ASNPO AT A GLANCE

Capital Assets

March 2013

Capital Assets[1]

Effective Date
Fiscal years beginning on or after January 1, 2012

SCOPE

Applies to:

- Accounting for tangible capital assets held by NPOs.
- Accounting for tangible capital assets recognized under Section 3065, *Leases*, in Part II of the Handbook.
- Intangible assets acquired or developed by NPOs. Except as otherwise stated in Section 4432, a NPO applies Section 3064, *Goodwill and Intangible Assets* in Part II of the Handbook, to such assets.

Does not apply to:

- Items held as part of a collection (see Section 4440, *Collections held by Not-for-Profit Organizations).*

DEFINITIONS

TANGIBLE CAPITAL ASSETS

- Identifiable tangible assets that meet all the following criteria:
  - Are held for use in the provision of services, for administrative purposes, for production of goods or for the maintenance, repair, development or construction of other tangible capital assets;
  - Have been acquired, constructed or developed with the intention of being used on a continuing basis;
  - Are not intended for sale in the ordinary course of operations; and
  - Are not held as part of a collection (see Section 4440).

INTANGIBLE ASSETS

- Identifiable non-monetary assets without physical substance.

RECOGNITION AND MEASUREMENT - TANGIBLE CAPITAL ASSETS

COST

- A tangible capital asset must be recorded on the Statement of Financial Position at cost.
- ***Cost includes:***
  - The amount of consideration given up to acquire, construct, develop, or better a tangible capital asset.
  - All costs directly attributable to the acquisition, construction, development or betterment of the capital asset including installing it at the location and in the condition necessary for its intended use.
  - Any asset retirement costs accounted for in accordance with Section 3110, *Asset Retirement Obligations*, in Part II of the Handbook.
- A tangible capital asset purchased by a NPO at a price substantially below its fair value is recognized at its fair value and the difference between the fair value recorded and the consideration paid is recognized as a contribution.
- A NPO determines the cost of each tangible capital asset acquired together as part of a single purchase by allocating the total price paid to each item on the basis of its relative fair value at the time of the acquisition.
- 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 asset constructed or developed over time includes:***
  - Direct construction or development costs.
  - Overhead costs directly attributable to the construction or development activity.
  - The fair value, determined at the date of contribution, of contributed materials or labour.

[1] Includes Section 4431 – *Tangible Capital Assets Held by Not-for-Profit Organizations* and Section 4432 – *Intangible Assets Held by Not-for-Profit Organizations.*

COST (CONTINUED)

- **Contributed tangible capital asset**
  - A contributed tangible capital asset is recognized at its fair value at the date of contribution.
  - However, in unusual circumstances where the fair value cannot be reasonably determined, both the tangible capital asset and the related contribution are recorded at nominal value.
- **Betterment**
  - The cost incurred to enhance the service potential of a tangible capital asset.
  - A betterment is capitalized not expensed like repair costs.

AMORTIZATION

- The cost of a tangible capital asset with a limited life less any residual value is amortized over the asset's 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 organization.
- Amortization is recognized as an expense in the Statement of Operations.
- An organization must review the amortization method and the estimate of the useful life of a tangible capital asset on a regular basis.

ASSET RETIREMENT OBLIGATIONS

- An obligation associated with the retirement of a tangible capital asset is accounted for in accordance with Section 3110, *Asset Retirement Obligations*[2], in Part II of the Handbook.

WRITE-DOWNS

- When a tangible capital asset ceases to have any long-term service potential to the organization, the excess of its net carrying amount over any residual value is recognized in the Statement of Operations as an expense.
- A write-down cannot be reversed.
- If there are any unamortized deferred contributions related to the tangible capital asset written down, the contributions would be recognized as revenue, as long as all restrictions had been satisfied (see Section 4410, *Contributions – Revenue Recognition*[3]).

DISPOSAL

- When a tangible capital asset is disposed of (i.e. by sale, destruction, loss, abandonment or expropriation), the difference between the following is recognized in the Statement of Operations:
  - The net proceeds on disposition; and
  - The net carrying amount.
- If there are any unamortized deferred contributions related to the tangible capital asset that was disposed of, these contributions would be recognized as revenue in the period of the disposal, as long as all restrictions had been satisfied (see Section 4410, *Contributions – Revenue Recognition*[3]).

RECOGNITION AND MEASUREMENT - INTANGIBLE ASSETS

- Refer to Section 3064, *Goodwill and Intangible Assets*[4] in Part II of the Handbook for guidance on accounting for intangible assets except for contributed intangible assets and write-downs as outlined below.

CONTRIBUTED INTANGIBLE ASSET

- A contributed intangible asset is recognized at its fair value at the date of contribution.
- However, in unusual circumstances where the fair value cannot be reasonably determined, both the intangible asset and the related contribution are recorded at nominal value.

[2] See also our publication ASPE AT A GLANCE: Section 3110 – *Asset Retirement Obligations*
[3] See also our publication ASNPO AT A GLANCE: *Contributions*
[4] See also our publication ASPE AT A GLANCE: *Intangible Assets.*

WRITE-DOWNS

- When an intangible asset[5] ceases to have any long-term service potential to the organization, the excess of its net carrying amount over any residual value is recognized in the Statement of Operations as an expense.
- A write-down cannot be reversed.
- If there are any unamortized deferred contributions related to the intangible asset written down, the contributions would be recognized as revenue, as long as all restrictions had been satisfied (see Section 4410, *Contributions – Revenue Recognition*[3]).

TANGIBLE CAPITAL ASSETS / INTANGIBLE ASSETS HELD BY SMALL ORGANIZATIONS[6]

- If the average annual revenues recognized in the Statement of Operations for the current and prior period of a NPO, including the average annual revenues of any entities it controls, are below $500,000, then the organization may choose to limit the requirements of Section 4431 and Section 4432 to the requirements outlined in paragraph 4431.38 (discussed below). However, all NPOs are encouraged to follow the requirements of Sections 4431 and 4432 even if they meet this limit, unless these requirements would be too difficult or costly.
- Once a NPO's revenues exceed the $500,000 limit discussed above, it must follow the requirements of Sections 4431 and 4432 and it must continue to follow the requirements of these Sections even if its average revenues fall below $500,000 in subsequent years.
- According to paragraph 4431.38 NPOs that meet the $500,000 limit discussed above must disclose the following information:
  - The policy the NPO follows in accounting for tangible capital assets / intangible assets;
  - Information about major categories of tangible capital assets / intangible assets not recorded in the Statement of Financial Position, including a description of the assets; and
  - If the NPO expenses tangible capital assets / intangible assets when they are acquired, the amount expensed in the current period.

[3] See also our publication ASNPO AT A GLANCE: *Contributions*
[5] Per paragraph 4432.06, a NPO applies Section 4432 to the write-down of intangible assets instead of paragraphs 3064.64-.68 in Part II of the Handbook.
[6] The Accounting Standards Board and the Public Sector Accounting Board created a Joint Not-for-Profit Task Force which is reviewing not-for-profit organization standards with the aim of improving them to better meet user needs. A statement of principles is expected to be issued in the first half of 2013. One of the proposed changes is the removal of the size exemption for reporting tangible capital assets / intangible assets.

20 Wellington Street East
Suite 500
Toronto ON M5E 1C5
416-865-0111

www.bdo.ca