

PSAB/Asset Management

NEWSLETTER NO. 11

Estimating Asset Costs

by Dan Cowin, Executive Director, MFOA

[Newsletter 10](#) dealt with the cost of tangible capital assets. It was noted there that PS 3150.10 states that the cost of an asset includes its original purchase price plus other related costs:

The cost of a tangible capital asset includes the purchase price of the asset 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. The cost of a constructed asset would normally include direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity. The activities necessary to prepare a tangible capital asset for its intended use encompass more than the physical construction of the tangible capital asset. They include the technical and administrative work prior to the commencement of and during construction.

PS 3150 contains a number of transitional provisions to guide municipalities through the implementation phase in paragraphs 43 through 48. A municipality must record all of its tangible capital assets in its accounting system. This means that where actual historic costs are available, these are preferred as they are verifiable and represent the value given in exchange for the asset.

Care also needs to be taken to ensure that actual cost records capture the full cost of the asset. For example, financial records that capture the cost of a police car but do not include the costs of communications equipment or other equipment for a fully loaded police vehicle would be incomplete. Original cost records might also not include such things as carrying costs. In addition, original costs might need to be adjusted to take into account betterments made to the asset. When recording the initial value of a tangible capital asset consideration would be given to whether the net book value of the tangible capital asset is in excess of the future economic benefits expected from its use and, therefore, whether a write-down is required to establish more appropriate cost and accumulated amortization amounts for the asset.

To assist with the transition, municipalities are encouraged to establish a process or system to start tracking expenditures on tangible capital assets between now and 2009. This will help with establishing comparative amounts for 2008. It will also be useful in updating inventories of tangible capital assets taken at an earlier date.

Actuals Not Always Available

It may be that you do not have historic cost data for all of your tangible capital assets. This problem was anticipated when the standard on tangible capital assets was established. Selected parts of the transitional sections are provided below to establish that estimated costs are acceptable in cases where actual costs are lacking. However, estimated costs should be reasonable, and consistent.

- 3150.46 All government tangible capital assets would be recorded in a government's accounting system according to this Section. The information recorded would include the actual or **estimated original cost** of the tangible capital assets, their estimated useful lives and the related estimated accumulated amortization.
- 3150.47 **When a government does not have historical cost accounting records for its tangible capital assets, it will need to use other methods to estimate the cost and accumulated amortization of the assets. It may be possible to derive information for recording tangible capital assets from records of government departments that manage those assets. A government would apply a consistent method of estimating the cost of the tangible capital assets for which it does not have historical cost records, except in circumstances where it can be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset.**

Examples of Estimation Techniques

The [OMBI Guide](#) (p. 30) offers three techniques for valuing assets when actual historical cost data are absent. These include:

Deflated (or discounted) reproduction cost, which is defined as taking the current cost of reproducing the asset in its same physical form (substantially the same materials and design) and using an appropriate index to deflate the current cost to arrive at an estimate of the asset cost at the time of acquisition.

Deflated (or discounted) replacement cost, which is defined as taking the current cost of replacing the asset in a different physical form but with the same productive capacity and using an appropriate index to deflate the current cost to arrive at an estimate of the asset cost at the time of acquisition.

Appraisal, which is defined as a professional assessment of what the asset is currently worth given its current age and condition. An inflation index should be applied to the current appraised value to arrive at an approximation of asset cost at the time of acquisition.

The [OMBI Guide](#) (p. 32) offers an excellent “valuation method decision tree” that provides useful guidance on which of the above methods to use in a given situation.

Future Newsletters will provide guidance on appropriate techniques to use for deflating reproduction or replacement costs to obtain estimates of historic costs.

A Note on Fully Amortized Assets

PS 3150.48 sets out important information with regard to assets that might be fully amortized by virtue of their age exceeding the assumed life expectancy. Records of such assets are still required for “asset control purposes”. If a municipality has information to estimate historic cost, it should be reported. If not, disclose them at an initial value equal to their residual value or to a nominal value. In short, it is not appropriate merely to ignore assets that have exceeded their useful lives.

PS 3150.48 Some government tangible capital assets that are still in use by the government may not have any unamortized cost remaining because of their age and the amortization period set for that type of tangible capital asset. A record of such tangible capital assets would, however, need to be set up for asset control purposes. If a government has the information to estimate the historical cost and accumulated amortization of such fully amortized assets, then that information would be recorded in the accounting records. If a local government does not have this detailed information on its fully amortized assets, it would disclose them at an initial value equal to their residual value, where material was previously known. Otherwise it would disclose them at a nominal value.

Municipalities may decide that they will not spend the effort to estimate historic cost for such assets and ignore them or record them at a nominal value. This should be discussed with the external auditor to ensure there are no surprises at audit time.

Transitional Reporting Requirements

The transitional provisions for municipalities of PS 3150 contain the following requirements for reporting during the transitional period.

PS 3150.45 When during the period of transition, a local government has information on some but not all categories of its tangible capital assets, the local government would disclose information in accordance with PUBLIC SECTOR GUIDELINE PSG-7, Tangible Capital. **(Note: PSG-7 is reproduced in its entirety below at the end of this Newsletter for your information and convenience).**

Transitional Reporting - Public Sector Guideline PSG-7

This guideline is applicable to Ontario municipalities for financial reports for 2007 and 2008 only. PS 3150 requires that local governments report all tangible capital assets in their summary financial statements for fiscal years beginning on or after January 1, 2009. (PS 3150.42 and .43). Presenting information related to tangible capital assets in notes or schedules to a municipality's summary financial statements will not satisfy the accounting standards after the effective date.

- 1 The purpose of this Guideline is to provide transitional guidance to a local government on presenting information related to tangible capital assets in notes or schedules to its summary financial statements.
- 2 Tangible capital assets are significant economic resources managed by a local government and a key component of cost in the delivery of many local government programs and services. Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware and software, dams, canals and bridges.
- 3 The disclosure of information regarding tangible capital assets in a local government's financial statements would provide information about tangible capital assets by major category. Major categories of tangible capital assets would be determined by type of asset, such as land, buildings, equipment, roads, water and other utility systems, and bridges.
- 4 When a local government has information on some but not all categories of its tangible capital assets, it would disclose the information required and, in addition, those categories of tangible capital assets excluded from that disclosure until the relevant information about the complete stock of tangible capital assets can be provided.
- 5 A local government would disclose, for each major category of tangible capital assets and in total:
 - (a) cost at the beginning and end of the period;
 - (b) additions in the period;
 - (c) disposals in the period;
 - (d) the amount of any write-downs in the period;
 - (e) the amount of amortization of the costs of tangible capital assets for the period;
 - (f) accumulated amortization at the beginning and end of the period; and
 - (g) net carrying amount at the beginning and end of the period.
- 6 A local government would also disclose the following information about tangible capital assets:
 - (a) the method used for determining the cost of each major category of tangible capital assets;

- (b) the amortization method used, including the amortization period or rate for each major category of tangible capital assets;
- (c) the net book value of tangible capital assets not being amortized because they are under construction or development or have been removed from service;
- (d) the nature and amount of contributed tangible capital assets received in the period;
- (e) the nature and use of tangible capital assets disclosed at nominal value;
- (f) the nature of the works of art and historical treasures held by the government; and
- (g) the amount of interest included in cost in the period.

7 When a local government does not have historical cost accounting records for its tangible capital assets, it will need to use other methods to estimate the cost and accumulated amortization of the assets.

8 It may be possible to derive information for recording tangible capital assets from records of departments and agencies that manage those assets. A local government would apply a consistent method of estimating the cost of the tangible capital assets for which it does not have historical cost records, except in circumstances where it can be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset.

9 When recording the initial cost of a tangible capital asset, consideration would be given to whether the net book value of the tangible capital asset is in excess of the future economic benefits expected from its use and, therefore, whether a write-down is required to establish more appropriate cost and accumulated amortization amounts for the asset.

10 Some local government tangible capital assets that are still in use by the local government may not have any unamortized cost remaining because of their age and the amortization period set for that type of tangible capital asset. A record of such tangible capital assets would, however, need to be set up for asset control purposes. If a local government has the information to estimate the historical cost and accumulated amortization of such fully amortized assets, it would disclose that information. If a local government does not have this detailed information on its fully amortized assets, it would disclose them at an initial value equal to their residual value, where material and previously known. Otherwise it would disclose them at a nominal value.

11 TANGIBLE CAPITAL ASSETS, Section PS 3150, provides further guidance about disclosing information related to tangible capital assets.

TRANSITIONAL PROVISIONS

12 This Guideline applies to fiscal years beginning on or after January 1, 2007. Earlier adoption is encouraged.

We invite you to let us know if there is an issue that you would like to see addressed in the Newsletters. We are also interested in having our members submit anything that you come across with regard to tangible capital assets, financial reporting, asset management or long-term financial planning including any reports or presentations that you have given or prepared that could be of use to others.

For more information and resources regarding tangible asset management, go to [PSAB/Asset Management](#), or contact:

Dan Cowin
Executive Director
MFOA
dan@mfoa.on.ca
Tel: 416-362-9001 x 223

Andy Koopmans
Executive Director
AMCTO
akoopmans@amcto.com
Tel: 905-602-4294 x 26