



Financial Administration Support Tool

Capital Asset Guidelines

A set of guidelines for Ontario Tech University's classification of capital assets.

Prepared by Financial Planning & Reporting

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INTRODUCTION

Embedded in Ontario Tech U's Purchasing Policy & Procedure is the following section on the 'Purchases of capital items':

6.2.3 Purchases of capital items

An expense will be classified as a capital asset if it is a non-consumable, taxable item, valued at a single amount greater than \$ 5,000 (before taxes) and with a life expectancy of more than one year.

All capital items must be purchased through a purchase order to ensure proper inventory and quality control.

The purpose of the following guideline is to provide further clarification and direction on the purchase of capital assets.

WHAT IS A CAPITAL ASSET?

A capital asset (new or used) is an identifiable item that meets **all** of the following criteria:

- has been acquired, constructed, developed or bettered with the intention of being used on a continuing basis (e.g. is of a permanent nature)
- is held for use in the production, supply or rental of goods and services, for administrative, academic or research purposes
- is not intended for sale in the ordinary course of operations
- is usually repaired and not replaced, when damaged

and the following thresholds:

- has a useful life expectancy extending over 1 year under normal use
- and is valued at a single amount greater than \$5,000 (before taxes and other acquisition costs).

See Appendix A for Capital Asset Categories.

BETTERMENT vs. REPLACEMENT vs. MAINTENANCE & REPAIRS

Betterments are expenditures relating to the alteration or modernization of an asset that appreciably enhances its service potential (e.g. improves its functionality) and may or may not prolong its expected useful life. In general, service potential may be enhanced when there is:

- an increase in the previously assessed capacity or usage of the capital asset (e.g. renovation that increases the building value)
- an improvement in the quality or the overall efficiency of the capital assets (e.g. a significant decrease to the associated operating costs)
- an extension of the useful life of the capital asset as a whole.

Betterments are considered to be part of a capital asset and would be added to the recorded cost of the related asset.

Replacements involve removal of component parts and substitution of new components of essentially the same type and performance capabilities. If the replacement of the component results in an enhancement of the service potential of the capital asset, the replacement is considered a betterment. This method assumes the disposal of the portion of the old components being replaced or bettered, a recognition of a gain/loss on the disposal and the acquisition of the components.

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Maintenance continues the predetermined service potential of a capital asset and does not prolong its useful life expectancy. Repairs restore a capital asset to its originally designed service potential after damage, accident, or prolonged use. These expenditures are usually incurred on a more or less continuous basis and do not enhance the service potential of a capital asset. Maintenance and repairs are not considered part of the capital asset and are recorded separately, regardless of the costs.

COST OF A CAPITAL ASSET

The cost of a capital asset is the gross amount of consideration given up to acquire, construct, develop, or better it and includes all costs directly attributable including installing it at the location and in the condition necessary for its intended use. It generally includes the purchase price (including sales taxes) and other acquisition costs.

See Appendix A for Capital Asset Costs.

PURCHASING CAPITAL ASSETS

Capital assets must be purchased using the Purchase Order (PO) process. Please refer to Ontario Tech U's Purchasing Policy & Procedures. When creating a Purchase Requisition, the initiator must indicate that the items (or other acquisition costs) have met the capital asset criteria and threshold and if not, the reason for including it under capital assets (e.g. electrician expenses that are part of a renovation, installation fees for research equipment).

PURCHASE OF DIFFERENT ITEMS ON THE SAME PO

If purchasing on the same PO, different items that could be bought separately should be accounted for individually.

PURCHASE OF MULTIPLE IDENTICAL ITEMS (BUNDLING)

Certain items such as tools, furniture and computer equipment might be below the capitalization threshold individually but are typically purchased or held in large quantities so as to represent significant expenditures overall. In such cases, these items, if they meet the above definition of a capital asset, may be capitalized if the purchase meets all of the following criteria:

- the items are identical in nature
- the items are included on a single (preferably) purchase order
- the items are maintained within a defined location and would be expected to remain together in that same general location (e.g. chairs, desks, filing cabinets)
- or the items serve a similar purpose for the organization (e.g. student & staff laptops)
- the total cost of each single items does not exceed \$5,000 but the total cost multiplied by the total quantity of identical items does exceed \$5,000
- the stewardship (e.g. ownership) of the capital assets remains with the same department.

PURCHASE OF DIFFERENT ITEMS USED FOR A 'WHOLE ASSET'

Certain items, materials and supplies might be below the capitalization threshold individually but once assembled and connected (e.g. integrated) represent a significant expenditure overall (example: research equipment). In such cases, the integrated system or equipment is considered a 'whole asset' and, if it meets the above definition of a capital asset, may be capitalized if the purchases meet all of the following criteria:

- the various components of the 'whole asset' cannot function as stand-alone and are required to be integrated together
- the 'whole asset' is maintained within a defined location and would be expected to remain together in that same general location

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- the various components of the 'whole asset' have a similar service potential and useful life expectancy under normal use
- the total cost of each single items does not exceed \$5,000 but the total sum of the components and other acquisition costs does exceed \$5,000
- the stewardship (e.g. ownership) of the 'whole asset' remains with the same department.

Otherwise, a self-sustaining component approach should be adopted where each item should be accounted for individually.

BUILDING COMPONENTIZATION

Componentization is used for new building construction. When the cost of an capital asset is made up of significant separable component parts each component is then amortized in accordance with its useful life. Major components have significantly different useful life and the consumption patterns than related capital assets. Items include building exterior shell, roofs, building interior and building service systems.

LEASES

Extract of 6.1 Purchase requisition

As per the university's Signing Authority Registry, all leases must be approved by the CFO.

A lease is a written or implied contract by which an owner (the lessor) of a specific asset (such as a building, equipment) grants a second party (the lessee) the right to its exclusive possession and use for a specific period and under specified conditions, in return for specified periodic rental or lease payments. The agreement does not provide ownership rights to the lessee; however, the lessor may grant certain allowances to modify, change or otherwise adapt the asset to suit the needs of the lessee. During the lease period, the lessee is responsible for the condition of the asset.

Leases may be either capital or operating in nature. Signed lease agreements need to be reviewed by Finance and categorized appropriately.

OWNERSHIP

Ownership of **all** assets rests with the university, whether purchased with operating, ancillary, capital, grant or other restricted funds, or on a capital lease.

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APPENDIX A: CAPITAL ASSET CATEGORIES

7197 Land: Real property (not intended for resale) exclusive of any constructed assets on the property.

Account	Category	Purchase price & other acquisition costs such as:
71970	Land	<ul style="list-style-type: none"> commissions and legal fees related to the acquisition legal, architect, engineering, appraisals, environmental surveys cost of removing unwanted buildings from the land, less any proceeds from salvage site preparation costs for getting the land in condition for its intended use (e.g. excavation, grading, filling, draining, and clearing)

This category is to be used only by the Office of Chief Financial Officer.

7190 Building (Useful Life ~ 40 years): Relatively permanent structure enclosed within exterior walls.

Account	Category	Purchase price & other acquisition costs such as:
71900	Building(s), Purchased or Constructed	<ul style="list-style-type: none"> construction costs including basic costs of material and supplies professional, technical and managerial personnel, consultants and contractors directly involved in the manufacturing, installation, or construction of the building costs to remodel, recondition or alter a purchased building to make it ready to use for its intended use
71902	Site Costs, including pre-construction	<ul style="list-style-type: none"> site surveys, environmental assessments, feasibility studies, appraisals, consulting studies site preparation costs to construct and prepare the building for its intended use (e.g. excavating land, removing an old building previously occupied by the same owner) landscaping and other improvements related to the building construction that cannot be separately identified from the building project (e.g. wiring within the building, shrubbery and sidewalks around the building) operating costs such as temporary buildings used during construction
71904	Consultants	<ul style="list-style-type: none"> professional, technical and managerial personnel, consultants and contractors (e.g. engineering, architectural or other) directly involved in the design, plans, specification and surveys of the building
71905	Construction Permits	<ul style="list-style-type: none"> cost of building permits
71906	Legal Costs	<ul style="list-style-type: none"> commissions and legal fees related to the acquisition

These categories are to be used only by the Office of Campus Infrastructure and Sustainability.

Notes:

- Pre-construction costs incurred prior to the actual acquisition or construction of a building should initially be accumulated separately as deferred charges. The amount accumulated should be capitalized to the related building once the actual acquisition or construction begins.
- A project, which is not substantially complete (<97% complete) is considered work-in-progress. Costs incurred must be recorded as a capital asset but not amortized until the project is substantially complete.
- Costs for terminated projects or projects put on hold indefinitely must be removed from capital assets and be written off.

71907 Building Roof (Useful Life ~ 25 years):

Account	Category	Purchase price & other acquisition costs such as:
71907	Roof	<ul style="list-style-type: none"> Cost of roof

71908 Building Interior (Useful Life ~ 20 years):

Account	Category	Purchase price & other acquisition costs such as:
71908	Building Interior	<ul style="list-style-type: none"> Construction costs of interior of a building and fixtures

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71909 Building Service Systems (Useful Life ~ 25 years):

Account	Category	Purchase price & other acquisition costs such as:
71909	Building Service Systems	<ul style="list-style-type: none"> Heating, ventilation and cooling systems (such as furnace, HVAC)

7191 Renovations (Useful Life ~ 10 years): Umbrella term that includes improvements (e.g. betterment) on real property, including additions, alterations, extraordinary repairs, replacement, renovations, rehabilitation activities or alterations undertaken. Activity that restores the building to its originality or modernizes it and does not increase its quality or future service potential should not be capitalized, but expensed.

Account	Category	Purchase price & other acquisition costs such as:
71910	Renovations	See above similar categories for 'Building'.
71912	Site Costs	
71914	Consultants	
71915	Construction Permits	

These categories are predominantly used by the Office of Campus Infrastructure and Sustainability. Any unit undertaking a renovation should coordinate with this Office.

71916 Leasehold Improvements (Useful Life ~ Lease term or life of the improvements (whichever is shorter)): Improvements (e.g. betterment) performed on a leased property over and above the provision of basic space requirements. Upon termination of a lease, such improvements normally become the property of the owner (lessor) without any cost or obligation.

Account	Category	Purchase price & other acquisition costs such as:
71916	Leasehold Improvements	See 'Renovations'.

These categories are predominantly used by the Office of Campus Infrastructure and Sustainability. Any unit undertaking a leasehold improvement should coordinate with this Office.

7193 Furniture & Fixtures (Useful Life ~ 5 years)

Account	Category	Description	Purchase price & other acquisition costs such as:
71930	Fixtures	<p>Items that are permanently affixed to a building, but are separate from the building itself. Fixtures are usually sold and transferred with the real property.</p> <p>Examples: light fixtures, wall-to-wall carpeting, water fountains, fire control apparatuses, laboratory benches, fume hoods, auditorium seats, and built-in cabinets</p>	<ul style="list-style-type: none"> handling and storage charges transportation/freight and delivery charges to the point of initial use transportation insurance installation charges brokerage/customs, excise taxes & duty charges cost of assembly & installation, including site preparation cost of reconditioning items acquired in a used state foreign exchange gain or loss
71930	Furniture	<p>"Movable" items that are not structural components of a building. (e.g. not permanently affixed).</p> <p>Examples: office furniture, chairs, desks, tables, dividers, filing cabinets, safes, shelving units, etc.</p>	

Note: Exclude and expense immediately any extended warranties and maintenance contracts; even if these costs are on the same purchase document, they must be separated (where possible).

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7192 Equipment (Useful Life ~ 10 years): Tangible property (other than land or buildings) that is used in the operations of a business. Equipment is usually a semi or fully automated device that magnifies human physical and/or mental capabilities in performing one or more operations.

Account	Category	Description	Purchase price & other acquisition costs such as:
71920	Operational & Maintenance Equipment	Examples: machinery, shop equipment, generators, and yard equipment	<ul style="list-style-type: none"> handling and storage charges transportation/freight and delivery charges to the point of initial use transportation insurance brokerage/customs, excise taxes & duty charges cost of assembly & installation, including site preparation (e.g. . research equipment where the manufacturer installs, tests, calibrates) cost of reconditioning equipment acquired in a used state cost of trial runs and other tests required before the asset can be put into full operation foreign exchange gain or loss
	Office Equipment	Examples: communications equipment, telephone equipment, fax machines, audio-visual equipment, postage, printers, photocopiers, printing press, etc.	
	Educational & Scientific Equipment	Examples: audio-visual equipment, data projectors, smart boards, classroom demonstration models, electronic instruments, lab equipment, analyzers, microscopes, spectrometers, surveying equipment, radio equipment, musical instruments, etc.	
	Other Equipment	Examples: medical equipment, kitchen equipment, recreational & athletic equipment	
			* See below for 'Custom Developments'

Note: Exclude and expense immediately any extended warranties and maintenance contracts; even if these costs are on the same purchase document, they must be separated (where possible).

7194 Vehicles & Vessels (Useful Life ~ 5 years)

Account	Category	Description	Purchase price & other acquisition costs such as:
71940	Vehicles	Examples: cars, trucks (light general purpose, freight, and construction), vans (mini and cargo), buses, water-craft (boats), ATVs, trailers	See 'Equipment'.

7195 IT Equipment (Useful Life ~ 3 years): Electronic data management or analysis devices, associated peripherals, accessories and software that may be fixed or portable in nature.

Account	Category	Description	Purchase price & other acquisition costs such as:
71950	Computer	General purpose machine (CPU), commonly consisting of digital circuitry, that accepts (inputs), stores, manipulates, and generates (outputs) data as numbers, text, graphics, voice, video files, or electrical signals, in accordance with instructions called a program. Examples: desktops (workstations), laptops, tablets	See 'Equipment'.
71950	Peripherals & Devices	Auxiliary (internal or external) equipment used for computer input (keyboard, mouse, scanner, etc.), output (monitor, printer, plotter, speaker), storage (floppy drive, hard disk, CD drive), communication (microphone, modem, router), or other functions under the direct control of a computer. These peripherals typically require a device driver for them to function.	

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71952	IT Servers & Equipment	Central, and usually the largest, and most powerful computer in a network that houses the server software, stores and manages common (network) data and supplies it to the individual workstations (clients), and provides shared services (access to internet or other networks, faxing, printing, etc.). Examples: mainframe computers, server hardware, hubs/networks, bridges, routers, switches (whether a purchased package, a customized package or internally developed)	
71953	IT General	Any other items relating to computing technology that does not fit the above asset categories. Examples: touchscreen visual display units	

Note: Peripherals & Devices should be identified separately and included in the appropriate expense category (e.g. must meet its own criteria for capital assets) unless they are integrated in the primary assets (e.g. computer) and cannot be separately identified on the purchase.

71951 Software (Useful Life ~ 3 years): Software consists of carefully-organized instructions and code written by programmers in any of various special computer languages.

Account	Category	Description	Purchase price & other acquisition costs such as:
71951	Operating System (OS)	Master control program (such as DOS, MacOS, Windows) that automatically runs first when a computer is switched on, and remains in the background until the computer is turned off. It commonly comes preinstalled and is usually the most complex and largest program to be used by the computer.	See 'Equipment'.
	Application Software (Individual)	Computer programs that handle multitudes of common and specialized tasks a user wants to perform, such as communicating, data processing, word processing. These software are usually license agreements* by which the buyer is deemed to accept by the fact of opening its shrink-wrapped package (or clicking on an hypertext area (usually marked, "I agree.")). Examples: Microsoft Office, Adobe Acrobat	
	Enterprise Software (Institutional)	Computer programs that address the needs of organization processes and data flow, often in a large distributed environment. Typically, the software act as an interface to common databases shared by the users. Examples: financial systems (Millenium (FAST)) administrative system (Ellucian (Banner))	

*A software license is a permission to use software on a non-exclusive basis, and subject to the listed conditions. A software license does not automatically transfer the ownership of the software to the buyer and its purchase price, in effect, is a onetime rental fee. Some licenses are perpetual (right to use the product is permanent for the specific version purchased). Some licenses require 'maintenance' (technical support and new version releases) which may be included in the original purchase price or may be purchased on a semi-regular basis (e.g. annually). And some licences are subscriptions and have a definite term period (e.g. annually).

Note: Software should be identified separately and included in the appropriate expense category (e.g. must meet its own criteria for capital assets) unless they are integrated in the primary assets (e.g. computer) and cannot be separately identified on the purchase.

7196 Laptops (Useful Life ~ 2 to 4 years): Portable and compact personal computer with the same capabilities as a desktop computer. Laptops provide users the ability to run the machine using an internal battery or an outside power adaptor.



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Account	Category	Purchase price & other acquisition costs such as:
71960	Laptops	See 'Equipment'.

This category is to be used only by IT Services.

Custom Developments (Whole Assets): Items, materials and supplies once assembled and connected (e.g. integrated) represent a 'whole asset'. Examples: computer network, software system development, customized research equipment.

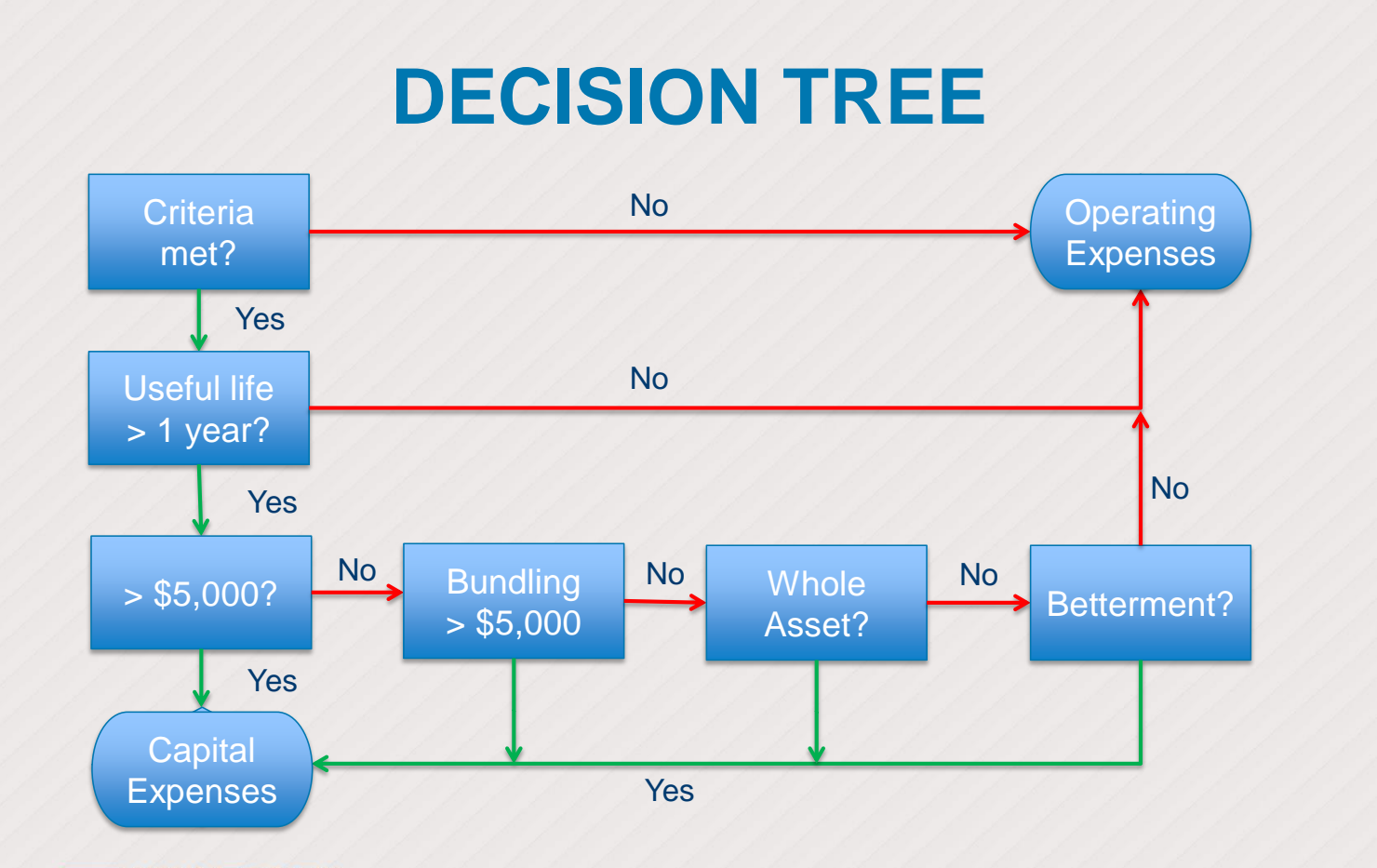
Account	Category	Purchase price & other acquisition costs such as:
Depending on the item		<ul style="list-style-type: none">• costs to acquire the primary asset (see applicable asset category) and any custom development• external direct costs of components, materials & supplies• external direct costs of services (e.g. contractors & consultants) directly involved in the design, engineering, manufacturing, installation, or development of the whole asset• costs of upgrades that improve the functionality of the system

Note: Exclude and expense immediately salaries and benefits for any project personnel involved (unless otherwise instructed by Finance) and any costs incurred which are not expected to contribute to the asset's service potential



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APPENDIX B: DECISION TREE



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APPENDIX C: REFERENCE INFORMATION

Amortization: A rational and systematic manner of allocating the cost of an asset over its estimated useful life in accordance with generally accepted accounting principles (GAAP).

Consumables: Goods which (1) are used up (not returned) after issuance, (2) become incorporated into other goods and lose their identity, or (3) cannot be used for their intended purpose without extinguishing or transforming their substance.

Disposal: Removal of a capital asset from service as a result of sale, destruction, loss or abandonment.

Fair value: Amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties, who are under no compulsion to act.

Gain or loss on disposal: Amount by which the proceeds realized upon an asset's disposal exceed (gain) or not (loss) the asset's net book value.

Generally accepted accounting principles (GAAP): Authoritative rules, practices, and conventions meant to provide both broad guidelines and detailed procedures for preparing financial statements and handling specific accounting situations.

Intangible Asset: Reputation, name recognition, and intellectual property such as knowledge and know how. Intangible assets are the long-term resources of an entity, but have no physical existence. They derive their value from intellectual or legal rights, and from the value they add to the other assets.

Net book value: Capital asset cost less accumulated amortization and any write-downs. It represents the asset's unconsumed cost.

Non-capital asset: Assets that meet the criteria of a capital asset but are less than the thresholds.

Purchase order (PO): A written offer made by a purchaser to a vendor that formally sets out the terms and conditions of the proposed transaction.

Residual value: Estimated net realizable value of a capital asset at the end of its estimated useful life. In most cases, residual value would be negligible and would be ignored for the purpose of calculating amortization. However, when an organization expects the residual value of a capital asset to be significant, it would be factored into the calculation of amortization.

Salvage value: Realizable value at the end of an asset's life.

Service potential: 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.

Tangible Asset: Cash, equipment, machinery, plant, property anything that has long-term physical existence or is acquired for use in the operations of the business and not for sale to customers.

Useful life (estimated): Estimate of either the period over which a capital asset is expected to be used or the number of production or similar units that can be obtained from the capital asset. The life of a capital asset may extend beyond its useful life to an organization. It is the period over which an asset will be amortized. The life of a capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial and legal life.

REFERENCES

CPA Canada Handbook Section 4433 Tangible capital assets held by not-for-profit organizations

CPA Canada Handbook Section 4434 Intangible capital assets held by not-for-profit organizations