

FROM EDUCATION DEPARTMENT OF WA'S "FINANCIAL MANAGEMENT IN SCHOOLS: FINANCE AND ACCOUNTING MANUAL"

PAGE 10, ITEM 3.2.4

ASSET REPLACEMENT RESERVES

Schools must establish asset replacement reserve accounts. Each account set up must be appropriately titled in accordance with the fixed asset register category and must not include more than one category.

Schools must transfer annually the budgeted sum to the reserve, subject to adjustment due to changing circumstances and priorities.

Schools are prohibited from setting up the following:

- general reserve accounts; or
- reserve accounts for recurrent or operating expenses.

Guideline

Under the accrual basis of accounting, the cost of an asset is charged or depreciated progressively over a number of accounting periods according to the asset's expected useful life. This is to match the cost of the asset to the periods benefiting from its use. In the case of a cash based accounting system that is used in schools, the entire cost is charged to the period in which the asset is paid. This can often cause an undue financial burden to a school in a period when some of its assets have to be replaced.

To overcome this, the cost for the use of an asset should be progressively "charged" to an asset replacement reserve. This will ensure that funds are being set aside, through the annual budget allocation process, to meet the future cost of replacing an asset.

Schools are advised to institute an asset management program to determine the annual budget for their asset replacement reserves. Refer to the FMIS: Procedures and Guidelines (available only in hard copy from school Registrars) for more details.