

SECTION 4433

tangible capital assets held by not-for-profit organizations

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PURPOSE AND SCOPE

- .01 This Section deals with accounting for tangible capital assets held by not-for-profit organizations. Except as otherwise provided in this Section:
- (a) tangible capital assets are accounted for in accordance with PROPERTY, PLANT AND EQUIPMENT, Section 3061 in Part II of the Handbook;
 - (aa) productive biological assets are accounted for in accordance with AGRICULTURE, Section 3041 in Part II of the Handbook;
 - (b) disclosures for impairments of tangible capital assets are provided in accordance with IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063 in Part II;
 - (c) obligations associated with the retirement of capital assets are accounted for in accordance with ASSET RETIREMENT OBLIGATIONS, Section 3110 in Part II;
 - (d) intangible assets acquired or developed by not-for-profit organizations are accounted for in accordance with INTANGIBLE ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4434; and
 - (e) items held as part of a collection are accounted for in accordance with COLLECTIONS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4441.
- .02 This Section applies to tangible capital assets recognized under LEASES, Section 3065 in Part II of the Handbook.
- .03 Organizations may limit the application of this Section to the requirements in paragraph 4433.26 if the average of annual revenues recognized in the statement of operations for the current and preceding period of the organization and any entities it controls is less than \$500,000.
- .04 The Accounting Standards Board encourages even those organizations meeting the criterion in paragraph 4433.03 to follow all of the requirements of this Section. However, the Accounting Standards Board recognizes that there are numerous small not-for-profit organizations for which this would be difficult and costly. Those organizations that meet the criterion in paragraph 4433.03 and for which the cost of following all of the requirements of this Section may exceed the benefits, may choose to provide only the disclosure required by paragraph 4433.26. Once an organization fails to meet the criterion in paragraph 4433.03, it is expected that it would continue to follow all the requirements of this Section, even if average revenues subsequently fall below \$500,000.
- .05 Organizations that capitalize their tangible capital assets follow all other relevant provisions of this Section and other relevant Handbook Sections and thus capitalize all classes of tangible capital assets, amortize and write down those assets in accordance with this and other relevant Handbook Sections.

DEFINITIONS

.06 The following terms are used in this Section with the meanings specified.

- (a) **Not-for-profit organizations** are entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. A not-for-profit organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.
- (b) **Tangible capital assets** are identifiable tangible assets that meet all of the following criteria:
 - (i) 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;
 - (ii) have been acquired, constructed or developed with the intention of being used on a continuing basis;
 - (iii) are not intended for sale in the ordinary course of operations; and
 - (iv) are not held as part of a collection (see COLLECTIONS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4441).Examples of tangible capital assets include land, buildings and equipment.
- (c) **Cost** for a contributed tangible capital asset is deemed to be fair value at the date of contribution plus all costs directly attributable to the acquisition including installing it at the location and in the condition necessary for its intended use.
- (d) **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.
- (e) **Replacement cost** is the amount that would be needed currently to acquire an equivalent asset.
- (f) **Useful life** is the estimate of the period over which a tangible capital asset is expected to be used by an organization or the number of production or similar units that can be obtained from the capital asset by the organization. The life of a tangible capital asset may extend beyond its useful life to an organization. The life of a tangible capital asset is normally the shortest of the physical, technological and legal life.

RECOGNITION AND MEASUREMENT

Cost

- .07 *For a contributed tangible capital asset, cost is deemed to be fair value at the date of contribution plus all costs directly attributable to the acquisition of the tangible capital asset. Fair value may be estimated using market or appraisal values. In unusual circumstances when fair value cannot be reasonably determined, the tangible capital asset and the related contribution shall be recorded at nominal value.*
- .08 Contributed tangible capital assets represent significant economic resources for many not-for-profit organizations. Without contributed tangible capital assets, many organizations would not be able to provide the same level of service without incurring other expenses, such as rent. Therefore, recognizing contributed tangible capital assets on the organization's statement of financial position provides financial statement users with information that is important for assessing the organization's ability to continue to achieve its service objectives.
- .09 The cost of a contributed tangible capital asset includes its fair value plus all other costs directly attributable to the acquisition, such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation costs and duties.
- .10 Organizations may receive substantial contributions of tangible capital assets. Recognition of contributions of tangible capital assets helps provide an understanding of the resources available to the organization and enables users of the financial statements to make comparisons with other organizations.
- .11 A tangible capital asset purchased by a not-for-profit organization at substantially below fair value would also 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 (see CONTRIBUTIONS — REVENUE RECOGNITION, Section 4410).

Construction or development over time

- .12 The cost of a tangible capital asset that is developed or constructed by an organization might include contributed materials or labour, which would be recognized at fair value at the date of contribution.

Amortization

- .13 When a fund accounting basis of reporting is used, the choice of the fund or funds to which amortization expense would be charged would be based on providing the most meaningful presentation (see FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4400). Some organizations may wish to show amortization as an expense of the operating fund. This presentation emphasizes that amortization is part of the cost of service delivery. Other organizations may prefer to show amortization as an expense of the tangible capital asset or plant fund. This presentation shows all revenues and expenses associated with tangible capital assets in a single fund.
- .14 Tangible capital assets not being amortized would include tangible capital assets under construction or development. They may also include capital assets removed from service for an extended period of time.

Certain works of art and historical treasures

- .15 Certain works of art and historical treasures may have lives that are so long as to be virtually unlimited. Works of art and historical treasures in this category are those that have cultural, aesthetic, or historical value that is worth preserving perpetually. In addition, the organization must have the technological and financial ability to continue to protect and preserve them. Works of art and historical treasures of this type would not be amortized.

Write-downs

- .16 *When conditions indicate that a tangible capital asset is impaired, the net carrying amount of the tangible capital asset shall be written down to the asset's fair value or replacement cost. The write-downs of tangible capital assets shall be accounted for as expenses in the statement of operations. A write-down shall not be reversed.*
- .17 A not-for-profit organization may choose fair value or replacement cost on an asset-by-asset basis to measure the write-down of a tangible capital asset.
- .18 A tangible capital asset may be impaired when conditions indicate that the tangible capital asset no longer contributes to an organization's ability to provide goods and services, or that the value of future economic benefits or service potential associated with the tangible capital asset is less than its net carrying amount. Examples of conditions that may indicate that the future economic benefits or service potential associated with a tangible capital asset have been reduced and a write-down is appropriate include, but are not restricted to:
- (a) a significant adverse change in the extent or manner in which it is being used or in its physical condition;
 - (b) a significant adverse change in legal factors or in the operating environment that could affect its value, including an adverse action or assessment by a regulator;
 - (c) a significant decrease in, or cessation of, the need for the services provided by the tangible capital asset;
 - (d) an accumulation of costs significantly in excess of the amount originally expected for its acquisition or construction;
 - (e) a current expectation that, more likely than not, it will be sold or otherwise disposed of significantly before the end of its previously estimated useful life ("more likely than not" means a level of likelihood that is more than 50 percent); or
 - (f) a significant decrease in its market price.

There may also be other indications that the tangible capital asset no longer contributes to an organization's ability to provide goods and services, or the future economic benefits or service potential associated with a tangible capital asset may have been reduced.

- .19 A tangible capital asset may be integrated with other assets such that it may be necessary to consider the value of the tangible capital asset's future economic benefits or service potential for the group of integrated assets as a whole. In such cases, a write-down may be recognized and measured for the group of assets rather than for an individual tangible capital asset. Any write-down is allocated to the assets of the group on a pro rata basis using the relative carrying amounts of those assets.
- .20 When a tangible capital asset's carrying amount is written down, a corresponding amount of any unamortized deferred contributions related to the tangible capital asset would be recognized as revenue, provided that all restrictions have been complied with (see CONTRIBUTIONS — REVENUE RECOGNITION, Section 4410).

Disposal

- .21 On disposal of a tangible capital asset, whether by sale, destruction, loss, abandonment or expropriation, the difference between the net proceeds on disposal and the net carrying amount is recognized in the statement of operations. Any unamortized deferred contributions related to the tangible capital asset disposed of would be recognized as revenue in the period of the disposal, provided that all restrictions have been complied with (see CONTRIBUTIONS — REVENUE RECOGNITION, Section 4410).

PRESENTATION AND DISCLOSURE

- .22 *An organization shall disclose whether a write-down recognized in accordance with paragraph 4433.16 is based on the asset's fair value or replacement cost.*

Contributed tangible capital assets

- .23 *The nature and amount of contributed tangible capital assets received in the period and recognized in the financial statements shall be disclosed.*
- .24 *Information shall be disclosed about contributed tangible capital assets recognized at nominal value.*
- .25 A contributed tangible capital asset is recognized at nominal value in the financial statements of a not-for-profit organization when its fair value at the date of contribution cannot be reasonably determined. Information about such tangible capital assets helps provide an understanding of the organization's economic resources. This information would likely include 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.

TANGIBLE CAPITAL ASSETS HELD BY SMALL ORGANIZATIONS

- .26 *Organizations meeting the criterion in paragraph 4433.03 and not following the other requirements of this Section shall disclose the following:*

- (a) *the policy followed in accounting for tangible capital assets;*
- (b) *information about major categories of tangible capital assets not recorded in the statement of financial position, including a description of the assets; and*
- (c) *if tangible capital assets are expensed when acquired, the amount expensed in the current period.*

EFFECTIVE DATE AND TRANSITION

- .27 Except as specified in paragraph 4433.31, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2019. A not-for-profit organization applies this Section prospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(g)(i) in Part II of the Handbook, except as specified in paragraphs 4433.29-.30. Earlier application is permitted.
- .28 A not-for-profit organization can only apply paragraphs 4433.29-.30 when preparing its annual financial statements relating to the first fiscal year in which this Section is effective.
- .29 A not-for-profit organization that applies this Section for the first time is permitted to apply the requirements for componentization in PROPERTY, PLANT AND EQUIPMENT, paragraph 3061.18, to tangible capital assets held at the date this Section is first applied by allocating the costs of tangible capital assets and related amortization to their component parts based on their relative:
 - (a) cost or fair value at the date the assets were acquired; or
 - (b) fair value or replacement cost at the date this Section is first applied.A not-for-profit organization can use whichever value is most readily determined.
- .30 In accordance with paragraph 4433.16, a not-for-profit organization that applies this Section for the first time is permitted to recognize an adjustment to opening net assets at the date this Section is first applied to reflect partial impairments of tangible capital assets existing at that date.
- .31 AGRICULTURE, Section 3041, issued in November 2019, added paragraph 4433.01(aa). An enterprise shall apply this paragraph when it applies Section 3041.

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