

2.19 - Capital Assets - Policy

Section: Finance
Subject: Capital Assets
Policy: 2.19
Approved: August 21, 2002
Revised: November 1, 2015

Regional Colleges will follow standard Capital Asset Policy for consistency across the college system as approved by the Senior Business Officers.

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Assets shall be capitalized as per the current policy approved by the Senior Business Officers.

Introduction

This policy utilizes and references wording from the Chartered Professional Accountant (CPA) handbook pronouncements. More specifically this policy references the following sections:

3060 Capital Assets
3065 Leases
4410 Contribution – Revenue Recognition
4430 Capital Assets – Held by not-for-profit organizations
4440 Collections – Held by not-for-profit organizations

1. Purpose

1.1 To ensure capital assets held by Regional Colleges are accounted for using generally accepted accounting principles as defined by the CPA handbook pronouncements on *“capital assets held by not-for-profit organizations”*.

1.2 To ensure capital assets held by Regional Colleges are accounted for using the Restricted Fund Method as the specialized type of fund accounting prescribed by the Regional Colleges Accounting and Reporting Manual.

1.3 To enhance consistency amongst Regional Colleges in the accounting treatment and financial presentation of capital assets held by Regional Colleges for the purpose of aiding internal and external users in comparing such information.

1.4 To outline administrative guidelines for Regional Colleges for the purpose of assisting them in accounting for capital assets in an effective and efficient manner.

2. Definition

The definitions that follow have been adopted for purposes of this policy.

2.1 Capital Assets comprising property, plant and equipment and intangible properties, are identifiable assets that meet all of the following criteria:

i) are held for use in the provision of services, for administrative purposes, for production of goods or for the maintenance, repair, development or construction of other capital assets;

ii) have been acquired, constructed or developed with the intention of being used on a continuing basis;

iii) are not intended for sale in the ordinary course of operations; and this Policy does not apply to capital assets, which are held by the Regional College as part of a work of art collection, historical treasure collection or other similar type of collection. These collections are:

i) held for public exhibition, education or research; protected, cared for and preserved; and

ii) subject to an organizational policy that requires proceeds from their sale to be used to acquire other items to be added to the collection or for the direct care of the existing collection.

Collections of this type are excluded from the definition of capital assets for the purpose of this policy

2.2 Property, Plan and Equipment are capital assets that are tangible.

2.3 Intangible Properties are capital assets that lack physical substance. Examples of intangible properties include brand names, copyrights, franchises, licenses, patents, software, subscription lists and trademarks.

2.4 Capital Lease is a lease that, from the point of view of the lessee, transfers substantially all benefits and risks incident to ownership of the asset to the lessee. This would normally occur when, at the inception of the lease, one or more of the following conditions are present:

- i) There is reasonable assurance that the lessee will obtain ownership of the leased asset by the end of the lease term either through a transfer of ownership at the end of the term of the lease or if the lease provides for a bargain purchase option;
- ii) The term of the lease is of such duration that the lessee will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its lifespan. This usually occurs where the lease term is for 75% or more of the economic life of the asset; or
- iii) If the present value of the minimum lease payments is 90% or more of the fair value of the leased property at the lease inception.

2.5 Cost is the amount of consideration given up to acquire, construct, develop, or better a capital asset and includes all costs directly attributable to the acquisition, construction, development or betterment of the capital asset including installing it at the location and in the condition necessary for its intended use. For a contributed capital asset, cost is considered to be fair value at the date of contribution.

2.6 Fair Value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

2.7 Net Carrying Amount or Net Book Value of a capital asset is cost less both accumulated amortization and the amount of any write-downs.

2.8 Residual or Salvage Value is the estimated net realizable value of a capital asset at the end of its useful life to the college.

2.9 Service Potential is used to describe the service capacity or output of a capital asset and is normally determined by reference to attributes such as useful life, associated operating costs, physical output capacity and quality of output.

2.10 Useful Life is the estimate of the period over which a capital asset is expected to be used by the college or the number of production or similar units that can be obtained from the capital asset by the college. The life of a capital asset may extend beyond its useful life to the college. The life of a capital asset is normally the shortest of the physical, technological and legal life.

3. Scope and Jurisdiction

3.1 This policy applies to all Regional Colleges that hold capital assets as a result of carrying on the operations and activities of the College.

3.2 This policy applies to all capital assets (as defined in Section 2.1 above) held by the Regional College, except as specifically noted in Section 3.4 of this capital asset policy.

3.3 This policy applies to all capital assets which are leased by the Regional College and in accordance with generally accepted accounting principles are considered capital leases as defined in Section 2.4 above.

3.4 In the presence of uncertainty in determining whether a particular asset qualifies as a “capital asset”, or determining which costs should be capitalized, or determining fair market value, or determining useful life for the purpose of this policy professional judgement must be exercised. Professional judgement is based on an individual’s past experience and training.

4. Capital Asset Recognition and Measurement

Cost Estimated Value

4.1 A capital asset should be recorded on the statement of financial position at cost. The cost of a capital asset includes the purchase price and other acquisition costs such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation, insurance costs and duties.

4.2 For a contributed capital asset, cost is considered to be fair value at the date of contribution. Fair value of a contributed capital asset may be estimated using market or appraisal values. A capital asset purchased at substantially below fair value would also be recognized at its fair value with the difference between the consideration paid for the capital asset and the fair value reported as a contribution.

4.3 In unusual circumstances when the fair value cannot be reasonably determined, the capital asset should be recorded at nominal value.

Construction or Development Over-Time

4.4 The cost of a capital asset includes direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity. A capital asset which is developed or constructed by the college might include contributed materials or labour, which would be recognized at fair value at the date of contribution.

4.5 The degree of certainty as to future benefits to be derived from costs attributable to developing intangible property varies and, in many cases, the expected future benefits may be too uncertain to justify asset recognition. When future benefits are reasonably assured, however, such costs are capitalized.

Betterment

4.6 The cost incurred to enhance the service potential of a capital asset is a betterment. Service potential may be enhanced when there is an increase in the previously assessed service capacity, associated operating costs are lowered, the useful life is extended, or the quality of output is improved. The cost incurred in the maintenance of the service potential of a capital asset is a repair, not a betterment.

5. Amortization

5.1 The cost, less any residual or salvage value, of a capital asset with a limited life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the college. Amortization should be recognized as an expense in the college's statement of operations.

5.2 Amortization should be calculated using the straight-line method based on the useful life of the asset. All capital asset categories are defined in Section 9 except for the "other" capital asset category has predetermined estimated useful lives. If a capital asset belongs in the "other category, professional judgement must be used to estimate the useful life. The useful life estimates indicated in Section 9 should be used as a standard for each category although Regional Colleges have the ability to change the useful life used for individual asset if the change can be justified. Factors to be considered in estimating the useful life of a capital asset include expected future usage, effect of technological obsolescence, expected wear and tear from use or the passage of time, the maintenance program and the condition of existing comparable terms.

5.3 Residual value is the amount that the college expects to be able to realize on disposal of a capital asset at the end of its useful life to the college. In most cases, residual value would be negligible and would be ignored for the purpose of calculating amortization. However, when the college expects the residual value of a capital asset to be significant, it should be factored into the calculation of amortization.

5.4 Amortization begins in the year the capital asset is placed into use. A full year's amortization is provided for in the year the asset is put into use regardless of when this event occurs in the fiscal year.

5.5 No amortization is provided in the year the asset is disposed of.

5.6 The amortization method and the estimate of the useful life of a capital asset should be reviewed on a regular basis.

5.7 Amortization expense should be shown as an expense of the capital asset fund in accordance with the restricted fund method prescribed by the Regional Colleges Accounting Reporting Manual.

6. Write Downs of Capital Assets

6.1 When a capital asset no longer has any long-term service potential to the college, the excess of its net carrying amount over any residual value should be recognized as an expense in the statement of operations. A write down should not be reversed.

7. Disposal of a Capital Asset

7.1 On disposal of a capital asset, whether by sale, destruction, loss, abandonment or expropriation, the difference between the net proceeds on disposal and the net carrying amount is recognized in the statement of operations.

8. Financial Presentation and Disclosure

8.1 For each major category of capital assets defined in this section, there should be disclosure of:

- i) cost
- ii) accumulated amortization, including the amount of any write downs
- iii) the amortization method used, including the amortization period or rate

8.2 The net carrying amounts of major categories of capital assets not being amortized should be disclosed.

8.3 The amount of amortization of capital assets recognized as an expense for the period should be disclosed.

8.4 The amount of any write-downs of capital assets should be disclosed in the financial statements for the period in which the write-downs are made.

Utilizing A Separate Capital Fund

8.5 All financial statements presentation and disclosure should be represented as part of the capital fund in accordance with the restricted fund method prescribed by the Regional College Accounting and Reporting Manual.

Contributed Capital Assets

8.6 The nature and amount of contributed capital assets received in the period and recognized in the financial statements should be disclosed.

8.7 Information should be disclosed about contributed capital assets recognized at nominal value.

9. Capital Asset Categories

9.1 Land should be amortized

- i) Estimated useful life: indefinite
- ii) Minimum value capitalized: 0

9.2 Land Improvements

- i) Estimated useful life: 5 years
- ii) Minimum value capitalized: \$5,000

9.3 Buildings

Include any betterment to building

- i) Estimated useful life: 20 years
- ii) Minimum value capitalized: \$20,000

9.4 Leasehold Improvement

Includes all improvement and building renovations made to a building that has a definite lease period.

- i) Estimated useful life: life of the lease. (At the college's discretion may include any applicable renewal period that forms part of the lease agreement.)
- ii) Minimum value capitalized: \$10,000

9.5 Vehicles

(includes licensed motor vehicle used primarily for transportation):

- i) Useful life: 5 years
- ii) Minimum value capitalization: \$5,000

9.6 Machinery and Equipment

Includes any machinery and equipment not included elsewhere.

- i) Useful life: 5 years
- ii) Minimum value capitalization: \$2,000

Machinery and Equipment of a specialized nature may be included in 9.11

9.7 Computer Hardware

Includes the purchase and installation of computer hardware, such as personal computers, lap tops, monitors and printers.

- i) Useful life: 3 years
- ii) Minimum value capitalized: \$2,000

9.8 Office Equipment

Includes such items as purchased photocopiers, fax machine and other business equipment.

- i) Useful life: 5 years
- ii) Minimum value capitalized: \$2,000

9.9 Office Furniture

Includes all office furniture and furnishings. Examples of office furniture are desks, tables, chairs and filing cabinets.

- i) Useful life: 10 years
- ii) Minimum value capitalized: \$2,000

9.10 System Development

Includes costs incurred to design, develop and implement a computer system. Both external costs (i.e. hiring an external consultant) and internal government costs (i.e. salary costs related to the development of a system) are included.

- i) Useful life: Expected life of the developed system.
- ii) Minimum value capitalized: \$20,000

9.11 Other

Other capital assets not included in another category.

- i) Useful life: Dependant on asset acquired.
- ii) Minimum value capitalized: \$5,000

10. Capitalization Procedures

10.1 The procedures to determine if capitalization is appropriate are as follows:

- i) Determine the capital asset category the asset belongs to and
- ii) Assess whether the capital asset meets the minimum value capitalization requirement.

Section 9 lists, by category, the minimum value that can be capitalized. Generally, the minimum value capitalized for each category represents the minimum cost an individual asset, except as noted, must have before it is to be treated as a capital asset and added to the proper category balance.