

APPENDIX B

DEPRECIATION OF ASSETS

'Assets' are defined as 'goods or equipment of a capital nature that were purchased for at least \$500, and are used by the congregation/presbytery for more than 1 year'. Assets would generally be held for use for a period of at least three years. When purchasing an asset, you should record the following transaction:

<i>Debit</i>	Other Assets (A12)
<i>Credit</i>	Operating Account (A1) or asset replacement account (A7)

'*Depreciation*' of equipment records the benefits used up over time through the use of the assets, acknowledging the need to replace the assets at some point in the future. Depreciation is recorded against an expense item **P18** as well as against on the Balance Sheet against Accumulated Depreciation **A12a** (which reduces the relevant asset item A12 Other Assets).

The Synod depreciates computers, office equipment, office furniture and vehicles according to standard rates accepted by the Australian Taxation Office. Various types of assets are depreciated at certain rates, in recognition of the usual period of time they are retained for use by a typical office. As a guide, the 'estimated useful life' and depreciation rates commonly used by Synod for assets are:

Asset Category	Useful Life	Depreciation Rate
Computers, printers, scanners	3 years	33%
Office equipment (photocopiers, PABX, fax machines)	5 years	20%
Office furniture and fittings	10 years	10%
Motor vehicles and buses	5 years	20%

If an asset is purchased part way throughout the fiscal year, then the amount depreciated is pro-rata of the total year.

For example, if a Congregation/Presbytery purchased a photocopier for \$10,000 in November, then the appropriate rate of depreciation for the copier would be 20% per annum. The amounts to be set aside are therefore:-

30 June (Year 1)	8/12 months x 20% of \$10,000	= \$1,333
30 June (Year 2)	20% of \$10,000	= \$2,000
30 June (Year 3)	20% of \$10,000	= \$2,000
30 June (Year 4)	20% of \$10,000	= \$2,000
30 June (Year 5)	20% of \$10,000	= \$2,000
30 June (Year 6)	4/12 months x 20% of \$10,000	= \$ 667
		= \$10,000

If the Congregation/Presbytery is in a financially secure position to set aside cash funds for the replacement of future assets, to the value of depreciation expense, this is

advantageous for future planning of asset replacement. Funds are then transferred from *A5 Investment account Savings* to *A7 Investment account Asset Replacements*. When a new asset is needed, funds are drawn down from this account, and the congregation's budget is not significantly impacted.

ASSET REGISTERS

Uniting Resource's current policy on Assets is that items costing under \$500 should not be capitalised. However, where an Asset Register is maintained, items between \$200 and \$500 should be recorded in the Asset Register for inventory purposes even though they are expensed in the first year.

Congregation/Presbytery assets such as photocopier, fax machine, computers etc costing \$500 or more that will be depreciated over the estimated useful life of each asset need to be included under *A12 Other Assets*. Motor vehicle and community buses should also be included under *A12 Other Assets*.

Asset Registers should be maintained for a number of reasons: as a record of assets held for insurance, depreciation and replacement. Asset Registers record information such as the:

- Date of purchase
- Description of item
- Location of item
- Person using item
- Purchase price (incl delivery charges)
- Estimated useful life (in years)
- Depreciation Rate
- Amount of Depreciation in each financial year (1 July to 30 June)
- Accumulated Depreciation for the item since purchase
- Net (written down) value – purchase price *less* accumulated depreciation

A sample Asset Register is provided below. It assumes a photocopier is purchased for \$10,000 in November 2004, and a computer is purchased in January 2005, and a mobile phone is purchased in March 2005.

On purchase the entries would be as follows:

Purchase Date	Description	Purchase Price	Useful Life	Depreciation Rate	Annual Depreciation	YTD Accum Depreciation	Net Value
2/11/04	Canon Photocopier	\$10,000	5 year	20%	\$2,000	\$0	\$10,000
5/1/05	Desktop computer	\$1,800	3 year	33%	\$600	\$0	\$600
9/3/05	Nokia mobile phone	\$200	1 year	N/A	N/A	\$0	\$200

Where assets were purchased during the year, depreciation is calculated pro-rata for the number of months used. At 30 June 2005 (the financial year of purchase) the Asset Register would show:

Purchase Date	Description	Purchase Price	Useful Life	Depreciation Rate	Annual Depreciation	YTD Accum Depreciation	Net Value
2/11/04	Canon Photocopier	\$10,000	5 year	20%	\$2,000	\$1,333	\$8,667
5/1/05	Desktop computer	\$1,800	3 year	33%	\$600	\$100	\$500
9/3/05	Nokia mobile phone	\$200	1 year	100%	\$200	\$200	\$0

At 30 June 2006, the Asset Register would show:

Purchase Date	Description	Purchase Price	Useful Life	Depreciation Rate	Annual Depreciation	YTD Accum Depreciation	Net Value
2/11/04	Canon Photocopier	\$10,000	5 year	20%	\$2,000	\$3,333	\$6,667
5/1/05	Desktop computer	\$1,800	3 year	33%	\$600	\$300	\$300
9/3/05	Nokia mobile phone	\$200	1 year	100%	\$200	\$200	\$0

HOW TO ACCOUNT FOR PROPERTY/ASSET TRANSACTIONS

A couple of examples of how to account for property transactions are provided below:

Example 1: Sale of Land and Buildings

UC Congregation ABC has surplus land and buildings which are sold in October 2005 for \$280K plus GST.

The Valuer-General assessed the land value at 30 June 2005 at \$100k, which is an increase of \$20k from its previously assessed 2002 value of \$80k. The updated value was recorded in the *A3 Land Value of Properties* as \$100K.

The 2004 insured value of the building in the *A4 Building and Contents* account was \$80K.

Total value of land and buildings is \$180k at the date of sale, leaving a surplus of \$100k. The sales proceeds are recorded in the Statement of Capital Receipts & Payments under CR1. The surplus of sale of property is not recorded in Receipts but in the *Statement of Assets and Liabilities – RF1 Accumulated Funds* account.

The GST of \$28k collected on this transaction will be included in the next quarterly BAS return, and recorded under CP10.

The accounting entries for this are as follows:

- 1) Adjusting the Valuer-General's land assessment from \$80k to \$100k

<i>DR</i> (increase) A3 Land Value	\$ 20k	
<i>CR</i> (increase) RF1 Accumulated Funds		\$ 20k

- 2) Record the sale of the land and building in October 2005:

<i>DR</i> (increase) A9 Investment Sale Proceeds (incl GST)	\$308k	
<i>CR</i> (decrease) A3 Land Value		\$100k
<i>CR</i> (decrease) A4 Building and Contents		\$ 80k
<i>CR</i> (increase) L5 Creditors (increasing GST payable)		\$ 28k
<i>CR</i> (increase) RF1 Accumulated Funds		\$100k

Record on the Statement of Capital Receipts & Payments:

CR1 Proceeds from Sale of land and buildings	\$308k
CP6 Agent Commission Fees (if any)	

- 3) Payment of the 10% tithe to the Board of Mission:

<i>DR</i> (increase) P11A Other Property Expenses [10% Tithe]	\$28K	
<i>CR</i> (decrease) A9 Investment Sale Proceeds		\$28K
CP5 Payment of 10% tithe	\$28K	

4) Payment of the GST liability for the December 2005 Statement:

<i>DR</i> (decrease) L5 Creditors (cancelling GST liability)	\$ 28k	
<i>CR</i> (decrease) A9 Investments - Sales Proceeds account		\$ 28k
CP10 GST Component of GST on purchases	\$28K	

Once these accounting entries have been processed, the effect on the Statement of Assets and Liabilities (or Balance Sheet as it is known in MYOB) will be as follows:

	Balance Sheet (before sale)	Balance Sheet (after sale)
Land Value of Properties (A3)	\$250K	\$150K
Building & Contents (Insured Value) (A4)	\$200K	\$120K
Investments with UCTA – Sale Proceeds (A9)	<u>Nil</u>	<u>\$252k</u>
TOTAL ASSETS	\$450K	\$522K

Example 2: Building Works

To assist you in distinguishing between major capital works and property repairs, two examples are provided below. Major capital works would normally increase the insured value of the building, while property repairs do not. The extent of cost may be an indicator, but not necessarily. If you have any doubts, please discuss with Uniting Property Services.

Example 2a: Building Extensions

An existing building is expanded by constructing an additional room at a cost of \$50K plus GST. The additions have been funded from savings made by the congregation over a number of years into a separate investment account with UFS. The GST paid on this transaction will be included in the next quarterly BAS return.

This additional room is likely to increase the market value of the building by a similar amount, and is therefore treated as a capital improvement.

The accounting entry required in the Congregation/Presbytery books will be:

<i>DR</i> (increase) A4 Buildings & Contents	\$50K	
<i>CR</i> (decrease) A8 Investments – Property Refurbishments		\$50K

On the Statement of Capital Receipts & Payments it should appear as this:

CP4 Property Development	\$50K
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Once these accounting entries have been processed, the effect on the Balance Sheet will be as follows:

	Balance Sheet (before transaction)	Balance Sheet (after transaction)
Investments – Property Refurbishments (A8)	\$ 80K	\$ 30K
Land Value of Properties (A3)	\$250K	\$250K
Building & Contents (Insured Value) (A4)	<u>\$200K</u>	<u>\$250K</u>
TOTAL ASSETS	\$530K	\$530K

Example 2b: Plumbing and Roof Repairs

The roof of a church required major repairs due to regular water leaks, costing \$100k. Repairs to this roof is not noticeable from the street, but due to heritage listing there were specific heritage requirements about the materials and repairs methods to be used which added to the cost. As these repairs are unlikely to increase the value of the building, even though they cost \$100k, they are classified as Repairs and Maintenance.

The congregation knew it was going to need to undertake major repairs on the roof for a few years, and created a Provision for Property Refurbishments (P7 and L6) for this purpose. It had also moved funds from their *A5 Investments – Savings* account to an *A8 Investments – Property Refurbishment* account to reflect the value of their anticipated refurbishment provision. As at the time of repairs, however, only \$60k was set aside for this purpose, so the remainder was financed from the general savings investment account.

The accounting entry required in the Congregation/Presbytery books will be:

<i>DR</i> (increase) CP4 Property Refurbishment	\$100k	
<i>CR</i> (decrease) A8 Investment – Property Refurbishments		\$60k
<i>CR</i> (decrease) A5 Investment – Savings		\$40k

Once these accounting entries have been processed, the effect on the Statement of Assets and Liabilities (or Balance Sheet as it is known in MYOB) will be as follows:

	Balance Sheet (before transaction)	Balance Sheet (after transaction)
Investments – Property Refurbishments (A8)	\$ 60K	\$ 0K
Investments – General Savings (A5)	\$ 50K	\$ 10K
Land Value of Properties (A3)	\$450K	\$450K
Building & Contents (Insured Value) (A4)	<u>\$350K</u>	<u>\$350K</u>
TOTAL ASSETS	\$930K	\$830K