Government of Canada Gouvernement du Canada

Directive on Accounting Standards: GC 3150 Tangible Capital Assets

Note to reader

This document is part of the Appendix A of the Directive on Accounting Standards.

A. Primary PSAS reference

PS 3150 Tangible capital assets

B. Effective date

April 1, 2017

C. Government of Canada Consolidated Financial Statements

1. Departments should treat as a capital asset any asset that, in addition to meeting the criteria outlined in PS 3150 and PS 1000, is used to produce program outputs. (PS 3150.05, PS 1000.43)

2. All assets with a per-item cost greater than $10,000 must be capitalized. Departments may establish thresholds below $10,000 for different asset classes but these must be consistent from year to year. Lower thresholds may be necessary to ensure that all material capital assets are included in a department's financial statements. Thresholds, and any changes to them, must be reported as a note to the department's financial statements. Land should be capitalized regardless of its cost.
3. In certain cases, more than one department may have some involvement in the use of an asset. The concept of control should be used in determining the department that records and amortizes the asset in their financial statements. The Office of the Comptroller General should be consulted when it is unclear which entity should record the asset. (PS 3210.16-.24)
4. Capital assets include:
    a. land, buildings, military assets, infrastructure, computer software (see **Capitalization of software** below for further guidance), computer hardware, vehicles, equipment, betterments (see below for further guidance on heritage assets) and leasehold improvements;
    b. assets acquired by capital leases or donations;
    c. betterments on operational heritage assets. Heritage assets are those assets, which are usually irreplaceable, that are intended to be preserved in trust for future generations. Operational heritage assets are those assets that are used to achieve government objectives in addition to the maintenance of national heritage (e.g., heritage building with office space, parkland). Non-operational heritage assets and betterments on them should not be capitalized. Non-

operational heritage assets include, but are not limited to, the following:

i. Museum and gallery collections, other works of art, national archives; and
ii. Archeological sites, ruins, burial sites, monuments and statues.

5. Capital assets do not include:
    a. intangible assets including, but not limited to, copyrights, trademarks, patents, easements and rights of way;
    b. immovable assets located on reserves as defined in the *Indian Act*;
    c. Crown lands for which there is no known acquisition cost;
    d. obsolete or surplus items;
    e. research costs, since future economic benefits are uncertain.
6. Certain items, such as tools, furniture and desktop, laptop or tablet computers, may be below the capitalization threshold individually but otherwise meet the definition of a capital asset. These are typically purchased or held in large quantities so as to represent significant expenditures overall. In such cases, departments may capitalize all items acquired in a given asset class or pool and amortize the pool over a pre-determined amortization period.
7. Spare parts acquired as part of the same procurement as the original capital asset may be considered integral to the acquisition of the asset and form part of the total cost of the capital asset. However, departments may choose to account for these separately. Spare parts purchased following the initial procurement of the capital asset should be accounted for as inventory items unless they meet the criteria for pooled assets as outlined in the preceding paragraph.

D. Measurement

8. Overhead costs that are capitalized include those directly attributable to the construction, development or acquisition of an asset and may include the cost of leased space used solely for the construction or development activities. (PS 3150.10)
9. Other indirect costs related to the construction, development or acquisition of an asset, such as employer benefit plans (EBPs), internal legal services, public service insurance and standard accommodation allowances, should be capitalized if, in the judgment of the department, they are considered material to the cost of the asset.
10. Goods and Services Tax (GST), Harmonized Sales Tax (HST) and Quebec Sales Tax (QST) should not be capitalized.
11. When government is constructing an asset, interest expenses related to the financing costs incurred while an asset is under construction should not be capitalized. An exception relates to interest incurred during the construction period by the private partner in a public-private partnership arrangement that will be paid for by the government. This interest should be included as part of the capital cost of the project.
12. Leases should be assessed under PSG-2. Should it be determined that the department has a leased tangible capital asset, it should be recorded at the present value of the minimum lease payments. Further to PSG-2, the discount rate used in determining the present value of minimum lease payments should be the lower of the interest rate implicit in the lease and the government’s rate for incremental borrowing. The government’s rate for incremental borrowing is determined by selecting the rate on the actual yield curve for zero-coupon Government of Canada bonds which matches

the term of the lease, established at the date of inception of the lease. There may be situations where the interest rate implicit in the lease is used as the discount rate, even though this rate may be higher than the government’s rate for incremental borrowing. If a higher rate is used, a business case to support its use should be approved by the Office of the Comptroller General.

E. Bundling of assets (whole asset vs. component approach)

13. For the purposes of capitalization and amortization, the two methods of defining capital assets are the Whole Asset and Component approaches.
    a. The Whole Asset approach considers an asset to be an assembly of connected parts. Costs of all parts should be capitalized and amortized as one asset. For example, a computer network would be considered one asset.
    b. Under the Component approach, different components are individually capitalized and amortized. Under this approach, the servers, routers, lines, software, etc., used in a network would be individual assets.
14. The Whole Asset approach and the Component approach are equally acceptable under Public Sector Accounting Standards. In certain circumstances, it may be appropriate to allocate the total expenditure on an asset to its component parts and account for each component separately. This is the case when the component assets have different useful lives or provide economic benefits or service potential to the entity in a different pattern, thus requiring the use of different amortization rates and methods. For example, the

pavement, base and subgrade, curbs, footpaths, bridges and lighting within a road system may need to be treated as separate items to the extent that they have different useful lives. Similarly, an aircraft body and its engines may need to be treated as separate depreciable assets if they have different useful lives. Additional factors influencing the choice of method include:

a. Significance of amounts;
b. Quantity of individual asset components;
c. Availability of information with respect to the cost and useful life of specific components; and,
d. Management's information needs for decision-making and asset control purposes.

15. If a decision is made to change the approach used for a particular asset class, consultation with the Office of the Comptroller is required.

F. Betterments and leasehold improvements

16. Betterments are expenditures relating to the alteration or modernization of an asset that appreciably prolong the item's period of usefulness or improve its functionality (vs. a repair, which maintains an asset's functionality). Where a cost cannot easily be differentiated between a repair and a betterment, the cost should be expensed in accordance with the accounting principle of conservatism. (PS 3150.19-.21)
17. If a capital asset that has been written down and removed from service is subsequently returned to service, its book value should not be written up. Only betterments that have been made to bring the asset back into service should be added to the book value.

18. A leasehold improvement (i.e., an improvement made to leased property) must have the following four characteristics:
    a. The modifications must be made to an asset that is subject to an operating lease or to a capital lease where ownership does not transfer to the lessee (i.e., the lease does not contain a bargain purchase option or provide for transfer of ownership of the asset);
    b. The lessee department must pay for the improvements. If the costs are the responsibility of the lessor (e.g., PSPC), then the lessor should account for the costs in its own records;
    c. The leasehold improvements should be durable, bringing benefits to the department for more than one year; and
    d. The improvements revert to the lessor at the end of the lease (i.e., cannot be detached from the leased property), or have no further economic benefit to the department at the end of the lease.
19. Examples of leasehold improvements that should be capitalized include significant upgrades to an electrical system to meet the needs of computer systems and the installation of walls and doors to create permanent offices. Examples of modifications that should not be capitalized include remodeling costs such as painting and carpeting.
20. Improvements made to an asset that is subject to a capital lease where ownership is expected to transfer to the lessee should be classified as betterments.
21. Where a department constructs a building and/or infrastructure on leased land, these costs should be capitalized as a leasehold improvement except where the land is leased from another

government department or the lease provides for transfer of ownership. In those cases, the building and/or infrastructure should be capitalized as an asset rather than a leasehold improvement.

22. In some situations, a lease agreement does not exist, but the circumstances may be deemed to be lease-like for accounting purposes. Examples include assets that were built years ago on land without right or title or where a department occupies a building owned and managed by PSPC free of charge. As long as the expectation is for continued occupancy, any improvements made to such property may be capitalized as leasehold improvements and amortized over the useful life of the improvements.

G. Amortization of capital assets (PSAS 3150.22-.30)

23. The service life of an asset should be determined on a basis that is linked with the expiration of the economic benefits. For example, service life may be measured in terms of years, total units of output, or total hours of operating time. Aircraft might use hours of operation as the appropriate measure of service life.
24. Where the appropriate measure of service life is in years, it is recommended that the amortization of assets be on a straight-line basis for administrative simplicity.
25. In estimating the useful life of assets, consideration should be given to the department’s asset management plan, history with the asset class, potential technology advances and anticipated repairs and maintenance, among other factors. The original cost of land is not amortized. Other assets should be amortized over the following life spans:

a. Buildings: 10 to 125 years
b. Machinery and equipment: 3 to 30 years
c. Works and infrastructure: 10 to 100 years
d. Informatics hardware: 3 to 10 years
e. Informatics software: 2 to 10 years
f. Arms and weapons for defence: 3 to 30 years
g. Motor vehicles (non-military): 2 to 35 years
h. Military vehicles: 3 to 25 years
i. Ships and boats: 10 to 50 years
j. Aircraft: 20 to 40 years
k. Leasehold improvements: Over the useful life of the improvement or the lease term, whichever is shorter. The lease term should include any renewal option periods where extension of the lease is expected.
l. Betterments: Over the useful life of the asset to which the improvement was made or the useful life of the betterment, if significantly shorter.

If a department determines that an amortization period not within the ranges listed above is more appropriate, consultation with the Office of the Comptroller General is required.

26. Amortization should be recorded monthly commencing on the first day of the month following the month the asset became ready for productive use. Note: For pooled assets, where purchases and disposals affect the pool balance throughout the year, the amortization calculation may be based on the estimated pool balance rather than actual. For example, where a type of asset has an average expected life of 3 years and the average balance of the pool throughout the year is $1 million, the monthly amortization would be

calculated as 1/36 x $1 million. The amortization charges related to the pool should be reviewed for reasonableness at year-end.

27. The amortization method and estimate of the useful life of the remaining unamortized portion of a tangible capital asset should be reviewed every three years at a minimum and revised when the appropriateness of a change can be clearly demonstrated.

H. Transfers of capital assets

29. Transfers of capital assets between departments must be at the net book value of the asset. The receiving department must record the asset at its original historical cost and accumulated amortization and the transferring department must remove the capital asset's historical cost and accumulated amortization from its books. As a result, the accounting treatment will not produce a gain or loss and there will be no impact at the government-wide level. Since interdepartmental transfers are related-party transactions, the equity accounts of the departments should be credited or debited with the net book value of the capital asset. Please refer to GC 3420 Inter-entity Transactions for further guidance on inter-entity transactions.
30. Land transferred from an outside party to a department should only be capitalized as an asset when the agreement provides for a transfer of ownership.

I. Capitalization of software

31. The acquisition or development of software may result in a capital asset, whether the software resides on hardware owned by a department or on cloud-based servers.

32. The cost of a software asset includes expenditures related to implementation activities that are directly attributable to preparing the software asset for its intended use. Examples of implementation activities include:
    a. integration;
    b. customization or coding;
    c. configuration;
    d. data conversion;
    e. costs of testing whether the software if functioning properly;
    f. training specific to implementation;
    g. business process reengineering;
    h. costs of employee benefits (if material) arising directly from bringing the software to its working condition; and
    i. professional fees arising directly from bringing the software to its working condition.

    This list of examples is not exhaustive.
33. Costs that are not directly attributable to the implementation of the software asset are expensed. Examples include:
    a. advertising and promotional activities;
    b. end-user training, and;
    c. administration and other general overhead costs
34. Where software is included in the purchase price of hardware (e.g., operating system software) and the cost of the software cannot be reliably calculated, the software should be capitalized and amortized as part of the hardware.
35. If the department pays a one-time licensing fee to use the software, the department can be said to have acquired service potential or future economic benefits relating to that software, so the license fee should be capitalized as part of the software. A licensing fee that is

not one-time (e.g., a yearly licensing fee which typically covers maintenance and upgrades automatically provided by the vendor) indicates that any service potential or future economic benefits obtained would normally expire when the next payment is due and should therefore be expensed.

36. Data is the information that is inputted, manipulated, or treated and outputted by hardware and software. Data is not considered a capital asset.

J. New versions, upgrades and enhancements to software

37. Upgrades and enhancements are defined as modifications to enable the software to perform tasks it was previously unable to perform or significantly improved its existing functionality. Upgrades and enhancements normally require new software specifications and may require a change to all or part of the existing software specifications. These costs are considered betterments. Examples include when the modifications result in an increase to previously assessed service capacity or when the modifications lower the associated operating costs, extend the useful life, adds a new functionality, or improve the quality of output.
38. The costs incurred in the maintenance of the service potential of software should be expensed. Examples of maintenance include coding changes required for the software to remain current to meet user needs (such as to meet changes in legislative requirements) or changes required for systems to remain compatible. The department must use professional judgment to assess whether an upgrade or enhancement needs to be capitalized or expensed.

39. New versions of software may be accounted for as an expense or capitalized depending on the nature of the release. The cost of implementing and/or installing new versions of software that primarily contain “bug fixes” (i.e., do not deliver new functionality; merely correct errors in previously promised functionality) should be expensed. If a new version replaces the functionality of the old version, then the net carrying value of the latter should be expensed and the new version amortized over its anticipated useful life. If the new version adds to the functionality of the old version (e.g., additional modules), then the old version and the new version would be amortized over the original useful life or a revised useful life if significantly different.

K. Impairment of software

40. When a department incurs costs for computer software, but it is not probable that any service potential or future economic benefits from this software will occur by the time the financial statements are prepared, the department must not recognize an asset in the financial statements. In the case of software under development, if development ceases and a product is not anticipated, the costs capitalized to date should be immediately expensed.
41. Any computer software that, after use or testing, fails to deliver the expected future economic benefits or service potential should be expensed.

L. Amortization of software

42. Software should be amortized on a straight-line basis unless another method can be demonstrated to be more appropriate. Further to the

life span identified earlier in this document, Table 1 provides indicative useful lives for different types of software that departments may consider for amortization. The commencement and frequency of the amortization of software should be consistent with the principles described in PS 3150 and in this document.

Table 1: Indicative useful life by type of software

Type	Definition	Life span
Shrink-wrapped	Replaced by new version, unmodifiable. User unable to request changes.	2-3 years
Infrastructure (operating system, middleware)	Vendor provides upgrades, usually annually. Transparent to end-users.	3-7 years
Packaged	Modifiable by vendor only, upgrades/fixes annually, enhancements via user group.	3-7 years
Tailored	Developed for one customer or configured with customer-specific functionality in a licensing arrangement.	5-10 years
In-house	Developed internally. Likely to be continually maintained and enhanced.	5-10 years

M. Departmental Financial Statements

43. Applies without additional policy choices or interpretation for Departmental Financial Statements.

N. Other related references

- PS 1000 Financial statement concepts [1]
- PS 1201 Financial statement presentation [1]
- PS 3320 Contingent assets [1]
- PS 3380 Contractual rights [1]
- GC 3260 Liability for Contaminated Sites
- GC 3280 Asset Retirement Obligations

Footnotes

1 Please note that a CPA Canada membership or an annual subscription is necessary to access this content.

Date modified: 2023-11-28