UBC Capital Assets Accounting Principles

THE UNIVERSITY OF BRITISH COLUMBIA

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Purpose

The purpose of these principles is to establish the accounting treatment for the purchase, maintenance, and disposal of tangible capital assets. The guidelines help to clarify the distinction between operating expenditures and capital expenditures, and to achieve consistency of capital accounting across all departments and units of UBC.

Application

These principles apply to all tangible capital assets, including land, buildings, equipment, and software either acquired or developed for internal use.

These principles do not cover intangible assets and unrecognized assets. Intangible assets include copyrights, intellectual property, and patents. The major categories of unrecognized assets include works of art and historical collections, and mineral resources.

The principles apply to departments in all faculties and administrative units across UBC.

Tangible Capital Assets Defined

Tangible capital assets are defined as those items that meet all of the following criteria:

- Have a useful life expectancy of greater than one year;
- Are held for the purpose of rendering a service rather than for sale or immediate consumption;
- UBC acquires ownership of a tangible asset; and
- Have a unit cost exceeding the thresholds listed in Appendix 1.

Also included are Betterments, which are enhancements to the service potential of a tangible capital asset, such as the following:

- An increase in the previously assessed physical output or service capacity,
- A reduction in associated operating costs,
- An extension of the estimated useful life, or
- An improvement in the quality of output.

Guidelines for Handling Costs

The cost for each tangible capital asset is comprised of the total expenditures incurred to acquire, install, and prepare the capital asset for service.

The cost of a tangible capital asset is not an operating expense in the year of acquisition. The cost is recorded as an asset and is amortized on a straight-line basis over the estimated useful life of the asset, as indicated in the table in Appendix 1.

Tangible capital assets may be purchased by or donated/contributed to UBC. Donated or contributed assets are generally recorded at their fair value at the date of contribution. This will include purchases with trade-ins of existing assets, the new asset acquired should be recorded at its fair value, not at the fair value net of trade-in.

Land

Land is always capitalized and separately identified, but it is not amortized, since it has an indefinite useful life.

The capitalized cost of land includes the following:

- The purchase price and net applicable taxes, and
- Costs incurred to make the land ready for use, including legal fees, survey costs, rezoning costs and clearing of the land, including demolition of existing buildings.

If land is purchased and held for future specified development, financing costs may be capitalized to the cost of the land.

Site Improvements (Including Utilities & Infrastructure)

Site improvements pertain to expenditures relating to UBC's infrastructure and/or utilities, and are capitalized separately and amortized over its useful life. Capitalized cost of site improvements include infrastructure constructed or improved for purposes of supplying electric, gas, and steam energy, roads, sewage, surface lots, and water.

Buildings

Buildings include the cost of the building shell and building components, including all exterior and interior building components and service systems providing fire protection, exiting, sanitary facilities, heating, ventilation, cooling, lighting, power, and communication systems as required by applicable building regulation and codes.

The estimated useful life of the building is based on the building type – concrete, wood frame, and temporary.

The cost of the building does not include the land on which the building sits or improvements to the land. The land has a different accounting treatment, as discussed above.

Any furniture and other equipment purchased to furnish the building should also be segregated and capitalized as furniture and equipment.

Building Renovations

During the life of a building, renovations are incurred with respect to that asset. These expenditures must be analyzed to determine whether they are a betterment to be added to the cost of the building or a repair and maintenance of the building.

Betterments

Renovations to a building are capitalized as a betterment if they meet any one of the following criteria:

- Extends the original useful life of the building,
- Adds to the output or service capacity of the building,
- Reduces the associated operating costs of the building,
- Improves the quality of the services provided by the building.

A betterment does not include replacing a building component that does not significantly enhance the useful life of the building. For example, a new roof or painting of the building, which does not extend the original useful life of the building, is generally not a betterment, unless the new roof or painting increases the service potential of the building, such as reduces operating costs.

Betterments, which extend the useful life or improve the efficiency of the asset, must be added to the historical cost and amortized over the remaining life of the asset. The depreciation rate applied to the betterment should reflect the increase in the useful life of the asset. However, the depreciation period of the betterment cannot exceed that of the asset class to which it relates.

Repairs and Maintenance

Maintenance and repairs expenses which do not extend the building's economic life or improve its efficiency, but which only allow the building to obtain or sustain its original life, are not betterments and are charged to the accounting period in which they are incurred. Examples of such expenses include:

- Repairs to restore a building to its original condition, such as fire damage or water damage repairs,
- Replacing one boiler with two smaller boilers which produce the same number of BTUs and do not significantly lower the associated operating costs,
- Replacing the existing cladding with similar technology,
- Replacing a roof with a new roof.

Equipment and Furnishings

Equipment and furnishings are capitalized when they have an estimated useful life of more than a year and the cost is equal to or greater than $5,000. Equipment and furnishings with a cost less than $5,000 are operating expenses.

Equipment and furnishings include the following:

- Purchase price and net applicable taxes,
- Freight,
- Brokerage fees,
- Installation costs required to make the equipment operational.

Equipment and furnishings do not include the following, which must be recorded as operating expenses:

- Training costs, including staff compensation and local travel expenses,
- Costs related to project, vendor or equipment approval, planning or selection,
- Extended warranties,

- Supplies used in the normal operation of the equipment,
- Service/maintenance contracts.

Vehicles

Vehicles include cars, vans, and trucks purchased for use in UBC's operations.

Library Books

Library books include physical library collections or electronic library collections purchased as a perpetual database or license. Any electronic collections with limited lives should be capitalized and amortized over its term. If the expected term is less than one year, the costs should be expensed immediately.

The purchase cost of electronic subscriptions should be set up as prepaid expense and expensed over the subscription period.

Computer Hardware

Computer hardware include personal computers, printers, monitor, and other related peripheral equipment.

Network and Server Equipment

This includes equipment not included under Computer Hardware above, with a threshold equal to or greater than $50,000.

Major Software

Major software installations purchased or developed, including all development and configuration costs, should be capitalized. Development costs include the following:

- Fees paid to third parties for services provided to develop the software,
- Travel expenses incurred by individuals in their duties directly associated with the development,
- Incremental payroll related costs for employees who are directly involved with the development projects, ie, when backfilling an employee working on the project or a new position is created for the development of the asset and the position ends at the end of development

Upgrades and enhancement costs are considered betterments and should be capitalized if they increase the functionality or service potential of the software.

Software costs do not include the following, which should be recorded as operating expenses:

- Any costs related to project, vendor, or software approval, planning, or selection,
- Training costs, including staff compensation and local travel,
- Yearly licensing/maintenance fees, which should be expensed over the period during which the licensing or maintenance fee applies.

Software Developed for Internal Use

This is software internally developed, acquired or modified solely to meet UBC's internal needs, and during the software's development or modification, no plan exists to market the software externally. A plan to market externally would include marketing/sales strategies, delivery, billing and support activities. Arrangements for the joint development of software with other entities do not constitute plans to market the software.

Software acquired or developed for internal use consists of two stages:

1) Planning Stage relates to tasks that take place before the project is approved to go ahead. Costs incurred during the Planning Stage must be expensed to Operations. The Planning Stage may consist of, but is not limited to:
    - Strategic decisions to allocate resources between alternative projects,
    - Development of a Business Case for the proposed software or system. Tasks may include: establish need, describe benefits and costs, and illustrate the recommended course of action if the software is deemed to be necessary,
    - Top-level performance specifications for the project.
2) Application Development Stage relates to tasks that take place after the project is approved to go ahead. For project costs to be capitalized, the project must be in the Development Stage. The Development Stage may contain, but is not limited to:
    - Design of chosen path, including software configuration and interface(s) to existing software systems,
    - Coding to carry out the design of the chosen path,
    - Installation of application software to computer hardware,
    - System testing, including any parallel processing phase(s).

Capitalization of software development costs begins when:

- Management, with the appropriate authority, commits to funding a computer software project, with the belief that the project will be completed and can be used to perform the intended functions, and
- The Planning Project Stage has been completed.

Costs should be capitalized if they are directly attributable to implementation and there is a future economic benefit associated with the expenditure. Costs to be capitalized include the following:

- Direct costs of materials and services consumed in obtaining or developing internal-use computer software, including license fees, related interfaces, and net applicable taxes,
- Freight,
- Brokerage fees,
- Time incurred by subject matter experts (IT, procurement, legal) in implementation that is directly attributable to the new software implementation,

    - If time is incurred by internal staff, only incremental salaries and benefits directly related to the project are capitalized, i.e., employee working on the project is backfilled, or a new position is created for the development of the software, and the position ends at the end of development.
- Incremental staff compensation (over and above normal operating levels) to install and test the system.

Any costs related to project, vendor, or software approval, planning, or selection must be recorded as operating expenses. Costs of service and maintenance contracts are also expensed.

Capitalization of software development costs ends when:

- Software is substantially complete, is installed, and ready for its intended use by the end users, and
- Testing of the software is complete and end users will begin to be trained on the use of the system.

Work-In-Progress

Certain tangible capital assets are classified as Work-In-Progress because they are not yet available for use. These assets will remain Work-In-Progress until they are transferred to Asset, on substantial completion (>=97% complete) and being capable of operation.

All costs including carrying charges and property taxes associated with holding assets that are currently in the construction phase are to be capitalized.

If an incomplete project is terminated or put on hold indefinitely, any costs currently recorded as Work-In-Progress must be written off.

Where a project has distinct, multiple, self-contained phases or modules that will be brought into production or use at different points of time, the completed phases should be transferred from Work-In-Progress to Asset when available for use and each phase/module will be amortized independently.

Work-In-Progress is not amortized. Balances must be reconciled and the appropriate transfers made to completed assets or written off to ensure that only active, but incomplete Work-In-Progress is carried forward to the next period.

After project close-out, costs should be recorded no later than three months after the project is closed, or prior to fiscal year-end, whichever is sooner.

A completion report should be prepared for all projects, with proper sign-off by the project manager that the project is complete, at which point the work-in-progress balances can be transferred to completed assets.

Leasehold Improvements

Leasehold improvements are permanent improvements constructed or installed on property that is leased to UBC under an operating lease or rental agreement.

Permanent improvements to leased property are those items that cannot be removed without causing substantial damage to the leased premises such as wiring, walls, carpeting, etc.

Leasehold improvements do not include equipment and furnishings that can be removed at the termination of the lease. These will be capitalized as furniture and equipment, provided they have a useful life of greater than one year and meet the dollar threshold for capitalization.

Trade-ins

Trade-ins occur when an asset is disposed of and replaced with a new asset through the same supplier in the same transaction. This transaction should be accounted for as two separate entries. The trade-in value should be treated as proceeds of disposal and is used in calculating the gain or loss on the disposal of the assets being traded in. The new asset acquired is recorded at its full cost – it is not reduced by the trade-in value of the old asset.

Insurance Proceeds

Proceeds from insurance claims are to be recorded as proceeds of disposal and form part of the gain/loss on disposal of the original asset.

Leases

Leases can be accounted for as capital leases or operating leases.

Leases which transfer substantially all of the benefits and risks of ownership are accounted for as capital leases. All other leases are accounted for as operating leases.

A lease would normally transfer substantially all the benefits and risks of ownership when one of the following conditions is met:

- The lease transfers ownership of the property to UBC at the end of the lease term.
- The lease contains a bargain purchase option.
- The lease term allows UBC to receive substantially all of the economic benefits from use of the asset, which is generally defined as having a term that represents 75% or more of the item's expected useful life.
- The lessor is expected to recover the investment in the asset, which is generally the case when the present value of the lease payments is 90% or more of the fair value of the leased property at the time of inception.

Prior to signing of a lease, the lease agreement must be analyzed to ensure it is not a capital lease. The financial analysis should be submitted to the Director of Financial Reporting for approval.

Amortization

The acquisition cost (historical cost) less the residual value of capital assets must be amortized over estimated useful life, on a straight-line basis.

The amortization period for most tangible capital assets shall be limited to 40 years. Some categories of tangible capital assets, such as infrastructure roads, infrastructure sewer, infrastructure water, and concrete buildings, have shown to last longer than 40 years.

Land has an unlimited life and is not amortized.

Amortization of an asset begins when the asset is ready and available for use. Assets are ready for use after the asset is installed and the testing of the asset functionality has been completed.

For new buildings, additions to existing buildings and non-building capital assets, depreciation will begin in the month after these assets are placed in service.

The estimate of the remaining unamortized portion of a tangible capital asset should be reviewed on a regular basis and revised when a change is clearly appropriate.

Significant events which may indicate a need to revise the amortization estimate of the remaining useful life of a tangible capital asset include:

- A material change to the extent in which the tangible capital asset is used,
- A material change in the manner in which the tangible capital asset is used,
- Removal of the tangible capital asset from service for an extended period of time,
- Physical damage,
- Significant technological developments,
- A material change in the demand for the services provided through use of the tangible capital asset, or
- A material change in the law or environment affecting the period of time over which the tangible capital asset can be used.

Asset Write-Downs and Write-Offs

A write-down is used to reflect a partial impairment in the value of an asset. A write-off is used to reflect 100 percent permanent impairment in the value of an asset. When reduction in the value of the asset can be objectively estimated and it is expected to be permanent, the tangible capital asset must be written down or written off.

The write-down or write-off of a tangible capital asset requires approval by the Finance Director and budget owner. A write-down or write-off greater than $1 million requires the additional approval of the Comptroller, and a write-down or write-off greater than $5 million must also be approved by the VP Finance and Operations.

Any abandoned or indefinitely postponed projects must be written down to their net realizable value, and the write-down expensed in the period in which the abandonment or indefinite postponement occurs.

When the reduction in the value of the asset can be objectively estimated and it is expected to be permanent, the tangible capital asset must be written down or written off as an operating expense.

Any unamortized deferred capital contributions related to the capital asset written down or written off would be recognized in revenue in the period, provided that all restrictions have been met.

An asset write-down cannot be reversed.

An asset is never written up, except on initial capitalization or as the result of a betterment.

Conditions which may indicate a write-down or write-off is necessary include:

- A change in the manner or extent to which the tangible capital asset is used,
- Removal of the tangible capital asset from service,
- The asset is destroyed, damaged, stolen, or lost,
- Significant technological developments render the asset obsolete,
- A decline in, or cessation of, the need for the service provided by the asset,
- The development of an asset is halted prior to completion,
- A change in the law or environment affecting the extent to which the asset can be used.

Disposals

Assets are said to be disposed of when one of the following occurs: sale, trade in, donation to an outside third party, theft, destruction, loss, abandonment, or expropriation.

No tangible capital asset may be disposed of without the authorization of the Finance Directors and budget owners. Disposal of land and buildings must be approved by the Board of Governors. Disposals with a net book value greater than $1 million must be approved by the Comptroller, and disposals with a net book value greater than $5 million must be approved by the VP Finance and Operations.

On disposal of a tangible capital asset, Financial Reporting must be notified to ensure the historical cost and accumulated amortization, and any related historical deferred capital contribution and accumulated amortization balances are removed from the books.

The difference between the net proceeds on disposal and the net book value must be recorded in the Statement of Operations as a gain or loss for the accounting period.

The following is the link to UBC's Policy No. UP3, Disposal of Surplus Equipment and Materials:

http://universitycounsel-2015.sites.olt.ubc.ca/files/2019/08/Surplus-Equipment-Policy_UP3.pdf

Appendix 1: Asset Categories and Capitalization Thresholds

Tangible capital assets are defined as those items that meet all of the criteria listed on page 3 and have a unit cost exceeding the thresholds listed in the table below.

Category	Capitalization Threshold	Useful Life
Site improvements	>=$50,000	Infrastructure electric: 30 years Infrastructure gas and hot water: 40 years Infrastructure roads: 50 years Infrastructure sewer: 80 years Infrastructure lots: 15 years Infrastructure steam: 25 years Infrastructure water: 50 years
Buildings	>=$50,000	Concrete: 50 years Wood frame: 30 years Temporary buildings: expected life of the temporary building
Building renovations	>=$50,000	Remaining life of the building
Leasehold improvements	>=$50,000	Lesser of the lease term or the remaining lease term
Network and server hardware	>=$50,000	7 years
Major software	>=$50,000	5 years
Enterprise systems	>=$50,000	10 years
Furniture, equipment, and audio and video hardware	>=$5,000	8 years
Vehicles	>=$5,000	5 years
Library books	>=$1,000	10 years
Computer hardware	>=$1,000	3 years
Work-In-Progress (WIP)	Same as associated asset class	No amortization taken until WIP transferred to asset

Appendix 2: Definitions

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.

Insurance Proceeds – Amounts received or receivable by the University pursuant to a contract under which an insurer has agreed to indemnify the University in the event of a specified damage, loss, or liability arising from the occurrence of certain events.

Net Book Value – Cost, less both accumulated amortization and the amount of any write-downs.

Residual Value – Estimated net realizable value of a tangible capital asset at the end of its useful life to the University

Service Potential – Output or service capacity of a tangible capital asset, and is normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs, and useful life.

Useful Life – Estimate of either the period over which a tangible capital asset is expected to be used by the University, or the number of production or similar units that can be obtained from the tangible capital asset by the University. The life of a tangible capital asset may extend beyond the useful life of a tangible capital asset to the University.