

SECTION PS 3150 tangible capital assets

FOR THOSE GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS THAT APPLY THE PSA HANDBOOK
WITH SECTIONS PS 4200 TO PS 4270 WHO CHOOSE NOT TO EARLY ADOPT THIS SECTION,
see Sections PS 4230 and PS 4240.

Basis for Conclusions

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PURPOSE AND SCOPE

- .01 This Section establishes standards on how to account for and report tangible capital assets in public sector financial statements. 1 [Former footnote 1 in paragraph PS 3150.01, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.] [Former paragraph PS 3150.01, amended by the amendments to tangible capital assets, retained in Archived Pronouncements.]
- .02 Tangible capital assets are a significant economic resource managed by public sector entities and a key component in the delivery of many public sector programs. Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware and software, dams, canals, and bridges. [Former paragraph PS 3150.02, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .03 This Section does not apply to intangible assets, natural resources, and Crown lands that have not been purchased by the public sector entity. [Former paragraph PS 3150.03, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .04 Government capital grants and government transfers of tangible capital assets would be accounted for in accordance with GOVERNMENT TRANSFERS, Section PS 3410.

DEFINITIONS

- .05 The following definitions have been adopted for the purposes of this Section:

- (a) **Tangible capital assets** are non-financial assets 2 having physical substance that:
- (i) 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;
 - (ii) have been acquired, constructed or developed;
 - (iii) have useful economic lives extending beyond an accounting period;
 - (iv) are to be used on a continuing basis; and
 - (v) are not for sale in the ordinary course of operations.

[Former paragraph PS 3150.05(a), amended by the amendments to tangible capital assets, retained in Archived Pronouncements.]

- (b) **Cost** is the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset, and includes 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. Cost also includes the asset retirement cost accounted for in accordance with ASSET RETIREMENT OBLIGATIONS, Section PS 3280. The cost of a contributed tangible capital asset, including a tangible capital asset in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution. Capital grants would not be netted against the cost of the related tangible capital asset. The cost of a leased tangible capital asset is determined in accordance with PUBLIC SECTOR GUIDELINE PSG-2, Leased Tangible Capital Assets. [Former paragraph PS 3150.05(b) retained in Archived Pronouncements.]
- (c) **Fair value** is the 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.
- (d) **Net book value** of a tangible capital asset is its cost, less both accumulated amortization and the amount of any write-downs.
- (e) **Residual value** is the estimated net realizable value of a tangible capital asset at the end of its useful life to a public sector entity. [Former paragraph PS 3150.05(e), amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- (f) **Service potential** is the output or capacity of a tangible capital asset to provide services, and is normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs, and useful life. [Former paragraph PS 3150.05(f), amended by the Conceptual Framework, retained in Archived Pronouncements.]
- (g) **Useful life** is the estimate of either the period over which a tangible capital asset is expected to be used by a public sector entity, or the number of production or similar units that can be obtained from the tangible capital asset by a public sector entity. The life of a tangible capital asset may extend beyond the useful life of a tangible capital asset to a public sector entity. The life of a tangible capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial and legal life. [Former paragraph PS 3150.05(g), amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- (h) **Works of art and historical treasures** are property that has cultural, aesthetic or historical significance that is worth preserving perpetually.
- (i) **Collections** are works of art, historical treasures or similar assets that are:
 - (i) held for exhibition, education or research;
 - (ii) protected, cared for and preserved; and
 - (iii) subject to an organizational policy that requires any proceeds from their sale to be used to acquire other items to be added to the collection or for the direct care of the existing collection.

ACCOUNTING

- .06 Public sector entities need to present information about the complete stock of their tangible capital assets and amortization in the financial statements to demonstrate stewardship and the cost of using those assets to deliver programs and provide services. [Former paragraph PS 3150.06, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
 - .07 *Tangible capital assets should be accounted for and reported as assets on the statement of financial position.* [APRIL 2005]
 - .08 Works of art and historical treasures are property that has cultural, aesthetic or historical significance that is worth preserving perpetually. Works of art, historical treasures and/or collections would not be recognized as tangible capital assets in financial statements because a reasonable estimate of the future benefits associated with such property cannot be made. Nevertheless, the existence of such property should be disclosed (see paragraphs PS 3150.42(e) and PS 3150.43). Works of art that are inseparable from a tangible capital asset, having a definite useful life, would be recognized and accounted for as part of that tangible capital asset. [Former paragraph PS 3150.08, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.] [Former paragraph PS 3150.08, amended by the amendments to tangible capital assets, retained in Archived Pronouncements.]
 - .08A Although collections are usually held by museums or galleries, other organizations may also have items that meet the definition of a collection. For example, an organization's library may include rare books which would be considered to be a collection for purposes of this Section. The regular library materials, however, would not meet the definition of a collection.
- Measurement**
- Cost**
- .09 *Tangible capital assets should be recorded at cost.* [SEPT. 1997]

- .10 The cost of a tangible capital asset includes the purchase price of the asset and other acquisition costs such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs and duties. The cost of a constructed asset would normally include direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity. The activities necessary to prepare a tangible capital asset for its intended use encompass more than the physical construction of the tangible capital asset. They include the technical and administrative work prior to the commencement of and during construction.
- .10A The cost of a constructed tangible capital asset or developed tangible capital asset may include contributed materials and/or labour that would typically be purchased in order to construct or develop the tangible capital asset, which would be recognized at fair value at the date of contribution.
- .10B In accordance with paragraph PS 3150.09, a tangible capital asset should be recorded at cost. However, the presumption is that when a tangible capital asset is acquired, the cost would approximate the fair value at the date of acquisition unless there are indicators otherwise. When indicators suggest a tangible capital asset is acquired at substantially below fair value, it would be recognized at its fair value with the difference between the consideration paid for the tangible capital asset and fair value reported as a contribution. When the tangible capital asset is purchased from an entity that is part of the same reporting entity, refer to INTER-ENTITY TRANSACTIONS, Section PS 3420.
- .10C Indicators that a tangible capital asset was purchased at substantially below fair value may include, but are not limited to, the context of the transaction, including specific facts and circumstances (e.g., communication from the seller that a contribution is being made) or unique relationships between the transaction parties (e.g., related parties). When the tangible capital asset is acquired from an entity that is considered a related party, refer to RELATED PARTY DISCLOSURES, Section PS 2200.
- .10D In circumstances where the fair value of the contributed materials and/or labour and the purchases substantially below fair value cannot be reasonably estimated, the contributed materials and/or labour would be recognized at nominal value and the acquired tangible capital asset would be recognized at the amount of consideration paid.
- .11 The cost of each tangible capital asset acquired as part of a single purchase (for example, the purchase of a building and land for a single amount) is determined by allocating the total price paid for all of the tangible capital assets acquired to each one on the basis of its relative fair value at the time of acquisition.
- .12 Many tangible capital assets, particularly complex network systems such as those for water and sewage treatment, consist of a number of components. Whether a public sector entity decides to record and account for each component as a separate asset will be determined by the usefulness of the resulting information to the entity and the cost versus the benefit of collecting and maintaining it. [Former paragraph PS 3150.12, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .13 When, at the time of acquisition, a portion of the acquired tangible capital asset is not intended for use, its costs and any costs of disposal, net of any estimated proceeds, are attributed to that portion of the acquired tangible capital asset that is intended for use. For example, the cost of acquired land that includes a building that will be demolished includes the cost of the acquired property and the cost of demolishing the building.
- .14 Public sector entities may receive contributions of tangible capital assets. The cost of a contributed asset is considered equal to its fair value at the date of contribution. Fair value of a contributed tangible capital asset may be estimated using market or appraisal values. In unusual circumstances, where an estimate of fair value cannot be made, the tangible capital asset would be recognized at nominal value. When a contributed tangible capital asset is received from an entity that is part of the same government reporting entity, refer to INTER-ENTITY TRANSACTIONS, Section PS 3420. [Former paragraph PS 3150.14, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .15 The cost of a tangible capital asset that is acquired, constructed or developed over time includes carrying costs directly attributable to the acquisition, construction or development activity, such as interest costs when the public sector entity's policy is to capitalize interest costs. [Former paragraph PS 3150.15, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .16 Carrying costs incurred while land acquired for building purposes is held without any associated construction or development activity do not qualify for capitalization.
- .17 Capitalization of carrying costs ceases when no construction or development is taking place or when a tangible capital asset is ready for use in producing goods or services. A tangible capital asset is normally ready for productive use when the acquisition, construction or development is substantially complete.
- .18 Determining when a tangible capital asset, or a portion thereof, is ready for productive use requires consideration of the circumstances in which it is to be operated. Normally it would be predetermined by a public sector entity by reference to factors such as productive capacity, occupancy level, or the passage of time. [Former paragraph PS 3150.18, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .19 Costs of betterments are considered to be part of the cost of a tangible capital asset and would be added to the recorded cost of the related asset. A betterment is a cost incurred to enhance the service potential of a tangible capital asset. In general, for tangible capital assets other than complex network systems, service potential may be enhanced when there

is an increase in the previously assessed physical output or its capacity to provide services, where associated operating costs are lowered, the useful life of the property is extended or the quality of the output is improved. [Former paragraph PS 3150.19, amended by the Conceptual Framework, retained in Archived Pronouncements.]

.20 This definition of a betterment is more difficult to apply to tangible capital assets that are complex network systems and are very long-lived, such as highway and water systems, because identifying expenditures that would extend their lives may not be practicable. For example, expenditures on road systems to widen the roads or add to the number of lanes expand the capacity of the road system to provide services and are clearly betterments. On the other hand, expenditures incurred to maintain the originally anticipated service potential of a road, or its estimated useful life, are more in the nature of maintenance.

.21 For complex network systems, therefore, the following basic distinctions can be used to identify maintenance and betterments:

- (a) Maintenance and repairs maintain the predetermined service potential of a tangible capital asset for a given useful life. Such expenditures are charged in the accounting period in which they are made.
- (b) Betterments increase service potential (and may or may not increase the remaining useful life of the tangible capital asset). Such expenditures would be included in the cost of the related asset.

Asset retirement obligations

.21A Obligations associated with the retirement of tangible capital assets are accounted for in accordance with ASSET RETIREMENT OBLIGATIONS, Section PS 3280.

Amortization

.22 *The cost, less any residual value, of a tangible capital asset with a limited life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the public sector entity.* [SEPT. 1997] [Former paragraph PS 3150.22, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

.23 *The amortization of the costs of tangible capital assets should be accounted for as expenses in the statement of operations.* [SEPT. 1997 *]

.24 Land normally has an unlimited life and would not be amortized.

.25 Most tangible capital assets, however, have limited useful lives. This fact is recognized by amortizing the cost of tangible capital assets in a rational and systematic manner over their useful lives. Amortization expense is an important part of the cost associated with providing public sector services, regardless of how the acquisition of tangible capital assets is funded. Information about a program or activity's total costs is relevant to any assessment of the benefits the program or activity provides. [Former paragraph PS 3150.25, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

.26 Different methods of amortizing a tangible capital asset result in different patterns of cost recognition. The objective is to provide a systematic and rational basis for allocating the cost of a tangible capital asset, less any residual value, over its useful life. A straight-line method reflects a constant charge for the service as a function of time. A variable charge method reflects service as a function of usage. Other methods may be appropriate in certain situations.

.27 Where a public sector entity expects the residual value of a tangible capital asset to be significant, it would be factored into the calculation of amortization. [Former paragraph PS 3150.27, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

.28 The useful life of a tangible capital asset depends on its expected use by the public sector entity. Factors to be considered in estimating the useful life of a tangible capital asset include:

- (a) expected future usage;
- (b) effects of technological obsolescence;
- (c) expected wear and tear from use or the passage of time;
- (d) the maintenance program;
- (e) studies of similar items retired; and
- (f) the condition of existing comparable items.

[Former paragraph PS 3150.28, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

.29 *The amortization method and estimate of the useful life of the remaining unamortized portion of a tangible capital asset should be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated.* [SEPT. 1997]

.30 Significant events that may indicate a need to revise the amortization method or the estimate of the remaining useful life of a tangible capital asset include:

- (a) a change in the extent to which the tangible capital asset is used;
- (b) a change in the manner in which the tangible capital asset is used;
- (c) removal of the tangible capital asset from service for an extended period of time;

- (d) physical damage;
- (e) significant technological developments;
- (f) a change in the demand for the services provided through use of the tangible capital asset; and
- (g) a change in the law or environment affecting the period of time over which the tangible capital asset can be used.

Write-downs

- .31 *When conditions indicate that a tangible capital asset no longer contributes to a public sector entity's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value.* [SEPT. 1997] [Former paragraph PS 3150.31, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .32 *The net write-downs of tangible capital assets should be accounted for as expenses in the statement of operations.* [SEPT. 1997 *]
- .33 *A write-down should not be reversed.* [SEPT. 1997]
- .34 A public sector entity would write down the cost of a tangible capital asset when it can demonstrate that the reduction in future economic benefits is expected to be permanent. Conditions that may indicate that the future economic benefits associated with a tangible capital asset have been reduced and a write-down is appropriate include:
 - (a) a change in the extent to which the tangible capital asset is used;
 - (b) a change in the manner in which the tangible capital asset is used;
 - (c) significant technological developments;
 - (d) physical damage;
 - (e) removal of the tangible capital asset from service;
 - (f) a decline in, or cessation of, the need for the services provided by the tangible capital asset;
 - (g) a decision to halt construction of the tangible capital asset before it is complete or in usable or saleable condition; and
 - (h) a change in the law or environment affecting the extent to which the tangible capital asset can be used.
 [Former paragraph PS 3150.34, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .35 The persistence of such conditions over several successive years increases the probability that a write-down is required unless there is persuasive evidence to the contrary.
- .36 When the tangible capital asset no longer contributes to the public sector entity's ability to provide goods and services, it would be written down to residual value, if any. This would be appropriate when the public sector entity has no intention of continuing to use the asset in its current capacity, and there is no alternative use for the asset. [Former paragraph PS 3150.36, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .37 In other circumstances, it will be necessary to estimate the value of expected remaining future economic benefits. Where a public sector entity can objectively estimate a reduction in the value of the asset's service potential to the entity, and has persuasive evidence that the reduction is expected to be permanent in nature, the tangible capital asset would be written down to the revised estimate of the value of the asset's remaining service potential to the public sector entity. [Former paragraph PS 3150.37, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

Disposals

- .38 *The difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset should be accounted for as a revenue or expense in the statement of operations.* [SEPT. 1997 *]
- .39 Disposals of tangible capital assets in the accounting period may occur by sale, destruction, loss or abandonment. Such disposals represent a reduction in a public sector entity's investment in tangible capital assets, regardless of how that investment is reported. [Former paragraph PS 3150.39, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

PRESENTATION AND DISCLOSURE

- .40 *The financial statements should disclose, for each major category of tangible capital assets and in total:*
 - (a) *cost at the beginning and end of the period;*
 - (b) *additions in the period;*
 - (c) *disposals in the period;*
 - (d) *the amount of any write-downs in the period;*
 - (e) *the amount of amortization of the costs of tangible capital assets recognized as an expense for the period* [Former paragraph PS 3150.40(e), amended by the amendments to tangible capital assets, retained in Archived Pronouncements].

- (f) accumulated amortization at the beginning and end of the period; and
 - (g) net carrying amount at the beginning and end of the period. [APRIL 2030]
- .41 Major categories of tangible capital assets would be determined by type of asset, such as land, buildings, equipment, roads, water and other utility systems, and bridges.
- .42 Financial statements should also disclose the following information about tangible capital assets:
- (a) the amortization method used, including the amortization period or rate for each major category of tangible capital asset;
 - (b) the net book value of tangible capital assets not being amortized because they are under construction or development or have been removed from service;
 - (c) the nature and amount of contributed tangible capital assets, including contributed materials and labour included in the cost of a constructed tangible capital asset, received in the period and recognized in the financial statements;
 - (d) the nature and use of tangible capital assets recognized at nominal value;
 - (e) the nature of the works of art, historical treasures and/or collections held by the public sector entity, including a description of the works of art, historical treasures and/or collections in relation to the delivery of public sector services; and [Former paragraph PS 3150.42(e), amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
 - (f) the amount of interest capitalized in the period. [APRIL 2030]

[Former paragraph PS 3150.42, amended by the amendments to tangible capital assets, retained in Archived Pronouncements.]

(paragraphs PS 3150.43-.48 deleted by 2022-2023 remaining annual improvements.) [Former paragraphs PS 3150.43-.48 retained in Archived Pronouncements.]

- .43 If a public sector entity's primary mandate is to act as a steward or custodian for the public interest of works of art, historical treasures and/or collection(s), or if a public sector entity holds a collection(s), it should also disclose:
- (a) a description of the increases (e.g., acquisitions, donations or repatriations received) and decreases (e.g., disposals or repatriations made) related to its works of art, historical treasures and/or collection(s) in the period;
 - (b) when works of art, historical treasures and/or collection items are acquired, the amount expensed in the current period; and
 - (c) if works of art, historical treasures and/or collection items are sold in the current period, the proceeds of the sales. [April 2030]
- .44 The disclosure requirements specific to works of art, historical treasures and/or collections help provide an understanding of the importance of such assets held by a public sector entity. Factors a public sector entity may consider in determining what information to disclose include, but are not limited to:
- (a) the qualitative value (e.g., cultural significance) and/or quantitative value (e.g., financial effect) of such assets; and
 - (b) certain laws, acts or statutes for example, Article 11 contained in the schedule to the United Nations Declaration on the Rights of Indigenous Peoples Act.

- .45 Information about the measurement attributes of tangible capital assets, other than historical cost, helps provide an understanding of the organization's economic resources. This information would include the difficulties in obtaining the fair value of the contributed tangible capital asset, or the contributed portion of a tangible capital asset when purchased at substantially below fair value and any details about the assets that would affect their usefulness to the organization: their ages, locations, present or potential uses and estimated remaining useful lives.

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

- .46 For government not-for-profit organizations that apply the PSA Handbook with Sections PS 4200 to PS 4270 to prepare their financial statements, this Section applies to fiscal years beginning on or after April 1, 2030. Earlier adoption is permitted. This Section would be applied retroactively with restatement of prior periods.
- .47 For public sector entities that apply the PSA Handbook without Sections PS 4200 to PS 4270 to prepare their financial statements, the amended and new paragraphs PS 3150.01, PS 3150.05, PS 3150.08-.08A, PS 3150.10A-.10D, PS 3150.40 and PS 3150.42-.45 apply to fiscal years beginning on or after April 1, 2030. Earlier adoption is permitted. The new and amended paragraphs would be applied retroactively with restatement of prior periods, except for those described in paragraphs PS 3150.48-.49.
- .48 For purchases of tangible capital assets at substantially below fair value, the public sector entity would apply paragraphs PS 3150.10B-.10D for these transactions occurring on or after the date the entity applies paragraph PS 3150.47.
- .49 For contributions of materials and/or labour recognized in determining the cost of a constructed or developed tangible capital asset, the public sector entity would apply paragraphs PS 3150.10A and PS 3150.10D for these transactions occurring on or after the date the entity applies paragraph PS 3150.47.

Footnotes

1. The term "financial statements" refers to the financial reports published by a public sector entity that present the financial position and changes in financial position of the reporting entity. Refer to Figure 3.1 in Chapter 3 of the Conceptual Framework, where financial statements are identified as an important type of financial report.
 2. For the purposes of this Section, tangible capital assets are defined to include computer software.
- * Editorial change — January 2003.
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