

Brock University

CAPITAL AND NON-CAPITAL ASSET ACCOUNTING PROCEDURES

[Supplemental to the Capital and Non-Capital Asset Policy]

Introduction

Brock University is committed to safeguarding and identifying all assets (capital and non-capital) belonging to, having title to, or in the custody of, Brock University. Responsibility for other assets rests with Brock University to the extent that it has explicitly agreed to accept responsibility under a contractual arrangement. The ownership of certain assets purchased by Brock University may be determined by a granting agency upon completion of the research project. When assets are acquired, the University will identify, safeguard, track and record them in an equitable manner that maximizes the useful life of the asset.

Purpose

The purpose of these procedures is

- To clarify the assets to which the policy applies,
- To clarify responsibility and safeguarding measures for all assets,
- To clarify the treatment and responsibility for the disposal or redeployment of assets,
- To determine which assets are to be capitalized in accordance with generally accepted accounting principles,
- To determine the appropriate valuation of the capitalized asset,
- To provide the appropriate period of amortization of that capitalized asset over its estimated useful life, and
- To provide a basis for insurance coverage and the external reporting of capitalized costs.

These procedures supplement the existing Capital and Non-Capital Asset Policy.

Procedures

CAPITAL versus NON-CAPITAL ASSETS

1. An asset will be classified as a capital asset (capitalized under generally accepted accounting principles), if it is a non-consumable, tangible item, valued at a single amount greater than \$5,000 and with a life expectancy of at least two years. Tangible items valued at single amounts less than \$5,000 will be classified as a non-capital asset.

PURCHASED ASSETS

2. The capitalized cost of most purchased assets includes the purchase or acquisition price and related freight, installation, customs charges, taxes (net of rebates) and other direct costs of getting the asset into condition necessary for its intended use. Capital equipment purchased sometimes have add-on items that are not initially ordered as a single amount, but should still be included as part of the historical cost.
3. Other direct costs may include software if included with the physical capitalized equipment, and warranty costs for the first year only, if included in the acquisition price. Costs that will not be capitalized include training and maintenance unless these costs cannot be separated from the acquisition cost.

Examples:

An office is refurbished and a desk, chair and filing cabinet are purchased. The life of the furniture is greater than two years, but the cost of each tangible asset is less than \$5,000. They will be considered operating expenses and will not be capitalized.

Capital equipment purchased sometimes have add-on items that are not initially ordered as a single amount, but should be considered when determining the single amount to be capitalized or not.

Training is usually required for specialized equipment, before it can be considered fully operational or it is necessary to meet warranty and safety requirements. Therefore, in these circumstances training should be considered part of the capitalized cost of the equipment.

CONSUMABLES

4. Tangible assets may be considered consumable goods as they are used in the daily operations of the University. These will not be considered capital assets even if they are purchased in bulk and consumables will last more than two years. They will be expensed or, if material, established as inventory and expensed as the inventory is used or consumed over time.

Example: A three year supply of student statements is ordered for \$17,000 to take advantage of a volume discount. The supply will last more than two years, and the cost per year is greater than \$5,000. However, the statements will be consumed in the normal course of business and considered operating expenses. Depending on the value, they could be inventoried and expensed as used or consumed.

GENERAL LEDGER ACCOUNTS

5. Operating Capital Asset Accounts (115-xxx-099)
Expenditures that meet the definition of a capital asset are to be coded to the equipment account, 115-xxx-099. This will enable the Financial and Administrative Services department to capture the capital assets in these operating costs at the end of the year and transfer them into the Capital Fund for recognition as a capital asset and amortization over the assets useful life.
6. Operating Tangible Asset Accounts (115-xxx-199)
Expenditures on tangible assets that do not meet the definition of a capital asset or have a value of less than \$5,000, even if it has a useful life of two years or more, will not be capitalized and may be coded to 115-xxx-199 otherwise to another appropriate expense account. The 115-xxx-199 account is useful when tangible assets are purchased periodically and would otherwise distort other regular operating expense accounts.
7. Faculty start-up purchase equipment Accounts (112/336-xxx-xxx; 115-xxx-099)
Funds transferred into a 112/336-xxx-xxx for faculty start-up purchase equipment costs that meet the definition of a capital asset are to be coded first to 115-xxx-099. The 112/336-xxx-xxx account to which funds are being transferred should be noted on the journal entry in the "Reference" column. The Financial and Administrative Services department will review these references and identify any unspent capital related transfers in 112/336-xxx-xxx. Where appropriate and significant year end adjustments will be made to adjust the capital assets and amortization to be recognized.

RESEARCH EQUIPMENT ACCOUNTS (33x-xxx-xxx & related codes)

8. Unless otherwise specified by a granting agency, all research equipment is considered to be Brock University property. The ownership of certain assets purchased by Brock University may be determined by a granting agency upon completion of the research project. The equipment will remain under the direction of the researcher(s), acting on behalf of the University, and as directed by the granting agency until the research work is concluded.
9. The use of the research equipment should be made available to the widest possible number of users, although it is recognized that some specialized equipment is integral to the experimental setup of a faculty member and thus not readily shared. In cases where the use and access of such equipment is in dispute, the Departmental Chair, the Dean and where necessary the Associate VP Research shall adjudicate such matters.
10. Following the time when the research is concluded the equipment may become available for other permitted Brock University research related purposes and redeployed as permitted by the granting agency and in accordance with the *Surplus Asset/Redeployment Disposal Policy*.

11. If the research equipment is redeployed to general purposes, the Financial and Administrative Services department will determine if any repayment of previously exempt provincial taxes is required due to the change of use of the research equipment.
12. All research expenditures are recorded to the appropriate research accounts (112-xxx-xxx) using the following research codes:
 - E1 for capital assets greater than \$5,000
 - E2 for tangible assets less than \$5,000
 - M1 for materials and supplies
 - M2 for maintenance.

MINOR CAPITAL PROJECTS

13. Minor capital projects under the direction of the Facilities Management division will be assigned special and separate project account numbers by the Financial & Administrative Services department. The complexity of the project will determine whether the account will have a breakdown such as noted below for major capital accounts, or whether one number will be assigned to the entire project.

BUILDING IMPROVEMENTS versus REPAIRS AND MAINTENANCE

14. Expenditures made to maintain an existing capital asset that restores the capital asset to working condition but does not extend the life of the capital asset will be considered repairs and maintenance expenditures. These may include such examples as, repairs to the roof, repainting of a building, or painting of interior offices.
15. The cost incurred to enhance the service potential of a capital asset is a building improvement. Service potential may be enhanced when there is an increase in the previously assessed service capacity, associated operating costs are lowered, the useful life is extended, or the quality of output is improved.
16. The cost incurred in the maintenance of the service potential of a capital asset is a repair, not a building improvement. If a cost has the attributes of both a repair and an improvement, the portion considered to be a building improvement is included in the cost of the capital asset.

Example: Expenditures to convert a meeting room into a lab may be a building improvement, while the cost of refurbishing an existing classroom would be maintenance.

CONSTRUCTED ASSETS (MAJOR CAPITAL PROJECTS)

17. Capital assets that are constructed (e.g. buildings or constructed research equipment) are capitalized as work progresses and amortization commences when work is substantially performed and the building or other constructed asset is ready for occupancy or use. Construction costs include all direct costs associated with the project that are incurred during the period when planning for the construction begins and ends when the construction project is substantially performed. They also include any overhead costs directly attributable to the construction or development activity.
18. Major capital projects under the direction of the Facilities Management division will be assigned special and separate project account numbers by Financial & Administrative Services department. Expenditures for major projects are considered costs of the construction projection and will be classified as follows:

Building Costs

- Consultant fees (e.g. architects, consulting engineers and lawyers)
- Construction & permit costs (e.g. construction costs of a contractor, costs of studies and tests, excavation for the foundation, costs of material and labour)
- Equipment that is permanently attached to and forms an integral part of the building (e.g. data & telecommunication cables, furnaces or heating and cooling equipment)
- Brock internal charges (costs of material and labour directly related to the construction)
- Interest on debt directly related and incurred during the construction period

- Overhead costs (e.g. salary and benefits of a person specifically hired or assigned to manage the building project)

Land and Site Improvements

- Costs related to constructing electrical, water, sewer and similar systems leading up to the new building would not be capitalized as part of the building. These will be considered additions to land and site improvements that are not amortized.

Furniture and Equipment

- Furnishings for the building, such as tables, desks, cabinets, telephones and other moveable and tangible assets will not be capitalized as part of the costs of the building. These will be considered furniture and equipment.

CAPITAL FUND

19. Capital Assets that are capitalized are moved to the Capital Fund at fiscal year end by the Financial & Administrative Services department. These capital assets are recorded into a separate accounting structure and are assigned the following codes:

50000000	Current Capital Projects (Constructions in Progress)
55100000	Land
55200000	Site Services and Landscaping
55300000	Buildings
55400000	Library Books
55500000	Equipment
55600000	Furniture & Fixtures (Furnishings)
55800000	Building Improvements
55900000	Vehicles

AMORTIZATION

20. Amortization or depreciation is an accounting cost allocation method of a capitalized asset over its useful life. It is not intended, at any time, to necessarily represent the fair or market value of a capital asset. Amortization is recorded for a full year in the year of acquisition for all capital assets except for constructed capital assets. Amortization does not begin on constructed capital assets until work is substantially performed and the building or other constructed asset is ready for occupancy or use. Capital assets are placed into categories and amortized on a straight-line manner over the estimated useful lives and annual rates as follows:

<u>Asset</u>	<u>Years</u>	<u>Rate</u>
Land, site services & landscaping	n/a	n/a
Buildings	40	2.5%
Building improvements	10	10.0%
Furnishings (furniture and fixtures)	10	10.0%
Equipment	5	20.0%
Library books and periodicals	5	20.0%
Vehicles	3	33.3%

The Finance & Administrative Services department will account for the amortization of capital assets.

CASH DONATIONS AND DONATED ASSETS

Grants and Cash Donations

21. Grants and cash donations received to help fund the costs of a capital asset do not reduce the cost of the asset. The amounts received will be recorded as deferred capital contributions and amortized into revenue on the same basis as the asset to which it relates. The Finance & Administrative Services department will account for these grants and donations in the Capital Fund.

Donated Assets

22. Donated or contributions of capital assets (except for works of art) are capitalized at the appraised fair market value at the date of contribution. The Finance & Administrative Services department will account for the donated assets in the Capital Fund.

Works of Art

23. Artwork purchases are expenses as acquired. Works of art donated are recorded as revenue and expense, at the appraised fair market value, at the date of contribution. If the fair market value is not determinable, the contribution is recorded at a nominal amount. The Finance & Administrative Services department will provide the appropriate accounting treatment for these donated works of art.

DISPOSAL OF ASSETS

24. Disposal of assets should be done in accordance with the *Surplus Asset/Redeployment Disposal Policy*. If the information is available the original cost and date of purchase should be noted on the *Surplus Asset Disposal Form* to enable the Financial and Administrative Services department to remove the asset from the general ledger account.

SAFEGUARDING MEASURES

25. Care and custody of capital and non-capital assets rests with the Brock University person (generally the Divisional and/or Department head) providing the resources for the purchase of the assets and/or the person responsible for the physical area where the assets are located.
26. All persons/departments that use and care for capital and non-capital assets must ensure that reasonable safeguarding measures are in place at all locations where these assets reside to prevent damage to or the loss of such assets. In addition reasonable and appropriate measures are necessary to identify, track or tag the physical existence and location of all assets. Periodic verifications (recommended at least once a year but at a minimum at least once every three years) to the existence and condition of assets should be conducted. Any assets considered surplus or scrap should be removed or redeployed in accordance with the *Surplus Asset/Redeployment Disposal Policy*.