



## **FIXED ASSET MANAGEMENT POLICY**



## Contents

<b>Introduction</b> .....	3
Responsibility.....	3
Objectives.....	3
Definition of Fixed Asset .....	3
Intangible assets .....	4
<b>Capitalisation and Valuation of Assets</b> .....	4
Capital budget.....	4
Guideline controls for the preparation of the capital budget: .....	4
<b>Procurement of assets (Replacement Norms)</b> .....	4
Guideline procedures for additions to fixed assets.....	5
Capitalisation vs. Expenditure .....	5
Guidelines for asset enhancements: .....	6
<b>Disposal of assets</b> .....	6
Guideline procedures for disposal of fixed assets .....	7
Guideline procedures for scrapping of fixed assets.....	8
<b>Transfers</b> .....	8
Change in the valuation of assets: Revaluation of fixed assets .....	9
Revision of useful life.....	9
Guidelines for changes in changes in accounting estimates.....	9
<b>Asset classes and depreciation periods</b> .....	10
Asset information kept in the register .....	12
Recognition of heritage assets in the fixed asset register .....	13
Recognition of donated assets .....	13
Asset verification .....	13
Guideline procedures for the maintenance of the fixed asset register.....	13
<b>Physical security of fixed assets</b> .....	14
Insurance of fixed assets .....	14
Guideline controls over physical security of fixed assets.....	14
Assets identification .....	15
Physical verification.....	15
Insurance cover .....	15
Allocation of assets .....	15
Repairs and maintenance.....	15
Deferred Maintenance .....	16
<b>Financial Disclosure requirements</b> .....	16
Guidelines for financial disclosures.....	16
<b>Other Definitions</b> .....	18
Leased assets.....	18
<b>Cost of an asset</b> .....	19
Fair Value .....	19
Residual Value .....	19
Impairment Loss.....	19
Carrying Amount .....	19
Recoverable Amount.....	19
Depreciation .....	19
Depreciable Amount.....	19
Construction Contracts .....	19
Research costs.....	20
Development costs.....	20



## **Introduction**

This document is provided to assist management and employees of Midvaal Local Municipality with implementing and maintaining consistent, effective and efficient asset management principles.

This manual supersedes all Fixed Asset management policy instructions that have previously been issued.

Failure to comply with the prescribed policies will result in the institution of disciplinary procedures in terms of the stipulated human resources policies and procedures of Midvaal Local Municipality. The policy are effective 1 July 2008.

## **Responsibility**

The responsibility of fixed asset management lies with the Municipal Manager and the Chief Financial Officer. The performance of this function has to be delegated to the fixed asset Accountant. This however, does not alleviate the responsibility of the Municipal Manager and Chief Financial Officer. The Municipal Manager and the Chief Financial Officer will need to ensure that all the fixed assets are adequately insured against loss, theft and damage of any nature.

No amendments, deletions or additions to the fixed asset register shall be made other than by the Chief Financial Officer or by an official acting under the instruction of the Chief Financial Officer.

## **Objectives**

The objective of this document is:

- To safeguard the fixed assets of Midvaal Local Municipality and to ensure the effective use of the existing resources
- To emphasise a culture of accountability over Midvaal Local Municipality's fixed assets
- To ensure that effective controls are communicated to management and staff through clear and comprehensive written documentation
- To provide a formal set of financial procedures that can be implemented to ensure that Midvaal Local Municipality's financial asset policies are achieved and are in compliance with the Municipal Finance Management Act (MFMA)

## **Definition of Fixed Asset**

Consistent definitions are essential to ensure good asset management and reporting.

A fixed asset is an asset with a useful life of more than one year and is used in the business of the municipality. Characteristics of a depreciable fixed asset are the following:

- It is estimated the asset will be used for more than one financial period;



- It has a limited useful life;
- It is used in a process of delivering services;
- The resource should provide future economic benefits;
- The future economic benefits should accrue to the municipality;
- The event giving rise to the municipality's right to the resource and control over the future economic benefits must already have occurred; and
- It should be possible to determine the cost of the asset reliably.

### **Intangible assets**

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

No intangible item shall be recognised as a fixed asset, except that the chief financial officer, acting in strict compliance with the criteria set out in the GRAP statement dealing with research and development expenses may recommend to council that specific development costs be recognised as fixed assets.

### **Capitalisation and Valuation of Assets**

Assets whose cost or reasonable value is less than R5,000.00 ( Five thousand rand) must be expensed in the month of purchase.

Every head of department shall, however, ensure that any item with a value in excess of R5,000.00 (five thousand rand), and with an estimated useful life of more than one year, shall be capitalised in the asset register.

### **Capital budget**

A capital budget must be compiled and approved for all capital acquisitions.

### **Guideline controls for the preparation of the capital budget:**

- Each director should obtain the necessary information from his/her directorate;
- The director: Finance/CFO compiles this information into a concept capital budget;
- The concept capital budget is discussed at a meeting involving the Municipal manager, CFO and all other Directors, where needs are prioritised;
- It is presented to the mayoral committee for approval;
- After these approvals are obtained it is presented to Council for approval;

### **Procurement of assets (Replacement Norms)**

All assets acquired must be in terms of the capital budget. Assets must be procured in such a way that:



- A proper need for the asset was identified; and
- Proper and approved procurement procedures are adhered to.

Authorisation for procurement should be as per the departments' delegation of authority and payment for assets should be in accordance with financial policies and regulations of the Council.

The municipal manager, in consultation with the CFO and other head of departments, shall formulate norms and standards for the replacement of all normal operational assets. Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the council of the municipality for approval. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the replacement of fixed assets which are required for service delivery but which have become uneconomical to maintain.

### **Guideline procedures for additions to fixed assets**

The MM and CFO should inform the council of the disposal of significant assets, and the relevant particulars of the transaction have to be submitted to the executive authority for approval.

On purchase of any fixed assets, via the normal procurement procedures the assets officer must ensure that the asset is recorded in the fixed assets register. It is the responsibility of the purchasing officer to report all assets purchased on arrival to the assets officer.

The following should be updated in the fixed asset register:

- Individual requesting purchase
- Cost of asset in question
- Expected useful life
- Depreciation method and rate
- Method of payment and financing source
- Cheque or transfer number; and
- All relevant asset information e.g. number, type etc.

### **Capitalisation vs. Expenditure**

Subsequent expenditure relating to an asset should be capitalised to the net book value when it is determined that the asset has been enhanced.

#### **Asset enhancements**

Only expenses incurred in the enhancement of fixed or in the material extension of the useful life of a fixed asset shall be capitalised.



Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned.

#### **Guidelines for asset enhancements:**

The following test must be where subsequent expenditure is incurred on assets already capitalised:

Subsequent expenditure relating to an asset should be capitalised to the net book value when –

- It is probable that further economic benefits in excess of the original assessment will accrue to the municipality; and
- The expenditure will improve the condition of the fixed asset beyond its original assessed standard of performance.

The test ensures that if the expenditure is an enhancement, it is added to the net book value of the fixed asset whereas if the expenditure is on a repair it is expensed.

As the classification of an expenditure item (for instance on repair or an improvement) is often subjective, the following guidelines for enhancements should be used:

- Modify an item to extend its useful life:
- Upgrading machine parts to achieve a substantial improvement in the quality of output; or
- Adopting new production processes enabling a substantial reduction in previously assessed operating costs.

#### **Disposal of assets**

Assets must be disposed in such a way that –

- In financial terms, such disposal is always to the benefit of the municipality and
- During the consideration and acceptance of tenders/quotations or any bid for such assets, the image of the municipality is not impaired.

Authorisation for disposal should be as per the department's delegation of authority. Proof of payment should be obtained before the asset is transferred to the new owner as per the relevant form.

Every head of department shall report in writing to the CFO on 31 October and 30 April of each financial year on all fixed assets controlled or used by the department concerned which such head of department want to dispose by public auction or public tender. The CFO shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidation information to the council of the municipality, recommending the process of disposal to be adopted. Once the fixed assets are disposed, the CFO shall delete the relevant records from the fixed asset register.



If the proceeds on disposal are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss on disposal in the income statement of the department concerned. If the proceeds of the disposal are more than the carrying value of the fixed asset concerned, the difference shall be recognised as profit/gain on disposal in the income statement of the department concerned.

All gains realised on the disposal of fixed assets shall be appropriated annually to the municipality's replacement reserve. All losses on the disposal of fixed assets shall remain as expenses on the income statement of the department concerned. If, however, both gains and losses arise in any one financial year in respect of the disposal of the fixed assets of any department, only the net gain (if any) on the disposal of such fixed assets shall be appropriated.

### **Guideline procedures for disposal of fixed assets**

If the assets officer wants to dispose of any asset he/she must submit a motivation and an **Asset Disposal Requisition (ADR)** in duplicate to the accountant.

The accountant must recommend, by signature, the assets to be disposed of and submit the motivation to the CFO.

The CFO must recommend the disposal and submit the motivation to the Municipal Manager after consultation with the department IT Committee, for all electronic equipment, and the assets officer for the other assets.

For assets with an initial cost of over R5000.00, the MM must authorise all disposals of fixed assets by signing the ADR. Once signed the ADR must be handed to the CFO.

The assets officer must update his asset listing on receipt of the authorised ADR and file the ADR, and must submit the updated listing to the accountant for approval.

The assets officer must update the fixed assets register, by detailing the date the assets were transferred for auction or sale on the register, and file the ADR in the date order.

The following information should be updated in the fixed asset register:

- Reason for disposal
- Individual requesting disposal
- Cost, book value and proposed selling price of the asset in question
- Date of sale
- Method of payment
- Receipt number
- The entire relevant asset information e.g. number, type etc.

The Accounting records should be updated with information regarding the sale. The profit or loss should be recognised in the financial records of the department.

### **Other write-offs of fixed assets**

A fixed asset shall be written off only on the recommendation of the head of the department controlling or using the asset concerned, the department shall report to the chief financial officer



on 31 October and 30 April of each financial year on any fixed assets which such head of department wishes to have written off, stating in full the reasons for such recommendation. The CFO shall consolidate all such reports, and shall promptly submit a recommendation to the council of the municipality on the fixed assets to be written off.

The only reason for writing off the fixed assets shall be the loss, theft, and destruction or material impairment of the fixed assets in question.

In every instance where a not fully depreciable fixed asset is written off, the CFO shall immediately debit such department, as additional depreciation expense, the full carrying value of the asset concerned.

### **Guideline procedures for scrapping of fixed assets**

If any employee wants to scrap an asset, the employee must submit a motivation, an Asset Scrapping Requisition (ASR) in duplicate and the asset, where possible, to the assets officer.

The assets officer must physically inspect and recommend, by signature, the assets to be scrapped and submit the motivation to the CFO.

The CFO must recommend the scrapping and submit the motivation to the Council after consultation with the Departmental IT Committee, for all electronic equipment, and the assets officer for other assets.

The assets officer must update his asset listing on receipt of the authorised ASR and file the ASR with the monthly register, and submit it to the accountant for approval.

On receipt of the authorised ASR the assets officer must update the fixed asset register, by detailing the scrapping date on the register, and file the ASR in date order.

The following information should be updated in the fixed asset register:

- Reason for disposal
- Information relating to the buyer
- Individual requesting disposal
- Cost, book value and proposed selling price of asset in question
- Date of sale
- Method of payment
- Receipt number; and
- The entire relevant asset information e.g. number, type etc.

### **Transfers**



When fixed assets are transferred between the different Municipalities, a document with specific authorisation should be attached to the asset being transferred so as to make sure that authority was given for that specific asset to be transferred. The document should also include full details of the asset being transferred which should include:

- Asset description
- Cost of the asset
- Date of acquisition
- Unique number
- Effective date of transfer
- Quantity

### **Change in the valuation of assets: Revaluation of fixed assets**

All land and buildings recorded in the municipality's fixed asset register shall be re-valued with the adoption by the municipality of each new valuation roll (or, if the land and buildings concerned fall within the boundary of another municipality, with the adoption by such municipality of each new valuation roll).

The CFO shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed assets as recorded in the valuation roll.

The CFO shall also, where applicable, create a revaluation reserve for each such fixed asset equal to the difference between the value as recorded in the valuation roll and the carrying value of the fixed asset before the adjustment in question. The fixed asset concerned shall, in the case of buildings, be depreciated on the basis of its re-valued amount, over its remaining useful operating life, and such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the department controlling or using the fixed asset in question.

The CFO shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expense determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the municipality's appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year.

### **Revision of useful life**

It may be necessary to review the useful life of asset, as the original estimate of useful life may become inappropriate. Such an adjustment is deemed to be a change in estimate and the depreciation charge for the current and future periods should be adjusted.

### **Guidelines for changes in changes in accounting estimates**

As a result of the uncertainties inherent in business activities, many financial items cannot be measured but can only be estimated. The estimation process is based on judgements based on the latest financial information available. Estimates may be required, for example bad debts, inventory obsolescence or the useful lives or expected pattern of consumption of economic benefits of depreciable assets.



An estimate may need to be revised if changes occur regarding the circumstances on which the estimate was based or as a result of new information, more experience or subsequent developments.

In practice the Department may decide to revise the useful life of an asset or a group of assets due to certain circumstances.

The effect of a change in accounting estimates should be included in the determination of net profit or loss in:

- The period of the change if the change affects the period only, or
- The period of change and future periods, if the change affects both.

### Asset classes and depreciation periods

Assets are classified in terms of GRAP. Estimation of useful life is to be made using the best available information. Changes in useful life and depreciation rates are to be approved by the CFO.

#### The following are asset classes and depreciation periods

	Asset life		Asset life
<b>Infrastructure Assets</b>			
<b>Electricity:</b>		<b>Gas:</b>	
Power stations	30	Meters	20
Cooling towers	30	Mains	20
Transformer Kiosks	30	Storage tanks	20
Meters	20	Supply/reticulation	20
Load control equipment	20		
Switch gear equipment	20	<b>Sewerage</b>	
Supply/reticulation	20	sewers	20
Mains	20	outfall sewer	20
		Purification works	20
		Sewerage pumps	15
		Sludge machines	15
<b>Roads:</b>		<b>Pedestrian Malls:</b>	
Motorways	15	Footways	20
Other roads	10	Kerbing	20
Traffic islands	10	Paving	20
Traffic lights	20		
Street lighting	25	<b>Airports:</b>	
Overhead bridges	30	Aprons	20
Storm-water drains	20	Runways	20
Bridges, subways & culverts	30	Taxiways	20
Car parks	20	Airports/Radio beacons	20
Bus terminals	20		



	Asset life		Asset life
<b>Community Assets</b>			
<b>Building:</b>		<b>Recreational Facilities:</b>	
Ambulance stations	30	Bowling greens	20
Aquariums	30	Tennis courts	20
Beach developments	30	Swimming pools	20
Care centres	30	Golf courses	20
Cemeteries	30	Jukskei pitches	20
Civic theatre	30	Outdoor sports facilities	20
Clinics/Hospitals	30	Organ & case	20
Community centres	30	Lakes and dams	20
Fire stations	30	Fountains	20
Game reserves/Rest camps	30	Floodlighting	20
Indoor sports	30		
Libraries	30	<b>Security Measures:</b>	
Museums/Art galleries	30	Fencing	3
Parks	30	Security systems	5
Public toilets	30	Access controls	5
Recreation centres	30		
Stadiums	30	<b>Water:</b>	
Zoos	30	Meters	15
		Mains	20
		Rights	20
		Supply/reticulation	20
		Reservoirs & Tanks	20
	Asset life		Asset life
<b>Other Assets</b>			
<b>Building:</b>		<b>Emergency equipment:</b>	
Abattoirs	30	Fire	15
Asphalt plant	30	Ambulances	5
Cable stations	30	Fire hoses	5
Caravan parks	30	Emergency lights	5
Cinemas	30		
Compacting stations	30	<b>Motor vehicles:</b>	
Hostels – Public/Tourist	30	Fire engines	20
Hostels – Workers	30	Buses	15
Housing schemes	30	Motor vehicles	5
Kilns	30	Motorcycles	3
Laboratories	30	Trucks/bakes	7
Markets	30		
Nurseries	30	Aircraft	15
Office buildings	30		
Old age homes	30	Watercraft:	15
Quarries	30		



Tip sites	30
Training centres	30
Transport facilities	30
Workshops/depots	30

**Office Equipment:**

Computer hardware	5
Computer software	5
Office machines	5
Air-conditions	7

**Furniture & Fittings:**

Chairs	10
Tables/ desks	10
Cabinets/cupboards	10
Miscellaneous	10

**Bins and Containers:**

Households refuse bins	5
Bulk containers	10

**Plant and Equipment:**

Graders	15
Tractors	15
Mechanical horses	15
Farm equipment	5
Lawnmowers	2
Compressors	5
Lab equipment	5
Radio equipment	5
Firearms	5
Telecom equipment	5
General	5
Cable cars	15
Irrigation systems	15
Crematories	15
Lathes	15
Milling equipment	15
Conveyors	15
Feeders	15
Tippers	15

**Asset information kept in the register**

The following information should be kept in respect of each asset:

- Asset number
- Asset type and description
- Purchase price
- Book value
- Depreciation current period
- Accumulated depreciation
- Disposal value & date

The fixed asset register shall be maintained in the format determined by the CFO, which format shall comply with the requirements of (GRAP) and any other requirements prescribed, by law.

All heads of department under whose control any fixed asset falls shall promptly provide the CFO with any information required to compile the fixed asset register, and shall promptly advise the CFO of any material change which may occur in respect of such information.



In compliance with the requirements of GRAP, the CFO shall ensure that all fixed assets are classified under the following headings, and heads of departments shall provide the CFO with such information or assistance as is required to compile a proper classification:

- Land
- Infrastructure assets
- Community assets
- Heritage assets
- Investment assets
- Housing
- Donated assets
- Other assets

#### **Recognition of heritage assets in the fixed asset register**

If no costs or reasonable values are available in the case of one or more or all heritage assets, the CFO may, if it is believed that the determination of a reasonable value for the assets in question will be a laborious or expensive undertaking, record such assets in the fixed asset register without an indication of the costs or reasonable value concerned.

#### **Recognition of donated assets**

Where a fixed asset is donated to the municipality, or a fixed asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned shall be recorded in the fixed asset register at such reasonable value as the CFO assigns to the asset in question.

#### **Asset verification**

To ensure the completeness and correctness of assets on the fixed asset register, all assets must be physically verified and confirmed at least once in a financial year.

All fixed assets used by employees leaving the employment of the company must be verified on the day such employees leave.

#### **Guideline procedures for the maintenance of the fixed asset register**

The assets officer must update the asset listing and fixed asset register with the approved asset requisitions, and submit it to the accountant for approval.

On a monthly basis the assets officer must perform reconciliation between the general ledger values and the fixed assets and inventory register values and submit it to the accountant.

The accountant must check and sign the fixed assets and inventory reconciliation as correct.



The changes made to the fixed assets register should be printed and approved by the CFO on a monthly basis.

Depreciation rates used have to be approved by the CFO before they are applied to the assets.

The accountant should allocate depreciation rates for each class of assets, and also ensure that the depreciation calculation are correctly applied and posted in the general ledger.

The assets officer should also review the assets title yearly to ensure that the council holds title to all assets.

The assets officer should numerically account for the tag numbers, and the accountant should review the sequence monthly for missing numbers.

The CFO must check the physical verification report, approve and submit a copy to the MM.

Once approved by the CFO the assets officer must file the report in the date order.

#### **Physical security of fixed assets**

Every head of department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by their department.

In exercising this responsibility, every head of department shall adhere to an directives issued by the municipal manager to the department in question, or generally to all departments, in regard to the control and safekeeping of the municipality's fixed assets.

#### **Insurance of fixed assets**

The municipal manager shall ensure that all movable fixed assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.

If the municipality operates a self-insurance fund, the chief financial officer shall annually determine the premiums payable by the departments after having received a list of the fixed assets and insurable values of all relevant fixed assets from the heads of departments concerned.

The municipal manager shall recommend to the council of the municipality, after consulting with the CFO, on the basis of the insurance to be applied: either the carrying value or the replacement value of the municipality's fixed assets. Such recommendation shall take due cognisance of the budgetary resources of the municipality.

The CFO shall annually submit a report to the council of the municipality on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance fund.

#### **Guideline controls over physical security of fixed assets**

##### **Asset security**

All assets should be kept in a secure location, maintained regularly, insured against theft or destruction, utilized economically and efficiently.



The CFO and MM should inform the council of the acquisition or disposal of a significant asset, and the relevant particulars of the transaction have to be submitted to the executive authority for approval. (Section 54 of the PFMA).

The disposal of any of the municipality's major assets has to be approved by council

### **Assets identification**

A fixed assets and inventory register should be maintained, and all fixed assets should be tagged for reference to the fixed assets register.

### **Physical verification**

The assets officer must perform a physical verification of all assets every year. A statement of Existence (SOE) must be issued for assets declaring that all assets listed are on hand and are in a useful working condition. The SOE must be sent to the CFO.

### **Insurance cover**

The Chief Accountant will arrange the necessary insurance cover, including cover for assets that are removed from council property.

### **Allocation of assets**

The assets officer should open an asset allocation register to monitor the use of assets. The assets officer should ensure that assets utilized are restricted to the activities of the Council; by continually monitoring to whom, and for what purpose, the assets are allocated.

The relevant director must approve assets that are used by officials not in their work place (e.g. laptops taken home).

### **Repairs and maintenance**

A schedule should be kept detailing the regular maintenance required for all relevant assets.

A schedule should also be kept detailing the council's rights and obligations in respect of all assets – including those under lease.

All assets should be maintained in accordance with the schedule.

Repairs should be made to assets as necessary to assets after first checking to assess whether any guarantees exist in respect of the assets.

Every head of department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 or more is promptly prepared and submitted to the council of the municipality for approval.

If so directed by the MM, the maintenance plan shall be submitted to the council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.



The head of department controlling or using the infrastructure asset in question, shall annually report to the council, detailing the extent to which the relevant maintenance plan has been complied with, and the likely effect of any non-compliance may have on the useful operating life of the asset concerned.

### **Deferred Maintenance**

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure assets, the CFO shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans, which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the CFO shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the head of department controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

### **Financial Disclosure requirements**

The financial statements should include disclosure in respect of assets as laid out in GRAP.

### **Guidelines for financial disclosures**

Financial statements should include the following disclosures:

- The measurement bases used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed.
- The depreciation methods used.
- Depreciation charged in arriving at net profit or loss for the period.
- The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and the end of the period.
- A reconciliation of the carrying amount at the beginning and end of the period showing:
  - Additions
  - Disposals
  - Acquisitions through business combinations
  - Increases or decreases during the period resulting from revaluations under paragraphs and from impairment losses recognized or reversed directly in equity under the statement on impairment of assets, if any.



- Impairment losses recognized in the income statement during the period on impairment of assets, if any.
- Impairment losses reversed in the income statement during the period under the statement on impairment of assets, if any.
- Depreciation
- The net exchange differences arising on the translation of the financial statements of a foreign entity, and
- Other movements.

The financial statements should also disclose the following:

- The existence and amounts of restrictions on title, and property
- The accounting policy for the estimated costs of restoring the site of items of property, plant and equipment.
- The amount of expenditures on account of property, plant and equipment in the course of construction.
- The amount of commitments for the acquisition of property, plant and equipment.

The selection of the depreciation method, and the estimation of the useful life, is a matter of judgement. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates, provides financial statements with information, which allows them to review the policies selected by management and enables comparisons to be made with other enterprises. For similar reason, it is necessary to disclose the depreciation allocated in a period and the accumulated depreciation at the end of that period.

An enterprise disclose the nature and effect of change in an accounting estimates that has a material effect in the current period or which is expected to have a material effect in subsequent periods in accordance with the statement on net profit or loss for the period, fundamental errors and changes in accounting policies. Such disclosure may arise from changes in estimate with respect to:

- Residual values
- The estimated costs of dismantling and removing items of property, plant or equipment and restoring the site
- Useful lives, and
- Depreciation method.

When items of property, plant and equipment are stated at revalued amounts, the following should be disclosed:



- The basis used to revalue the assets
- The effective date of the revaluation
- Whether or not an independent valuer was involved
- The nature of any indices used to determine replacement cost
- The carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried under the benchmark treatment in paragraph.
- The revaluation surplus, detailing:
  1. The movement for the period
  2. Any restrictions on the distribution of the balance to shareholders,
  3. The realized and unrealized portions thereof, and
  4. The outside shareholders' share thereof.

Financial statement users also find the following information relevant to their needs:

- The carrying amount of temporarily idles property, plant and equipment.
- The gross amount of any fully depreciated property, plant and equipment that are still in use.
- The carrying amount of property, plant and equipment retired from active use and held for disposal.
- Where the benchmark treatment is used, the fair value of property, plant and equipment where this is materially different to the carrying amount.

## **Other Definitions**

### **Leased assets**

A lease is an agreement whereby the lesser conveys to the lessee in return for payment or series of payments the right to use an asset for an agreed period of time.

A finance lease is a lease that transfers substantially all risks and rewards incident of ownership of an asset.

Examples of situations that would normally lead to a lease being classified as finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price, which is expected to be sufficiently lower than the fair value.
- The lease term is for the major part of the economic life of the asset even if title is not transferred; and



- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

### **Cost of an asset**

Cost of a fixed asset includes the cost of activities (cash equivalent) necessarily incurred to bring the fixed asset to the condition and location essential for its intended use (e.g. purchase price plus transport and installation).

### **Fair Value**

Fair value is the amount for which an asset can be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

### **Residual Value**

Residual value is the net amount that the enterprises expected to obtain for an asset at the end of its useful life after deducting the expected cost of disposal.

### **Impairment Loss**

An impairment loss is the amount by which the carrying amount of an asset exceeds the recoverable amount.

### **Carrying Amount**

Carrying is the amount at which the asset is recognized in the balance sheet after deducting any accumulated depreciation and accumulated impairment losses thereon.

### **Recoverable Amount**

Recoverable amount is the higher of the asset's net selling price and its value in use.

### **Depreciation**

Depreciation is the decline during the accounting period, in value of fixed assets as a result of physical deterioration, normal obsolescence or normal accidental damage.

During the useful life of the asset, the asset will be depreciated from its actual cost price to its residual value. This value is usually nil. Depreciation will commence on the month following the acquisition/completion of the asset.

### **Depreciable Amount**

The depreciable amount of an asset is determined after deducting the residual value of the fixed asset.

### **Construction Contracts**



A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or inter dependent in terms of their design, technology and function or their ultimate purpose or use.

### **Research costs**

Research costs should be recognized as an expense in the period in which they are incurred and should not be recognized as an asset.

### **Development costs**

Development costs of a project should be recognized as an expense in the period in which they are incurred, unless all the following criteria are met: