NSW GOVERNMENT
Education & Communities

Office of Education
Early Childhood Education and Care

Acquittals fact sheet

Depreciation and Assets

Definition

The Australian Accounting Standards Board (AASB 116) defines depreciation as a systematic allocation of the depreciable amount over the asset's useful life. The depreciable amount is the cost of an asset less its residual value.

Depreciation is a non-cash expense which represents the decline in value of an asset over an estimate of how long the asset will effectively last for. Although depreciation is not an actual cash outlay it is still permitted in your acquittal to allow you to build up cash reserves and replace assets when their useful life expires.

Depreciation expenses are funded by Early Childhood Education and Care (ECEC) to the extent that the asset is being utilised for direct service delivery of ECEC funded services. In acquitting depreciation expenses (non-cash) against ECEC funding (cash) over an asset's useful life, the service provider is essentially providing for the asset's replacement at a future date, where an actual cash outflow will be required.

Q1 What should service providers do?

Service providers can claim the depreciation or full cost of assets in the ECEC acquittal in limited situations:

	Acceptable
✔	Depreciation on assets funded by ECEC for the direct delivery of funded programs.
✔	Minor assets of less than $5,000 that are expensed immediately and not recognised on an asset register and depreciated. These costs would be included as part of "Operating Costs" in the ECEC Statement of Expenditure. The full costs of minor assets with an aggregate value of greater than $5,000 can still be claimed where the cost of each minor asset is less than $5,000 each.
✔	An asset acquisition can be included on your ECEC Statement of Expenditure as an expense even if included on your Statement of Financial Position (Balance Sheet) and depreciated accordingly. However you cannot claim depreciation for these assets on your ECEC Statement of Expenditure.

	NOT acceptable
✖	Depreciation on the assets funded by the service provider for the delivery of non-ECEC services.
✖	Individual assets greater than $5,000 in value cannot be deemed minor assets and expensed against recurrent or one-off funding.
✖	Depreciation on assets valued under $5,000 if already claimed as minor asset expenses under "Operating Costs" on the ECEC Statement of Expenditure.
✖	Replacement cost of assets previously claimed through depreciation in prior periods.
✖	Provisions for equipment/asset replacement.
✖	Depreciation on assets arrived at through an unreasonable useful life determination to inappropriately claim the cost of the asset in full (eg one year for a motor vehicle).

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Internal Administration Fees

Definition

Internal administration fees represent internal charges for the purpose of allocating costs across different business units, divisions or cost centres within an organisation. These charges often arise when there is a central administration or head office cost centre that supports a multitude of other units within the organisation. Internal charges are the means by which an organisation can allocate and manage costs to better track the performance of a cost centre.

It is acceptable for service providers to allocate some level of overhead costs to Early Childhood Education and Care (ECEC) funded programs. This however must be done on a consistent basis and as part of an appropriate costing methodology.

Q1 What should service providers do?

Service providers must ensure that only actual costs incurred are allocated as internal administration fees to ECEC funded programs. It is strictly not permitted to overcharge notional expenses or inflate actual expenses against ECEC funding to achieve a surplus in an administrative cost centre for the service provider.

Acceptable	
✔	Allocation of total administration costs based on the proportion of wage expenses in each cost centre against the total wages of all cost centres.
✔	Allocation of total administration costs based on the proportion of each cost centre's funding against total funding received by the service provider.
✔	Allocation of a particular group of administration costs to each cost centre based on a cost driver such as client numbers or staff numbers.
✔	Consistent methodology across the years.

NOT acceptable	
✖	Head office or administration costs allocated on an ad hoc basis or using it to adjust surpluses or deficits.
✖	Charging fees solely on the basis of a fixed percentage of ECEC funding which does not involve the allocation of actual costs.
✖	Notional leasing charges to ECEC funded programs for assets already owned by the service provider for which depreciation is also claimed.
✖	An administrative cost centre generating a profit from internal charges which cannot be supported by non-ECEC streams of income such as interest, donations, bequests, membership fees etc.
✖	Allocation methodologies changing from year to year to minimise the reportable surpluses.

Definition

Service providers should note that ECEC reserves the right to request additional information on the acquittal. As such service providers should be able to provide the following to support the methodology applied in allocating administration fees:

- an administration cost centre profit and loss statement
- a documented methodology to justify how administration fees are allocated to the program
- documentation to support administration fees allocated represent actual expenses.