

**ACCOUNTING AND REPORTING TANGIBLE CAPITAL ASSETS***(Res. 10-09)*

Legislative Reference: Public Sector Accounting Board (PSAB)

**POLICY STATEMENT:**

The objective of the policy is to prescribe the accounting treatment for tangible capital assets so that users of the financial report can discern information about the investment in property, plant and equipment and the changes in such investment. The principal issues in accounting for tangible capital assets are the recognition of the assets, the determination of their carrying amounts and amortization charges, and the recognition of any related impairment losses.

**DEFINITIONS;**Tangible Capital Asset:

Non-financial assets having physical substance that:

- Have useful lives extending beyond an accounting period (1 year);
- Are used on a continuing basis in the municipality's operations; and
- Are not held for re-sale in the ordinary course of operations.
- Are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;

Non-financial Assets:

Non - financial assets are acquired, constructed, or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

- Are normally employed to deliver government services.
- May be consumed in the normal course of operations, and
- Are not for resale in the main course of operations.

Betterments:

Subsequent expenditures on tangible assets that:

- Increase previously assessed physical output or service capacity;
- Lower associated operating costs;
- Extend the useful life of the asset; or
- Improve the quality of the output.

Any other expenditure would be considered a repair or maintenance and expensed in the period.

Historical Cost (H):

Is the actual purchase value of asset including installation, engineering, legal, freight, design costs, and includes interest costs until asset goes into service.

Consumer Price Index (CPI):

Is the Saskatchewan Consumer Price Index

Capitalization Threshold:

Is the value used to determine when a purchase is to be capitalized and reported in the financial statements? Below this threshold the purchase is recorded as an expense.

Group Assets:

Assets that have a unit value below the capitalization threshold but have a material value as a group. Normally recorded as a single asset with one combined value. Although recorded in the financial systems as a single asset, each unit may be recorded in the asset sub-ledger for monitoring and control of its use and maintenance. Examples could include personal computers, furniture and fixtures, small moveable equipment, etc.

Fair Value:

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

Residual Value:

The amount the municipality expects to be able to realize on disposal of a capital asset at the end of its useful life to the municipality. As a general rule, many of the assets used by the municipality will have a residual value of Nil.

**POLICY:**

**Capitalization**

Tangible capital assets should be capitalized (recorded in the fixed asset sub-ledger) according to the following thresholds:

Asset Description	Threshold
Land	ALL
Land Improvements	\$ 5,000
Building & Engineered Structures	\$10,000
Machinery & Equipment	\$ 5,000
Vehicles	\$ 5,000
Office & IT Equipment	\$ 1,000
Infrastructure - Streets & Roads	ALL
Infrastructure - Bridges	ALL
Infrastructure - Water	ALL
Infrastructure - Wastewater	ALL

Capitalize betterments to existing assets when unit costs exceed the threshold.

**Categories:**

A category of assets is a grouping of assets of a similar nature or function in the municipality's operations. The following list of categories shall be used:

- Land
- Buildings
- Roads
- Water
- Furniture and Fixtures
- computer systems (hardware & software)

**Valuation:**

Tangible capital assets should be recorded at cost plus all ancillary charges necessary to place the asset in its intended location and condition for use.

**1.1 Purchased assets**

Cost is the gross amount of consideration paid to acquire the asset. It includes all non-refundable taxes and duties, freight and delivery charges, installation and site preparation costs, etc. It is net of any trade discounts or rebates.

Cost of land includes purchase price plus legal fees, land registration fees, transfer taxes, etc. Costs would include any costs to make the land suitable for intended use, such as pollution mitigation, demolition and site improvements that become part of the land.

When two or more assets are acquired for a single purchase

price, it is necessary to allocate the purchase price to the various assets acquired. Allocation should be based on the fair value of each asset at the time of acquisition or some other reasonable basis if fair value is not readily determinable.

### **1.2 Acquired, Constructed or Developed assets**

Cost includes all costs directly attributable (e.g., construction, engineering, architectural and other fees) to the acquisition, construction or development of the asset. Carrying costs such as internal design, inspection, administrative and other similar costs may be capitalized. Capitalization of general administrative overheads is not allowed.

Capitalization of carrying costs ceases when no construction or development is taking place or when the tangible capital asset is ready for use.

### **1.3 Capitalization of Interest Costs**

Borrowing costs incurred by the acquisition, construction and production of an asset that takes a substantial period of time to get ready for its intended use should be capitalized as part of the cost to that asset.

Capitalization of interest costs should commence when expenditures are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalization should be suspended during periods in which active development is interrupted. Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use are complete. If only minor modifications are outstanding, this indicates that substantially all of the activities are complete.

### **1.4 Donated or Contributed Assets**

The cost of donated or contributed assets that meet the criteria for recognition is equal to the fair value at the date of construction. Fair value may be determined using market or appraisal values. Cost may be determined by an estimate of replacement cost. Ancillary costs should be capitalized.

Amortization:

The cost, less any residual value, of a tangible 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. The municipality will use the straight-line amortization method, which is a constant rate over the useful life of the asset. This is a process of allocation, not valuation.

Land costs are never amortized except at landfill sites.

Useful life is normally the shortest of the assets physical, technological, commercial or legal life. The useful life of the remaining unamortized portion should be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated.

A comprehensive list of estimated useful lives of assets and amortization rates is attached.

Council is responsible for establishing and utilizing an appropriate amortization methodology and rate for assets acquired. Council is responsible for establishing and utilizing an appropriate estimated useful life for assets acquired.

Disposal

When tangible capital assets are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the administrator is responsible for adjusting the asset registers and accounting records recording a loss/gain on disposal.

Capitalization Threshold:

Capital Asset Thresholds are based on historical cost values. If historical cost is unknown it is to be calculated by using insured values as follows: HCPI - Historical Saskatchewan Consumer Price Index  
C\$ - Current Cost Dollars (Insured value)  
CCPI - Current Saskatchewan Consumer Price Index:  
Estimated Historical Cost - HCPI/CCPI x C\$

Estimated Useful life:

<u>Capital asset Class and Category</u>	<u>Threshold</u>	<u>Estimated Useful Life</u>
<u>Land &amp; Improvements</u>		

Land	ALL	Indefinite
Land Improvements	\$5,000	15 years
<b><u>Buildings and Building Improvements</u></b>		
Buildings	\$10,000	50 years
Building Improvements	\$10,000	50 years
Engineered Structures	\$10,000	50 years
<b><u>Machinery and Equipment</u></b>		
Heavy Equipment - Graders, tractors	\$ 5,000	20 years
Operating Equipment	\$5,000	10 years
<b><u>Transportation Equipment</u></b>		
Vehicles	\$5,000	10 years
<b><u>Office and Information Technology</u></b>		
Computer hardware	\$ 1,000	5 years
Computer Software	\$ 1,000	5 years
Office Furniture & equipment	\$ 1,000	10years
<b><u>Infrastructure</u></b>		
Roads/Streets - construction	ALL	40 years
Roads/Streets - repaving	ALL	15 years
Bridges - construction	ALL	40 years
Bridges - Upgrades	ALL	15 years
Culverts	ALL	35 years
Airports - Runways	ALL	15 years
Highways - Other	ALL	15 years
Water Infrastructure	ALL	40 years
Infrastructure - Other	ALL	15 years