NCAP 7 Accounting for Library Collections

OVERVIEW
This Non-Current Asset Policy (NCAP) discusses the principles underlying the recognition of property, plant and equipment and intangible assets.

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7.1 INTRODUCTION

The purpose of this policy is to prescribe the financial reporting requirements for library collections, in both physical and digital formats.

As with other non-current assets, the financial and management reporting needs for libraries often differ. For example, while a library may be recognised at a collection level for financial reporting, for management purposes an agency must ensure that it maintains a listing of individual items which make up the collection. The provisions of this policy apply only to financial reporting. Management reporting requirements are at the discretion of agency management.

This policy is designed to provide the overarching principles to be applied. Agencies should outline in their internal policies (e.g. Financial Management Practice Manual) how the policy is to be applied to their collection.

7.2 SERVICE POTENTIAL

In determining whether a purchased item should be capitalised or expensed, the future service potential of the item must be considered. Similarly, service potential considerations are essential in determining the useful life of an asset.

The service potential of a library collection, the cornerstone for any library accounting policy, could be determined in a number of ways e.g. the number of times an item is borrowed or otherwise used, or the availability of the information regardless of usage. For the purposes of this policy, service potential is determined with reference to the availability of the information, i.e. the period of time over which an item is able to be accessed and used.

7.3 CLASSIFICATION OF COLLECTIONS

A library is generally made up of a variety of different collections, or types of books and other materials. For financial reporting purposes, the following classifications are to be used:

- common use collections;
- reference collections; and
- heritage collections.

At a minimum, the agency policy must document the basis upon which library items are to be classified to ensure consistent treatment across reporting periods.
A broad description of each of these collections follows.

Common use collections

A common use collection is usually comprised of a large number of low value items which are used in the day-to-day operations of the library e.g. undergraduate text books and technical publications. These items, in most instances, may be borrowed. Due to a pattern of declining use, obsolescence and of physical deterioration over time, library materials in these collections generally have a short period of service potential (e.g. the greatest usage is within the first year). Individual items are continually being updated and replaced.

Reference collections

Reference collections usually include both general and specialised items. These items are usually not able to be borrowed, but are available for use, even if archived. Generally, these items have variable uses (e.g. undergraduate and research purposes), and have a longer useful life than common use collections, but are not held indefinitely. If possible, these items would generally be replaced if lost or damaged.

Heritage collections

A heritage collection is a permanently retained collection which has heritage, cultural or historic value that is worth preserving indefinitely and to which sufficient resources are committed to preserve and protect the collection and its service potential. The collection is generally held for public exhibition, education, or to provide a service to the community. Heritage collections are not usually available for sale, for redeployment or for an alternative use.

7.4 ACCOUNTING TREATMENTS

Items are to be allocated across the different collections by agencies, based on their attributes. For example, items making up a medical library may be split across the collection types, based on their attributes (i.e. some parts of the medical library may be heritage, while others may be reference or common use). In addition, periodicals, subscriptions and electronic media with archive access can be split over the three classification types.

Professional judgement will be required to assess the characteristics of each item to determine its correct classification. In determining the correct classification, considerations may include:

- the useful life of the material – is it limited, long term or indefinite?
- how the items are stored and used; and
the nature of library expenditure within that category – regular replacement of holdings, expenses related to controlling the environment in which the asset is used, etc.

Common use collections

Treatment

The greatest usage of items within these collections would occur within the first year, with a rapid decline over subsequent years.

In recognition of their limited life and the cost/benefit of valuing collections with a high turnover of material, common use items are to be expensed on acquisition.

Management

A system to ensure the security of common use collections remains the responsibility of management, even though these items are expensed on acquisition.

Reference collections

Treatment

Based on their longer periods of service potential to the library, material reference collections are to be capitalised and recognised at fair value, based on the methodology outlined below.

Threshold

An asset recognition threshold of $1,000,000 is to be applied to the collection. If the value of the collection as a whole is less than $1,000,000, it must be expensed.

Asset class

Items in this category are to be recognised in the financial statements as ‘Library Reference Collection’, unless a better descriptor is determined by the agency, based on the contents of the collection.

Initial acquisition

If the library purchases multiple copies of the same item, only one of the items, per location (for example, one per university campus) is to be capitalised. Further, as part of the year end revaluation process, the average value, as determined below, will be applied to only one copy of multiple holdings per location.
Similar to common use items, a system to ensure the security of multiple items remains the responsibility of management.

**Fair value**

Fair value is to be determined in accordance with the principles in AASB 13 *Fair Value Measurement* and NCAP 3 *Valuation of Assets*. For example, where market prices can be obtained for the items concerned, a market approach should be used. Where market prices are not available, a cost approach may be used.

### Guidance for application of cost approach

Average replacement cost may be used, based on the average cost of purchases over a period considered to most closely provide an accurate average value for the collection. On this basis, cost is to be applied to all capitalised materials in the collection at year-end. It is considered that a five year period would provide a reliable average value, however, a longer or shorter period may be used at management discretion where this is justified.

The basis for determining the appropriate ‘averaging’ period is to be documented. Once determined, this period should be consistently applied.

Generally, a maximum rolling five-year period is considered appropriate for determining average replacement cost on the basis that five years should provide a smoothing of any peaks and troughs experienced in the cost of books. For example, there may be one year when a large number of high value law textbooks are purchased. If this average cost was applied to all items in the collection, over-inflation of the fair value may result. Using a five-year rolling average cost should result in this peak being effectively managed.

In calculating average cost, agencies should determine any identifiable sub-collections and calculate the average cost of all items purchased over the previous five years according to these sub-collections e.g. medical textbooks or periodicals. This average cost should then be applied to all capitalised items within that sub-collection including material acquired for no cost, ensuring these are assigned a replacement value.

Appendix 7.1 provides an example of the calculation involved.

If the agency determines that differentiating by sub-collections is not providing an accurate fair value, then the agency should consider stratifying the sub-collections e.g. into value bands, to calculate fair value.
Any changes in the fair value of the collection are to be recognised in the Asset Revaluation Surplus. Revaluation increments and decrements are to be accounted for in accordance with AASB 116 *Property, Plant and Equipment*.

*Removal of items from collection*

To ensure a materially accurate valuation, assessments must be made on a regular basis to determine whether items are still providing benefit or whether they should be removed from the collection. This may be included as part of the stocktake process, i.e. an assessment is made of each item as it is physically verified.

At a minimum, all capitalised items must be considered at least once every three years to determine whether they should be removed from the collection.

*Depreciation*

Agencies must undertake an annual assessment to determine the rate at which the reference collection should be depreciated.

If it is considered appropriate to depreciate the collection, then a useful life must be determined, applied and disclosed.

If it is determined that the collection should not be depreciated, the reasons must be clearly documented and included in the notes to the financial statements. Reasons for not depreciating the collection may include:

- the inherent complexity involved in determining a common useful life for the collection. Developing a useful life for a library collection involves consideration of a complex combination of the physical lives – how long the item will last, taking into account user populations and climatic conditions or subject matter; and relevant lives – the period during which the content or subject matter is relevant to the library’s user population of the various categories of materials. In practice, an agency may not be able to reliably determine a useful life; and
- based on the characteristics of the collection, the useful life may be sufficiently long that the resultant depreciation expense would be immaterial in amount.

Refer also to NCAP 5 Depreciation and Amortisation.

*Independent valuation*

Agencies are not required to obtain an independent valuation of the collection. However, at least once every five years, the agency must obtain independent confirmation that the methodology being applied is appropriate.
Heritage collections

_Treatment_

Heritage collections are to be capitalised and recognised at fair value, based on the methodology outlined below.

_Threshold_

A recognition threshold of $5,000 is to be applied to the collection. If the value of the collection as a whole is less than $5,000, then it must be expensed.

_Asset class_

Items in this category will form part of the existing Heritage and Cultural Assets class in the financial statements.

_Fair value_

Fair value is to be determined in accordance with the principles in AASB 13 *Fair Value Measurement* and NCAP 3 Valuation of Assets.

If it is not possible to determine a fair value for the heritage collection at the outset, it is not to be recognised on the Statement of Financial Position but rather disclosed as a note to the financial statements, if it is material in a qualitative sense. This disclosure should state:

- a description of the nature of the collection;
- the purposes for which it is held;
- the reason why its heritage value cannot be reliably estimated; and
- to the extent practicable, the annual costs of maintenance/preservation.

Despite the acknowledged difficulties involved, agencies are required to make every effort to value heritage collections at their fair value.

_Measurements_

NCAP 3.5 Valuation Approaches and NCAP 3.6 Revaluation Methodologies and Frequency refer to various methods by which valuations can be undertaken.
To ensure fair, ‘arm’s length’ valuations of heritage collections, it is preferred that revaluations be undertaken by independent, professionally qualified experts. However, there may be few independent valuers with the expertise to value certain collections. In these instances, employees with relevant expertise/knowledge may undertake an in-house review.

If an in-house valuation is conducted, the basis, methodology and assumptions underpinning the valuation are to be independently reviewed (e.g. by an expert valuer or by the in-house expert of another entity with a similar library collection) at least once every five years to ensure the appropriateness of the valuation approach.

**Depreciation**

Heritage collections are generally subject to stringent curatorial preservation techniques. As a result, they may have an indefinite life, may be held in perpetuity and appreciate in value. For any heritage/cultural asset that is not depreciated, curatorial and preservation policies would have to be demonstrated to be in place, as well as demonstrating that it has the operational and financial commitment and capacity to adhere to such policies into the foreseeable future, to justify the non-depreciation as per guidance contained in AASB 116.

### 7.5 PERIODICALS, ELECTRONIC MEDIA AND INTERNALLY DEVELOPED INFORMATION

**Periodicals and Subscriptions**

Generally, periodicals and subscriptions would be regarded as common use and expensed on acquisition. However, it may be appropriate for some of these items to be included in either the reference or heritage collections. Therefore, the library must determine the correct classification for individual items and account for them accordingly.

**Electronic Media**

Access to electronic media is generally obtained by either outright purchasing of the information or through a licence agreement. Under either method, the issue of control, as well as expected economic benefits, must be considered when determining whether capitalising or expensing is appropriate.

When electronic media is purchased outright, control over the asset is generally obtained to partially satisfy the asset recognition criteria. Assuming the other asset recognition criteria are satisfied, the agency must determine the correct classification of the individual items of electronic media, and account for them accordingly.
When information is accessed through a licence agreement, there is no access to the information unless the licence fee is paid and other terms of the agreement are met e.g. access rights and copyright clauses apply. Where this occurs, the agency does not have control of the information. Consequently, the annual licence fee must be expensed, and not recognised as an asset.

However, where the agency has archival access, capitalising this electronic media may be appropriate, as the benefit lasts for more than one year.

**Internally Developed Information**

Some agencies, particularly universities, may hold internally developed information (e.g. theses or staff articles/books) in hard copy or digital repositories. These are to be considered as in-house Intellectual Property, and accounted for under AASB 138 *Intangible Assets*.

**7.6 DIGITAL LIBRARY COLLECTIONS**

**Treatment**

The concept of a ‘collection’ (in the context of libraries) is to be applied also to library collections of self-generated and purchased items in a digital/electronic format. The policies in this section apply to digital/electronic collections of a reference or heritage nature, in terms of their characteristics (cost arising from any digital/electronic common use collections should be expensed). A collection in a digital format is to be accounted for as an intangible asset.

**Threshold**

As an item in digital format is equivalent to a physical item containing the same content, agencies are to apply the corresponding recognition threshold that applies to physical library collections as per Appendix 1.1 to NCAP 1 Recognition of Assets i.e. $1,000,000 for library reference collections and $5,000 for heritage and cultural library collections. If the total cost of a collection does not meet the relevant threshold, all associated costs should be expensed.

These recognition thresholds apply to costs incurred to:

- acquire digital/electronic items from an external source; and
- create digital/electronic copies of physical items already controlled by the agency.

The intangibles recognition threshold of $100,000 applies only to intangible assets that don’t form part of a collection.
Asset class

Library collections in digital format are to be recognised in the financial statements according to the relevant intangible asset class – refer to the classes identified in Appendix 1.1 and Appendix 1.3 to NCAP 1.

Initial acquisition and subsequent measurement

The policies applicable to the initial recognition of digital library collections – particularly where they were acquired for no or a nominal cost to the agency - are those set out in NCAP 1.3 Initial Recognition of Assets and NCAP 1.7 Guidance on Particular Asset Types.

Appendix 1.1 to NCAP 1 and NCAP 3.10 Specific Valuation Issues sets out the policies that agencies are to follow regarding subsequent measurement of intangible collections.

As it is uncommon for an active market to exist for many intangible assets, it is likely that a digital collection would be measured at its original cost to the agency (if any) less accumulated amortisation and impairment losses – unless and until an active market emerges.

Where multiple copies of an identical digital item exist, for example, the digitisation of reformatted and restored collections, costs incurred in creating any duplicate digital copies are to be expensed.

Other

All other requirements and policies (e.g. management processes, removal of items from collection, amortisation etc.) that apply to corresponding physical collections are applicable to collections of digital items.

7.7 TRANSFERS BETWEEN COLLECTIONS

There may be instances where items are required to be transferred between collections. Where transfers occur, the following accounting treatments are to be applied:

<table>
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<th>Old Collection</th>
<th>New Collection</th>
<th>Accounting Treatment</th>
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<td>Common use</td>
<td>Reference/Heritage</td>
<td>Transfer the item to new class, obtain a fair value, and include in the full value of the new collection – subject to the recognition threshold for the new library collection (refer to NCAP 7.4 Accounting Treatments)</td>
</tr>
<tr>
<td>Reference/Heritage</td>
<td>Common use</td>
<td>Remove the item from the collection effectively expensing the item’s carrying amount</td>
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### 7.8 IMPAIRMENT

In accordance with AASB 136 *Impairment of Assets*, agencies must annually assess whether there are indicators that library assets are impaired. As indicated in NCAP 4 Impairment of Assets, the events or circumstances that may indicate the impairment of an asset will generally be significant and will often have prompted discussion by a management group or similar, or the media.

There may be instances of impairment for heritage books e.g. questions over the authenticity of the item, or an item being damaged during a flood. While a heritage book may be water damaged, it may be retained for its historical value, even though the fair value of the book may have decreased.

Professional judgement should be used to identify indicators of impairment of library collections.

### 7.9 DISCLOSURE REQUIREMENTS

In addition to the required disclosures for non-current physical assets, agencies must disclose in their financial statements:
- the basis on which collections are classified;
- whether their collections are capitalised or expensed, and the basis for this;
- if capitalised, how the fair value of the collections is determined;
- if capitalised, whether their collections are depreciated, and the basis for this; and
- if fair value for a heritage collection cannot be determined, the reasons for this.

In addition, the insured value of the expensed common use collection must be disclosed in the notes to the financial statements, along with how this value was derived. While the insured value does not necessarily equate to the replacement cost, it provides an indication of the replacement cost of the collection.
7.10 PHYSICAL SECURITY AND VERIFICATION

Stocktakes of capitalised collections are to be undertaken on a regular basis. Ideally, collections should be physically verified on an annual basis however, a rolling three-year stocktake may be employed.

A formal stocktake of expensed collections may not be considered necessary. However, sufficient controls must be implemented to allow proper management of the holdings and to ensure security of the collections. This may involve a stocktake over an extended period combined with adequate security over the holdings e.g. electronic protection, reviews of cataloguing, borrowing systems and procedures.

7.11 TRANSITIONAL PROVISIONS

Any changes in accounting treatment of holdings as a result of adoption of, or amendments to, this policy must be accounted for as a voluntary change in accounting policy, in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors if changes are material.

A voluntary change in accounting policy must be accounted for retrospectively by adjusting the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

If it is impracticable for the agency to apply the new policy retrospectively, appropriate notes must be included in the financial statements.
APPENDIX 7.1  FORMULA TO CALCULATE AVERAGE REPLACEMENT COST OF A LIBRARY REFERENCE COLLECTION (REFER TO NCAP 7.4)

The formula to calculate average replacement cost of the Library Reference Collection would be as follows:

\[
\text{opening number of items held at 1 January/1 July} + \text{number of purchases and other acquisitions during financial year (including transfers in)} - \text{number of disposals and write-offs during financial year (including transfers out)} = \text{closing number of items held at 31 December/30 June}
\]

\[
\times \text{average cost over the relevant period applied (i.e. total value of purchases/number of items purchased)} = \text{total average replacement cost for the collection at 31 December/30 June}
\]

Note: Where multiple copies of an item are held, only one copy (per location) is to be included in the calculation.