health & care professions council

Audit Committee, 20 March 2014

Accounting policy change: treatment of leasehold improvements

Introduction

The Audit Committee is asked to agree a change to the accounting policy for depreciation to include a new class of asset, leasehold improvements.

Background information

HCPC has rented units in 33 Stannary Street since October 2011, and our leases run until May 2017. In 2013-14, we have spent £82,000 on air conditioning and other improvements in 33 Stannary Street.

In statutory accounts, improvements to leasehold property (that is, assets which cannot be removed at the end of the lease, like air conditioning or partition walls) are normally treated as a separate category of assets and depreciated over the shorter of the lease term (until expected exercise of a break clause) or their useful life. We installed the air conditioning units in July 2013 so we should depreciate that cost evenly over the 35 remaining months in the lease until May 2017. Their expected useful life is at least four years.

Decision

The Audit Committee is asked to agree that the accounting policy for leasehold improvements will be as follows (showing the change from the policy disclosed in the 2013-13 accounts). Leasehold improvements will be shown as a separate category of assets in the fixed assets table in note 8.

> **Tangible assets [extract from description of depreciation policy]**
>
> Property, plant and equipment are depreciated using the straight-line method based on estimated useful lives. The annual rate of depreciation for each class of depreciable asset held at 31 March 2014 is as follows.
>
> - Freehold buildings – over 50 years.
> - Office furniture and equipment – over four years.
> - Computer equipment – over three years.
> - Leasehold improvements – over the shorter of the remaining term of the lease or the expected useful life

Resource implications

None

Financial implications

None

Appendices

None

Date of paper

7 March 2014