)	The costs of introducing a new product or service (including the costs of advertising and promotional activities);
AASB116(19) (c)	The costs of conducting business in a new location or with a new class of customer (including the costs of staff training);
AASB116(19) (d)	Administrative and general overhead costs;
UIG 1031(6) – (7)	GST incurred that is recoverable from tax authorities;
AASB116(20) (a)	Costs incurred while an item of PP&E capable of operating in the manner intended by management has not yet been brought into use or is operated at less than full capacity;
AASB116(20) (b)	Initial operating losses, such as those incurred while demand for the item's output builds up;
AASB116(20) (c)	Costs of relocating or reorganising part or all of an entity's operations;
AASB116(21)	Incidental income or expenses generated by the asset prior to it being capable of being used for its intended purpose;

[1] A ***Qualifying Asset*** is defined as "…an asset that necessarily takes a substantial period of time to get ready for its intended use or sale…" per **AASB 123 "*Borrowing Costs*"**, paragraph (**5**).

AASB116(22)

The cost of abnormal amounts of wasted material, labour or other resources incurred in constructing an asset;

SGSPAA incurs costs associated with the regulatory price reviews for Jemena Electricity Networks (JEN) and Jemena Gas Networks (JGN). These reviews are known as the Electricity Distribution Price Review (EDPR) and the Access Arrangement (AA). The reviews are conducted by the Australian Energy Regulator (AER) and cover a 5 year period.

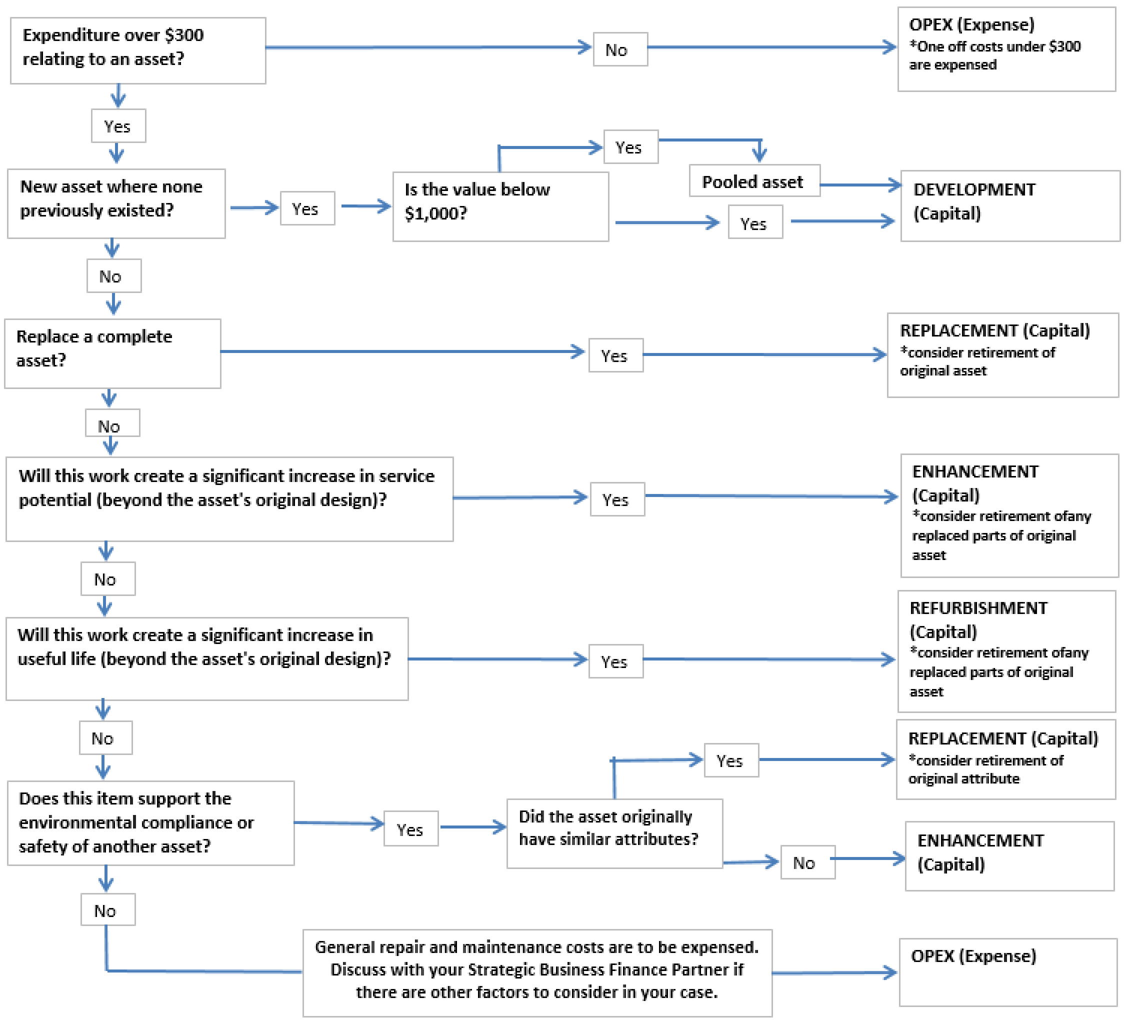
Costs associated with the EDPR and AA shall not be capitalised. These costs do not meet the definition of an asset and shall be expensed as incurred.

Complete items (items that will not become a component of a larger asset) that cost less than $300 should not be capitalised.

Expenditure Decision Tree

[Link to Provisions and Contingent Liabilities Accounting Guide]

The following table provides guidance as to whether PP&E related costs of different natures should be capitalised or expensed. **Note:** Accounting treatment should still be considered at the transactional level in accordance with business rules and the other relevant guidance in this document. Refer also to the recognition requirements under section 3.5 of the Provisions and Contingent Liabilities Accounting Guide for timing of recognising PP&E in an accrual transaction.



Low Value Pool

Low value assets (assets individually costing < $1,000 but >$300) shall be capitalised and subsequently allocated to the low value pool. The low value pool is then depreciated on a straight line basis over the useful life assigned collectively to pooled assets.

Costs Capitalised over the Life of a Project

The following table provides guidance in relation to whether project costs should be capitalised or expensed at various stages of the project lifecycle. **Note:** Accounting treatment should still be considered at the transactional level in accordance with business rules and the other relevant guidance in this document.

Accounting Phase	Design Phase (Preliminary Project Mandate not yet approved)	Commencement of Cost Capitalisation	Design Phase (Preliminary Project Mandate approved)	Project Developed / Constructed	Asset capable of use – cease Capitalisation	Project Completed
Balance Sheet	N/A.		Capitalise all costs of a capital nature and classify as CWIP.	Capitalise all costs of a capital nature and classify as CWIP.		Transfer PP&E from CWIP to relevant asset class in FAR.
Income Statement	Recognise all costs as expenses.		Recognise all costs capitalised as expenses should a decision be made not to proceed with a project.	N/A.		Depreciation and any impairment losses recognised.

Refer to the intranet for information about project management methodology: https://onlineeportal.sharepoint.com/OurGroups/ServiceDelivery/PlanningContracting/Pages/Project-management-methodology.aspx

Depreciation

Note, the Property, Plant and Equipment policy contains specific information on depreciation method and residual value.

AASB116(6) Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

AASB116(6) The residual value of an asset is the estimated amount that an entity would currently obtain 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.

AASB116(53) The Accounting Standard recognises that in practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

AASB116(57) The useful life of an asset is defined in terms of the asset's expected use to SGSPAA. Therefore, the useful life of an asset may be shorter than its Technical or Engineering life. The estimation of the useful life of an asset is a matter of judgement based on the Group's experience with similar assets.

AASB116(56) (a) – (d) The useful life of an item of PP&E is determined having considered the following:

- Expected usage of the asset (by reference to the asset's capacity or output);

- Expected physical wear and tear (depending on operational factors such as frequency of use and maintenance program);
- Technical or commercial obsolescence arising from changes or improvements in technology or changes in market demand for the product or service output of the asset; and
- Legal or similar limits on the asset's use (for example the expiry date of a lease).

Transfer of PP&E Items within the Group

Where items of PP&E are transferred within the Group, the transfer shall occur at the item's Written Down Value at the date of the transfer. Accordingly, no profit or loss shall be recorded on the transfer.

Review

This Guidance is to be reviewed by the Corporate Reporting Team within two years of the previous review, or if changes in circumstances indicate that a review is necessary. The review shall include, but is not limited to, checking alignment with the relevant policies and the sources referred to in the left hand margin.

Revisions to this Guidance must be approved by the GM Financial Planning and Analysis, in accordance with **Approval** below.

Contacts

Depending on the nature of the enquiry the following personnel will be able to assist:

- Senior Finance Analysts;
- Corporate Reporting Team;
- Financial Recording Team, Fixed Asset Accountant

SGSP AUSTRALIA ASSETS

Approval

	Proposed By:	Approved By:
Signature:		
Name:	Robert Kercheval, Corporate Reporting Manager	Russell Dawson, GM Financial Planning & Analysis
Date:	23/11/18	23/11/18