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GRAND QUARTIER GÉNÉRAL DES PUISSANCES ALLIÉES
EN EUROPE
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SH/FINAC/CAC/1319/22

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SUBJECT: ACO ACCOUNTING POLICY FOR PP&E (Property, Plant & Equipment)

REFERENCES: A. International Public Sector Accounting Standard (IPSAS) 17 – Property, Plant and Equipment, December 2006.
B. NATO Accounting Framework – C-M(2016)0023, dated 21 April 2016.
C. NATO Accounting Policy for Property, Plant and Equipment – C-M(2017)0022, dated 16 May 2017.
D. ACO Directive 060-080 Property Accounting & Control, dated 13 February 2017.

1. Please find the ACO Accounting Policy for PP&E (Property, Plant & Equipment) in enclosure 1 setting out the accounting requirements and standards to support ACO entities in the adoption of a comprehensive and consistent accounting treatment for PP&E in the Financial Statements of ACO. It applies to all ACO consolidated Headquarters (including NATO Alliance Ground Surveillance Force – NAGSF, NATO Airborne Early Warning and Control Force – NAW&CF).

2. The accounting policy has been developed with reference to IPSAS 17 (reference A), the NATO Accounting Framework (reference B), the NATO Accounting Policy for PP&E (reference C) and the ACO Directive 060-080 for Property Accounting & Control (ref. D).

3. The accounting policy is effective from the 1st January 2022.

4. The Branch responsible for the ACO Accounting Policy for PP&E document is the ACO Corporate Accounting and Control (CAC) Branch, at SHAPE Finance and Acquisition Directorate. The designated ACO CAC point of contact for this topic is Mr Andrew Etherden, Accountant – ACO CAC/CAM (andrew.etherden@shape.nato.int), tel. +32(0)6544-3499.

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ENCLOSURE(S):

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ACO ACCOUNTING POLICY FOR PROPERTY, PLANT AND EQUIPMENT

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1 INTRODUCTION

The International Public Sector Accounting Standard (IPSAS) 17 prescribes the accounting treatment for Property, Plant and Equipment (PP&E) and provides the financial reporting requirements for the recognition, measurement, classification, de-recognition and disclosure of PP&E.

In acknowledgment of some accounting challenges faced by NATO entities in the area of PP&E, a number of adaptations to the IPSAS accounting standards were approved in the NATO Accounting Framework (NAF)¹ and NATO Property, Plant and Equipment (PP&E) Accounting Policy². These adaptations allow the development of entity specific accounting policies to support the implementation of the NAF and NATO accounting policies.

In addition, the ACO Directive 060-080 Property Accounting and Control³ was released to outline the responsibilities and procedures for property accountability and control of international assets within ACO but does not provide detailed guidance on the accounting for PP&E within ACO.

2 SCOPE

This document aims to support ACO entities in the adoption of a comprehensive and consistent accounting treatment for PP&E in the Financial Statements of ACO by providing further details in the following areas:

- Asset recognition
- Subsequent asset costs
- Prior 2013 assets
- De-recognition
- Accounting

This policy does not supersede or replace any arrangements or formal agreements already in place in relation to the financial responsibilities of ACO or Host Nation entities associated with the acquisition, maintenance and disposal of assets.

In addition, due to the specific nature of some NATO entity relationships and ACO operations, some exceptions to this ACO Accounting Policy are approved. These are summarized below:

- Joint Force Command Brunssum (JFCBS) deviation: as a pilot initiative, PP&E assets are recorded in the JFCBS asset register based on the individual unit cost of an asset being greater than 1,000 EUR (or local currency equivalent). Assets below this threshold will not be reported in the ACO asset register but could still be recorded and tracked in the logistics asset register if deemed necessary by the logistics.
- NATO Airborne Early Warning & Control Force (NAEW&CF) categorise assets based on the serialisation (tracking) of an item rather than the ACO mapping table, which is based on the US Federal Supply Classification.
- For entities where NCIO act as the principal service provider of CIS capabilities, CIS assets are assessed to be under control of NCIO⁴ and, therefore, not to be reported by ACO. In exceptional circumstances, if CIS assets are purchased outside an agreement

¹ NATO Accounting Framework C-M(2016)0023

² NATO Accounting Policy for PP&E C-M(2017)0022

³ AD 060-080 Property Accounting and Control SH/J8/CAC/FC041/17-315770/1

⁴ NATO Accounting Framework C-M(2016)0023 Section 6.4 IPSAS 17 Adapted – PP&E; and NATO Communications & Information Organisation Charter C-M(2012)0049

with NCIO but for which maintenance is to be provided by NCIO, then those assets should be transferred to NCIO.

- This policy only applies to the non-core assets⁵ of the NATO Alliance Ground Surveillance Force (NAGSF). The non-core assets are the assets that are not related to the core activities of NAGSF. Based on the Organisational Framework for the Operations and Support of NAGSF⁶, the assets of the NATO AGS Core System are not reported by ACO as they fall under the direct responsibility of the AGS Support Partnership which is governed by NSPA as executive body.

⁵ ACO Directive (AD) 060-080: AGS core assets are all equipment part of the AGS Core System including the Common Support Equipment (CSE) and Common Support Assets used to support the AGS Core System maintenance tasks. All other assets are considered non-core.

⁶ PO (2015)0342 dated 17 June 2015.

3 ASSET RECOGNITION

Items of PP&E are defined as tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used for more than one reporting period⁷.

If an item is defined as PP&E and, it meets the recognition criteria described below, it must be recorded in the ACO asset register⁸.

3.1 Recognition criteria

As per the NATO PP&E Accounting Policy, the cost of an item of PP&E is recognised if:

- a) It is probable that future economic benefits or service potential associated with the item will flow to the NATO entity.

For ACO, it is unlikely that items of PP&E are held for generating economic benefits (i.e. net cash inflows) and so items of PP&E should normally satisfy the definition of providing “service potential” (i.e. the asset enables the entity to achieve its objectives).

- b) The cost can be measured reliably.

Cost estimates are also permitted where actual costs are not available at the date of reporting – see paragraph 3.2.1 for more details regarding best estimates of cost.

- c) The NATO entity has control over the item.

The standard assessment of control is that of “substance over form”. This is where the **economic** substance of a transaction must be recorded in the financial statements, rather than their legal **form**, in order to present a true and fair view of the entity.

In addition to this definition of control, the NAF provides additional criteria that can be used to evidence and support control of an item of PP&E. Further information on the application of this criteria is described in paragraph 3.3.

- d) The item is expected to be used for more than 12 months.

Unlike inventory, items of PP&E are expected to be used for more than 12 months (with the exception of some spare parts and servicing equipment that is described in paragraph 3.4.3).

3.2 Reliable measurement of costs

In ACO, the cost model should be used for recording items of PP&E in the asset register. This includes:

- a) The purchase price of the item, including any import duties and non-refundable taxes and after deducting trade discounts or rebates.

⁷ IPSAS 17: Property, Plant and Equipment, paragraph 13.

⁸ With the exception of JFCBS who are a pilot initiative. Only assets above the 1,000 EUR per unit threshold will be recognized in the asset register for that HQ.

- b) Any directly attributable costs needed for bringing the item to the location and condition needed for its operational use (a list of directly attributable costs eligible for capitalisation is reported at Section 3.6.1).
- c) Estimated dismantling costs, if they can be measured reliably.

For example, the following information appears on the invoice from the supplier:

Item	No. of units	Unit cost	Total cost
Heaters	5	2,200.00	11,000.00
Air conditioning units	5	5,000.00	25,000.00
Air ventilator	1	1,300.00	1,300.00
Sub total			37,300.00
Installation		1,000.00	1,000.00
TOTAL			38,300.00

The cost of installation should be applied proportionately to the other items in the invoice:

Item	Calculation	Split of installation cost	Cost to be allocated	Asset cost for Asset register
Heaters	$(11,000 / 37,300) * 100 = 29.5\%$	$29.5\% \times 1,000$	294.91	11,294.91
Air conditioning units	$(16,875 / 37,300) * 100 = 67\%$	$67\% \times 1,000$	670.24	25,670.24
Air ventilator	$(1,300 / 37,300) * 100 = 3.5\%$	$3.5\% \times 1,000$	34.85	1,334.85
TOTAL		100%	1,000.00	38,300.00

3.2.1 Best estimate of cost

Where ACO does not receive complete and reliable information in a timely manner (for example, an asset is part of a project delivered by a 3rd party who does not provide the purchase price of the asset), a “best estimate” can be used to identify and record the cost of an asset in the asset register.

The assumptions and calculations used to estimate the costs for asset recognition must be validated with ACO CAC and working papers (along with evidence to demonstrate reasonable efforts were made to receive timely information) must be retained for audit.

If it is clear that the asset has different material items with different useful lives (i.e. a building with installed equipment, etc) the estimate should use a sample of similar assets in the asset register as the basis for the supporting calculations/assumptions. A working example of this is provided in Annex 6.

When final invoices or more reliable cost information is received, a cost adjustment should be made to the asset to ensure the correct value and depreciation is reported for the asset. A retrospective adjustment is not required since the original reporting was based on the best available information at the reporting date (and not due to error).

3.2.1.1 NSIP projects cost estimates

For cost estimates relating to NSIP projects, an assessment of costs should be made based on the available information at the reporting date. Any assumptions or calculations for the cost estimate must be retained for audit purposes. Where no other information is available, the NSIP authorised project cost should be treated as the most reliable cost for reporting purposes.

In addition, to ensure the most accurate cost of the asset is reported, the estimated costs should include ALL eligible costs⁹ including National or other funding sources but excluding National Administrative Expenses (NAE) as per the NATO Accounting Policy for PP&E¹⁰.

3.3 Control

As per the NAF (and described in paragraph 3.1 c), assets are considered under ACO control based on the previously mentioned “substance over form” assessment. This should be the main consideration when assessing control.

If this assessment leads to uncertainty about control, the NAF prescribes the use of ten indicators to determine the level of control of the asset. Six positive responses indicate that the NATO reporting entity has control of the asset. The assessment of control using this criteria must be based on professional judgement and the Finance & Accounting Officer (FAO) should seek additional guidance from the Property Accountable Officer (and other subject area experts such as Infrastructure officers) where appropriate. ACO must also provide evidence on the use of this criteria to assess the control of an asset and retain relevant documentation to support the inclusion (or not) of an asset in the entities financial statements.

The control criteria is summarised in Annex 2 and can be used as a template for assessing control of an asset. The assessment of control must be retained for audit purposes and reviewed if conditions change.

3.3.1 Principal/Agent

When assessing control, consideration should also be given in relation to whether ACO acts as a procurement agent on behalf of another party (i.e. where ACO purchases assets on behalf of another entity who are assessed to have control of the asset). For example, where ACO are obliged to purchase equipment on behalf of Nations to support urgent or critical mission requirements and ACO have assessed that the Nation (and not ACO) has control of the asset. Where ACO does not control the asset, the asset should not be reported in the ACO asset register.

3.3.2 Shared use assets

Due to the nature of ACO activities, assets are often used by both ACO and a 3rd party. For example, ACO may share a building with a Host Nation. A regular review of all assets (normally in the categories of buildings or infrastructure) must be completed to identify assets that might need reporting for ACO.

If an asset is identified as possibly meeting the criteria for asset recognition, a formal assessment of control must be completed to evidence the inclusion (or not) of the asset in the ACO asset register.

In addition to the control criteria described in section 3.3 Control, other suitable measures can be used to indicate control of the asset. For example:

- Which entity controls access to/from the building or infrastructure?
- Which entity occupies the most floor space in the building?
- Which entity occupies the highest number of offices in the building?
- Which entity has the highest percentage of personnel using the asset?

⁹ See section 3.6.1 Eligible costs for capitalization for eligible costs.

¹⁰ NATO Accounting Policy for PP&E C-M(2017)0022, Paragraph 3.4.

If an asset is assessed to be under ACO control, the asset must be reported in the ACO asset register.

Assets must not be double reported (i.e. the asset is reported in only one entity's asset register) and periodic reviews of the asset register should be made to ensure assets are only reported once. In addition, assets, such as buildings, must not be split into separate floors or wings between entities since one entity is normally in control of the building via their control of access and security of the building.

Examples of shared use assets include:

- Buildings shared with Host Nations.
- Forward operating bases and locations, where ACO may use and/or construct buildings and infrastructure assets but the Host Nation allows access to the base and some of its facilities. For example, a Host Nation controls a runway and allows ACO to use the runway and establish permanent structures on the base (i.e. buildings). ACO does not report the runway but will report the buildings that they are assessed to control.

3.3.3 Deployable assets

Deployable assets from SOC Taranto are assessed to be under ACO control (with NSPA providing servicing and maintenance to ensure the assets are ready to be deployed). These assets must be reported in the SHAPE asset register under the location ACO.DEPLOY.000000.000000. When an asset is permanently transferred (i.e. not deployed for an operation or exercise) from SOC Taranto to another ACO HQ, the asset should be derecognised from the SHAPE asset register and recognised in the HQs asset register using the lateral transfer procedure¹¹.

3.4 Moment of recognition

As per the NATO PP&E Accounting Policy, the moment of recognition for PP&E is when the end-user receives the item for NATO's operational use. For smaller items of PP&E, this is normally when the delivery is received (as evidenced by a delivery note or other official handover document). However, ACO has specific challenges in areas such as:

- Buildings and Infrastructure
- Assets under construction (AuC)
- Spare parts and servicing equipment
- Contract funded equipment

Further clarification is provided for these types of assets.

3.4.1 Buildings and Infrastructure assets

For Buildings and Infrastructure assets, a formal assessment of control is required to ensure assets have been handed over (i.e. controlled by ACO) and the date the asset is placed in service is accurate. The date placed in service is usually the HOTO date but it can be earlier if the control criteria is met in advance of the HOTO. For example, a fire station is constructed but begins to be used (to meet operational requirements) before the official HOTO is completed. The date placed in service should be the date the fire station starts to be used (i.e. the date ACO has control of the asset) and not the official HOTO date.

¹¹ AD 060-080 Property Accounting and Control C-M(2017)0022, Section 3.8, Paragraph L.

If an earlier date is used for the date placed in service, formal communication must be received stating that the asset is now being used and ACO is receiving the service potential of the asset and is responsible for the risk and reward of the using the asset. For example, an email between the ACO responsible infrastructure officer and the entity responsible for construction confirming the asset is now in use.

3.4.2 Assets under construction (AuC)

The general principle for assets under construction is that where an end-user has no control over the asset during construction, it does not record the asset (in any form) in its financial statements. Only when the construction is completed and the asset is officially handed over should the asset be recorded in the entities financial statements.

However, in ACO, a number of scenarios exist which are described below:

- If ACO acts as a procurement agent (i.e. procures services on behalf of another entity), ACO should not recognize the assets in its asset register.
- If ACO constructs an asset for its own use (including NSIP projects where ACO is the Host Nation¹²), it should initially be recognized as AuC based on the percentage of completion of the asset (an example of the calculations and accounting entries is provided in Annex 3). Once construction and hand-over is completed, the asset should be de-recognised as an AuC and recognized as an asset in the relevant PP&E asset category.
- For NSIP projects where ACO is NOT the Host Nation and ACO has no control over the asset during the construction, no AuC should be reported¹³. The asset should only be reported in the asset register when the asset meets the criteria for recognition.
- Where ACO obtains control over part of the asset during construction, it must record these as AuC in accordance with the degree of completion.

Please note, if a non-ACO entity constructs an asset on behalf of ACO (i.e. a territorial Host Nation), the ACO entity must request relevant financial information about the status and costs of the construction in order to be able to account for these assets accordingly. If timely and reliable financial information is not received, estimates of costs can be used in line with the requirements set out in Paragraph 3.2.1 Best estimate of cost.

3.4.3 Spare parts and servicing equipment

Spare parts are usually reported as inventory but major spare parts and stand-by equipment qualifies as PP&E if the item is expected to be used during more than one reporting period (i.e. 12 months) and the item has a value greater than the capitalisation threshold for that asset category.

Other spare parts and servicing equipment can only be categorized as PP&E if the asset can only be used in connection with another item of PP&E. For example, spare parts that are held for replacements on specific aircrafts that cannot be used on any other asset.

The moment of recognition in the asset register should be when the asset is received by ACO, however, commencement of depreciation should be delayed until the spare part is in the location and condition necessary for it to be capable of operating in the manner intended (i.e. when the asset is installed or placed in service).

¹² SHAPE is the only NSIP HN, but in case the implementing entity is another ACO HQ, SHAPE delegate the implementation authority to that HQ.

¹³ C-M(2017)0022 Paragraph 3.4.6

For example, spare parts received for maintenance should be recorded in the asset register when received. Depreciation, however, should not begin until the spare part is installed (i.e. placed in service).

3.4.4 Contractor funded equipment

In exceptional cases, if a specific contractual clause specifies that a contractor hands over assets after use to ACO, the asset must be added to the ACO asset register even if it will be subsequently disposed of. The asset should be treated in the same way as a hand over of property to ACO and is subject to the relevant approvals¹⁴. The asset should be recognised when ACO are assessed to have control of the asset and the cost reported is based on the estimated Net Book Value of the asset. It is acknowledged that the asset may have a shorter useful life than the default for the asset category but, to simplify entries into the FA module of the accounting system, it is acceptable to depreciate the asset over the full useful life of the asset category.

3.5 Asset category/classification

For all ACO entities, except SHAPE HQ and NAEW&C Force GK HQ, assets are categorised using the ACO mapping table which maps the asset classification in the US Federal Supply Classification to a NATO Asset category via the NATO Depot Support System (NDSS). At SHAPE HQ, assets are categorised manually during the mass additions process and at NAEW&C Force GK HQ, the mapping table has been adapted so that the categorisation is based on the serialisation (i.e. tracking) of the item.

The NAF sets out the asset categories along with upper capitalisation thresholds, useful lives (or depreciation life) and method of depreciation (straight line). The NAF allows NATO entities to introduce further sub-categories.

The sub-categories used by ACO are summarised below (with further explanations and examples provided in Annex 4):

NAF PP&E Category ¹⁵	ACO PP&E Sub-categories
Automated information systems	N/a
Communication	N/a
Furniture	N/a
Mission equipment	N/a
Vehicles	N/a
Machinery	N/a
Installed equipment	Elevators
	Heating, ventilation and air conditioning (HVAC)
	Generators/Uninterrupted power supply (UPS)
	Access control and surveillance systems
	Other
Land	N/a
Buildings	Non-airfield
	Airfield
Other infrastructure	Road network
	Parking areas
	Fences
	Helipad

¹⁴ AD 060-080 Property Accounting and Control, Section 3-2, paragraph b.

¹⁵ Vessels is a NATO PP&E category but it is not used by ACO entities.

NAF PP&E Category ¹⁵	ACO PP&E Sub-categories
Aircraft	Runway
	Other
	Aircraft
	Upgrades
	Spare parts
	Training devices
	Major inspection

3.6 Capitalisation thresholds, useful life and depreciation method

Assets are capitalised based on the capitalisation threshold in Annex 4. Assets below the capitalisation threshold¹⁶ are regarded as “expensed” assets and recorded in the asset register but the full cost of the asset is expensed in the month of acquisition.

Capitalised assets are recorded in the asset register at cost (plus other eligible costs – see paragraph 3.6.1) and their value reduced on a monthly basis via a depreciation expense. The depreciation is calculated automatically by the Fixed Asset module using the asset category’s useful life and the straight line method of depreciation.

Depreciation begins with a full month of depreciation charged in the month of acquisition and no depreciation charged in the month of write off

3.6.1 Eligible costs for Capitalisation

In addition to the cost of an item, other costs may be eligible for capitalisation (and included in the cost reported in the asset register). As a general rule, additional costs are eligible for capitalisation if they can be directly attributable to bringing the item to the location and condition needed for its operational use.

Please note, the recognition of the other eligible costs should cease when the asset is in the location and condition needed for operational use.

The table below sets out the types of additional costs and their accounting treatment:

Type of costs	Accounting treatment
Costs of material	Eligible costs for capitalisation
Site preparation costs	Eligible costs for capitalisation
Installation and assembly costs	Eligible costs for capitalisation
Project Management Costs (PMC)	Eligible costs for capitalisation
Project Service Costs (PSC)	Eligible costs for capitalisation
Transportation and insurance costs	Eligible costs for capitalisation
Internal engineering service costs (technical services provided as part of a project implementation)	Eligible costs for capitalisation
Professional fees (for example, architecture and engineering fees)	Eligible costs for capitalisation
Directly attributable labour costs	Eligible costs for capitalisation
Other directly attributable costs	Eligible costs for capitalisation
National administrative expenses (NAE)	Non-eligible costs for capitalisation
Administrative and general overhead costs	Non-eligible costs for capitalisation
Costs of relocation/reorganisation of operations	Non-eligible costs for capitalisation

¹⁶ As per the scope, the deviation for JFCBS means that PP&E assets are only recorded in the JFCBS asset register if the unit cost of the asset is greater than 1,000 EUR.

Please note, the cost of training personnel (and training materials) to operate assets are considered non-eligible costs for capitalisation since the costs are considered to be attached to the member of personnel and not the actual asset (i.e. the benefits associated with the training stay with the person, not the asset).

Maintenance and service costs are also considered non-eligible costs for capitalisation except in certain circumstances that are described in Section 4. Subsequent Asset Costs.

Identifiable transportation costs should be included in the costs for capitalisation since these costs are required to bring the asset to the location and condition necessary for operation. For expensed assets, however, consideration should be given to the materiality of the transportation costs and the value it adds to the financial reporting of low value assets.

3.6.2 Grouping

As described in the NATO PP&E Accounting Policy¹⁷, items of PP&E with similar nature and the same useful life (i.e. same PP&E category) can be grouped for reporting purposes if they are purchased in the same reporting period.

In addition, the NATO PP&E Accounting Policy allows the NATO entity to choose to apply the capitalisation threshold on a single item of PP&E or on a group level. For ACO, the capitalisation of an asset will be based on the unit cost of a single item of PP&E from the 1st January 2023. During 2023, an analysis of each HQs asset register will be completed to retrospectively apply this change in accounting policy and make restatements where required.

Example: one Purchase order includes three distribution lines each with 100 beds, and a unit price of 150 EUR per bed (i.e. total order of 300 beds for a total purchase price of 45,000 EUR). Since the beds are of similar nature and have the same useful life, they can be grouped as one asset in the asset register with 300 units reported. However, none of the beds will be capitalised as the item unit cost is below the capitalisation threshold for the furniture asset category.

3.6.3 Allied Operations and Missions (AOM)

Allied Operations and Mission operations assets are equipment, spare parts and/or stand by equipment bought specifically by NATO using dedicated AOM funding from common, customer or multinational funding sources and physically located in the theatre of operation¹⁸.

If the asset meets these two criteria, the asset must be fully depreciated during the first 12 months of useful live (this may be across two financial years) to reflect the intensive nature of operations and that the equipment is frequently purchased for specific purposes that mean that the asset rarely has any further useful life at the end of the operation.

In the Fixed Asset module, the asset categories for AOM operating units are set up in the system to automatically calculate depreciation¹⁹ based on a useful life of 1 year so no manual calculations or adjustments are required.

¹⁷ C-M(2017)0022 NATO PP&E Accounting Policy, paragraph 3.6.3

¹⁸ C-M(2016)0023 Appendix to NATO Accounting Framework, Section 6.4 IPSAS 17 Adapted – PP&E

¹⁹ The NATO Mission Iran (NMI) is part of the JFCNP operating unit and, due to the limited number of capitalized assets, new asset categories are set up in the FA module as and when required.

3.6.4 EUFOR

For EUFOR, different capitalisation thresholds and useful lives are followed based on the European Peace Facility implementing rules²⁰:

- The capitalisation threshold is 1,000 EUR for all asset categories²¹.

Asset categories and useful lives:

EU Asset category	EU useful life
EU Buildings and Infrastructure	10 years
EU Plant and equipment	5 years
EU Furniture	2 years
EU Vehicles	3 years
EU Communication (CIS)	2 years

3.7 Parent:Child tracking

The Parent:Child functionality in the Fixed Asset module can be used to support tracking and reporting of assets. “Child” assets are created for the individual assets that are linked to a single “Parent” asset.

In the Fixed Asset module, this is a relatively simple to set up with the completion of the “Parent Asset” field:

The screenshot shows the 'Asset Details' form. The 'Parent Asset' field is highlighted with a red rectangle, indicating it is a key field for setting up parent-child tracking. Other visible fields include Asset Number (116002), Tag Number, Serial Number, Asset Type (Expensed), Manufacturer, Warranty Number, Lease Number, Lessor, In Use checkbox, In Physical Inventory checkbox, Property Type, and Property Class.

The Parent asset may or may not have a cost attributed to it depending on the nature of the asset being reported. For example, if all costs have been allocated to the Child assets, the Parent asset will have a zero value in the asset register.

Examples include:

- Buildings with elements that have a different useful life.
 - Parent asset = Building
 - Child assets = Installed equipment, furniture, etc.
- Multi-year major upgrades such as airplane upgrades.
 - Parent asset = Aircraft tail number
 - Child assets = Upgrade 1, upgrade 2, etc.

²⁰ Council of the European Union, European Peace Facility Implementing Rules, 11679/21, Part VII: Asset Policy, approved on 30 June 2021.

²¹ The capitalization threshold is in effect from the 1st January 2023. Prior to this date, the threshold was 420 EUR,

In addition, the Parent:Child asset functionality can be used to provide better tracking and control of assets that are part of a system where it is expected that parts of the system will be retired (and possibly replaced) separately. For example, a CCTV system can be set up with a Parent asset for the CCTV system, with child assets for each camera, monitor, etc.

The Parent:Child asset functionality can also be used for assets that are used in conjunction with other assets. For example, a trailer (Parent asset) that has assets installed onto the trailer such as a generator (Child asset). This allows the generator to be replaced, retired or uninstalled separately to the trailer.

Working examples are provided in Annex 5 to explain the use of the Parent:Child functionality.

3.7.1 Replacement of items

Using the Parent:Child functionality ensures we are able to more accurately report the replacement of assets within a system. For example, the replacement of a CCTV camera in a surveillance system.

However, it is important to derecognise (i.e. retire) the asset being replaced and create a new asset that is linked to the Parent asset to ensure that assets are not duplicated in the asset register.

For example, if one camera in a surveillance system is being replaced, the original camera needs to be derecognised/retired and the new camera added to the asset register to accurately record the assets relating to that system.

4 SUBSEQUENT ASSET COSTS

In general, subsequent asset costs are not added to the carrying amount in the asset register. However, for major improvements/upgrades and for certain types of servicing, these costs should be added to the carrying amount of the asset if they meet the criteria for recognition (see Section 3) and:

- The additional costs are above the capitalisation threshold for the asset category (For example, for the Building asset category with a capitalisation threshold of 200KEUR, subsequent costs of more than 200KEUR are added to the asset cost. Where the additional costs are below 200KEUR, no costs are added to the asset).
- AND they extend the useful life of the asset and/or upgrade/improve the service potential of the asset.

For prior 2013 assets, only the portion relating to the upgrade/modification should be capitalised.

4.1 Major inspections

Some items of PP&E may require regular major inspections to ensure the continuing operation of the asset. For example, an airplane will require a major inspection after a certain number of flight hours to ensure the aircraft is airworthy.

The cost is recognised and added to the carrying amount of the asset, if the recognition criteria and the above conditions are met. Any remaining cost that has not been depreciated from the previous inspection must be derecognized from the carrying amount of the asset. For example, if an aircraft undergoes a major inspection costing 1 MEUR and 250 KEUR remains in the carrying amount of the asset from the previous inspection, the 1 MEUR is added to the asset cost and the 250 KEUR derecognized.

4.1.1 E-3A surveillance airplanes

The NAEW&CF Maintenance Programme & Sustainment Branch (FHED) schedules major inspection events (called Depot Level Maintenance – DLM) every six years²² (which could be extended by 180 days) for each E-3A surveillance aircraft. The DLM costs related to ongoing major inspections are initially recognised as Assets under Construction until the Certificate of Conformity (CoC) is issued, upon which the related DLM costs are capitalised under the Major Inspections sub-category of Aircraft. The depreciation starts when, as required by NATO to operate the aircraft, the Military Certificate of Airworthiness (MCA) and/or Military Airworthiness Review Certificate (MARC) is issued.

4.2 Depreciation for major upgrades/improvements

Accounting for major upgrades can be complex and often leads to discussions about what can be included as part of the asset cost. Examples are provided but three principles should be applied when assessing the correct treatment for major upgrades:

1. For financial reporting, the aim is to provide a ‘true and fair’ picture of the organisation’s financial position and performance. For PP&E, this means we must reflect the correct cost of the asset and, for capitalized assets, spread the cost (via depreciation) over the assets useful economic life.

²² FHQ 00-20-1 (Aerospace Equipment Maintenance Inspection, Documentation, Policies and Procedures)

2. For a major upgrade to be included in the asset cost, the additional costs must be above the capitalization threshold for that asset category. Otherwise, the costs must be expensed.
3. Consideration must be given to whether the costs are related to maintenance (i.e. painting walls of a building and should be expensed) or linked to the structure of the asset (i.e. replacement of windows, interior walls, etc).

Examples of major upgrades/improvements (in each example, it is assumed that recognition criteria and the above conditions are met):

- a. A runway controlled by ACO requires resurfacing, otherwise it can no longer be used. The NBV of the current runway should be reduced to zero and the cost of resurfacing is recognised and added to the carrying amount of the asset with a new date placed in service. The asset is not written off but updated for the new cost and date placed in service.
- b. A building undergoes renovations with doors and windows being replaced. Since the work involves replacing physical items attached to the structure of the building and the replacement doors and windows are likely to be of better material than those being replaced, the costs are recognised and added to the carrying amount of the asset (i.e. costs of the work are added to the asset cost).
- c. New fire walls are added to a building that are legal requirements for continuing use of the building. Since the new fire walls are likely to enhance the buildings use (and the building cannot be used without the new fire walls), the costs are recognised and added to the carrying amount of the asset (i.e. costs of the work are added to the asset cost).
- d. An aircraft is upgraded as a condition required for the continued operation of the aircraft and to give it enhanced capabilities. The costs are recognised and added to the carrying amount of the asset.

4.3 Day-to-day servicing

“Day-to-day” servicing (including urgent repairs or maintenance to ensure an asset remains operational) relates to the servicing and maintenance of an asset on a regular basis and at relatively low cost.

These costs are expensed like any other contracted supplies and services and not added to the asset costs in the asset register. Examples of day-to-day servicing include the routine maintenance of a roof or the repainting of walls.

5 PRIOR 2013 ASSETS

If a prior 2013 asset undergoes a major upgrade and qualifies for capitalisation, a number of steps are required to link the original, prior 2013, asset to the newly upgraded asset that will be posted in the current asset register:

1. Derecognise (the asset from the prior 2013 asset).
2. Add a new Parent asset with a zero cost value and information relating to the original prior 2013 asset (i.e. date placed in service, reference number, etc).
This ensures there is a link between the prior 2013 asset in the prior 2013 asset register and the new asset in the current asset register.
3. Finally, add a new Child asset for the cost of the major upgrade.

For example, a building was constructed and formally handed over in APR-1980 but a major upgrade was completed and officially handed over in JUN-2020 at a cost of 1,500,000 EUR.

1. The building in the prior 2013 asset register needs to be derecognised/retired:

NATO Asset Category	2020 status	Date of Service	Write off approval date (DD-MMM-YY)	ROS Number	Original Acquisition Value	Description
BUILDING	Written off	1-Apr-80	01-Jun-20	Transfer to FinS FAR		101 - MAIN BUILDING.

2. A new Parent asset is added to the current asset register for the old building. The asset should have a zero cost but include costs relating to prior 2013 asset record.

Asset No.	Asset Description	Asset Category	Parent Asset No.	Parent Asset Description	Asset Type	Date placed in service	Total Units	Cost
90001	101 – Main Building (prior 2013 asset)	188211.00.0000.00 - BUILDING			Capitalized	01-APR-80	1	0.00

3. The major upgrade is added to the current asset register as a child asset of the Parent asset.

Asset No.	Asset Description	Asset Category	Parent Asset No.	Parent Asset Description	Asset Type	Date placed in service	Total Units	Cost
90002	101 – Main Building upgrades	188211.00.0000.00 - BUILDING	90001	101 – Main Building (prior 2013 asset)	Capitalized	01-JUN-20	1	1,500,000

Write off reporting

It is important to ensure the end of year write offs reported reconciles to the Report of Survey (ROS) approved by the Property Survey Board (PSB) so care must be taken when reporting changes to the prior 2013 asset register in relation to upgrades.

For example, where a prior 2013 building is upgraded, the building is removed from the prior 2013 asset register and added to the FinS FAR but NO WRITE OFF should be reported. The asset was not retired, only transferred from one asset register to another.

5.1 Items in a system

Where a retirement relates to an item of a system that is part of a prior 2013 asset, it is important to ensure that the retirements are correctly reported and any new assets are reported separately.

5.1.1 Scenario 1: items in the system are replaced

If the items of the system are replaced, the prior 2013 asset should be brought into the FinS asset register as a Parent asset with the new items added as new Child assets. Additional entries should be added to the Prior 2013 asset register to report the retirement of the original items separately.

For example, cameras in a prior 2013 CCTV system are replaced. The CCTV system should be brought into the FinS asset register as a Parent and the new cameras added to the FinS asset register as Child assets. The prior 2013 asset should be marked for write off in the Prior 2013 asset register.

5.1.2 Scenario 2: items in the system are not replaced

If the items of the system are NOT replaced, the prior 2013 asset remains in the prior 2013 asset register and additional entries added to the Prior 2013 asset register to reflect the retirement of assets that were part of the system ensuring the retirements are reported separately.

For example, if cameras from the prior 2013 CCTV system are retired (but not replaced), the asset remains in the 2013 asset register and additional rows are added to the prior 2013 register to report the retirements.

In both scenarios, the items in the system that are retired must be approved for write off following the same process as other assets proposed for write off.

6 DE-RECOGNITION

6.1 Write-offs/retirements

Assets should be de-recognised²³ when:

- It is disposed of (e.g. handed over, sold, donated, transferred, replaced, lost or stolen); or
- no future economic benefits and service potential are expected from its use (e.g. destroyed, withdrawn from use, retired, scrapped)

For accounting purposes, the moment of de-recognition in ACO is when the item of PP&E has been written off. The date of write off is the final approval date of the Report of Survey (ROS) by the relevant finance authority²⁴.

For write offs of NSIP funded assets, discretionary write-off authority is delegated to the Financial Controller²⁵ except for two circumstances where the request for write off must be submitted to the Investment Committee (IC):

1. When the NBV of non-fixed infrastructure (i.e. equipment) is equal to or exceeds level C of the EFLs
2. When the asset is NSIP funded fixed infrastructure (i.e. buildings, infrastructure, installed equipment, etc) regardless of its NBV.

Applications for write-off should be made, in line with the ACO Directive 060-080, via a Report of Survey (ROS) and reviewed by the Property Survey Board (PSB). The PAO is responsible to ensure the assets remain in the asset register until the date of write-off approval whereby the Property Disposal Officer (PDO) will take responsible for the physical disposal of the asset.

Once the write-off is finally approved, the FAO should submit the list of approved write offs to ACO CAC for retirement from the Fixed Asset module asset register. The date of retirement from the asset register should be the date of signature by the relevant finance authority.

This process is recommended to occur periodically (i.e. monthly) but at least on a quarterly basis.

²³ NATO Accounting Policy for PP&E C-M(2017)0022, Paragraph 6

²⁴ As per the NATO FRP, assets with a NBV below level C of the EFL are approved by the Financial Controller. In excess of level C, the Budget Committee must authorize the write off.

²⁵ AD 060-080 Property Accounting and Control C-M(2017)0022), Section 3.9, Paragraph p.

7 ACCOUNTING

The Fixed Asset module automatically creates and posts the relevant accounting entries relating to changes to the Fixed Asset Register in FinS. Additional accounting entries are made at end-of-year for the completion of the ACO Financial Statements. To assist the FAO in understanding of PP&E accounting at ACO, these accounting entries are summarised in Annex 8.

ACO CAC must be consulted if any accounting adjustments (including restatements) are needed in relation to Fixed Assets.

7.1 Retrospective restatements

Retrospective restatements should only be made if an error was made and the value of the restatement is material.

An error is defined as an omission/misstatement in the financial statements as a result of the failure to use or misuse of information that was available when the financial statements were authorized for issue and/or could reasonably be expected to have been obtained and taken into account for the preparation and presentation of those financial statements.

Please note, it is not considered an error where figures were estimated in the previous year (i.e. the Financial Statements were based on the “best” available information at the time of reporting). Where new information is received and the estimate is updated (or replaced), the figures should be updated in the current year Financial Statements (i.e. it is not a restatement of prior year figures).

Materiality is defined as items that could individually or collectively influence the decisions or assessments of the users of the financial statements. For the area of PP&E in ACO, the materiality threshold is set at 2% of the prior year PP&E Net Book Value ending balance for that operating unit. Please note, if more than one error is identified for that operating unit, the total value of errors in that operating unit is used as the test for materiality.

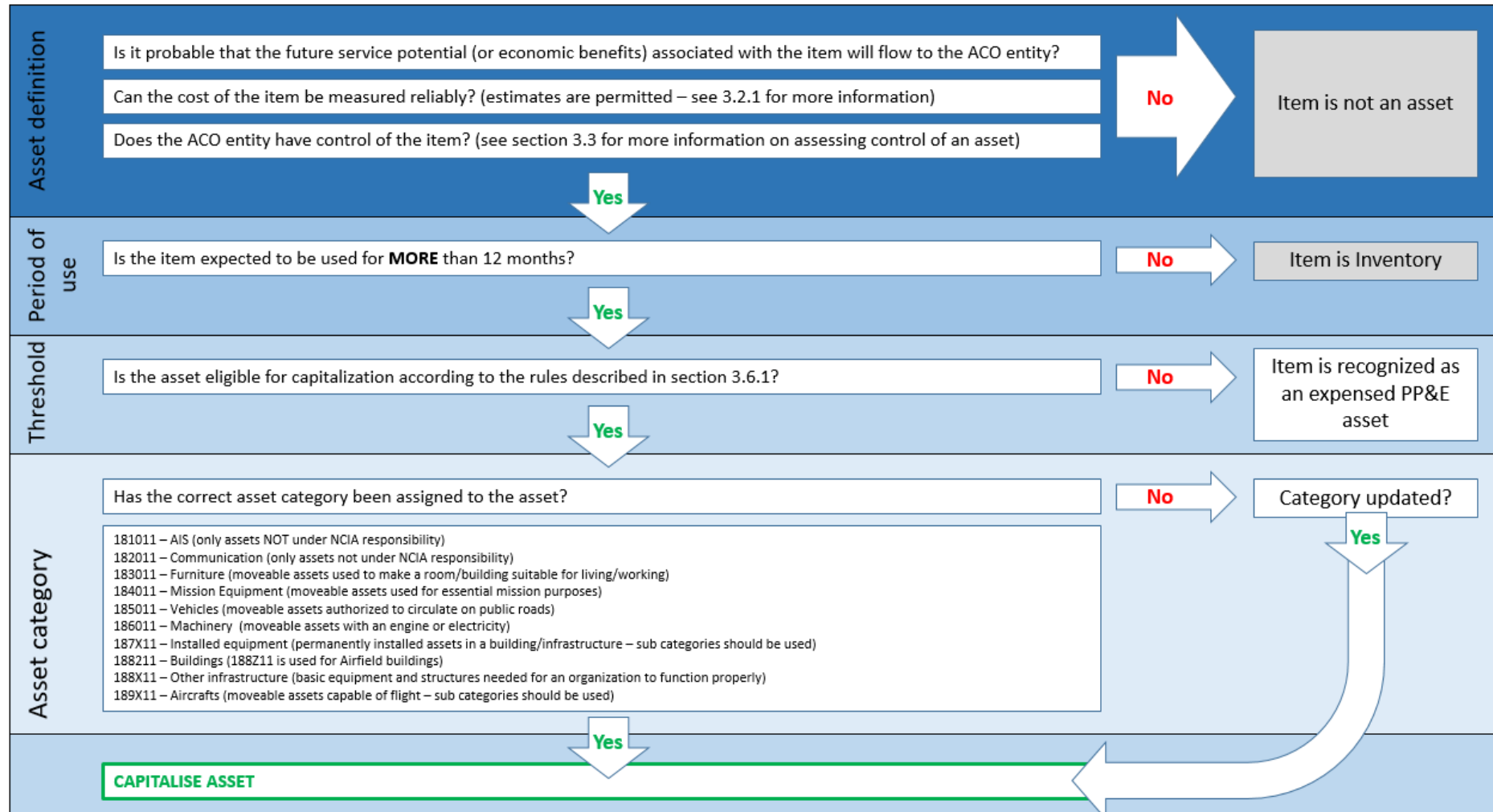
Example calculation of materiality threshold for PP&E retrospective restatements:

	EUR
Opening balance at 1 st Jan 20XX	10,825,802
Additions/disposals for 20XX	16,753,174
Depreciation for 20XX	(10,808,270)
Closing balance at 31 st Dec 20XX	16,770,706
Materiality for restatement (16,770,706 x 2%)	335,414

Therefore, an error (or total errors) above 335,414 EUR would require a retrospective restatement.

A change in accounting policy (for example, changing the method of depreciation) still requires an adjustment to prior period statements. However, it is not regarded as an error (i.e. a retrospective restatement) but a “Retrospective application” of an accounting policy change.

ANNEX 1: PP&E DECISION TREE



ANNEX 2A: CONTROL CRITERIA

In addition to the standard assessment of “substance over form”, the following criteria should be used to assist in assessing the level of control an ACO entity has for reporting assets in its financial statements:

Asset number: Asset description:	Outcome of assessment (Yes / No)	Short text to describe rationale for assessment:
The act of purchasing the asset is carried out (or resulted from instructions given) by the NATO Reporting Entity.		
The Legal title is in the name of the NATO Reporting Entity.		
The asset is physically located on the premises or locations used by the NATO Reporting Entity.		
The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.		
The fact that the NATO Reporting Entity can decide on an alternative use of the asset.		
The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.		
The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.		
The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.		
The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.		
The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.		

If the ACO entity responds positively to six of the above criteria, it is likely that the asset is controlled by the ACO reporting entity.

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Assessed by:		Name of FAO approving assessment:	
Date:		Date:	
Signature:		Signature:	

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ANNEX 2B: EXAMPLE OF CONTROL CRITERIA

Asset number: <i>Not yet created pending decision on control</i> Asset description: <i>New administration building at FOB</i>	Outcome of assessment: (Yes / No)	Short text to describe rationale for assessment:
The act of purchasing the asset is carried out (or resulted from instructions given) by the NATO Reporting Entity.	No	<i>The building construction is NSIP funded and procurement was completed by the HN.</i>
The Legal title is in the name of the NATO Reporting Entity.	Yes	<i>ACO was the entity on the building contract.</i>
The asset is physically located on the premises or locations used by the NATO Reporting Entity.	Yes	<i>Although the building is located on the HN's airfield, ACO has access to the airfield.</i>
The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.	Yes	<i>ACO staff use the administration building for ACO activities.</i>
The fact that the NATO Reporting Entity can decide on an alternative use of the asset.	Yes	
The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.	No	<i>ACO cannot sell the building and the HN needs to be consulted for disposal.</i>
The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.	No	<i>ACO must consult with the HN.</i>
The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.	Yes	<i>ACO undertakes inspections and is responsible for maintenance of the building.</i>
The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.	Yes	<i>The building is used for ACO operations.</i>
The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.	No	<i>The building would most likely be left for the HN.</i>

If the ACO entity responds positively to six of the above criteria, it is likely that the asset is controlled by the ACO reporting entity.

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Assessed by:	PAO	Name of FAO approving assessment:	FAO
Date:	DD/MMM/YY	Date:	DD/MMM/YY
Signature:	xxx	Signature:	xxx

ANNEX 3: EXAMPLE ACCOUNTING – ASSETS UNDER CONSTRUCTION (AUC)

If ACO constructs an asset for its own use or where SHAPE is the Host Nation for an NSIP project, AuC should be reported based on the percentage completed of the asset.

For example, a building is to be constructed for an ACO HQ with a final cost expected to be 1,000,000 EUR. At the end of the first reporting period, the project manager estimates that 25% of the project is completed and the costs (for asset reporting purposes) are split as follows:

- Building category = 70%
- Installed equipment - HVAC = 15%
- Other infrastructure – Other = 15%

Where a reliable cost or split of costs is not available, refer to section 3.2.1 Best estimate of cost.

For end of year reporting, the following amounts would be reported:

Asset category	Percentage of total	Total project cost (EUR)	Amount to recognise as AuC (EUR)
Building	70%	700,000	25% x 700,000 = 175,000
Installed equipment – HVAC	15%	150,000	25% x 150,000 = 37,500
Other infrastructures - Other	15%	150,000	25% x 150,000 = 37,500
TOTAL	100%	1,000,000	250,000

The asset type: CIP (Construction in progress) should be used in the FA module which will create the following accounting entries:

Debit/ Credit	Accounting event	Description	Amount (EUR)
Dt	000.0000.188212.00.000.000.000.000.000.0U.000	HQ Building – Building CIP	175,000
Ct	BUD.YEAR.73H012.00.000.000.000.000.000.000.0U.000	Asset expense posting	175,000
Dt	000.0000.187B12.00.000.000.000.000.000.000.0U.000	HQ Building – HVAC CIP	37,500
Ct	BUD.YEAR.73GB12.00.000.000.000.000.000.000.0U.000	Asset expense posting	37,500
Dt	000.0000.188F12.00.000.000.000.000.000.000.0U.000	HQ Building – Other infra CIP	37,500
Ct	BUD.YEAR.73HF12.00.000.000.000.000.000.000.0U.000	Asset expense posting	37,500

For the Financial Statements, a value of 250 KEUR will be reported as AuC.

During the following year, the construction is completed and the official HOTO document is received with a date placed in service of 31-DEC-20XX. The following actions are required to correctly recognise the new asset:

Step 1: Recognise the remaining costs of the construction

The final cost of the asset was 1,000,000 EUR. The remaining costs need to be reflected with the CIP assets already reported. The FA module will create the following accounting entries:

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Debit/ Credit	Accounting event	Description	Amount (EUR)
Dt	000.0000.188212.00.000.000.000.000.000.00.000	HQ Building – Building CIP	525,000
Ct	BUD.YEAR.73H012.00.000.000.000.000.000.000.00.000	Asset expense posting	525,000
Dt	000.0000.187B12.00.000.000.000.000.000.000.00.000	HQ Building – HVAC CIP	112,500
Ct	BUD.YEAR.73GB12.00.000.000.000.000.000.000.00.000	Asset expense posting	112,500
Dt	000.0000.188F12.00.000.000.000.000.000.000.00.000	HQ Building – Other infra CIP	112,500
Ct	BUD.YEAR.73HF12.00.000.000.000.000.000.000.00.000	Asset expense posting	112,500

Total CIP before capitalisation is 1,000,000 EUR.

Step 2: Capitalise the asset

In the FA module, the CIP assets can be capitalised creating the following accounting entries (including depreciation for the month of capitalisation):

Debit/ Credit	Accounting event	Description	Amount (EUR)
Dt	000.0000.188211.00.000.000.000.000.000.OU.000	HQ Building – Building	700,000
Ct	000.0000.188212.00.000.000.000.000.000.OU.000	HQ Building – Building CIP	700,000
Dt	BUD.YEAR.748210.00.000.000.000.000.000.000.OU.000	HQ Building – Building depn. expense	1,458
Ct	000.0000.188219.00.000.000.000.000.000.OU.000	HQ Building – Building accumulated depn.	1,458
Dt	000.0000.187B11.00.000.000.000.000.000.000.OU.000	HQ Building – HVAC	150,000
Ct	000.0000.187B12.00.000.000.000.000.000.000.OU.000	HQ Building – HVAC CIP	150,000
Dt	BUD.YEAR.747B10.00.000.000.000.000.000.000.OU.000	HQ Building – HVAC depn. Expense	833
Ct	000.0000.187B19.00.000.000.000.000.000.000.OU.000	HQ Building – HVAC accumulated depn.	833
Dt	000.0000.188F11.00.000.000.000.000.000.000.OU.000	HQ Building – Other infra	112,500
Ct	000.0000.188F12.00.000.000.000.000.000.000.OU.000	HQ Building – Other infra CIP	112,500
Dt	BUD.YEAR.748F10.00.000.000.000.000.000.000.OU.000	HQ Building – Other infra depn. Expense	417
Ct	000.0000.188F19.00.000.000.000.000.000.000.OU.000	HQ Building – Other infra accumulated depn.	417

The system reverses the amounts posted to CIP accounts (18XX12) and posts the asset cost (18XX11).

ANNEX 4: FIXED ASSET ACCOUNTS AND CAPITALIZATION THRESHOLD

FA ACCOUNT. GROUP. CLASS. LIFE	DESCRIPTION	THRESHOLD (EUR)	USEFUL LIFE (YEARS)
CAPITALIZED ASSETS			
181011.00.0000.00	Automated Information Systems Assembly of hardware & software configured to accomplish specific information handling operations such as computation, storage of information, etc. Examples: Computers, tablets.	Above 50,000	3
182011.00.0000.00	Communication Systems to handle telecommunications, audio-visual processing and transmission systems. Examples: Radio equipment, antenna, intercom, public address (PA) system, telephones, Video Teleconferencing (VTC).	Above 50,000	3
183011.00.0000.00	Furniture Moveable assets that are used to make a room/building suitable for living or working. Examples: Table, chair, desk/workstation, cabinet/locker, shelves, notice boards, foldable furniture.	Above 30,000	10
184011.00.0000.00	Mission Equipment Moveable assets that are used for ESSENTIAL mission purposes. Examples: Cases/boxes/containers, ladders, scaffolding, clocks, cameras, lenses, portable heater/fan, GPS/maps, Projector, tents and equipment, camouflage equipment, testing and controlling equipment, radar, navigational equipment, fire extinguishers.	Above 50,000	3
185011.00.0000.00	Vehicles Moveable assets that are authorised to circulate on public roads. Examples: Cars, tractors, trucks, trailers, motorcycles, bicycles.	Above 10,000	5
186011.00.0000.00	Machinery Moveable assets working with an engine or electricity. Examples: Site: Engines, turbines, air compressor, hand tools, specialised equipment (including medical equipment), manual salt spreader.	Above 30,000	10

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FA ACCOUNT. GROUP. CLASS. LIFE	DESCRIPTION	THRESHOLD (EUR)	USEFUL LIFE (YEARS)
	<p>Office: Shredder, laminator, labelling machine, local copier/printer/scanner (not connected to NCIA network), TV.</p> <p>Accommodation: kitchen equipment (refrigerator, microwave, etc), washing machines, dryer, gardening equipment (wheelbarrow, lawn mower, etc)</p> <p>Warehouse: handling equipment such as trolley, forklift, pallet jack)</p> <p>Other: voice recorder, dictaphone, DVD player, musical instruments, scales.</p>		
187A11.00.0000.00	<p>Installed Equipment - Elevators</p> <p>Elevators permanently installed in a building or infrastructure.</p>	Above 30,000	15
187B11.00.0000.00	<p>Installed Equipment - HVAC</p> <p>Heating, ventilation and air conditioning (HVAC) permanently installed in a building or infrastructure.</p>	Above 30,000	15
187C11.00.0000.00	<p>Installed Equipment - Generators/UPS</p> <p>Generators or uninterrupted power supply (UPS) permanently installed in a building or infrastructure.</p>	Above 30,000	20
187D11.00.0000.00	<p>Installed Equipment - Access control and surveillance systems</p> <p>Access control and surveillance systems permanently installed in a building or infrastructure.</p> <p>Examples: CCTV, alarm systems, finger print systems, badge readers, turnstiles.</p>	Above 30,000	10
187E11.00.0000.00	<p>Installed Equipment - Other</p> <p>Other equipment permanently installed in a building or infrastructure that does not fit into one of the other 'Installed equipment' classes.</p>	Above 30,000	10
188111.00.0000.00	<p>Land</p> <p>Only if FULLY controlled by ACO Command (i.e. legal rights belongs to ACO).</p>	Above 200,000	-
188211.00.0000.00	<p>Buildings</p> <p>Only if solely used for ACO purposes and includes electrical system, fire detection/suppression systems.</p> <p>Excluding individual buildings used for MWA activities or National purposes.</p>	Above 200,000	40

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FA ACCOUNT. GROUP. CLASS. LIFE	DESCRIPTION	THRESHOLD (EUR)	USEFUL LIFE (YEARS)
188Z11.00.0000.00	Buildings - Airfield	Above 200,000	30
188A11.00.0000.00	Other infrastructure - Road Network Road networks needed for an organisation to function properly.	Above 200,000	20
188B11.00.0000.00	Other infrastructure - Parking Areas Parking areas needed for an organisation to function properly.	Above 200,000	20
188C11.00.0000.00	Other infrastructure - Fences Fences needed for an organisation to function properly.	Above 200,000	25
188D11.00.0000.00	Other infrastructure - Helipad Helipads needed for an organisation to function properly.	Above 200,000	20
188E11.00.0000.00	Other infrastructure - Runway Runways needed for an organisation to function properly.	Above 200,000	20
188F11.00.0000.00	Other infrastructure - Other Other equipment and structures needed for an organisation to function properly that does not fit into one of the other 'Other infrastructure' categories. Examples: Tunnels, sewer drainage, tanks, water and gas pipelines, fountains.	Above 200,000	30
189A11.00.0000.00	Transport equipment - Aircrafts - Upgrades Assets permanently installed on an asset capable of flight that upgrades flight capabilities (including other directly attributable costs such as research development costs and specialist technical services). Examples: Planes: including components for airframe, landing gear, hydraulic/vacuum/de-icing systems, air conditioning/heating/ pressurizing equipment, turbine/engine, engine fuel/electrical system, flight equipment (including development, technical expertise and installation), flight communication systems. Others: Drones, unmanned aircrafts.	Above 200,000	20
189B11.00.0000.00	Transport equipment - Aircrafts - Spare parts Spare parts held for assets capable of flight.	Above 200,000	5

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FA ACCOUNT. GROUP. CLASS. LIFE	DESCRIPTION	THRESHOLD (EUR)	USEFUL LIFE (YEARS)
189C11.00.0000.00	Transport equipment - Aircrafts - Training devices Training device used for pilot training, design, or other purposes. Examples: Flight simulators	Above 200,000	20
189D11.00.0000.00	Transport equipment - Aircrafts – Major inspection Major inspection costs that are mandatory for the aircraft to receive its airworthiness certificate and the continued operation of the aircraft. Examples: Depot level maintenance	Above 200,000	6
EXPENSED ASSETS Examples of assets provided in the Capitalised assets section are applicable to the Expensed assets. The different treatment relates to the capitalization threshold.			
1810EX.00.0000.00	Automated Information Systems Assembly of hardware & software configured to accomplish specific information handling operations such as computation, storage of information, etc.	Below 50,000	Expensed within FY
1820EX.00.0000.00	Communication Systems to handle telecommunications, audio-visual processing and transmission systems.	Below 50,000	Expensed within FY
1830EX.00.0000.00	Furniture Moveable assets that are used to make a room/building suitable for living or working.	Below 30,000	Expensed within FY
1840EX.00.0000.00	Mission Equipment Moveable assets that are used for ESSENTIAL mission purposes.	Below 50,000	Expensed within FY
1850EX.00.0000.00	Vehicles Moveable assets that are authorised to circulate on public roads.	Below 10,000	Expensed within FY
1860EX.00.0000.00	Machinery Moveable assets working with an engine or electricity.	Below 30,000	Expensed within FY
187AEX.00.0000.00	Installed Equipment - Elevators Elevators permanently installed in a building or infrastructure.	Below 30,000	Expensed within FY

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FA ACCOUNT. GROUP. CLASS. LIFE	DESCRIPTION	THRESHOLD (EUR)	USEFUL LIFE (YEARS)
187BEX.00.0000.00	Installed Equipment - HVAC Heating, ventilation and air conditioning (HVAC) permanently installed in a building or infrastructure.	Below 30,000	Expensed within FY
187CEX.00.0000.00	Installed Equipment - Generators/UPS Generators or uninterrupted power supply (UPS) permanently installed in a building or infrastructure.	Below 30,000	Expensed within FY
187DEX.00.0000.00	Installed Equipment - Access control and surveillance systems Access control and surveillance systems permanently installed in a building or infrastructure.	Below 30,000	Expensed within FY
187EEX.00.0000.00	Installed Equipment - Other Other equipment permanently installed in a building or infrastructure that does not fit into one of the other 'Installed equipment' classes.	Below 30,000	Expensed within FY
188EX1.00.0000.00	Land Only if FULLY controlled by ACO Command (i.e. legal rights belongs to ACO).	Below 200,000	Expensed within FY
1882EX.00.0000.00	Buildings Only if solely used for ACO purposes and includes electrical system, fire detection/suppression systems.	Below 200,000	Expensed within FY
188ZEX.00.0000.00	Buildings - Airfield	Below 200,000	Expensed within FY
188AEX.00.0000.00	Other infrastructure - Road Network Road networks needed for an organisation to function properly.	Below 200,000	Expensed within FY
188BEX.00.0000.00	Other infrastructure - Parking Areas Parking areas needed for an organisation to function properly.	Below 200,000	Expensed within FY
188CEX.00.0000.00	Other infrastructure - Fences Fences needed for an organisation to function properly.	Below 200,000	Expensed within FY
188DEX.00.0000.00	Other infrastructure - Helipad Helipads needed for an organisation to function properly.	Below 200,000	Expensed within FY
188EEX.00.0000.00	Other infrastructure - Runway Runways needed for an organisation to function properly.	Below 200,000	Expensed within FY

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FA ACCOUNT. GROUP. CLASS. LIFE	DESCRIPTION	THRESHOLD (EUR)	USEFUL LIFE (YEARS)
188FEX.00.0000.00	Other infrastructure - Other Other equipment and structures needed for an organisation to function properly that does not fit into one of the other 'Other infrastructure' categories.	Below 200,000	Expensed within FY
189AEX.00.0000.00	Transport equipment - Aircrafts - Upgrades Assets permanently installed on an asset capable of flight that upgrades flight capabilities (including other directly attributable costs such as research development costs and specialist technical services).	Below 200,000	Expensed within FY
189BEX.00.0000.00	Transport equipment - Aircrafts - Spare parts Spare parts held for assets capable of flight.	Below 200,000	Expensed within FY
189CEX.00.0000.00	Transport equipment - Aircrafts - Training devices Training device used for pilot training, design, or other purposes.	Below 200,000	Expensed within FY

ANNEX 5: EXAMPLES OF PARENT:CHILD ASSET FUNCTIONALITY**Example 1: a system with individual items:**

A CCTV surveillance system has individual items (cameras, monitors, etc) that are needed for the system to function.

The Parent asset is added to the asset register with a zero value and the individual child items of the system are added with additional information relating to the Parent asset:

Asset No.	Asset Description	Asset Category	Parent Asset No.	Parent Asset Description	Asset Type	Total Units	Cost
123456	Intruder Detection System	187D11.00.0000.00 - Installed Equipment - Access control & surveillance system			Expensed	1	0.00
123456-1	CAMERA HD, SECURITY, DAY/NIGHT	187D11.00.0000.00 - Installed Equipment - Access control & surveillance system	123456	Intruder Detection System	Expensed	10	5,465.50
123456-2	CAMERA (HD 8MM DAY/NIGHT, IP ADDRES)	187D11.00.0000.00 - Installed Equipment - Access control & surveillance system	123456	Intruder Detection System	Expensed	10	4,703.70
123456-3	CAMERA HOUSING W/ SUPPORT	187D11.00.0000.00 - Installed Equipment - Access control & surveillance system	123456	Intruder Detection System	Expensed	20	4,703.80
123456-4	MONITOR 24"	187D11.00.0000.00 - Installed Equipment - Access control & surveillance system	123456	Intruder Detection System	Expensed	2	797.58

Example 2: a building with separate asset categories

A new building is constructed with different asset categories, with different useful lives (elevator, installed HVAC, etc):

Summary of work

Description of work	Cost (EUR)	FAR Category
Site preparation	8,000	Building
Construction of building	50,000	Building
Installation of elevator	10,000	Installed equipment – Elevators
Installation of air-conditioning units	5,000	Installed equipment – HVAC
Painting of internal walls	2,500	Building
Laying of carpet and flooring	2,000	Building
Furniture	1,800	Furniture
TOTAL	79,300	

Child assets are added for the different asset categories with the main building costs reported under the Parent asset:

Asset No.	Asset Description	Asset Category	Parent Asset No.	Parent Asset Description	Asset Type	Total Units	Cost
654321	Building 123	1882EX.00.0000.00 - Building			Expensed	1	62,500
654322	Elevator – building 123	187AEX.00.0000.00 Installed equipment - Elevators	654321	Building 123	Expensed	1	10,000
654323	AC installation – building 123	187BEX.00.0000.00 Installed equipment - HVAC	654321	Building 123	Expensed	4	5,000
654324	Tables	1830EX.00.0000.00 - Furniture	654321	Building 123	Expensed	2	300
654325	Chairs	1830EX.00.0000.00 - Furniture	654321	Building 123	Expensed	8	1,500
TOTAL							79,300

Example 3: multi-year upgrade costs

A number of aircrafts are undergoing significant upgrades covering more than one financial year:

FY18 ABC upgrade costs

- Tail no. 246810 1,500,000
- Tail no. 112357 1,500,000

FY19 ACDC upgrade costs

- Tail no. 246810 3,400,000
- Tail no. 112357 3,400,000

Child assets are added for the specific upgrade applied to each plane with the Tail number used as a unique reference for the Parent asset:

Asset No.	Asset Description	Asset Category	Parent Asset No.	Parent Asset Description	Asset Type	Total Units	Cost
Aircraft TN: 246810	Aircraft – tail no. 246810	189A11.00.0000.00 Aircrafts - Upgrades			Capitalized	1	0.00
Aircraft TN: 112357	Aircraft – tail no. 112357	189A11.00.0000.00 Aircrafts - Upgrades			Capitalized	1	0.00
ABC upgrade - 246810	ABC upgrade - 246810	189A11.00.0000.00 Aircrafts - Upgrades	Aircraft 246810	Aircraft – tail no. 246810	Capitalized	1	1,500,000
ABC upgrade - 112357	ABC upgrade - 112357	189A11.00.0000.00 Aircrafts - Upgrades	Aircraft 112357	Aircraft – tail no. 112357	Capitalized	1	1,500,000
ACDC upgrade - 246810	ACDC upgrade - 246810	189A11.00.0000.00 Aircrafts - Upgrades	Aircraft 246810	Aircraft – tail no. 246810	Capitalized	1	3,400,000
ACDC upgrade - 112357	ACDC upgrade - 112357	189A11.00.0000.00 Aircrafts - Upgrades	Aircraft 112357	Aircraft – tail no. 112357	Capitalized	1	3,400,000

ANNEX 6: EXAMPLE OF BEST ESTIMATE OF AN ASSET WITH DIFFERENT ASSET CATEGORIES

At end of year, information is received that a new building has been handed over to ACO during the year. Only the total cost is available:

Total cost of building (building no. 101) = 1,500,000

To ensure a true and fair view of the entities assets are reported, we need to report the new asset and cost in the asset register. All efforts should be made to get the relevant information needed to break down the costs of the building into the different asset categories. Where this information is not available, examples from the current asset register can be used to make a “best estimate” for reporting purposes.

- **Step 1** – take examples of similar assets in the asset register and identify the percentage cost of each item based on the total cost.
- **Step 2** – use these percentages to apportion the total cost of the building to different items.

Step 1 – examples of similar assets:

	Building 001		Building 007		Building 123		Average %
	Cost	%	Cost	%	Cost	%	
1830EX.00.0000.00 - FURNITURE - EXPENSED	5,000	1%	0	0%	4,500	0%	0%
187BEX.00.0000.00 - INSTALLED EQUIPMENT - HVAC - EXPENSED	11,600	1%	25,000	2%	29,000	2%	2%
187C11.00.0000.00 - INSTALLED EQUIPMENT - GENERATORS/UPS	0	0%	250,000	18%	150,000	10%	9%
188211.00.0000.00 - BUILDING	802,000	93%	1,102,000	79%	1,240,000	84%	85%
188FEX.00.0000.00 - OTHER INFRASTRUCTURES - OTHER - EXPENSED	40,000	5%	25,000	2%	50,000	3%	3%
TOTAL	858,600	100%	1,402,000	100%	1,473,500	100%	100%

Step 2 - Apportion the total costs based on the workings in Step 1:

Asset category	% based on similar assets	Cost per component
1830EX.00.0000.00 - FURNITURE - EXPENSED	0%	0
187BEX.00.0000.00 - INSTALLED EQUIPMENT - HVAC - EXPENSED	2%	30,000
187C11.00.0000.00 - INSTALLED EQUIPMENT - GENERATORS/UPS	9%	135,000
188211.00.0000.00 - BUILDING	85%	1,275,000
188FEX.00.0000.00 - OTHER INFRASTRUCTURES - OTHER - EXPENSED	3%	45,000
TOTAL	100%	1,500,000

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Estimated costs of each item can be added to the asset register and when more detailed information is received, the costs of the items can be updated in the asset register.

Asset No.	Asset Description	Asset Category	Parent Asset No.	Parent Asset Description	Asset Type	Total Units	Cost
Building 101	Building 101	188211.00.0000.00 - BUILDING			Capitalized	1	1,275,000
Bld 101 - UPS	Building 101 - UPS	187C11.00.0000.00 - INSTALLED EQUIPMENT - GENERATORS/UPS	Building 101	Building 101	Capitalized	1	135,000
Bld 101 - AC	Building 101 - Aircons	1187BEX.00.0000.00 - INSTALLED EQUIPMENT - HVAC	Building 101	Building 101	Expensed	1	30,000
Bld 101 - Infra	Building 101 - Other infrastructures	188FEX.00.0000.00 - OTHER INFRASTRUCTURES - OTHER	Building 101	Building 101	Expensed	1	45,000
TOTAL							1,500,000

ANNEX 7A: ACCOUNTING (FIXED ASSET MODULE)

<u>Event</u>	<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Addition	18XX11	Asset Cost	X	
	73XX11	Asset Cost – Expense Account		X
Depreciation	74XX10	Depreciation Expense	X	
	18XX19	Accumulated Depreciation		X
Retirement	18XX11	Asset Cost		X
	18XX19	Accumulated Depreciation	X	
	74XX10	Depreciation Expense current year		X
	742301	Net book value retirement	X	
CIP Addition	18XX12	CIP Cost	X	
	73XX12	CIP Cost – Expense Account		X
CIP Capitalization	18XX11	CIP Capitalization Cost	X	
	18XX12	CIP Accumulated Cost		X
CIP Retirement	18XX12	CIP Cost		X
	742301	CIP Cost retirement	X	
Change in asset category (reclassification resulting in increased accumulated depreciation)	18XX11	Reverse Asset Cost		X
	18XX19	Reverse Accumulated Depreciation	X	
	18XX11	Reclass Asset Cost	X	
	18XX19	Reclass Accumulated Depreciation		X
	18XX19	Adjust Accumulated Depreciation (increase)		X
	74XX10	Depreciation Expense current year	X	
Cost adjustment (increased cost)	18XX11	Asset Cost	X	
	18XX19	Accumulated Depreciation		X
	73XX11	Asset Cost – Expense Account		X
	74XX11	Depreciation Expense current year	X	

ANNEX 7B: ACCOUNTING (END-OF-YEAR)

<u>Event</u>	<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
EOY reclassification of expense account where 72XX11 was used for purchase.	73XX11	Asset Cost – Expense Account	X	
	72XX11	Expense Account		X
EOY reclassification of expense where non-MB funding was used for purchase (i.e. NSIP).	73XX11	Asset Cost – Expense Account	X	
	280100	Fixed Assets Deferred Revenue		X
Revenue recognition for new assets or cost adjustments (MB funded only).	557100	Fixed Assets Revenue	X	
	280100	Fixed Assets Deferred Revenue		X
Revenue recognition for new AuC.	557100	Fixed Assets Revenue	X	
	281100	Work in Progress Deferred Revenue		X
Capitalisation of AuC for completed AuC.	281100	Work in Progress Deferred Revenue	X	
	280100	Fixed Assets Revenue		X
Revenue recognition for depreciation expense	557200	Depreciation Revenue		X
	280200	Depreciation Deferred Revenue	X	
Retirement of Total asset cost	280100	Fixed Assets Deferred Revenue	X	
	280200	Depreciation Deferred Revenue		X
Net Book Value loss on retirement	557200	Depreciation Revenue		X
	280200	Depreciation Deferred Revenue	X	

ANNEX 8: GLOSSARY

Term	Definition
Asset register	A detailed register of ACO's assets.
AuC Assets under Construction	Sometimes referred to as "work in progress", Assets under Construction are assets that are in the construction phase at the reporting date.
Capitalisation threshold	The minimum cost at which an asset must be reflected in the financial statements of ACO.
Depreciation	The reduction in value of an asset over time by allocating the cost of the asset over its useful life / economic life.
HOTO Hand Over Take Over	A term used to describe the action of transferring responsibility from one entity to another.
IPSAS International Public Sector Accounting Standards	A set of international accounting standards for use by the public sector. They are based on International Financial Reporting Standards but adapted for the unique accounting requirements of the public sector.
National Administrative Expenses (NAE)	Funding received by Host Nations for project management activities relating to NSIP projects.
Net book value (NBV) / carrying amount	The original cost of an asset less accumulated depreciation.
NSIP NATO Security Investment Programme	In addition to the military budget, the NATO Security Investment Programme (NSIP) covers major construction and command and control systems. The NSIP is financed by the ministries of defence of each member country and is supervised by the Investment Committee. Projects are implemented either by individual host countries or by NATO agencies or Strategic Commands, according to their area of expertise.
NDSS NATO Depot Support System	Integrated logistics support tool supporting lifecycle asset management.
NSPA NATO Support and Procurement Agency	NATO agency responsible for the acquisition, operation and maintenance of logistical, medical and infrastructure capabilities.

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Term	Definition
Prior 2013 assets	Prior 2013 assets are assets that were acquired prior to 1 January 2013 to be considered as fully expensed as per the NATO Accounting Policy ²⁶ .
Property Accountable Officer (PAO)	Officer accountable for receiving international property, checking its quantity and quality, warehousing and issuing as well as recording in the asset register and maintaining up-to-date records. Please note, in the NATO Financial Rules and Procedures this role is referred to as “Property Accounting Officer” but the term in this document is deemed to better reflect their role in the control of assets in ACO.
Property Survey Board (PSB)	Reviews the requests for write-offs of property and recommends the write-off and method of disposal. Also reviews the list of assets in surplus for further request for redistribution.
SOC Taranto / Capellen	NSPA’s Southern Operational Centre (SOC) co-located in Taranto (Italy) and Capellen (Luxembourg) responsible for deployable infrastructure storage, maintenance and deployment.
Straight line depreciation	A common method for calculating depreciation for an asset by dividing the cost of the asset by the useful life of the asset. The result is the amount charged as a depreciation expense until the asset has been fully depreciated.
Substance over form	An accounting term to describe the situation where the economic substance of a transaction must be recorded in the financial statements rather than simply the legal form. An entity may “control” an asset even though they do not legally own the asset.
Useful life / economic life of an asset	The length of time an asset is expected to be economically useful. Normally, assets of similar nature are grouped together for the purposes of applying a useful economic life.

²⁶ C-M(2017)0022 NATO Accounting Policy for PP&E, Paragraph 9.1.