PSAB/Asset Management

NEWSLETTER NO. 23

DECIDING WHAT TO INCLUDE –
IS THAT DOODAD A TANGIBLE CAPITAL ASSET?

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Several previous newsletters have looked at how you deal with your tangible capital assets. How do you estimate the cost of existing TCA's when you don't have historical records? What will your capitalization threshold(s) be? Should you aggregate or disaggregate?

Before going further, it seems appropriate to step back, and take you through a thought-process that you may find helpful for looking at your assets, and determining where they will logically fit in the changed accounting and reporting environments, come 2009. The intent is to give you a decision-making framework so that you can readily determine whether that *doodad* that you have just acquired is indeed a tangible capital asset which needs to be accounted for and reported on.

In a future newsletter, we will apply this decision-making framework to a particular type of asset, namely municipal drains, to demonstrate how to use this process to deal with the less obvious situations that you may encounter.

Also in this newsletter, we will briefly look at some of those assets that end up being excluded.

You have an interest, financial or otherwise, in something – a *doodad* ….. .

1 DO YOU OWN THE ASSET, OR DO YOU CONTROL IT, OR DERIVE SUBSTANTIAL BENEFITS FROM IT?

NO? Forget about it, as you effectively have no interest in it. If you have made any expenditure, expense them.

YES? For an asset to be your municipality's asset, your municipality must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset, and generally can deny or regulate access to that benefit by others. If so, then see #2.

2 IS IT TANGIBLE, HAVE PHYSICAL FORM, WILL BE USED BEYOND THIS ACCOUNTING PERIOD, AND IS NOT FOR SALE IN THE NORMAL COURSE OF BUSINESS?

NO? Not a tangible capital asset by definition, so expense it, or charge to inventory, if it is a marketable item that is held for resale in the normal course of business.

YES? Then see #3

3 IS IT A WORK OF ART, HISTORICAL TREASURE, NATURAL RESOURCE?

YES? Not eligible as a tangible capital asset, so expense it, or possibly treat it as an inventory item.

NO? Then the doodad is a tangible capital asset. Proceed to #4.

4 WHAT DID THE ASSET COST AT TIME OF ACQUISITION OR TRANSFER?

PURCHASED OR DEVELOPED? What is the total cost, including all directly attributable costs?

DONATED? What would be the fair value of the asset at the time of acquisition, for a like asset with that age and condition at that point in time?

LEASED? What is the effective current value of the lease terms?

5 IS HISTORICAL COST DATA AVAILABLE FOR THE ASSET?

YES? Go to # 8

NO? Go to # 6

6 IS THIS AN EXISTING ASSET OR A NEW ACQUISITION?

EXISTING ASSET? Go to # 7

NEW ACQUISITION? Go back to # 4 and determine actual cost or fair market value, as the case may be.

7 CAN YOU ESTIMATE THE ORIGINAL COST FOR THIS ASSET FOR PURPOSES OF THE INITIAL ASSET INVENTORY?

For more information and resources regarding tangible asset management, go to PSAB/Asset Management, or contact:

Can you determine its cost at time of acquisition using discounted cost of reproduction new, discounted replacement cost new, or a discounted appraisal value? One a cost estimate has been made, determine the accumulated amortization from date of acquisition to December 31, 2008?

NO? Then assign residual value, if relevant, or a nominal value, such as one dollar Canadian (CAD$1.00).

YES? Go to # 8

8 IS THE VALUE OF THE ASSET WORTH MORE THAN THE VALUE OF THE FUTURE BENEFIT STREAM FROM THE ASSET?

YES? Write down the value of the asset to reflect the value of the future benefit stream, then go to Point #9

NO? Go to # 9

9 IS IT ABOVE YOUR CAPITALIZATION THRESHOLD?

NO? Expense it, or include it in an asset pool. For an asset pool, commence with Point # 4, for the entire pool as one single asset. Note that you would use asset pools only for those items that individually are less than capitalization threshold, but that in total represent a significant amount that should be reported and amortized.

YES? Then add it to your asset inventory

10 HAVE YOU DOCUMENTED THE ASSET, AND CREATED AN AUDIT FILE FOR IT?

NO? Why not? Go and do so for each nominal value item, explaining why a historical cost could not be determined or estimated.

YES? Then you are finished accounting for the asset. It is now part of your asset inventory, and has been documented for audit and follow-up purposes.

The table shows the relationship between different classes of assets..

TABLE 1 – CLASSES OF ASSETS

Assets

Assets are economic resources **controlled by a government** as a **result of past transactions or events** and from which **future economic benefits[1] are expected to be obtained**. (PS 1000.35)

Financial assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. (PS 1000.39)

Non-financial assets[2]

Non-financial assets are acquired, constructed or developed assets that are normally employed to deliver government services; may be consumed in the normal course of operations; and are not for sale in the normal course of operations. (PS 1000.42)

Intangible capital assets

In the absence of appropriate public sector recognition and measurement criteria for intangibles, all intangibles, including those that have been purchased, developed, constructed or inherited, are not recognized as assets in government financial statements. (PS 1000.58)

Historical treasures and works of art, natural resources

Not recognized[3] as assets because the costs, benefits and economic value of such items cannot be reasonably and verifiably quantified using existing methods. (Purchased natural resources are recognized). Provide information about items that do not meet the recognition criteria in notes to the financial statements. (PS 1000.57)

Tangible capital assets

Assets having physical substance that are held for use in the production or supply of goods and services, rental, for administrative purposes or development, construction, maintenance or repair of other tangible capital assets; have useful economic lives extending beyond an accounting period; are to be used on a continuing basis; and are not for sale in the ordinary course of operations. (PS 1000.43)

This logic can be applied to anything that you may have. Now let's briefly look at some items that are often considered to be capital items now, but which will not be tangible capital assets come 2009, though you may continue to budget and fund them as capital items.

Engineering and Planning Projects

These would typically include municipal Official Plans, something like a "regional bicycle plan", or feasibility studies for new facilities or networks, or development charge revenue studies. You may well continue to budget and finance these items through your capital or investment program, as a necessary investment to be made by your municipality.

On the other hand, you will account for these as expenses in the year that the expenses are incurred. Other than the report itself or a plan, you have not acquired anything tangible, so that there is no tangible capital for which to account. What you have done is bought an intellectual property, which is something quite different.

The one exception is money spent to conduct an environmental assessment or a feasibility study for a planned facility. This is spending money to buy permission to proceed, or to modify design or scope, but it is not a tangible asset in and of itself. **If, and only if**, construction proceeds and the facility is completed and becomes operational (i.e the facility itself becomes the tangible capital asset), then you can add in the total cost of the environmental assessment or the feasibility study as a directly attributable cost, and capitalize the expenditures for it.

The cost of such studies should be recorded as work-in-progress, and part of the costs for the asset to which each one relates. In the event that construction/acquisition does not go ahead, or the study results in the planned project being rejected completely, then all associated costs are to be expensed in the year in which this occurs.

Capital Allowance or Contingency-type Projects

Some municipalities budget and finance capital projects on an annual basis for various municipal purposes, such as land acquisition, traffic light installation, water and sewer line replacement, road resurfacing and road reconstruction, etc. These are set up as a lump sum provision, for use on an "as and when required basis" during the year, or once a specific program has been developed.

These are budgeting and financing mechanisms, which have nothing to do with TCA accounting. There are no tangible capital assets here, only the intention or provision to perhaps acquire some, though some of these initiatives may be maintenance, rather than betterments.

In short, ignore these types of items and do not include them in your asset inventories.

Goodwill and Payment for Future Benefits

You may have paid a pretty penny for these, but all you have bought can best be described as a promise. There is nothing tangible about these items, so expense all associated costs, as they cannot be capitalized by definition. (PS3150.05). Intangibles are not recorded in government financial statements (PS1000.58).

If you have made a payment to ensure a stream of future benefits, you may want to consider recording the expenditure as a Prepaid Expense, and taking that charge into your current accounts over the expected life of the stream of benefits, if indeed you do receive the anticipated benefits. Discuss this with your auditor, if the amount is significant.

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Our next newsletter will look at assets covered by joint use, cost-sharing and other such agreements that you may enter into.

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NOTE: This Newsletter is published to assist you with your implementation of tangible capital asset accounting and with related matters. The Public Sector Accounting Handbook is the only authoritative primary source on matters relating to GAAP, and you should consult with your auditor to resolve specific issues that you may have.