NSW RURAL FIRE SERVICE

POLICY P4.1.6
FINANCIAL ACCOUNTING FOR NSW RFS ASSETS

ITEM	DESCRIPTION
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SOPs	› SOP P4.1.6-1 Guidelines on Fixed Assets › SOP P4.1.6-2 Guidelines on Intangible Assets
Owner	Executive Director, Executive Services
Contact	Chief Financial Officer
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1 Purpose

1.1 This document outlines the policy for the accounting treatment of fixed and intangible assets (assets) for NSW Rural Fire Service (NSW RFS). It applies to NSW RFS Headquarters (including satellite and warehouse locations), Regional and District offices.

1.2 NSW RFS is required to appropriately account for, value and report on the fixed and intangible assets that it holds as part of the annual reporting process in compliance with relevant accounting standards. This policy is designed to achieve a consistent approach to accounting for fixed and intangible assets that is in line with relevant guidance.

1.3 The accounting treatment of fixed assets will also have an impact on funding arrangements in place. If a fixed asset is to be capitalised into the NSW RFS balance sheet, then the expenditure is made out of Capital funding (as opposed to recurrent funding) and must be approved by the appropriate process for such funding. The proper application of this policy is likely to mean that a large number of IT projects are going to have both a ‘capital’ and a ‘recurrent’ component to their budgets.

1.4 The policy does not cover any assets that are vested in a Local Government Authority.

2 Definitions

2.1 For the purpose of this Policy Document the following definitions apply:

a. **Amortisation**: the systematic allocation of the depreciable amount of an intangible asset over its useful life.

b. **Asset:** a resource:

i. Controlled by an entity as a result of past transaction or event;

ii. From which future economic benefits or service potential are expected to flow to the entity Note: for not-for-profit entities, 'future economic benefits' are synonymous with the notion of service potential.

Examples of assets include cash, inventory, prepayment and Intangible assets. For additional guidance in determining whether an asset is within the scope of this policy, contact the Chief Financial Officer (CFO).

c. **Carrying amount**: the amount at which an asset is recognised after deducting any accumulated amortisation or depreciation and accumulated impairment loss.

d. **Cost:** the amount of cash or cash equivalents paid to acquire an asset at the time of its acquisition or construction, or the fair value of a transferred or donated asset.

e. **Depreciation:** the systematic allocation of the depreciable amount of an asset over its useful life to the period's expense.

f. **Fair value:** the amount for which an asset could be exchanged between knowledgeable and willing parties in an arm's length transaction.

g. **Fixed assets:** are tangible assets that:

i. Are held for use in the production or supply of goods or services, for rental or others, or for administrative purposes; and

ii. Are expected to be used for more than 12 months.

h. **Impairment loss**: the amount by which the carrying amount of an asset exceeds its recoverable amount.

i. **Intangible asset:** are assets that do not have physical substance – e.g. computer software, website development costs, patents and licences, and are expected to be used for more than 12 months. For additional guidance in determining whether an asset is within the scope of this policy, contact the CFO.

j. **Recoverable amount:** the higher of an asset's fair value less cost to sell and its value in use. For a NSW RFS asset, the value in use is the depreciated replacement cost where asset is held for service potential.

k. **Residual value:** The value for which an asset could be sold at the end of its useful life (often called a scrap value). In most cases, this value will be $Nil in the case of an intangible asset

l. **Straight line depreciation:** A method of calculating the depreciation using an equal value for each year of the life of the asset, i.e. an asset may depreciate at 20% each year for the life of the asset.

m. **Useful life:** the period over which an asset is expected to be available for use of the NSW RFS. Most assets will be of benefit for a period of time before they expire, are superseded or become technically obsolete.

3 Policy

Capitalisation Guidelines

3.1 Items costing $5,000 or more individually (e.g. a photocopier) are capitalised and recorded in the approved corporate asset register (currently SAP Fixed Assets Register).

3.2 Items costing $500 or more forming a set or network costing $5,000 or more are capitalised and recorded in the approved corporate asset register. An example would be a set of office furniture consisting of a table and matching chairs, or equipment forming a computer network such as cabling, servers, routers etc (stand alone computer equipment such as PCs, laptops, printers or monitors are not to be included as part of a computer network).

3.3 Items costing less than $5,000 individually (e.g. a shredder, or a fridge) are to be expensed.

3.4 Items costing less than $5,000 individually at risk of misappropriation are to be expensed and recorded in the approved register (currently Enterprise Asset Management (EAM)). The categories of such low value, attractive items are to be determined from time to time by CFO in consultation with Infrastructure Services for recording in EAM. These items should be greater than $500 in value, and serialised, and may include, but not be limited to, the following items:

a. Laptops;

b. Mobile Phones;

c. Tablets;

d. Data projectors;

e. Televisions;

f. Printers;

g. Chainsaws/pumps; and

h. Other portable and attractive items.

3.5 All business unit managers are accountable and responsible for the controlling and recording of portable and attractive items in accordance with clause 3.4.

3.6 Any item having the characteristics in accordance with clause 2.1 is deemed to be an asset irrespective of whether the asset was acquired by the NSW RFS, donated, gifted or bequeathed to the NSW RFS, provided to the NSW RFS by the NSW Government or otherwise obtained by the NSW RFS.

3.7 Assets acquired at no cost (e.g. donated or gifted) are to be recognised at their fair value as at the date of acquisition.

Goods and Services Tax (GST)

3.8 All references to costs in this policy do not include GST. For example, a printer/photocopier machine with a GST inclusive purchase price of $11,000 will be capitalised at a cost of $10,000 with the GST of $1,000 being treated via other accountancy procedures and then claimed back from the ATO.

Maintenance and Restoration Costs

3.9 Day-to-day servicing costs or maintenance are charged as expenses as incurred to the relevant cost centre.

3.10 Where the cost relates to the replacement of a part or component of an asset then this is to be capitalised and it is incumbent on the cost centre to work with Finance as to the appropriate accounting treatment. For example – changes that result in the increased functionality or extend the useful life of an asset would be capitalised. Regular maintenance including replacement parts to bring the asset back to its operationally capacity would not meet this criterion and is to be treated as recurrent expenditure.

Asset Classes

3.11 Assets are recorded in the approved corporate system (currently SAP) under the following classes:

a. Plant and Equipment – includes office equipment, office furniture, at Headquarters locations;

b. Computer equipment – includes all computer hardware and software required to make it operate;

c. Intangibles – includes stand alone software;

d. Low Value Assets (as per clause 3.4);

e. Motor vehicles (excluding red fleet); and

f. Leasehold improvements.

3.12 SOP P4.1.6-1 Guidelines on Fixed Assets provides details.

Intangible Assets

3.13 An intangible asset is a non-monetary asset without physical substance and will be recognised as an asset if its capital cost equals or exceeds $5,000. Most commonly such assets comprise software and license costs in certain circumstances.

3.14 SOP P4.1.6-2 Guidelines on Intangible Assets provides details and examples related to general principles and either the external acquisition of software, or software developed in-house.

3.15 Business units contemplating either the acquisition or in-house development of an intangible asset must firstly liaise with NSW RFS Finance section to ensure clarity around what eligible cost components are to be properly capitalised, and which cost components are to be expensed. A formal second review by the Manager, Financial Accounting or the CFO, will occur prior to capitalisation being made in the approved corporate system (currently the SAP Fixed Asset Register).

Depreciation and amortisation

3.16 Depreciation recognises the ‘wearing out’ and technical obsolescence of assets. Depreciation and amortisation is the progressive reduction of an asset’s value over its useful life to the NSW RFS. The straight-line method of depreciation is used.

3.17 Plant and equipment, and intangibles, are to be written off by expensing the depreciable amount over their useful lives.

3.18 Leasehold improvements (fit outs) are depreciated over the period of the lease.

3.19 Depreciation of motor vehicles is calculated on the acquisition cost less the estimated residual value and then divided by the estimated useful life until trade-in (usually 3 years).

4 Related documents

- *NSW Public Finance and Audit Act 1983*
- *State Records Act 1998*
- TPP15-04 Accounting Policy - Financial Reporting Code for NSW General Government Sector Entities
- TPP06-06 Accounting Policy - Guidelines for Capitalisation of Expenditure on Property, Plant and Equipment
- Australian Accounting Standard Board (AASB116) Property, Plant and Equipment
- Service Standard 5.4.1 Asset Disposal
- Policy P4.1.3 Procurement
- Policy P8.1.2 Fleet Management of Passenger Motor Vehicles

5 Amendments

AMENDMENT DATE	VERSION NO	DESCRIPTION
TBA	1.0	Initial release

SOP P4.1.6- 1
Guidelines on Fixed Assets

1 Purpose

1.1 This SOP provides guidance for the accounting treatment of fixed assets for the NSW Rural Fire Service (NSW RFS).

1.2 The SOP applies to all fixed assets purchased or developed by all areas of the NSW RFS.

2 Procedures

2.1 NSW RFS is required to apply a consistent accounting treatment to fixed assets. Due to their nature, several practical questions arise when accounting for these items, including:

a. What costs can be included in the amount capitalised for a fixed asset (e.g. maintenance or upgrades of existing plant and equipment)?

b. How is a fixed asset to be depreciated? What is the appropriate useful life for accounting purposes?

c. How to account for componentisation of asset additions?

d. How to account for revaluation and impairment of fixed assets?

2.2 Expenditure on a fixed asset should be recognised as a recurrent expense when it is incurred; unless it forms part of the cost of a fixed asset that meets the appropriate recognition criteria as set out in clause 2.7 of this SOP.

2.3 Any expenditure on a fixed asset that meets the appropriate recognition criteria under this policy is to be approved in advance by the Senior Financial Delegate, or by a NSW RFS Executive Committee and capitalised as a fixed asset.

2.4 Fixed assets are to be depreciated on a straight-line basis over their estimated useful lives to their estimated residual values, unless another method of depreciation provides a better representation of the consumption of the asset.

2.5 A fixed asset that is no longer used by NSW RFS or is replaced by another asset is to be written off to the operating statement immediately.

2.6 Assets shall be assessed for impairment each year to determine whether there is any indication that an asset is impaired.

Fixed asset – recognition criteria

2.7 A fixed asset is a monetary asset with physical substance and will be recognised as an asset by NSW RFS if the following criteria are met:

a. **The cost must exceed the capitalisation threshold**

The fixed asset must have a cost that exceeds the capitalisation threshold of $5,000. Purchases less than $5,000 are expensed in the year of acquisition. Multiple assets of similar nature may be grouped together for capitalisation if it exceeds the threshold. Example: purchase of 200 chairs at $50 each.

b. **The asset must be separately identified from other assets**

A fixed asset must be capable of being separated or divided from NSW RFS and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability.

c. **NSW RFS must control the asset**

Evidence of this control may include a transaction document, supplier invoice or donation document. Example – Payments for purchase of fixed asset would be treated as a capital expenditure. However, costs relating to the maintenance of existing asset would be treated as an expense (recurrent expenditure).

d. **NSW RFS must expect to generate probable future economic benefits**

Future economic benefits flowing from a fixed asset may include cost savings, revenue from the sale or products/services or other benefits resulting from the use of the asset. This would also include benefits that result from NSW RFS being able to offer a new or different service to the community.

This would usually be demonstrated through the preparation of a Business Case, Cost-Benefit analysis or similar which documents the benefits of the item/project and is approved by an appropriate level of NSW RFS management under this policy.

Example - changes that result in the increased functionality or extend useful life of the plant and equipment would both meet this criterion. Regular maintenance including replacement parts to bring the plant and equipment back to its operational capacity would not meet this criterion and is to be treated as recurrent expenditure.

e. **Asset Under Construction**

Any project of a capital nature occurring over an extended period of time shall be recognised in the balance sheet as a Work In Progress (WIP). Once the WIP is fully commissioned and available for use, it shall be depreciated over its useful life in accordance with clause 2.14 below.

f. **Other criteria**

The cost of the fixed asset must not have previously been expensed. Items that have previously been recorded as recurrent expenditure cannot be 'reversed' and retrospectively treated as capital expenditure.

Measurement of cost

2.8 A fixed asset shall be initially measured at cost unless it is granted to NSW RFS at no cost.

2.9 If any fixed assets are granted to NSW RFS at no cost, they are to be recorded at fair value at date of acquisition.

2.10 The cost of the fixed asset comprises:

a. Its purchase price; and

b. Any directly attributable expenditure on preparing the asset for its intended use.

2.11 Examples of directly attributable expenditure are:

a. Employment costs of personnel specifically engaged to bring the asset to its working condition (e.g. a specifically engaged project manager or plant manager to complete the equipment installation);

b. Cost of site preparation (e.g. costs associated with decommissioning existing asset in preparation for the installation of new asset); or

c. Other costs arising directly from bringing the asset to its working condition (e.g. delivery, handling, installation, and professional fees).

2.12 Examples of expenditure that do **not** form part of the cost of a fixed asset:

a. Other costs of introducing a new asset to service (including advertising and promotion costs relating to the new functionality, costs of training staff on how to use the item);

b. Administration and general overhead costs of other business areas;

c. Ongoing maintenance or support costs relating to the asset; or

d. Costs associated with decommissioning and disposal of an asset that is being replaced by the new asset.

2.13 Assets acquired no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition. An item of property, plant and equipment may be gifted or contributed to the entity. For example, land may be contributed to the entity at no or nominal consideration. An asset may also be acquired for no or nominal consideration through the exercise of powers of sequestration. Under these circumstances the cost of the item is its fair value as at the date it is acquired.

Useful Life

2.14 Fixed assets are to be depreciated on a straight-line basis over their estimated useful lives to their estimate residual value.

2.15 NSW RFS will assess the useful life at the time of initial recognition of a fixed asset based on available evidence. The useful life is the best estimate of the amount of time that NSW RFS management believe the asset will be used by the organisation before the asset is superseded, replaced or retired.

2.16 Factors for assessing the useful life of a fixed asset include:

a. The expected usage of the asset by NSW RFS;

b. Typical product life cycles for the asset and public information on estimates on useful lives of similar assets that are used in a similar way (e.g. ATO assessments of useful life);

c. Technical, technological, commercial or other types of obsolescence;

d. The stability of the industry in which the asset operates and changes in demand for products/services generated from the asset (e.g. changes to equipment specification);

e. Level of maintenance expenditure required to obtain the expected future economic benefits from the asset and the ability/intention to reach such a level; and

f. Whether the useful life of the asset is dependent on the useful life of other assets of the entity.

2.17 In limited circumstances, a fixed asset will have a useful life that cannot be determined reliably. In these circumstances, please consult the CFO for guidance.

2.18 In most cases, the residual value of a fixed asset will be $Nil as the asset is unlikely to have a value for which it can be sold or scrapped. Evidence of a residual value would include documented commitment by a third party to purchase the asset at the end of the useful life, or the existence of an active market for the asset.

Impairment

2.19 Assets shall be assessed for impairment each year to determine whether there is any indication that an asset is impaired. If such indication exists NSW RFS should estimate the asset's recoverable amount. If the recoverable amount is below the asset's carrying amount, the asset shall be written down to its recoverable amount.

Subsequent Expenditure

2.20 A significant number of fixed assets have subsequent costs associated with their maintenance and/or upkeep. For capitalisation of any additional expenditure to occur, the criteria above must be separately satisfied in relation to the subsequent expenditure.

2.21 In relation to plant and equipment, subsequent expenditure needs to be distinguished between regular maintenance (to be treated as recurrent expenditure when incurred) and replacement of parts which enhance functionality or extend useful life whereby demonstration of probable future economic benefits is possible.

De-recognition of assets

2.22 An item of property, plant and equipment shall be derecognised when it is disposed of and no future economic benefits are expected from its use or disposal. Gain or loss on de-recognition shall be recognised in the income statement in the period in which de-recognition occurs.

Significant Components

2.23 An asset may consist of several different and significant physical components. Where an item of property, plant and equipment comprises two or more significant components, with substantially different useful lives, then each component is treated separately for depreciation purposes and depreciated over its individual useful life. Where a component is replaced or restored, the old component is written off, to avoid double counting and the new component capitalised, if its cost is recoverable.

Major inspection and overhauls

2.24 Major repair and maintenance programs carried out as part of a periodic inspection and overhaul and that result in future economic benefits may qualify for recognition. Where major inspection is carried out the cost is recognised as part of the carrying amount of the item of asset as a replacement if it meets the asset recognition criteria.

2.25 Cost of the day-to-servicing of an item of asset shall not be recognised as an asset and are charged to income statement as incurred.

Assets purchase under finance lease

2.26 Where non-current assets are acquired through a finance lease, the asset is recognised at its fair value at the commencement of the lease term.

Stocktakes

2.27 A stocktake of fixed assets shall be undertaken at least once during each financial year or on a progressive cyclical basis, or at such other date or dates as the exigencies of the NSW RFS may require. Discrepancies identified, reported and subsequently written-off shall be suitably adjusted in the relevant fixed asset register.

3 Related forms

- None

SOP P4.1.6 - 2
Guidelines on Intangible Assets

1 Purpose

1.1 This SOP provides guidance for the accounting treatment of intangible assets (intangibles) for the NSW RFS. It is designed to achieve a consistent approach to accounting for intangible assets that is in line with relevant guidance.

1.2 The SOP applies to all intangible assets purchased or developed by all areas of the NSW RFS.

2 Procedures

2.1 NSW RFS is required to apply a consistent accounting treatment to Intangible assets. Due to their nature, several practical questions arise when accounting for these items, including:

a. When does expenditure constitute the generation of an intangible asset (as opposed to it being recognised as recurrent expenditure)?

b. What items can be included in the cost of an intangible asset (e.g. maintenance or upgrades of existing software)?

c. How is an intangible asset to be amortised? What is the appropriate useful life and residual value for accounting purposes?

2.2 The accounting treatment of intangible assets will also have an impact on the funding arrangements in place. If an intangible asset is to be capitalised into the NSW RFS balance sheet, then the expenditure is made out of Capital funding (as opposed to recurrent funding) and must be approved by the appropriate process for such funding. The proper application of this policy is likely to mean that a large number of IT projects are going to have both a 'capital' and a 'recurrent' component to their budgets.

2.3 Expenditure on an intangible item should be recognised as a recurrent expense when it is incurred; unless it forms part of the cost of an intangible asset that meets the appropriate recognition criteria as set out in clause 2.8 of this SOP.

2.4 Any expenditure on an intangible item that meets the appropriate recognition criteria under this policy is to be approved in advance by the Capital Expenditure Committee and capitalised as an intangible asset.

2.5 When NSW RFS is undertaking a project or program of works which includes expenditure of an intangible nature, the intangible costs shall be tracked and reported separately to the non-intangible costs to allow the proper application of this SOP.

2.6 Intangible assets are to be amortised (depreciated) on a straight-line basis over their estimated useful lives to their estimated residual values, unless another method of amortisation provides a better representation of the consumption of the asset.

2.7 An intangible asset that is no longer used by NSW RFS or is replaced by another asset is to be written off to the operating statement immediately.

Intangibles – recognition criteria

2.8 An intangible asset is a non-monetary asset without physical substance and will be recognised as an asset by NSW RFS if the following criteria are met:

a. **The cost must equal or exceed the capitalisation threshold of $5,000**.

Multiple assets of similar nature may be grouped together for capitalisation if it exceeds the threshold. Example: purchase of 100 copies of Microsoft Office 2010 at $200 each.

b. **The asset must be separately identified from other assets**.

An Intangible asset must be capable of being separated or divided from NSW RFS and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability.

For example, computer software that is an integral part of related hardware, such as software to operate plant equipment would be treated as part of the hardware.

c. **NSW RFS must control the asset**

Evidence of this control may include a licence, patent or other recognised property protection. Physical evidence of the intangible asset may not necessarily exist, but there must be an enforceable right in place to use the asset or to restrict its use from others.

A 12 month licence for software would usually be treated as a prepayment (recurrent expenditure); however an open-ended (unlimited) licence would usually be treated as an intangible asset (capital expenditure).

For example, payments for licences to use software for a specific period (e.g. annual licences) would not ordinarily meet this criterion as NSW RFS is paying for the use of an asset rather than the asset itself

d. **NSW RFS must expect to generate probable future economic benefits**

Future economic benefits flowing from an intangible asset may include cost savings, revenue from the sale or products/services or other benefits resulting from the use of the asset. This would also include benefits that result from NSW RFS being able to offer a new or different service to the community.

This would usually be demonstrated through the preparation of a Business Case, Cost-Benefit analysis or similar which documents the benefits of the item/project and is approved by an appropriate level of NSW RFS management under this policy.

For example, changes that result in the increased functionality of NSW RFS computer system and the development of new monitoring technologies (for internal use and/or sale) would both meet this criterion. Regular maintenance including application of patches, 'bug fixes' and standard system upgrades that do not result in significant additional functionality would not meet this criterion and is to be treated as recurrent expenditure.

e. **Other criteria**

The intangible asset must be expected to be used for more than 12 months.

The cost of the intangible asset must not have previously been expensed. Items that have previously been recorded as recurrent expenditure cannot be 'reversed' and retrospectively treated as capital expenditure.

Measurement of cost

2.9 An intangible asset shall be initially measured at cost.

2.10 If any intangible costs are granted to NSW RFS at no cost, they are to be recorded at a nominal value (as opposed to their fair value).

2.11 The cost of the intangible asset comprises (1) its purchase price and (2) any directly attributable expenditure on preparing the asset for its intended use.

2.12 Examples of directly attributable expenditure are:

a. Employment costs of personnel specifically engaged to bring the asset to its working condition (e.g. a specifically engaged project manager or software developer to complete a software installation); and

b. Other costs arising directly from bringing the asset to its working condition.

2.13 Examples of expenditure that do **NOT** form part of the cost of an intangible asset:

a. Other costs of introducing a new asset to service (including advertising and promotion costs relating to the new functionality, costs of training staff on how to use the item);

b. Administration and general overhead costs of IT or other business areas;

c. Ongoing maintenance or support costs relating to the asset; and

d. Costs associated with decommissioning and disposal of an asset that is being replaced by the new asset.

Useful Life

2.14 Intangible assets are to be amortised (depreciated) on a straight-line basis over their estimated useful lives to their estimate residual value, unless another method of amortisation provides a better representation of the consumption of the asset.

2.15 NSW RFS will assess the useful life at the time of initial recognition of an intangible asset based on available evidence. The useful life is the best estimate of the amount of time that NSW RFS management believe the asset will be used by the organisation before the asset is superseded, replaced or retired.

Subsequent Expenditure

2.16 A significant number of intangible assets have subsequent costs associated with their maintenance and/or upkeep. For capitalisation of any additional expenditure to occur, the criteria above must be separately satisfied in relation to the subsequent expenditure.

2.17 In relation to software, subsequent expenditure needs to be distinguished between ‘bug fixes’ (to be treated as regular maintenance and treated as recurrent expenditure when incurred) and coding improvements (which can be capitalised and added to the carrying value). Note that the coding improvements should enhance functionality of the program (e.g. through inclusion of additional features or expansion of current capabilities) whereby demonstration of probable future economic benefits is possible.

Internally generated Intangible assets

2.18 Often, NSW RFS will generate an intangible asset using internal resources rather than purchasing them outright. Examples of internally generated intangible assets include:

a. Certain costs of developing the NSW RFS website; and

b. Costs of internally developed software.

Recognition

2.19 Internally generated intangible assets are also referred to as research and development costs. Typically, these assets will be generated over a period of time, often as a discreet project undertaken by NSW RFS staff. Such projects will almost always involve both elements of cost: those that are eligible to be capitalised as part of the cost of an intangible asset, and those that are not and that must be treated as recurrent expenditure.

2.20 To assess whether an internally generated intangible asset meets the criteria for recognition, NSW RFS must firstly classify the generation of the asset into 2 phases:

a. Research phase (where costs must be treated as recurrent expenditure); and

b. Development phase (where costs may be capitalised, provided they meet the requirements of this SOP).

2.21 If the research phase cannot be distinguished from the development phase, the expenditure on that project will be treated as if it were incurred in the research phase only i.e. it is treated as recurrent expenditure.

Research phase

2.22 Research is the initial stage of a project - typically where preliminary or exploratory work occurs at NSW RFS. In this stage NSW RFS is not able to demonstrate than an intangible asset exists that will ultimately generate probable future economic benefits.

2.23 Indicators that the project is still in the research stage include:

a. Final approval of spending funds on the whole project has not been given by the NSW RFS executive (e.g. only ‘seed’ funding has been approved);

b. A number of options on how to proceed are being compared, investigated and/or analysed and a single alternative has not yet been selected to progress; and

c. The final scope of the work or the design of the finished asset has not been completed.

Development Phase

2.24 Development involves the creation of new or substantially improved processes, systems or services prior to the commencement of their implementation.

2.25 Indicators that the project is in the development stage include:

a. Final approval for the project to proceed has been granted;

b. A design or blueprint has been developed.

2.26 Typical work in the development phase includes:

a. Detailed design of a solution;

b. Programming and development of software;

c. Quality Control processes; and

d. User Acceptance testing (note: not training of users).

2.27 An intangible asset arising from development (or from the development phase of an internal project) is only recognised if it is likely to be completed and actually used. An intangible asset in the course of development is classified as intangible capital work in progress.

2.28 An intangible asset arising from development can be recognised if **all** of the following can be demonstrated:

a. The technical feasibility of completing the intangible asset so that it will be available for use (or sale);

b. NSW RFS' intention to complete the intangible asset and use (or sell) it; and

c. How the intangible asset will generate probable future economic benefits e.g. NSW RFS can demonstrate how the asset will facilitate a new or different service to our customers or that there is a market for the output of the asset/the asset itself.

Note: This would usually be demonstrated through the preparation of a Business Case, Cost-Benefit analysis or similar which documents the benefits of the item/project and is approved by an appropriate level of NSW RFS management under the relevant policy.

Measurement of cost – internally generated intangibles

2.29 Costs of an internally generated intangible asset includes all costs incurred from the date on which all of the recognition criteria (for both purchased as well as internally generated intangible assets) are met. If costs have been expensed prior to the recognition criteria being met, they may not be reinstated upon satisfaction of the criteria.

2.30 Cost includes all directly attributable costs necessary to create/product/prepare an asset to be capable of operating in the manner intended by management. These costs may include:

a. Expenditure on materials and services used or consumed in generating the intangible asset;

b. The employment-related costs of personnel (skill hire and contract staff) directly engaged to generate the asset;

c. Fees to register a legal right (e.g. patent, licence or trademark).

2.31 The following items are specifically excluded from the cost of an internally generated intangible asset:

a. Administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use; and

b. Expenditure on training staff to operate the asset.

2.32 The recognition point for NSW RFS customised/developed software is normally upon obtaining signoff from the Capital Expenditure Committee for the commencement of the project (i.e. costs incurred subsequent to signoff are development costs and can be capitalised). Costs incurred prior to signoff of the project are typically research costs - expenditure prior to signoff is typically research in nature (e.g. consideration of different alternatives, gap analysis between alternative systems and current system/s).

2.33 Capitalisation of costs will generally cease upon implementation, unless if it can be demonstrated that any costs incurred after this point enhance functionality (i.e. generate probable future economic benefits). Routine maintenance costs and bug fixes are to be expenses as and when incurred.

Website Costs

2.34 A website developed by NSW RFS is an internally generated intangible asset.

2.35 Future economic benefits (i.e. criteria for recognition) will be generated from a web site only when it is capable of generating revenue, where a net positive cash flow can be demonstrated (e.g. cost savings) or where enhanced functionality is created for users of the website.

Impairment

2.36 Where an asset is determined to have an indefinite useful life, the entity must conduct impairment tests annually, as well as whenever there is an indication that the intangible may be impaired. Furthermore, the presumption that the asset has an indefinite life shall also be reviewed. Carrying amount shall be compared to recoverable amount (the greater of fair value less costs to sell or value in use) when there are indicators that an impairment may have been suffered. The effects of impairment shall be reflected in income statement.

Items to be recognised as an expense

2.37 In accordance with accounting standards, the following types of expenditure should always be treated as recurrent expenditure when incurred:

a. Research;

b. Start-up activities, unless the expenditure qualifies to be included in the cost of an item of property, plant and equipment. Start-up costs include: expenditure prior to starting new operations or launching new products or processes (i.e. pre-operating costs);

c. Training activities;

d. Advertising and promotional activities;

e. Relocating or re-organising part/all of NSW RFS activities (i.e. an asset may not be recognised for relocation costs); and

f. Expenditure on intangibles initially recognised as an expense. Though other parts of the policy may specify that items can be capitalised, if an item of expenditure has already been expensed, it cannot be reversed and subsequently capitalised as part of the cost of an intangible asset.

3 Related forms

- None