



ORE VALLEY HOUSING ASSOCIATION

CAPITALISATION AND DEPRECIATION POLICY

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ORE VALLEY HOUSING ASSOCIATION LTD

CAPITALISATION AND DEPRECIATION POLICY

1.0 INTRODUCTION

- 1.1 This policy describes our arrangements for the capitalisation and depreciation of fixed assets.

2.0 CAPITALISATION

2.1 Housing properties

Housing properties are included in the balance sheet at historical cost, which is made up of the following:

- the cost of acquiring the land and buildings
- development expenditure

A housing property will always comprise of several components with substantially different useful economic lives. Each major component should be accounted for separately and depreciated over its individual useful economic life. Where component accounting is adopted it must be applied on a consistent basis to all assets in the same class. Land should always be dealt with as a separate asset

The Association has decided to split the properties into the following components:

- Land
- Structure
- Roof
- Windows and doors
- Electrical system
- Bathroom
- Kitchen
- Boiler
- Pipework and radiators
- External Wall Insulation cladding (EWI) added to 'no fines' properties, 2013

Expenditure on works to existing properties should be capitalised where it represents the replacement or restoration of an item that has been treated separately and depreciated over its individual useful economic life.

Works, which result in an enhancement of economic benefits of the asset (eg. An increase in the net rental stream over the life of the property), should be deemed to be improvements and capitalised and works which do not should be expensed.

When a component of a housing property is replaced, the old component and the associated Scottish Housing Grant (SHG) will be disposed through the income and expenditure account. The new component will be capitalised and depreciated over the useful economic life.

2.2 Other fixed assets

Other fixed assets are included in the balance sheet at historical cost.

- this category of fixed assets may include properties, land, office equipment, computer equipment and motor vehicles.
- items costing more than £1000 are capitalised in the balance sheet and depreciated over their useful economic lives. Assets costing under £1,000 will not be capitalised, but will be written off to the income and expenditure account in the year of acquisition.

2.3 Social housing grants and other grants

Where SHG is a contribution towards the capital costs of a scheme and the properties are included at historical cost, the total grant receivable should be shown on the balance sheet as a deduction from the cost of housing properties. SHG should be shown separately from other grants on the face of the balance sheet because of conditions on recovery on the disposal of the property.

SHG is allocated proportionately over the original historic cost of the housing properties (land and the individual components) to which it was originally awarded. When a component of a housing property is replaced, the old component and the associated SHG will be disposed through the income and expenditure account. If the replacement component has been partly funded by SHG this will be shown on the balance sheet as deduction from the cost of this component.

The treatment of other grants relating to land and property should normally follow that recommended for SHG.

3.0 DEPRECIATION

The fundamental objective of depreciation is to reflect in operating surplus the cost of the use of the assets (ie. amount of economic benefits consumed) in the period.

3.1 Housing properties

The depreciable amount of housing properties should be written off in the income and expenditure account on a systematic basis that reflects as fairly as possible the pattern in which the asset's economic benefits are consumed over its useful economic life.

Depreciation should be based on the amount at which housing properties are carried in the balance sheet. Freehold land should not be depreciated. Buildings, and other components, and land should therefore be treated separately and depreciated over its individual useful economic life as follows:

- Land - nil
- Structure – over 75 years
- Roof - over 50 years
- Windows and doors – over 25 years
- Electrical system – over 30 years
- Bathroom – over 30 years
- Kitchen – over 20 years
- Boiler – over 15 years
- Pipework and radiators – over 15 years

External Wall Insulation cladding (EWI) – over 30 years (added 2013)

The useful economic life of every component should be reviewed on a regular basis.

NB-One year depreciation is charged on individual component replacement in the first year. No depreciation is charged in the year of disposal of any component. Any gain/loss incurred on the disposal of a component, is offset/charged as (accelerated) depreciation.

The first year depreciation charge is pro-rated on date of acquisition for all new properties.

3.2 Other fixed assets

Other fixed assets may include land, retail units, vans, computer equipment and office equipment, (which includes furniture and fittings) and these will be depreciated over their useful economic life. The current rates of depreciation are:

- Land - nil
- Properties – over 50 years & over 5 years (ramp)
- Office equipment – over 4 years
- Computer equipment – over 4 years
- Vehicles – 4 years

The depreciation charge for the year of acquisition or disposal, is pro-rated.

4. **FIXED ASSET REGISTER**

Fixed asset registers will be maintained on Excel for both Housing properties and other fixed assets, and will include:

- details of asset
- date of purchase
- cost
- depreciation

The fixed asset registers will be reconciled with the nominal ledger quarterly.

5.0 **MONITORING AND REVIEW**

- 5.1 The Association will continuously monitor the operation of the Capitalisation and Depreciation Policy.
- 5.2 The Chief Executive is responsible for ensuring that this policy, and the procedures which support it, are implemented by all staff concerned.
- 5.3 The Chief Executive will ensure that all staff concerned receive the necessary training in the application of the capitalisation and depreciation policy and procedures.