
Capital Asset Accounting Procedures

Policy Sponsor:	Vice President, Finance and Administration
Name of Parent Policy:	Capital Asset Accounting Policy
Policy Contact:	Director, Financial Services
Procedure Contact:	Director, Financial Services
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Purpose

To establish the accounting treatment for Capital Assets, specifically: acquisition, amortization, and disposal.

Definitions

Accounting Terms

Acquisition	For the purpose of these procedures the act of acquiring or obtaining a capital asset.
Amortization	The process of allocating the cost of an asset to the periods of benefit, over its useful life in a systematic manner.
Accumulated Amortization	The total amount of a capital asset expensed through the amortization process to date.
Betterment	A cost incurred to enhance the service potential of a capital asset. Example, when there is an increase in the previously assessed physical output or service capacity, where associated operating costs are lowered, the useful life is extended or the quality of the output improved. This may also be referred to as a



capital upgrade.

Capital Asset

An acquisition that possesses the following characteristics:

- is 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 capital assets,
- has a useful economic life of more than one year under normal use,
- is to be used on a continuing basis,
- is not intended for sale in the ordinary course of business.

A capital asset maybe acquired directly by the University, or donated (contributed) to the University.

Also, a capital asset project may produce a capital asset; for example the development of software.

Capital Asset Categories

A Capital Asset is classified and recorded in the accounting records into a category and generally is assigned to the group according to its amortization period.

Capital Asset Project

A planned construction or development of a capital asset with a planned total cost of \$50,000 or more. A capital asset project may involve a capital upgrade (betterment).

Capitalize

Recording of cost as a capital asset (to be amortized over several accounting periods) instead of an expense (charged against revenue in one accounting period).

Capital Lease

A lease agreement where the leased item is recorded as an asset with an offsetting liability representing the lease obligation.

Carrying Value

The net book value of an asset; a reflection of future usefulness of the capital asset to the University.

Collections

Works of art, cultural and historical properties, and treasures held for public exhibition, education or research; and are protected and preserved.

Composite asset

Composed of several pieces/parts that are purchased jointly, function together, and are collectively valued over the threshold amount for capitalization.

Cost

The consideration given for the acquisition, design, construction, development, improvement or betterment of a capital asset, to ready it for its intended use.



Includes the purchase price and other acquisition fees such as brokers' commissions, installation, architectural, design, engineering, legal, surveying, site preparation, freight, transportation, insurance, duties, testing and preparation.

A capital asset project is valued at cost that includes direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity, as well as interest costs that are directly attributable to the capital asset project.

For donated assets, cost is deemed to be the fair market value as of the date of acceptance of the donation by the University.

Disposal Gain or Loss

The amount that is the difference between the proceeds of the sale of asset and the carrying value of the asset.

Fair Market Value

The dollar amount for which an asset would be sold between arms length parties, acting willingly, and under no compulsion to act.

Net Book Value

The cost of the Capital Asset less both accumulated amortization and any write downs in value.

Nominal Value

The value assigned to a donation (contributed) Capital Asset when there is no relevant valuation methodology to determine fair market value and where an estimate could not be verifiable. The nominal value in these circumstances is defined as one Canadian dollar.

Related Parties

A situation where one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence.

Residual Value

The amount the University expects to realize on the disposal of a capital asset at the end of its useful life; generally deemed Nil.

Straight-line Method

Method of amortization where the allocation amount for a period is computed by dividing the cost less residual value by the estimated number of period of useful economic life.

Threshold Amount

The base value, individually or as a composite asset, of at least five thousand dollars (\$5,000) using in determining if capitalization of an acquisition will occur.

Useful Life

The estimate of the period over which a capital asset is expected to be used by the University. The life of a capital asset may extend beyond its useful life to the University. The life of a



capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial or legal life.

Work-in-progress

The value of constructed or development capital asset, at any point, prior to final completion and when placed in service.

Write down

A partial reduction in the estimated or nominal value of a capital asset.

Write off

A full reduction in the estimated or nominal value of a capital asset.

Capital Asset Categories

Building

A structure that is normally affixed to land, used or intended for supporting or sheltering any use or occupancy.

Equipment

Items that can be relocated and are not integral parts of buildings.

Hardware

Computing infrastructure for information technology.

Land

Land includes raw land, but excludes all improvements such as buildings, land improvements and equipment affixed to the land. It includes all costs directly related to the acquisition such as options or transfer fees, purchase cost, title insurance, legal and other professional fees, surveys, appraisals and real estate commission.

Leasehold Improvements

Costs of improvements to non-owned land or buildings.

Library Holdings

Tangible holdings in all formats that are acquired by the University Library and offered to patrons for the purpose of study, teaching, and research. Holdings include books, audio visual materials, maps, microforms, and periodicals.

Site Improvements

Cost of improvements to land, but excludes buildings, Examples include roads, parking lots, sidewalks, sewer and water facilities

Software

Any programs or applications that operate using computer technologies.

Vehicles

Any devices for carrying or conveying persons or objects.



Procedures

1. Acquisition:

Requests for capital assets are to be submitted by departments through the annual budget process and are to be made in accordance with the Purchasing policy.

Supply Management Services will assign an asset number and provide it and any supporting documentation (e.g. invoices) to Financial Services.

Repairs and maintenance expenses will be reviewed by Financial Services to determine whether amounts spent meet the threshold and definition of capital assets. Financial Services will then make accounting entries to capitalize costs as appropriate.

1A. Procurement

Capital assets are recorded at cost within their respective Capital Asset Category.

Expenditures for all items that fit the definition of Capital Asset, and that exceed a cost threshold amount of \$5,000 will be capitalized in the financial accounting records of the University; noting the following exceptions:

- Library Holdings are all capitalized, regardless of value (no minimum threshold)
- Capital Asset Projects (must be over \$50,000 – see 1B below)

Bulk purchases will be assessed by Financial Services on a case by case basis to determine if they comprise a composite asset. Financial Services will then make accounting adjustments to capitalize costs as appropriate. Examples of bulk purchases that may qualify as a composite asset include:

- Computers purchased in quantities exceeding the threshold amount
- New furniture designated for new spaces (not replacement of furniture)

1B: Capital Asset Projects

Capital Asset Projects (including building projects and information technology systems projects) with a planned total cost of \$50,000 or more will be capitalized in the financial accounting records of the University.

Capital Asset Projects must be approved in advance via one of the following mechanisms:

- Annual budget and/or capital plan approved by the Board,
- Designated external special purpose funding confirmed and supported by Executive Group,
- Exceptions within President's signing limit approved by the President,
- Exceptions over the President's signing limit approved by the Board.



The development period begins when the planning for construction starts, and ends when substantial completion has been signed-off by the applicable Executive Officer.

With the exception of costs related to data conversion, training that is not directly associated with configuration and other exceptions as per the Chartered Professional Accountants (CPA) Canada Handbook, all expenditures directly related to the project that are incurred within the development period comprise the cost of the capital asset project.

The costs related to configuration of new systems will be capitalized, however, data conversion costs, even if related to a Capital Asset Project, will not be capitalized.

The cost of training that is directly associated with new systems configuration will be capitalized, however, the cost of training provided to end users on how to use a system will not be capitalized.

1C: Staff Working on Capital Asset Projects

Temporary or term staff assigned to work on a Capital Asset Project will be directly charged to that capital asset project via the payroll system. Permanent or regular employees who are working on a Capital Asset Project will be charged via payroll to the employee's home department (operating budget) and project time will be tracked by the project timekeeping system and costs reallocated to Capital Asset Projects as appropriate on a quarterly basis.

1D: Donated Capital Assets

Donated capital assets are recorded at their fair market value, on the date of donation, except in circumstances where fair market value cannot be reasonably determined, in which case they are then recognized at nominal value.

1E: Capital Leases

When the University leases an asset, and the lease agreement transfers substantially all the benefit and risks of ownership to the University, it will be considered a capital lease. The asset will be accounted for as a capital asset with an offsetting liability component. Both are valued at the net present value of the lease payments.

1F: Collections

Collections are not capitalized and are therefore expensed when acquired.

1G: Assets transferred to and from third parties

Transfers of assets to and from third parties (not including related parties) will be recorded at fair market value. The difference between the fair market value and the net book value of the transferred capital asset will be recorded as a revenue or expense as appropriate.



Transfers of capital assets from related parties are recorded at the carrying value of the capital asset on the records of the related party, where such values reasonably reflect the value of the capital asset(s).

2. Amortization:

The cost, less residual value, of a capital asset, excluding land, is amortized on a straight-line method over the estimated useful life of the capital asset.

Below is a summary of capital asset category amortization rates. Refer to [Appendix A](#) for the details by sub-category.

Building	20 - 40 years
Site improvements	10 - 25 years
Computer hardware and software	3 - 10 years
Furniture and equipment	5 - 20 years
Other - leasehold improvements	lesser of 5 years or lease term
Other - library holdings	10 years

Amortization will begin in the month following the month of acquisition (invoice date), or in the case of a capital project the month following substantial completion sign-off.

Work-in-progress, which includes facilities and improvement projects, and development of information systems, is not amortized until after the project is complete and the capital asset is in service, or in the case of a building, the space occupied.

3. Disposition of Capital Assets:

Capital assets will be declared surplus to a faculty or department by the Dean or Director responsible for that faculty or department. Surplus and/or obsolete capital assets must be disposed of in accordance with established agreements/contracts and/or conditions of funders.

Financial Services will be notified prior to the disposition of any capital asset. Physical disposal of capital assets will be performed by:

- Facilities and Services – for furniture and fixtures
- Information Technology Services – for computer equipment and infrastructure

On disposal of a capital asset, the capital asset and related accumulated amortization will be removed from the accounting records.

3A: Proceeds from sale

Funds generated from the disposal of capital assets shall be considered gains to the university in general and not to an individual area, unless other arrangements are approved by the Vice President, Finance and Administration.

3B: Disposal gain or loss



Any gain or loss on disposal will be recognized in the statement of operations in the fiscal year that it occurs. The gain or loss will be calculated after amortization recorded in the month of disposal. Disposition costs are expensed.

3C: Write-downs and write-offs

A write-down is used to reflect a partial impairment in the value of a capital asset. A write-off is used to reflect 100 percent impairment in the value of an asset. Capital assets are written off in instances where they are destroyed, stolen, lost or obsolete. The determination of when an asset is written down or written off is made by the Dean or Director responsible for the faculty or department in consultation with financial services.

Any unamortized book value of a capital asset will be written off in the period in which it no longer contributes to the University's ability to provide goods and services, or when the value of future economic benefits associated with the capital asset is less than its net book value. Write-offs or write-downs are accounted for as an expense in the Statement of Operations in the fiscal year they occur.

On an annual basis Financial Services will obtain from the Director, Library Services the estimated percentage for shrinkage/obsolescence of AU's library resources, and calculate/record the write down as an expense in the applicable fiscal year

Applicable Legislation and Regulations

[Chartered Professional Accountant \(CPA\) Canada Handbook - Accounting](#)

[Chartered Professional Accountant \(CPA\) Canada Handbook - Public Sector Accounting Standards](#)

Related References, Policies, Procedures and Forms

[Capital Asset Accounting Policy](#)

[Purchasing Policy](#)

[Delegation of Expenditure Approval Authority Policy](#)

[Donation Acceptance Policy](#)

History

The Governors of Athabasca University, January 22, 2015, Motion # 194-07 (revised)

Revised April 1, 2005

Revised April 1, 1999

Revised March 30, 1997

Revised March 31, 1995

Revised September 18, 1990

November 24, 1988



Capital Asset Accounting Procedures Appendix A – Amortization Periods

Main Category	Sub-Category	Useful Life (in years)
LAND		N/A
SITE IMPROVEMENTS	Exterior Lighting	10
	Exterior paving & surfacing	10
	Fencing	10
	Landscaping	25
	Services & Utilities	25
	Site preparation	25
BUILDINGS	New construction	40
	Expansion	remaining life
	Trailer & mobile enclosures	20
LEASEHOLD IMPROVEMENTS		lesser of 5 years and remaining lease life
EQUIPMENT	Appliances	5
	Copiers & Printers	8
	Desks, cabinetry & storage	10
	Electrical	20
	Grounds implements	10
	Laboratory	5
	Mechanical	10
	Media	8
	Musical	10
	Postal	5
	Recreation	10
	Scientific	5
	Shop/maintenance	10
	COMPUTER HARDWARE	Microcomputers
Servers		5
Telephone & communications		
PBX Switches		10
Network switches & routers	5	
SOFTWARE	Microcomputer software	3
	Server software	5
TRANSPORTATION EQUIPMENT	Forklifts	10
	Lawn Tractors	5
	Loaders	10
	Trailers	20
	Vehicles	5
LIBRARY HOLDINGS		10