

ANNEX I

DIRETTIVA NUMRU 1/2017

ACCOUNTING FOR NON-CURRENT ASSETS BY LOCAL COUNCILS

1. ACCOUNTING FOR GOVERNMENT GRANTS (IAS 20)

1.1 IAS 20 ‘*Accounting for Government Grants*’ allows two alternative treatments of government grants. To date, Local Councils have been using the income approach, and this has resulted in balances for deferred income to be shown on the Statement of Financial Position, which could be misinterpreted as liabilities. The income approach also resulted in inflated income being reported annually, even though this was set off by an inflated depreciation charge.

1.2 The Department for Local Government is instructing Local Councils to adopt the alternative capital approach available in IAS 20, as from 1st January 2018.

1.3 This is a change in accounting policy and, according to IAS 8 ‘*Accounting Policies, Changes in Accounting Estimates and Errors*’, has to be accounted for retrospectively. The change in accounting policy will not affect the final figure on the Statement of Comprehensive Income, and thus will not change the balance of retained reserves. The change in accounting policy shall only affect the Statement of Financial Position.

1.4 In order to prepare for the change, Local Councils are being instructed to prepare two formats of the Statement of Financial Position as at 31st December 2017 – according to Tables 1 and 2. The Statement of Financial Position as per Table 1 is prepared according to the current income approach and will be included in the audited Financial Statements for 2017. The Statement of Financial Position will then be re-drafted as if the capital approach was used during 2017 (as per Table 2) – this will be *for internal purposes only* and used to provide the opening balances as at 1st January 2018. The note to the financial statements that explains the movement in Property, Plant and Equipment during the year would also need to be re-drafted, as it provides the required analysis for each category of non-current asset.

1.5 In order to prepare the draft Statement of Financial Position as at 31st December 2017 using the capital approach, according to Table 2, the following steps are to be taken:

- a. Find the total balance of deferred income as at 31st December 2017, by adding the current and long-term deferred income.

- b. Analyse the total deferred income to identify the relevant category of non-current asset to which it relates. *If this is not possible, allocate the whole amount to 'Urban Improvements'.*
- c. Transfer the balance on the deferred income account to the category of non-current asset to which it relates. *If the deferred income exceeds the balance on the category of non-current asset concerned, and a negative balance results, contact the Department for Local Government for further guidance before proceeding.*
- d. Re-calculate the depreciation charge on the category of non-current asset affected, for the year 31st December 2017.

1.6 The closing net book values of the non-current assets will be the opening balances as at 1st January 2018 in the working schedule, on which the depreciation charge for 2018 will be calculated (*refer to point 3 below*).

1.7 For the Financial Statements as at 31st December 2018, the draft Statement of Financial Position according to Table 2 will be shown as prior year figures for the Statement of Financial Position as at 31st December 2018. The prior year figures in the Statement of Comprehensive Income need to be re-stated by deducting the balance of released deferred income reported as income from the depreciation charge reported as an expense. The result should be equal to the amount of depreciation as re-calculated in Step 4.

1.8 The Financial Statements for 2018 are to include a note describing the change in accounting policy for Government Grants, as directed by the Department for Local Government according to this circular.

2. BALANCES IN THE FIXED ASSET REGISTER AS AT 1ST JANUARY 2018

2.1 For those Local Councils with an Audit Report that includes a qualification regarding an incomplete Fixed Asset Register, these are being allowed a one-time opportunity to regularize their position as at 1st January 2018.

2.2 Such Local Councils are to include the Net Book Value as at 1st January 2018 for each category of non-current assets as opening balances in their Fixed Asset Register. The balances used should be as shown in the draft Statement of Financial Position as at 31st December 2017 (according to Table 2), that is, after deducting the relevant deferred income.

2.3 Such Local Councils are to ensure that the Fixed Asset Register is maintained up to date as from 1st January 2018 onwards, that is, all acquisitions of non-current assets recorded in the nominal ledger are to be recorded in the Fixed Asset Register as well. As from 1st January 2018, each item of non-current asset acquired is to be recorded separately in the Fixed Asset Register (and not in categories).

3. CHANGE IN DEPRECIATION METHOD AS FROM 1ST JANUARY 2018

3.1 Local Councils have been using the reducing balance method to calculate the depreciation on non-current assets.

3.2 As from 1st January 2018, the Department for Local Government is instructing Local Councils to depreciate non-current assets using the straight line method of depreciation, on a monthly basis. The depreciation rates specified in the Local Council (Financial) Procedures (P1.X1) shall remain unchanged.

3.3 This is a change in accounting estimate, which according to IAS 8, has to be accounted for prospectively. The steps required are as follows:

- a. Refer to the draft Statement of Financial Position as at 31st December 2017 (according to Table 2). When calculating the depreciation charge for 2018, in the working schedule, the net book values of the non-current assets as shown will be taken as the 'cost' on which the depreciation rates shall be applied.
- b. The depreciation charge for 2018 (and for subsequent years) will be calculated in the working schedule on the net book value as shown in this Statement of Financial Position plus the original cost of any non-current asset acquired during 2018 (and in subsequent years thereafter).
- c. Care needs to be taken to ensure that the Fixed Asset Register calculates the depreciation on a straight line method. The method used in each record of the Fixed Asset Register needs to be changed accordingly. In the Fixed Asset Register **only**, the value for 'original cost' would need to be replaced with 'net book value' as at 31st December 2018 (as amended for deferred income), so that the software calculates the depreciation on the correct values.

TABLE 1

**XX LOCAL COUNCIL
STATEMENT OF FINANCIAL POSITION**

As at 31 December 2017

	Notes	2017 €	€	2016 €	€
NON-CURRENT ASSETS					
Intangible Assets			A		
Property, Plant & Equipment			B		
			<u>(A+B) = C</u>		
CURRENT ASSETS					
Inventory			D		
Receivables			E		
Prepaid expenses		X			
Cash and cash equivalents		X			
		<u>F</u>			
CURRENT LIABILITIES					
Trade and other payables		X			
Accrued expenses		X			
		<u>G</u>			
WORKING CAPITAL (restricted)			(F-G) = H		
<i>Current Deferred income</i>			<u>I</u>		
NET ASSETS/LIABILITIES	CURRENT		(D+E+H-I) = J		
			<u></u>		
TOTAL ASSETS LESS CURRENT LIABILITIES			(C+J) = K		
			<u></u>		
NON-CURRENT LIABILITIES					
<i>Long term Deferred income</i>			X		
Bank loans			X		
Other payables			X		
			<u>L</u>		
RETAINED RESERVES			<u>M</u>		
TOTAL LIABILITIES AND RESERVES	NON-CURRENT		(L+M) = K		
			<u></u>		

TABLE 2

**XX LOCAL COUNCIL
STATEMENT OF FINANCIAL POSITION**

As at 31 December 2017

	Notes	2017 €	€
NON-CURRENT ASSETS			
Intangible Assets			A
Property, Plant & Equipment			B
			<u>(A+B) = C</u>
CURRENT ASSETS			
Inventory			D
Receivables			E
Prepaid expenses	X		
Cash and cash equivalents	X		
		<u>F</u>	
CURRENT LIABILITIES			
Trade and other payables	X		
Accrued expenses	X		
		<u>G</u>	
WORKING CAPITAL (restricted)			(F-G) = H
			<u>(D+E+H) = J</u>
NET ASSETS/LIABILITIES			
TOTAL ASSETS LESS CURRENT LIABILITIES			(C+J) = K
			<u>NON-CURRENT LIABILITIES</u>
Bank loans			X
Other payables			X
			<u>L</u>
RETAINED RESERVES			M
			<u>(L+M) = K</u>
TOTAL NON-CURRENT LIABILITIES AND RESERVES			