
Capital Assets

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Owner:	VP FA
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POLICY STATEMENT

This policy defines capital assets and establishes the accounting practices associated with the recognition and accounting of these assets over their expected useful lives. It is governed by generally accepted accounting principles, standards and practices as detailed in the **Chartered Professional Accountants (CPA) Public Sector Accounting Handbook** including sections 4200-4270 as they pertain to Government Not-for-Profit Organizations.

PURPOSE

This policy outlines the accounting procedures for recording of the acquisition, amortization, and disposal of capital assets of NBCC. It also outlines the process for the disposal of items of value belonging to NBCC.

Capital assets acquisitions and disposals that meet the definition of capital asset as per the **CPA Public Sector Accounting Handbook** and meet the capitalization threshold value shall be recorded in the accounts of NBCC. Any asset acquisitions that fall under the applicable capitalization threshold will be expensed in the year of acquisition. Records of acquisition will be maintained within a Capital Asset Register in accordance with the Information Maintained in Capital Asset Register guideline.

SCOPE AND LIMITATIONS

This policy applies to all acquisitions made by the college.

1.0 DEFINITIONS

Amortization

- the process of allocating the cost of a capital asset over its estimated useful life to match costs with the revenues it earns or services it provides. Amortization of capital assets does not commence until the assets are available for use. The amortization period of a capital asset should be limited to the applicable period unless an NBCC component can estimate and clearly demonstrate that the useful life of the asset is expected to exceed that period.

Assets

- economic resources controlled by NBCC as a result of past transactions or events and from which future economic benefits may be obtained. Assets have the following three characteristics:

- They embody a future benefit that involves a capacity singly or in combination with other assets to provide services;
- NBCC can control access to the benefits; and
- The transaction or event giving rise to the entity has right to or control of the benefit has already occurred.

Betterment

- a material cost incurred to enhance the service potential (useful life or capacity) of a capital asset. Service potential is enhanced if one of the following occurs:

- There is an increase in the previously assessed physical output or service capacity;

- Associated operating costs are lowered;
- The original useful life is extended; or
- The quality of output is improved.

An expenditure that meets the definition of betterment must also meet the threshold of the related class to be set up as a capital asset.

A replacement can be classified as either a betterment or a repair. When a replacement involves the removal of a major part or component of a plant or equipment and the substitution of a new part or component of essentially the same type and performance capabilities, it would be classified as a repair or maintenance and treated as an ordinary operating expense.

Capital Assets

Tangible properties such as land, buildings and equipment, and intangible properties are identifiable assets that meet all the following criteria:

- 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;
- have been acquired, constructed or developed with the intention of being used on a continuing basis;
- are not intended for sale in the ordinary course of operations; and

are not held as part of a collection (see Collections Held by Not-For-Profit organizations, Sec PS 4240)

Capital Asset Register

- a record of details of capital assets, used to facilitate physical control and security and to provide information for acquisition, disposal, replacement, and insurance purposes. Appendix C details the information to be maintained in the capital asset register.

Capital Leases

- defined by the CPA as: "a lease that, from the point of view of the lessee, transfers substantially all the benefits and risks incident to ownership of property to the lessee".

Comptroller

- the Comptroller or delegate.

Cost

- the amount of consideration given up to acquire, construct, develop or better a capital asset and includes all cost directly attributable to acquisition, construction, development or betterment of capital assets 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. Cost includes any asset retirement cost.

Disposals

- result when the ownership of a capital asset is relinquished. Disposals reduce the cost of capital assets and accumulated amortization to zero.

Expenses

- expenses, including losses, are decreases in economic resources, either by way of outflows, reductions of assets or incurred liabilities resulting from transactions and events incurred during the accounting period. Expenses include grants where no value is received directly in return.

Fair Value

- 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.

Incremental Direct Costs

- costs of a capital asset project that would not be incurred but for that project. Examples include purchase price, construction materials, external consulting costs, rental costs of equipment used in construction or installation of a capital asset, equipment installation costs of a contractor.

Intangible Properties

- capital assets that lack physical substance. Examples are copyrights, patents, and software.

Items of Value

- small tools, equipment, or supplies having a value but have not been capitalized as their value falls below the capitalization threshold.

Net Carrying Amount

- cost less both accumulated amortization and the amount of any write-downs.

Residual Value

- the estimated net realizable value of a capital asset at the end of its useful life to an organization.

Repairs and Maintenance

- costs incurred in the maintenance of the service potential of a capital asset.

Service Potential

- 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.

Straight Line Method

- an approach to amortize a capital asset where amortization is considered a function of time instead of a function of usage. The major assumptions are that the asset's economic usefulness is the same each year and the repair and maintenance expense is essentially the same each period, therefore, the periodic charge is the same in each year of the useful life of the asset.

Substantial Completion

- the date of substantial completion (97%) depending on such factors as productive capacity, occupancy level and/or the passage of time or in use but not yet complete.

Threshold Amount

Threshold Amount for each category represents the minimum cost an individual asset or betterment must have before it is to be treated as a capital asset and added to the proper asset class balance.

Useful Life

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

2.0 IMPLEMENTATION

2.1 Roles and Responsibilities

2.1.1 Vice-President Finance and Administration

The Vice President Finance and Administration is responsible for appropriate and accurate recording of capital assets.

2.1.2 Financial Staff

Financial staff are responsible the accounting for capital assets, the maintenance of a register of all capital assets of NBCC. Financial Staff are responsible for:

- a) accounting for all capital assets the college owns or lease
- b) maintaining capital asset information in the Capital Asset Register
- c) managing capital investment budgets
- d) recognizing the impact of capital investment decisions on current and future operating budgets (e.g. amortization charges) and managing all expenditures accordingly
- e) analyzing lease or buy options for asset acquisitions
- f) recording capital leases as per Public Sector Accounting guidelines
- g) ensuring proper custody and control of capital assets
- h) providing asset related information to the Office of the Comptroller, as required for reporting purposes
- i) facilitating the approval of capital investment budgets giving due regard to cash flow and debt management
- j) updating NBCC's debt management plan as a result of differences in the timing of capital investment decisions from that originally planned
- k) ensuring amortization charges are adequately reflected in the budget process
- l) determining the most appropriate means of long-term financing and establishing appropriate mechanisms to control capital spending
- m) reporting capital assets in the financial statements of NBCC
- n) issuing policy-related interpretations
- o) monitoring and assisting NBCC components with the application of this Policy.

2.1.3 All staff

Staff are responsible for the custody and care of capital assets under their control and for the identification of capital assets that have no further use to NBCC.

2.2 Capital Assets Categories

2.2.1 Major capital assets include:

- a) Land and land improvements
- b) Buildings (excludes government owned assets)
- c) Portable classrooms
- d) Leasehold improvements
- e) Motor vehicles and mobile heavy equipment

- f) Major equipment
- g) Assets under construction
- h) Leased capital assets
- i) Intangible properties

2.2.2 Certain assets are not recognized as capital assets because their value at acquisition falls under the applicable capitalization threshold, or because a reasonable estimate of future benefits cannot be made.

3.0 OTHER RELATED DOCUMENTS

Betterment, Replacement, and Repair Guidelines (2110.4721)

Capital Asset Categories (2110.4722)

Capitalization Thresholds and Amortization Rates (2110.4718)

Constructed Assets (2110.5013)

Costs Included in Capitalization of Capital Assets (2110.4720)

Disposal of Assets and Items of Value (2110.5015)

Information to be Maintained in Capital Asset Register (2110.4719)

Safeguarding Moveable Capital Assets & Items of Value (2110.5017)