SECTION PS 4230
capital assets held by not-for-profit organizations

FOR FUTURE UPDATES TO THIS SECTION, See Section PS 3150

Section PS 4230 will be withdrawn from the PSA Handbook as of April 1, 2030, when Section PS 3150 becomes effective. Early adoption is permitted.

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PURPOSE AND SCOPE

.01 This Section deals with accounting for capital assets held by not-for-profit organizations. Items held as part of a collection are accounted for in accordance with COLLECTIONS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4240.

.02 This Section applies to capital assets recognized under PUBLIC PRIVATE PARTNERSHIPS, SECTION PS 3160, PUBLIC SECTOR GUIDELINES PSG-2, Leased Tangible Capital Assets, and PSG-5, Sale-Leaseback Transactions. [Former paragraph PS 4230.02 retained in Archived Pronouncements.]

.03 Organizations may limit the application of this Section to the requirements in paragraph PS 4230.40 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 Public Sector Accounting Board encourages even those organizations meeting the criterion in paragraph PS 4230.03 to follow all of the requirements of this Section. However, the Public Sector Accounting 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 PS 4230.03 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 PS 4230.40. Once an organization fails to meet the criterion in paragraph PS 4230.03, it is expected that it would continue to follow all the requirements of this Section, even if average revenues subsequently fall below $500,000.

.04A Organizations that capitalize their capital assets follow all other relevant provisions of this Section and other relevant Handbook Sections and thus capitalize all classes of capital assets, amortize and write down those assets in accordance with this and other relevant Handbook Sections.

DEFINITIONS

.05 The definitions that follow have been adopted for purposes of this Section.

(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) **Capital assets**, comprising tangible properties such as land, buildings and equipment, and intangible properties are identifiable 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 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 PS 4240).

(c) **Intangible properties** are capital assets that lack physical substance. Examples of intangible properties include copyrights, patents and software.

(d) **Cost** is the amount of consideration given up to acquire, construct, develop or better a capital asset and includes all costs directly attributable to the acquisition, construction, development or betterment of the capital asset including installing it 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. For a contributed capital asset, cost is considered to be fair value at the date of contribution. [Former paragraph PS 4230.05(d) retained in Archived Pronouncements.]

(e) **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.

(f) **Net carrying amount** of a capital asset is cost less both accumulated amortization and the amount of any write-downs.

(g) **Residual value** is the estimated net realizable value of a capital asset at the end of its useful life to an organization.

(h) **Service potential** is used to describe the capacity to provide services or output of a capital asset and is normally determined by reference to attributes such as useful life, associated operating costs, physical output capacity and quality of output. [Former paragraph PS 4230.05(h), amended by the Conceptual Framework, retained in Archived Pronouncements.]

(i) **Useful life** is the estimate of the period over which a 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 capital asset may extend beyond its useful life to an organization. The life of a capital asset is normally the shortest of the physical, technological and legal life.

RECOGNITION AND MEASUREMENT

Cost

.06 *A capital asset should be recorded on the statement of financial position at cost. For a contributed capital asset, cost is considered to be fair value at the date of contribution. In unusual circumstances when fair value cannot be reasonably determined, the capital asset should be recorded at nominal value.* [JAN. 2012]

.07 Capital assets represent significant economic resources for many not-for-profit organizations. Without capital assets, many organizations would not be able to provide the same level of service without incurring other expenses, such as rent. Therefore, recording 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.

.08 The cost of a capital asset includes the purchase price 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.

.09 Organizations may receive substantial contributions of capital assets. Recognition of contributions of 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. A contributed capital asset would be recognized at its fair value at the date of contribution. Fair value of a contributed capital asset may be estimated using market or appraisal values. When an estimate of fair value cannot reasonably be made, both the capital asset and the related contribution would be recognized at nominal value.

.10 A 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 capital asset and fair value reported as a contribution. When the capital asset is purchased from an entity that is part of the same government reporting entity, refer to INTER-ENTITY TRANSACTIONS, Section PS 3420.

.11 The cost of each capital asset acquired together 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 the capital assets acquired to each one on the basis of its relative fair value at the time of acquisition.

.12 When, at the time of acquisition, a portion of the acquired capital asset is not intended for use, its cost and any costs of disposal, net of any estimated proceeds, are attributed to that portion of the acquired capital asset which is intended for use. For example, the cost of acquired land that includes a building which will be demolished comprises the cost of the acquired property and the cost of demolishing the building.

Asset retirement obligations

.12A Obligations associated with the retirement of tangible capital assets are accounted for in accordance with ASSET RETIREMENT OBLIGATIONS, Section PS 3280.

Construction or development over time

.13 The cost of a capital asset includes direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity. A capital asset which 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.

.14 The degree of certainty as to future benefits to be derived from costs attributable to developing intangible property varies and, in many cases, the expected future benefits may be too uncertain to justify asset recognition. When future benefits are reasonably assured, however, such costs are capitalized.

Betterment

.15 The cost incurred to enhance the service potential of a capital asset is a betterment. Service potential may be enhanced when there is an increase in the previously assessed physical output or its capacity to provide services, associated operating costs are lowered, the useful life is extended, or the quality of output is improved. The cost incurred in the maintenance of the service potential of a capital asset is a repair, not a betterment. If a cost has the attributes of both a repair and a betterment, the portion considered to be a betterment is included in the cost of the capital asset. [Former paragraph PS 4230.15, amended by the Conceptual Framework, retained in Archived Pronouncements.]

Amortization

.16 *The cost, less any residual value, of a 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 organization. Amortization should be recognized as an expense in the organization's statement of operations.* [JAN. 2012]

.17 Most capital assets have limited useful lives. This fact is recognized by amortizing capital assets in a rational and systematic manner over their useful lives. Recognizing amortization in this way allocates the cost of capital assets to the periods of service provided. Amortization expense is an important part of the cost associated with providing an organization's services, regardless of how the acquisition of capital assets is funded. Information about the organization's total costs is relevant to any assessment of the benefits the organization provides.

.18 Different methods of amortizing a capital asset result in different patterns of expense recognition. The objective is to provide a rational and systematic basis for allocating the cost of a 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.

.19 Residual value is the amount that the organization expects to be able to realize on disposal of a capital asset at the end of its useful life to the organization. In most cases, residual value would be negligible and would be ignored for the purpose of calculating amortization. However, when the organization expects the residual value of a capital asset to be significant, it would be factored into the calculation of amortization.

.20 The useful life of a capital asset depends on its expected use by the organization. The fact that a capital asset is capable of lasting for a certain time period would not be justification for establishing a useful life for amortization purposes that is longer than the period over which the organization expects to be able to use the asset. Factors to be considered in estimating the useful life of a capital asset include expected future usage, effects of technological obsolescence, expected wear and tear from use or the passage of time, the maintenance program, and the condition of existing comparable items.

Land and certain works of art and historical treasures

.21 Land normally has an unlimited life and would not be amortized. 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. Collections of works of art and historical treasures are subject to specific organizational policies that demonstrate the organization's commitment to protect and preserve them. Because of the significant valuation problems associated with collections, they are dealt with in a separate Section, COLLECTIONS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4240.

Amortization when a fund accounting basis of reporting is used

.22 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 PS 4200, for a discussion of reporting on a fund accounting basis). 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 capital asset or plant fund. This presentation shows all revenues and expenses associated with capital assets in a single fund.

Review of amortization

.23 *The amortization method and the estimate of the useful life of a capital asset should be reviewed on a regular basis.* [JAN. 2012]

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

(a) a change in the extent the capital asset is used;

(b) a change in the manner in which the capital asset is used;

(c) removal of the capital asset from service for an extended period of time;

(d) physical damage;

(e) significant technological developments; and

(f) a change in the law or environment affecting the period of time over which the capital asset can be used.

.25-.27 [not used]

Write-downs

.28 *When a capital asset no longer has any long-term service potential to the organization, the excess of its net carrying amount over any residual value should be recognized as an expense in the statement of operations. A write-down should not be reversed.* [JAN. 2012]

.29 When a capital asset no longer contributes to the organization's ability to provide services, its carrying amount would be written down to residual value, if any. A write-down would be necessary, for example, when the organization no longer plans to use the capital asset because it has been damaged or rendered obsolete. When a capital asset's carrying amount is written down, a corresponding amount of any unamortized deferred contributions related to the capital asset would be recognized as revenue, provided that all restrictions have been complied with (see CONTRIBUTIONS — REVENUE RECOGNITION, Section PS 4210).

Disposal

.30 On disposal of a 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 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 PS 4210).

PRESENTATION AND DISCLOSURE

.31 *For each major category of capital assets there should be disclosure of:*

(a) cost;

(b) accumulated amortization, including the amount of any write-downs; and

(c) the amortization method used, including the amortization period or rate. [JAN. 2012]

.32 *The net carrying amounts of major categories of capital assets not being amortized should be disclosed.* [JAN. 2012]

.33 *The amount of amortization of capital assets recognized as an expense for the period should be disclosed.* [JAN. 2012]

.34 *The amount of any write-downs of capital assets should be disclosed in the financial statements for the period in which the write-downs are made.* [JAN. 2012]

.35 Major categories of capital assets are determined by reference to type (for example, land, buildings, office equipment, leasehold improvements, vehicles, patents) and/or nature of operations or program (for example, operating, research).

.36 Capital assets not being amortized would include land, works of art and historical treasures meeting the criteria in paragraph PS 4230.21, capital assets under construction or development, and may include capital assets removed from service for an extended period of time. The net carrying amounts of major categories of such assets would be disclosed in accordance with paragraph PS 4230.32.

Contributed capital assets

.37 *The nature and amount of contributed capital assets received in the period and recognized in the financial statements should be disclosed.* [JAN. 2012]

.38 *Information should be disclosed about contributed capital assets recognized at nominal value.* [JAN. 2012]

.39 A contributed 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 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.

CAPITAL ASSETS HELD BY SMALL ORGANIZATIONS

.40 *Organizations meeting the criterion in paragraph* PS 4230.03 *and not following the other requirements of this Section should disclose the following:*

(a) the policy followed in accounting for capital assets;

(b) information about major categories of capital assets not recorded in the statement of financial position, including a description of the assets; and

(c) if capital assets are expensed when acquired, the amount expensed in the current period. [JAN. 2012]
