

# Every Child Matters Academy Trust

## Fixed Asset Policy

### Introduction

The purpose of this policy is:

- To provide guidance when dealing with capital expenditure and the purchase and disposal of fixed assets (as defined below);and
- To provide guidance on other aspects of fixed asset accounting such as depreciation and revaluation

### Definitions

#### *Accumulated Depreciation*

The total accumulated amount charged to the income and expenditure account to reflect the use of the asset by the business, over its useful economic life. The value of the fixed asset on the balance sheet will be reduced over the useful life of the asset.

#### *Capitalisation*

The addition to the balance sheet of an amount in respect of an asset which has come into the possession of the School, whether through purchase or donation or gift in kind.

#### *Carrying amount/net book value*

The purchase cost (or valuation) of a fixed asset less the accumulated depreciation on that fixed asset.

#### *Depreciation*

The charge made to the income and expenditure account each month to reflect the use of the asset by the business during the period.

#### *Fixed Assets*

A fixed asset is an asset that has a useful life greater than one year. This includes land, buildings, office furniture and equipment (e.g. air conditioning, heating systems), vehicles, IT equipment and other classroom equipment. These are included in the School balance sheet. Consumables which are used on a daily basis are not fixed assets.

#### *Fixed Asset Register*

An inventory of all fixed assets which must include date purchased, the depreciation rate, net book values and the depreciation.

#### *Grant*

Funds given to the School by a third party, subject to complying with any terms and conditions attached to the grant, to purchase unspecified fixed assets.

#### *Recoverable Amount*

The cash proceeds when an asset is disposed.

### Categories of Fixed Assets

This list describes the categories of fixed assets most commonly used by Schools. It is not exhaustive and other categories may be added but only with the approval of the Business Director.

#### *Freehold and Long Leasehold Buildings*

This is the cost of acquiring freehold and long leasehold land and buildings. It includes all external costs incurred as part of the acquisition such as legal and professional fees as well as other costs such as building costs which are necessary in order to bring the asset into use.

The MAT must seek and obtain prior written approval from the Secretary of State, via the EFA when acquiring a freehold on land or buildings.

### *Fixtures and Fittings*

Items such as shelving, fixed or free standing, soft furnishings and general furniture such as chairs, desks which will last a number of years but not as long as the building in which they reside.

### *Plant and Equipment*

These are items such as air conditioning, lifts, heating system, diesel generators and classroom equipment which will be used for several years.

### *Computer Equipment and Software*

Cost of the computer hardware used throughout the School along with 'significant' software.

## **Criteria for Capitalisation of Assets**

### *Expenditure Eligible for Capitalisation*

Authorised and approved expenditure for an item which meets the definition of a fixed asset, and exceeds £5,000, should be identified and flagged as a fixed asset. The asset should be recognised on the School balance sheet.

The cost of the fixed asset should include the cost of the asset and any other costs directly attributable in bringing the asset into a condition where School employees can use it. Such costs include, but should not be limited to:

- Costs of enhancements (not repairs and renewals), which significantly extend the life of the asset and would not be carried out on a regular basis (e.g. building improvements).
- Costs of external consultants whose work is directly attributable to the implementation of the asset.

### *Expenditure Not Eligible for Capitalisation*

Individual items costing less than £500, unless purchased in bulk as part of a capital project.

- Costs of staff training as part of normal business activities. Administration and general overheads for running day to day activities.
- Planning costs relating to initial activities such as option appraisals, feasibility studies, identifying appropriate hardware and applications and selecting suppliers and consultants.
- Cost of abortive work.
- Post implementation support and maintenance costs related to software installation.

## **Accounting Treatment (valuation in balance sheet)**

Only costs eligible for capitalisation should be entered into the accounts.

Costs must be allocated against individual fixed assets.

The cost of the asset includes the purchase price (including import duties and non-refundable taxes) and any other direct attributable costs of bringing the asset to working condition. Discounts received should be deducted from the total cost.

Expenditure on enhancing a fixed asset already recognised on the balance sheet should be added to the carrying amount where the expenditure meets the definition above.

Fixed assets purchased with grant money must be clearly identified in the fixed asset register.

## **Revaluation of Fixed Assets**

Freehold and long leasehold land and buildings will be revalued by independent valuers

every five years.

Gains on revaluation of fixed assets must be credited to the relevant reserve as follows:

- Land and building revaluations should be transferred to a designated revaluation reserve.
- Losses on revaluation must be debited to the relevant reserve (revaluation, fixed assets revaluation reserve) to the extent that gains have previously been recognised and recorded.

## Depreciation

Depreciation is charged against fixed assets over the expected useful life of the asset to reflect the usage of the asset over time.

The Trust uses the straight line method of depreciation where the asset cost is written down in equal annual amounts over its expected useful life.

The period over which the asset is depreciated varies according to the category of the asset.

All tangible fixed assets, other than assets in progress must be depreciated as follows:

ASSET GROUP	DEPRECIATION METHOD
Land	No depreciation
Buildings and Building modifications	2% (50 yrs) Straight line
Plant and Machinery	20% (5 yrs) Straight line with nil residual value
Furniture and Equipment	10% (5yrs) Straight line with nil residual value
Computer Equipment and Software	25% (4 yrs) Straight line with nil residual value
Assets Under Construction	These are not depreciated until the asset is brought into use.
Motor Vehicles / Minibuses	20% (5 yrs) Straight line with nil residual value.

Depreciation will be charged from the month in which a newly purchased asset comes into use.

Depreciation ceases to be charged in the month the asset is disposed.

## Disposal of Fixed Assets

When a fixed asset is sold or otherwise disposed, a profit or loss may arise. This is the difference between the total sale proceeds, less the cost of disposing of the asset, and the net carrying amount of the asset.

The profit or loss arising on disposal should be recognised as follows:

- Profits on disposal of fixed assets must be included in the income and expenditure account under 'profit or loss on sale of assets'.
- Losses on disposal of fixed assets must be treated as additional depreciation and included in the relevant account within the income and expenditure account.

Any asset that is lost or destroyed, and subsequently replaced through insurance proceeds should be removed from the balance sheet. The profit or loss arising (the difference between carrying amount and insurance proceeds) must be recognised in the income and expenditure account under profit and loss on sale of fixed assets. The replacement asset is capitalised at cost in the normal way.

The Trust must seek and obtain prior written approval from the Secretary of State, via the EFA, for the following transactions:

- Disposing of a freehold on land or buildings; and
- Disposing of heritage assets beyond any limits set out in the trust's funding

agreement in respect of the disposal of assets generally. Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture, as defined in applicable financial reporting standards.

The Trust may **dispose of any other fixed asset (i.e. other than land, buildings and heritage assets as described above)** without the approval of the Secretary of State.

The Trust must ensure that any disposal maintains the principles of regularity, propriety and value for money. This may involve public sale where the assets have a residual value.

### **Custodial Review**

The fixed asset register must be formally checked to the assets held at least once a year by the Business Director.

Approved by the Resources Committee June 2018  
To be reviewed June 2020

Chair \_\_\_\_\_ CEO \_\_\_\_\_