

# PSAB/Asset Management

## NEWSLETTER NO. 33

### BENCHMARKS AND STANDARD VALUES

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At the Fall workshops, in questions to the Q&A Hotline, and in private conversations with members, the use of benchmarks and standard values has been discussed. What are they? When, where and how should one use them? Will they help in describing, classifying and valuing assets for your initial asset inventories? Is there any on-going applicability?

This Newsletter will be a general discussion on the use of benchmarks and standard values, but will not provide you with a shopping list to go out and buy, or a catalogue to select from. These are useful tools for classifying assets, and as a basis for pricing for those assets for which you do not have reliable historical information.

#### **Public Sector Accounting Handbook, Section PS 3150**

PS 3150 transitional provisions state that all tangible capital assets of the government would be reported at their actual or estimated original cost. PS 3150.47 states that “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.” Although not specifically mentioned in PS 3150, benchmarks and standard values may be tools that can help estimate historical cost in the absence of accounting records.

#### **What are we discussing here?**

A **benchmark** is “a standard or point of reference in measuring or judging quality, value, etc.” (Webster’s Dictionary). Your capitalization thresholds are your most obvious benchmarks, in that they are the point of reference for value, above which you will include an asset in your TCA inventory, but below which you will not. Other examples would be types of material used for pipes and conduits, material thicknesses and pipe diameter sizes, equipment capacities and/or volumes, load bearing such as for bridges and pavements. In short, benchmarks can be a useful tool for helping you sort or classify a large number of individual assets into a more manageable number of groups or classes.

**Standard value** is the use of some predetermined value for a type or class of asset or material that is applied to any similar assets or material for which you do not have detailed specific data. For example, suppose you know that it costs \$30 a metre to install 5-inch extruded aluminum eavestrough today. This value could be used as a standard cost (suitably deflated) for all those buildings where you do not

have cost data for the eavestroughing Or if you know that it cost \$27.50 per metre to install a specific 6-inch watermain in 1967, you treat this as the standard cost for all 6-inch mains installed that year.

There are lots of approaches to using standards. You may want to make reference to recently let contracts for construction of similar systems. You could establish standards for the single asset or a segment that includes valves, pipes, etc or “componentize” systems based on pricing in the contract.

### **When and how can they be used?**

Benchmarks and standards can be useful tools in helping you develop and value your initial asset inventories, especially for those assets for which you do not have reliable historical cost data. Benchmarks are a tool to facilitate sorting a large number of similar or related assets into a number of obvious groupings, based on size, material or other qualities. A capitalization threshold is a most basic example of a benchmark, in that it is a criterion for determining whether a tangible capital asset is even included in a TCA inventory or not.

Particularly in analyzing your networks, such as roads, water, and sewer, you may want to inventory them by using standard formats. Your road sections may all be similar to X basic types, such as 6-lane arterial down to an unpaved country lane. In looking at a particular section, you would select the standard types that are the closest fit to the section, and value it as you would the standard, adjusting for age. This makes the reasonable assumption that some sections will slightly exceed the standard, while others don't quite meet the standard assigned, but that these offsets will largely balance out.

For watermains and sewers, you may want to use standards that reflect diameter, and/or piping material, and/or geology traversed (sand versus rock). Again, you would group the individual components of your network into the small number of standard classifications that you decide to use, and record the total length in your asset inventories. It is also valuable to use year or decade of construction as another standard, so that your inventory can give you a sense of the age of your system.

Standards, and especially standard costs, can be used to approximate historical cost, when actual data is not available.

There can be on-going applicability for benchmarks and standards, for on-going management and accounting for tangible asset inventories. For the example of a network, this will be a useful way of sorting and classifying components, including acquisitions and dispositions. You may still have a standard cost for a specific type of component for a specific year, but then that standard cost will be the average actual cost of acquiring that type of component in that specific year. This is the total reverse of how a standard cost is used with respect to valuation for initial inventories.

### **What are the advantages?**

Especially for networks, the biggest advantage is that a network with thousands of sections and nodes can be described completely using a much smaller set of data records. One municipality reduced a 3,500 section road network to about 200 standard groups for asset inventory purposes. Thus there are only 200 asset valuations required, and 200 amortization expense calculations, instead of 3,500 of each.

By using standards, it is possible to concentrate on determining the closest fit for the component, and identifying the asset's key characteristics, rather than having to account and record everything for each component. As mentioned earlier, this approach does not diminish the integrity of the data or degrade it.

### **What are the potential pitfalls?**

The biggest pitfall is to want to borrow someone else's benchmarks or standards, and call them your own. This may work, and work well, or could be a bad move. If you use such benchmarks for sorting your assets or as capitalization thresholds, will you end up with more skewed results than your neighbour, in terms of what ends up being included or not as the case may be?

Similarly, are the standards you are tempted to borrow fairly generic, or are they really specific to a time or place? If you use a standard set of pipe diameters that someone else developed, they are generic and can facilitate grouping segments of your own network. However, if you use someone else's cost data, are the values really germane to your municipality, or should you be developing your own set. For example, the per metre cost of water main in Toronto will be quite different than in Sudbury, partly due to labour and fuel costs, but particularly because of the difference between laying a line in sand or clay, versus igneous rock.

Then too, your standards or method of installation or operation may be different, so that you really should be developing your own standards for your assets. This is particularly of concern when classifying and sorting assets in your asset inventories, and when trying to value older assets for which detailed historical cost data is not available.

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Our next newsletter will look at the issue of verification of and attesting to the valuation of your asset inventories. In short, what is the role that your auditor should be playing in this exercise, particularly for the initial valuation.

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

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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.