PSAB AT A GLANCE

Section PS 3150 - Tangible Capital Assets

BDO

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Section PS 3150 – *Tangible Capital Assets*

Effective Date
Fiscal years beginning on or after January 1, 2009

SCOPE

Does not apply to:

- Intangible assets, natural resources and Crown lands that have not been purchased by the government.
- Government capital grants and government transfers of tangible capital assets as these are accounted for in accordance with Section PS 3410, *Government Transfers*.

TANGIBLE CAPITAL ASSETS

- Non-financial assets[1] having physical substance that:
  - Are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the 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.

ACCOUNTING

- Tangible capital assets must be accounted for and reported as assets on the Statement of Financial Position.
- Works of art and historical treasures are not recognized as tangible capital assets in the financial statements of a government since a reasonable estimate of their future benefits cannot be made. However, their existence must be disclosed.

MEASUREMENT

COST

- Tangible capital assets must be recorded at cost.
  - Cost includes:
    - The gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset;
    - All costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use; and
    - Asset retirement costs (obligations associated with the retirement of tangible capital assets are accounted for in accordance with Section PS 3280, *Asset Retirement Obligations*).
  - The cost of each tangible capital asset acquired as part of a single purchase is determined by allocating the total price paid to each item on the basis of its relative fair value at the time of acquisition.
  - Whether the cost of each component of a tangible capital asset made up of several components, such as a complex network system, would be accounted for separately by a government is determined by the cost versus the benefit.
  - When at the time of acquisition, a portion of an acquired tangible capital asset is not intended for use, its cost plus any costs of disposal less any estimated proceeds, are added to the portion of the acquired tangible capital asset that is intended for use.
  - Cost of a tangible capital assets that is acquired, constructed or developed over time includes:
    - Direct construction or development costs;
    - Overhead costs that are directly attributable to the construction or development activity; and
    - Carrying costs directly attributable to the acquisition, construction or development activity.
      - Capitalization of carrying costs ends when no construction or development is taking place or a tangible capital asset is substantially complete and is ready for productive use.

[1] Under Section PS 3150, the definition of tangible capital assets includes computer software.

COST (CONTINUED)

- Capital grants received are not netted against the cost of the related tangible capital asset.
- Contributed tangible capital assets
  - The cost of a contributed tangible capital asset, including a tangible capital asset in lieu of a developer charge, is its fair value at the date of contribution.
  - In unusual circumstances where the fair value cannot be reasonably determined, the tangible capital asset is recorded at nominal value.
- Leased tangible capital assets
  - Cost is determined in accordance with the guidance provided in PSG-2, *Leased Tangible Capital Assets*.
- Betterment
  - The cost incurred to enhance the service potential of a tangible capital asset.
  - A betterment is capitalized not expensed like repair and maintenance costs.

AMORTIZATION

- The cost of a tangible capital asset with a limited life less any residual value is amortized over the assets useful life.
- Amortization must be recognized in a rational and systematic manner appropriate to the nature of the tangible capital asset and its use by the government.
- Amortization is recognized as an expense in the Statement of Operations.
- A government must review the amortization method and the estimate of the useful life for the remaining unamortized portion of a tangible capital asset on a regular basis and revise it when it can clearly demonstrate the appropriateness of a change.

WRITE-DOWNS

- The cost of a tangible capital asset must be reduced to reflect a decline in the assets value when conditions indicate:
  - A tangible capital asset no longer contributes to a government's ability to provide goods and services; or
  - That the value of the tangible capital asset's future economic benefits is less than its net book value.
- When the tangible capital asset no longer contributes to a government's ability to provide goods and services the asset would be written down to its residual value, if any.
- When the value of the tangible capital asset's future economic benefits is less than its net book value the government would estimate the value of the expected remaining future economic benefits. The tangible capital asset would then be written down to this revised estimate of the value of the asset's remaining service potential to the government.
- A write-down is recognized as an expense in the Statement of Operations.
- A write-down cannot be reversed.

DISPOSALS

- The difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset is accounted for as a revenue or expense in the Statement of Operations.

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