

CF013	SIGNIFICANT ACCOUNTING POLICIES		
POLICY OWNER:	Council		
DEPARTMENT:	Office of the CEO	RESPONISBLE OFFICER:	DCEO
CREATION DATE:	23/08/2022	REVIEW SCHEDULE:	Annually
RELATED PROCEDURES:			
RELATED FORMS:			
RELATED DELEGATIONS:			
RELATED POLICIES:			
LEGISLATION:			
DOCUMENT CONTROL			
DATE REVIEWED:	REVIEWED BY:	CHANGES (IF ANY):	ENDORSED BY COUNCIL:
23/08/2022	Council	Nil	FC7/8/22
28/11/2023	Council	Nil	OCM 11/11/23
24/09/24	Council	Minor Changes: Refer minutes of meeting.	OCM03/09/24

CF013 Significant Accounting Policies

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OBJECTIVES

To provide a framework for the financial management of the Shire that is clear, transparent, consistent and complies with statutory obligations and requisite Australian Accounting Standards.

POLICY STATEMENT/S

AAS means the Australian Accounting Standards.

AASB means Australian Accounting Standards Board.

IFRS means International Financial Reporting Standards.

The following significant accounting policies have been adopted by the Shire in the preparation of the Annual Financial Report.

- Basis of Preparation** – The financial report is a general-purpose financial report which has been prepared in accordance with Australian Accounting Standards (as they apply to local governments and not-for-profit entities), other mandatory professional reporting requirements and the Local Government Act 1995 (as amended) and accompanying regulations (as amended). The report has also been prepared on the accrual basis under the convention of historical cost accounting as modified by the accounting treatment relating to the revaluation of financial assets and liabilities at fair value through profit and loss and certain classes of non-current assets.
- Critical Accounting Estimates** - The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income, and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results of



this experience and other factors combine to form the basis of making judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

c. The Local Government Reporting Entity - All Funds through which the Council controls resources to carry on its functions have been included in the financial statements forming part of this financial report. In the process of reporting on the local government as a single unit, all transactions, and balances between those funds (for example, loans and transfers between Funds) have been eliminated. All monies held in the Trust Fund are excluded from the financial statements, but a separate statement of those monies appear in the financial report.

d. Goods and Services Tax - In accordance with recommended practice, revenues, expenses and assets capitalised are stated net of any GST recoverable. Receivables and payables in the Balance Sheet are stated inclusive of applicable GST.

e. Cash and Cash Equivalents - Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included as short-term borrowings in current liabilities in the statement of financial position..

f. Trade and Other Receivables - Trade receivables, which generally have 30 - 90-day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less any allowance for uncollectible amounts. Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that they will not be collectible.

g. Inventories - General Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventories held from trading are classified as current even if not expected to be realised in the next 12 months

Land Held for Resale - Land purchased for development and/or resale is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development and interest incurred on the financing of that land during its development. Interest and holding charges incurred after development is complete are recognised as expenses. Revenue arising from the sale of property is recognised in the Income Statement as at the time of signing a binding contract of sale. Land held for resale is classified as current except where it is held as non-current based on Council's intention to release for sale.

h. Fixed Assets - Initial Recognition - All assets are initially recognised at cost. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed includes the cost of all materials, direct labour and variable and fixed overheads.



Revaluation - Certain asset classes may be revalued on a regular basis such that the carrying values are not materially different from fair value. For infrastructure and other asset classes where no active market exists, fair value is determined to be the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on a basis to reflect the already consumed or expired future economic benefits. Those assets carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses, are to be revalued with sufficient regularity to ensure the carrying amount does not differ significantly from that determined using fair value at report date.

Land under Roads - Land under roads is excluded from infrastructure in accordance with the transition arrangements available under AASB 1045 and in accordance with legislative requirements.

i. Depreciation of Non-Current Assets - All non-current assets having a limited useful life are separately and systematically depreciated over their useful lives in a manner which reflects the consumption of the future economic benefits embodied in those assets. Depreciation is recognised on a straight-line basis, using rates which are reviewed each reporting period.

Major depreciation periods are:

Buildings 10 to 80 years

Furniture and Equipment 4 to 10 years

Plant and Equipment 1 to 15 years

Sealed roads and streets:

- clearing and earthworks not depreciated

- construction/road base 50 years

- original surfacing and major re-surfacing

- bituminous seals 20 years

- asphalt seals 25 years

Gravel roads

- clearing and earthworks not depreciated

- construction/road base 50 years

- gravel sheet 12 years

Formed roads (unsealed)

- clearing and earthworks not depreciated

- construction/road base 50 years

Footpaths - slab 50 years

Bridges 50 years

Levee System 50 years

Tools 5 years

Water supply piping & drainage systems 75 years

Other Infrastructure Various

(j) Investments and Other Financial Assets

Classification

Council classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets.





The classification depends on the purpose for which the investments were acquired.

Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit and loss Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.(iii) Held-to-maturity investments Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Council's management has the positive intention and ability to hold to maturity.

If Council were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(iv) Available-for-sale financial assets Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories.

They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which Council commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Council has transferred substantially all the risks and rewards of ownership.



When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within other income or other expenses in the period in which they arise.

Dividend income from financial assets at fair value through profit and loss is recognised in the income statement as part of revenue from continuing operations when Council's right to receive payments is established.

Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Impairment

Council assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss- measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

(k) Estimation of Fair Value

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.



These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held.

Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Council for similar financial instruments.

(l) Impairment

In accordance with Australian Accounting Standards the Council's assets, other than inventories are assessed at each reporting date to determine whether there is any indication they may be impaired.

Where such an indication exists, an estimate of the recoverable amount of the asset is made in accordance with AASB 136 'Impairment of Assets' and appropriate adjustments made.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

For non-cash generating assets such as roads, drains, public buildings and the like, value in use is represented by the depreciated replacement cost of the asset.

(m) Trade and Other Payables

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the local government prior to the end of the financial year that are unpaid and arise when the local government becomes obliged to make future payments in respect of the purchase of these goods and services.

The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Employee Benefits

The provisions for employee benefits relates to amounts expected to be paid for long service leave, annual leave, wages, and salaries and are calculated as follows:

- Wages, Salaries, Annual Leave and Long Service Leave (Short-term Benefits) The provision for employees' benefits to wages, salaries, annual leave, and long service leave expected to be settled within 12 months represents the amount the municipality has a present obligation to pay resulting from employees services provided to balance date. The provision has been



calculated at nominal amounts based on remuneration rates the Council expects to pay and includes related on-costs.

- Long Service Leave (Long-term Benefits) The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match as closely as possible, the estimated future cash outflows. Where Council does not have the unconditional right to defer settlement beyond 12 months, the liability is recognised as a current liability.

(o) Interest-bearing Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Council has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction, or production of a qualifying asset. Where this is the case, they are capitalised as part of the cost of the particular asset.

(p) Provisions

Provisions are recognised when: The council has a present legal or constructive obligation because of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are not recognised for future operating losses. Where there are several similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations.

A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(q) Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to the company, are classified as finance leases. Finance



leases are capitalised recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual value.

Leased assets are amortised over their estimated useful lives. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period. Lease payments under operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(r) Joint Venture

The Shire's interest in a joint venture has been recognised in the financial statements by including its share of any assets, liabilities, revenues, and expenses of the joint venture within the relevant items reported in the Balance Sheet and Income Statement. Information about the joint venture is set out in Note 17.

(s) Rates, Grants, Donations and Other Contributions

Rates, grants, donations, and other contributions are recognised as revenues when the local government obtains control over the assets comprising the contributions.

Control over assets acquired from rates is obtained at the commencement of the rating period or, if earlier, upon receipt of the rates. Where contributions recognised as revenues during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the nature of and amounts pertaining to those undischarged conditions are disclosed in Note 2(c).

That note also discloses contributions recognised as revenues in a previous reporting period which were obtained in respect of the local government's operation for the current reporting period.

(t) Superannuation

The Shire of Carnarvon contributes to the Local Government Superannuation Scheme, the Occupational Superannuation Fund, and other approved and registered superannuation schemes.

Contributions to defined contribution plans are recognised as an expense as they become payable.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(u) Rounding Off Figures

All figures shown in this annual financial report, other than a rate in the dollar, are rounded to the nearest dollar.

(v) Comparative Figures

Where required, comparative figures have been adjusted to conform with changes in presentation for the current financial year.



(w) Current and Non-Current Classification

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be settled.

The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Council's operational cycle.

In the case of liabilities where Council does not have the unconditional right to defer settlement beyond 12 months, such as vested long service leave, the liability is classified as current even if not expected to be settled within the next 12 months.

Inventories held for trading are classified as current even if not expected to be realised in the next 12 months except for land held for resale where it is held as non-current based on Council's intentions to release for sale.

(x) New Accounting Standards and Interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Council.