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1. Effective Date

1.1 This policy is effective on **16 May 2025**.

1.2 This policy replaces the previous version of Financial Administration Manual (FAM) Chapter 1020-4, Tangible Capital Assets issued on 22 November 2023.

1.3 The policy was approved by the Assistant Deputy Minister, Finance (ADM(Fin)) on **16 May 2025**.

2. Application

2.1 This policy is the comprehensive departmental capital asset policy that applies to all tangible capital assets (TCAs) and purchased intangibles in the Department of National Defence (DND) and Canadian Armed Forces (CAF).

2.2 FAM Chapter 1020-4-1, Real Property Tangible Capital Assets provides additional policy direction on real property TCAs, including land, buildings and works. Both FAM Chapter 1020-4 and FAM Chapter 1020-4-1 must be consulted to get all of the FM policy on real property TCAs.

3. Context

3.1 Capital assets are a significant economic resource that, when well-managed, support the cost-effective and efficient delivery of DND programs.

3.2 Due to the nature and complexity of its programs, the department and the CAF are faced with unique situations that may not be addressed or fully articulated under the Treasury Board (TB) Directive on Accounting Standards, the Government of Canada Accounting Handbook (GC) 3150 Tangible Capital Assets, and the Government of Canada Accounting Handbook Guideline (GCG)-8 Purchased Intangibles. This policy serves to outline and explain the DND/CAF capital asset financial management (FM) policies in these circumstances and does not generally repeat any of the information in GC 3150.

3.3 This policy must be read in conjunction with and after reading the following:

- GC 3150 Tangible Capital Assets; and
- GCG-8 Purchased Intangibles.

3.4 Certain paragraphs of this policy reference International Public Service Accounting Standard (IPSAS) 45. Only the content of IPSAS 45 that is specifically referenced in this policy is applied as part of the department's FM policy for capital assets.

3.5 The implementation of the common definition of a capital expenditure vote at DND, requires that an item meeting the criteria for recognition as a capital asset (refer to paragraph 5.1) and having a value equal or greater than the department's applicable capitalization threshold (refer to subsection Capitalization Thresholds) be capitalized and funded from the capital expenditure vote (Vote 5).

3.6 All financial documentation supporting the transactions must be retained for six years from the end of the fiscal year in which the transaction takes place. When an Accounts Receivable is created, all documentation is retained until the account is cleared. When a criminal, disciplinary or recovery action is taken, all documentation must be retained and protected for six fiscal years after the process is completed.

3.7 See Appendix A for the definitions applicable to this policy and a list of acronyms used.

4. Objectives and Expected Results

4.1 The objectives of this policy are to:

- Identify the DND/CAF key stakeholders involved with the financial management of capital assets and outline their roles and responsibilities; and
- State and explain the DND/CAF Financial Management policies and standards for capital assets that are not addressed in GC 3150 Tangible Capital Assets or GCG-8 Purchased Intangibles.

4.2 The expected results of implementing this policy are:

- Effective governance and oversight over DND/CAF capital assets;
- Effective controls over DND/CAF capital assets;
- Key DND/CAF stakeholders are aware of and understand their roles and responsibilities with respect to capital assets; and
- DND/CAF's capital assets and transactions or activities related to their acquisition, use and condition over their lifecycle are appropriately recorded in the departmental financial management system (FMS) on a timely basis.

5. Requirements

Definition of a TCA

General

5.1 Further to GC 3150.01, a TCA is any asset that meets all of the following criteria:

- Is 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, testing or repair of other TCAs;
- Has a useful life greater than one year (refer to section Useful Life and Amortization for more information);
- Is intended to be used on a continuing basis;
- Is not intended for sale in the ordinary course of operations;
- Is used to produce program outputs; and
- Control of the asset clearly rests with DND.
    - Please see Appendix E for guidance on how to assess when DND controls a TCA when more than one Government of Canada department or agency is involved.

Capitalization Thresholds

5.2 In order to meet the objective that all of the material TCAs of DND are included in the departmental financial statements, DND uses capitalization thresholds for some asset categories, but not for Asset Pooled Items (API). API are TCAs that meet all the criteria of paragraph 5.1 and which 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[1] (GC 3150.06).

5.3 Assets that meet the criteria in paragraph 5.1 and have a per-item cost of $30,000 or more must be capitalized as a TCA. The cost of a TCA is the total of the costs that must be capitalized (refer to the section Costs of TCAs for more information). TCAs with a per-item cost below $30,000 must be expensed, save for the following exceptions:

- Land: Further to GC 3150.02, all land that meets the criteria in paragraph 5.1 should be capitalized regardless of its cost (i.e. no threshold); and
- API: All assets belonging to a type of item accounted for as API[1] that meet the criteria in paragraph 5.1 must be capitalized (i.e. no threshold).

Whole Asset Approach

5.4 The whole asset approach considers a TCA to be an assembly of connected parts. Costs of all parts should be capitalized and amortized as one asset (GC 3150.13).

5.5 Some assets can be considered either as whole assets or parts of another asset (e.g. rigid inflatable boats that are used as separate assets or as part of a larger vessel). The accounting treatment of the asset will depend on how they are intended to be used on an ongoing basis. When a TCA is acquired or constructed with the intention of being used independently, the asset must be treated as a separate whole asset.

Bulk Purchases

5.6 When multiple items are purchased or constructed together, they must be evaluated individually and capitalized in accordance with paragraphs 5.1 to 5.3 of this policy.

Inclusions and Exclusions to TCAs

5.7 Examples of TCAs include, but are not limited to, the following:

- Land, buildings, military assets, informatics hardware and software, vehicles, and equipment;
- Infrastructure assets such as grounds, parking lots, roads, utility generation and distribution systems;
- Operational heritage assets;

[1]Asset and Inventory Strategy and Analysis (AISA) performs an overall analysis to determine if a type of items meets the criteria of a TCA as defined in paragraph 5.1 and represents significant expenditures overall for DND as stated in paragraph 5.2. Each type of item that meets both of these criteria will be accounted for as API. Refer to Appendix B for more specific policy direction and information on API.

- Betterments;
- API;
- Leasehold improvements; and
- Assets acquired by capital lease or by donation.

5.8 TCAs do not include the following:

- Works of art;
- Ammunition;
- Museum collections, including artefacts and CAF Unit memorabilia having historical value;
- Monuments, including antique military equipment permanently installed on public display;
- Immovable assets located on reserves as defined in the Indian Act;
- Crown lands for which there is no known acquisition cost;
- Library collections;
- Obsolete and surplus items for which the physical disposal of the asset is complete;
- Research costs, although items such as equipment and software that are used to perform research activities may be TCAs, please contact Capital Assets Reporting, Monitoring and Analysis (CARMA) through the appropriate Comptroller for further assistance; and
- Intangible assets including but not limited to copyrights, trademarks, patents, easements and rights of way (note that purchased intangibles are non-tangible capital assets, refer to Appendix D for more information).

Kits

5.9 When a kit contains one or more items that meet the policy criteria for TCAs, those items should be accounted for in accordance with this policy.

Costs of TCAs

General

5.10 A TCA must be recorded at its historical cost (i.e. original cost at the time the asset was acquired, developed or constructed), in the month when the asset became ready for productive use.

5.11 All costs that are directly attributable to the acquisition, construction, development, or betterment of a TCA must be capitalized, except for costs specifically excluded from capitalization elsewhere in this policy (e.g. paragraph 5.14). It is important that contracts and agreements clearly identify individual costs of all expenditures that will be incurred, to ensure that every TCA can be accounted for appropriately.

5.12 Level One (L1) organizations must have a rigorous process for identifying capitalizable costs and keeping adequate supporting documentation for audits.

Purchased Assets

5.13 Capitalizable costs for TCAs purchased directly from a vendor include the following:

- Purchase price, including import duties, tariffs and non-refundable taxes paid by DND or paid by a vendor and reimbursed by DND, after deducting trade discounts and rebates (IPSAS 45.14);
- Further to PS 3150.10 and IPSAS 45.15, any costs directly attributable to bringing the TCA to the initial location and in the condition necessary for its intended use including:
    - Installation and assembly costs;
    - Design and engineering fees;
    - Architectural fees;
    - Legal fees;
    - Survey costs and inspection costs;
    - Site preparation costs;
    - Initial delivery and handling costs, including freight charges, transportation insurance costs and duties;
    - Initial training; and
    - Costs of testing whether the asset is functioning properly;
- Asset Retirement Obligations (refer to subsection Asset Retirement Obligations for further details); and
- Additional costs to capitalize for internally constructed assets and assets that were purchased and then subsequently modified, as listed in paragraph 5.38.

5.14 Costs that are not capitalized include the following:

- Costs incurred to help determine whether to go forward with a given project, such as feasibility studies, options analysis, market analysis, topographic surveys, airport zoning, aerial mapping, pricing and availability analysis;
- Goods and Services Tax (GST), Harmonized Sales Tax (HST) and Quebec Sales Tax (QST) paid or payable by DND (GC 3150.10);
- Further to GC 3150.11, interest expenses related to the financing costs incurred while a TCA is under construction by DND or a public partner (refer to paragraph 5.38 for information on when interest expenses are capitalized);
- Foreign exchange gains and losses;
- Further to IPSAS 45.AG17, administration and other general overhead costs not directly attributable to the acquisition and development of a TCA (i.e. related to day-to-day operations); and
- Costs for activities occurring after the date that a TCA became ready for productive use such as:
    - In-service support activities that do not include the acquisition of other TCAs and that do not meet the criteria of a betterment; and
    - In-service training.

5.15 When multiple TCAs are acquired as part of a single purchase, and the individual costs of each TCA are unknown (e.g. the purchase of a building and land for a single amount), then the cost of each TCA is determined by allocating the total price paid for all of the TCAs acquired to each one on the basis of its relative fair value at the time of acquisition (PS 3150.11). The basis of the apportionment must be documented.

Asset Retirement Obligations

5.16 Some TCAs have associated legal obligations whose costs are only incurred when the asset is retired, such as the cost of disposing of regulated substances present within TCAs in accordance with relevant regulations and standards. These legal obligations are called asset retirement obligations (ARO).

5.17 When the criteria are met, DND recognizes a liability for ARO. When a liability must be recorded for an ARO, the present value of the asset retirement costs is usually added to the cost of the related TCA and amortized over its remaining useful life, although it is expensed in certain circumstances.

5.18 For TCAs still in productive use, DND recognizes an asset retirement cost by increasing the cost of the related TCA by the same amount as the liability. The cost of an ARO is added to the cost of the TCA that is still in productive use even if the TCA is fully amortized and has a NBV of $0. The cost of the ARO is amortized over the remaining useful life of the TCA. Note that the remaining useful life of the TCA may need to be revised (refer to section Useful Life and Amortization for more information).

5.19 If an ARO arises when a TCA has been permanently removed from productive use, or if the TCA has not been recognized, the asset retirement costs are immediately expensed. The costs are not capitalized or amortized.

5.20 ARO is recorded at the best estimate of the cost required to retire the TCA, based on the information available. These estimates need to be updated on an ongoing basis. As a result, the estimate of the asset retirement costs that have been added to a TCA may need to be revised. The revised carrying amount is then amortized over the remaining useful life of the TCA on a go-forward basis.

5.21 For further information on ARO, such as the criteria for recognizing a liability for ARO, and the requirements for estimating and revising the cost of ARO, please refer to FAM 1021-2 Asset Retirement Obligations.

Capital Leases

5.22 DND must analyze all new lease agreements and other arrangements which provide access to assets that are not owned by DND in order to:

- Determine whether the lease is a capital lease or an operating lease; and
- Ensure that the department appropriately accounts for and records the asset and liability where required.

5.23 A capital lease exists when, under a lease or other arrangement, substantially all of the benefits and risks of ownership of a TCA are transferred from the lessor to DND. Further to Public Sector Guideline (PSG)-2.05, the benefit and risks of ownership would be transferred when one or more of the following conditions are present:

- There is reasonable assurance that DND will obtain ownership at the end of the lease term; or
- The lease has a Bargain Purchase Option (BPO); or

- The term of the lease is equal to at least 75% of the economic life of the asset; or
- The present value of the minimum lease payments excluding executory costs (e.g. insurance, maintenance costs and property taxes) is equal to at least 90% of the fair value of the leased property at the inception of the lease (e.g. purchase price).

5.24 Assets under leases that meet the definition of a capital lease in paragraph 5.23 and have a per-item present value of $30,000 or more must be capitalized and reported in the department's financial statements as a TCA. There are exceptions for capital leases of land and API, which are capitalized regardless of the cost (i.e. no threshold).

5.25 A liability must also be recognized and reported in the department's financial statements when DND has an obligation to make periodic payments for the right to use the TCA as part of the lease or other arrangement. For further information on liabilities, please refer to FAM 1021-1 Liabilities including Payables at Year-End (PAYE).

5.26 Further to PSG-2.14, an asset under a capital lease should be recorded at the present value of the minimum lease payments excluding executory costs (e.g. insurance, maintenance costs and property taxes). The maximum value recorded for the asset may not exceed the leased asset's fair market value (PSG-2.17).

5.27 Further to GC 3150.12, 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 of incremental borrowing, which is the rate at the inception of the lease on the actual zero-coupon yield curve for Government of Canada bonds, published by the Bank of Canada. 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 rate at the inception of the lease on the actual zero-coupon yield curve for Government of Canada bonds. In these cases, CARMA must be contacted for further direction and approval prior to submitting a business case to get the approval of the Office of the Comptroller General (OCG).

5.28 Further to PSG-2.19, a TCA under a capital lease shall be amortized based on the useful life of the leased TCA if the lease contains one of these conditions:

- There is reasonable assurance that DND will obtain ownership of the item by the end of the lease; or
- A BPO exists.

If neither of these criteria are met, the TCA shall be amortized over the term of the capital lease.

5.29 A lease agreement not meeting the capital lease criteria must be classified as an operating lease and recorded as Operations and Maintenance (O&M) expenses.

Leasehold Improvements

5.30 A leasehold improvement is an upgrade or improvement made to a leased asset that prolongs its useful life or improves its functionality beyond one year.

5.31 A leasehold improvement must have all of the following characteristics to be capitalized (GC 3150.18):

- 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 (DND) (i.e. the lease does not contain a BPO or provide for transfer of ownership of the asset);
    - If an upgrade or improvement is made to a leased asset that is subject to a capital lease where ownership is expected to transfer to the lessee or the lease contains a BPO, it is classified as a betterment instead of a leasehold improvement;
- The lessee must pay for the improvements. If the costs are the responsibility of the lessor (e.g. Public Services and Procurement Canada (PSPC)) then the lessor will account for the costs in its own records;
- The leasehold improvements should be durable, bringing benefits to the department for more than one year;
- 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 DND at the end of the lease; and
- The improvement must have a value of $30,000 or more.

5.32 Further to GC 3150.19, 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 costs such as painting and carpeting.

5.33 Further to GC 3150.25, leasehold improvements shall be amortized based on the useful life of the improvement or the lease term, whichever is shorter. The lease term would include any renewal option periods where extension of the lease is expected.

5.34 Where DND 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 (GC 3150.21).

5.35 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 DND 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 (GC 3150.22).

Internally Constructed TCAs

5.36 TCAs may be constructed, developed or bettered by DND, contractors or internally managed initiatives. Where the activities performed on the asset(s) meet the criteria for capitalization (refer to paragraph 5.1) and the appropriate capitalization threshold (refer to subsection Capitalization Thresholds), the capitalizable costs are accumulated in a work-in-progress (WIP) account until the asset or betterment is complete and ready for productive use.

5.37 Internally constructed assets may also include cases where TCAs have been purchased but require additional work to get them in the condition necessary for their intended use.

5.38 Further to GC 3150.08-09 and 3150.11, in addition to complying with the TCA cost direction in subsection Purchased Assets, the cost of an internally constructed TCA must include all costs directly related to making the asset available in the condition necessary for its intended use, including but not limited to the following:

- All purchased materials and services;
- All direct labour costs;
- Project management office costs directly related to making the asset available for use as intended (e.g. directly attributable administration expenses, salaries, travel and living costs for staff who are directly associated with the project to the extent of the time spent directly on the project);
- Employer benefit plans (EBPs)[2], internal legal services, public service insurance (PSI) and standard accommodation allowances, where these costs were incurred for work directly attributable to readying a TCA or a betterment for productive use and are considered material to the cost of the asset;
- Interest incurred during the construction period by the private partner in a public-private partnership arrangement that will be paid for by the department;
- Initial training and testing required for implementation;
- Customization or conversion costs to make the asset operational for DND;
- Technical data packages; and
- Leased space used solely for construction or development activities.

For guidance on the accounting treatment for various costs of a project, please refer to the Vote Usage Guide for Projects at DND.

5.39 Once internally constructed assets have been completed and are ready for productive use, any costs related to their ongoing support and maintenance, including training, will be expensed in the period incurred.

Trade-Ins

5.40 When a contract requires that DND trades in a TCA as part of the purchase of a new asset, the cost of the new asset will be the total of:

- The cash purchase price (net of GST/HST and/or QST);
- The value of the trade-in; and
- All other related costs as specified in paragraph 5.13.

5.41 The TCA that is traded-in is considered to have been disposed and must be accounted for in accordance with the section Accounting for Disposals in this policy.

[2] At this time, CARMA has decided not to capitalize EBP costs as they have been determined to be not material.

Transfers of TCAs from Other Government Departments (OGDs)

5.42 Transfers of TCAs between departments are to be recorded at the NBV 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 TCA's historical cost and accumulated amortization from its books. As a result, the accounting treatment of the transfer should not produce a gain or loss and there should be no impact at the government-wide level (GC 3150.29).

5.43 In exceptional cases where the Treasury Board Secretariat has authorized the sale at amounts other than the NBV, an accounting gain or loss on disposal will be created. The gain or loss will be calculated and be reported as a gain or loss in the departmental statement of operations.

5.44 When a TCA is transferred between departments, the ARO must also be transferred. (GC 3280.16).

Transfers of TCAs from Outside Parties

5.45 Land transferred from an outside party to DND should only be capitalized as a TCA when the agreement provides for a transfer of ownership (GC 3150.30).

Contributed Assets

5.46 DND may receive contributions of TCAs through gifts, bequests and donations by an external third party with no cash outlay.

5.47 The cost of a contributed TCA is considered to be equal to its fair value at the date of contribution (PS 3150.05(b)). All documentation regarding the valuation must be kept on file for audit purposes.

Useful Life and Amortization

Amortization Expense

5.48 The cost of a TCA is essentially a long-term prepayment of an expense in advance of the use of the asset. Amortization reflects the reduction in the remaining future economic benefits and service potential of the asset over its useful life resulting from its normal ongoing use and availability. When a TCA is available for use as intended, it is considered to be ready for productive use and recorded and capitalized as a TCA.

5.49 Amortization should be recorded monthly commencing on the first day of the month following the month the TCA became ready for productive use (GC 3150.26). A TCA is considered to be ready for productive use when it is put into a condition or state of readiness and is available for use for its intended purpose.

5.50 TCAs shall be amortized using the straight line method. For the purposes of calculating amortization, the future salvage value of all DND TCAs is assumed to be zero since most DND TCAs are utilized to their fullest extent prior to disposal.

Estimating Useful Life

5.51 Useful life is the estimate of the period over which a TCA is expected to be used by the department and is used to determine the amortization rate of the TCA. The life of a TCA may extend beyond the useful life of a TCA to the department. The life of a TCA, other than land, is finite, and is normally the shortest of the physical, technological, commercial and legal life (PS 3150.05(g)).

5.52 The estimate of the useful life of a TCA should be determined on a consistent basis and requires a proper application of professional judgement in order to appropriately apply the accounting criteria identified in this policy in consideration of the TCA's nature and reasonable expectations for the TCA's use and maintenance program over its useful life (see paragraph 5.53 for factors considered). The Responsibility Centre (RC) Manager is responsible for determining the appropriate useful life of a TCA supported with input from the Asset manager group for the asset, as required. Relevant documentation supporting the useful life selected must be kept on file.

5.53 Further to PS 3150.28, factors to be considered in estimating the useful life of a TCA include:

- Current condition of the TCA;
- Expected future usage;
- Expected effects of technological obsolescence;
- Expected wear and tear from use or the passage of time;
- Planned repair and maintenance program;
- Historical performance of similar DND assets retired; and
- Condition of existing comparable items.

Note: The estimated useful life of a TCA must not take into account any potential future betterments (e.g. possible future fleet life extension or a future mid-life refit).

5.54 Further to GC 3150.25, the duration of the estimated useful life of DND's TCAs can be of any value greater than one year. There is no maximum duration for the useful life of any TCA. However, for certain categories of assets, if the RC Manager determines that the appropriate useful life of a TCA does not fall within the following ranges (including when an existing TCA's useful life is revised or extended and its total estimated useful life no longer falls within the range), they must inform CARMA of the TCA through the appropriate comptroller and provide the rationale and supporting evidence for the estimate of the useful life:

- Buildings: 10 to 125 years;
- Machinery and equipment: 3 to 30 years;
- Works and infrastructure: 10 to 100 years;
- Informatics hardware: 3 to 10 years;
- Informatics software: 2 to 10 years;
- Arms and weapons for defence: 3 to 30 years;
- Motor vehicles (non-military): 2 to 35 years;
- Military vehicles: 3 to 25 years;
- Ships and boats: 10 to 50 years; and
- Aircraft: 20 to 40 years.

5.55 Amortization must stop when a TCA is permanently removed from productive use. In the case where a TCA is permanently removed from productive use due to theft, destruction or other types of unpredictable acts and there is no physical asset to dispose of, amortization must stop once the loss is known (i.e. there is strong evidence that the asset no longer exists).

5.56 Where additional guidance is required in determining or revising the useful life of a TCA, CARMA should be consulted for guidance and direction to ensure that an appropriate useful life is recorded in the departmental FMS. Refer to Appendix B for information on the useful life of API.

Revising Useful Life

5.57 Over the life of a TCA, changes in how the TCA is used or other significant events may require a change to the remaining useful life of the TCA. This may occur when new information on a specific asset becomes available, or as part of a larger scheduled assessment of a group of assets.

5.58 Significant events that may indicate a need to revise the estimate of the remaining useful life of a TCA include but are not limited to (PS 3150.30):

- A betterment to the TCA;
- A change in the extent to which the TCA is used;
- A change in the manner in which the TCA is used;
- Removal of the TCA from productive use for an extended period of time;
- Physical damage;
- Significant technological developments;
- A change in the demand for the services provided through the use of the TCA; and
- A change in the law or environment affecting the period of time over which the TCA can be used.

5.59 Changes in the estimated useful life of a TCA that are a result of new information or new developments since the useful life was previously estimated are considered changes in accounting estimates (i.e. not a correction of error) and would be accounted for prospectively. The amortization expense of the current period and each relevant future period would be affected accordingly.

5.60 The estimate of the useful life of the remaining unamortized portion of a TCA should be reviewed every three years at a minimum and revised when the appropriateness of a change can be clearly demonstrated (GC 3150.27). Changes to the useful life must be authorized by the L1 Comptroller and backed up with supporting documentation. The L1 Comptroller must consult with CARMA before initiating a change to the useful life of a TCA in the departmental FMS, to ensure that the change to the useful life is properly documented and communicated both within the Department and with central agencies. Refer to Appendix B for information on the useful life of API.

5.61 The useful life of a TCA must also be revised if a significant error in the previous estimate of the TCA's useful life is discovered. In this context, the error must be based on information that was available at the time the previous estimate was made. Any error that impacts prior year TCA balances must be accounted for retroactively.

Added Costs for Existing Assets

General

5.62 Once a TCA is ready for productive use, additional expenditures are incurred to operate and maintain the asset. In some cases, modifications, upgrades or works are also performed to better an existing asset. Professional judgement must be used in order to appropriately apply the accounting criteria identified in this policy to determine which activities qualify as betterments and which activities are considered repairs and maintenance. For further assistance, please contact CARMA through the appropriate Comptroller.

Betterments

5.63 A betterment is a cost incurred that appreciably improves, enhances or extends the service potential of an existing TCA by meeting at least one of the following criteria (PS 3150.19):

- Increasing the TCA's previously assessed physical output or service capacity;
- Lowering the TCA's operating costs;
- Extending the useful life of the TCA by one year or more; or
- Improving the TCA's quality of output.

5.64 The cost of a betterment is added to the recorded cost of the related TCA when that cost meets the capitalization threshold as per paragraph 5.3, otherwise it is expensed (PS 3150.19). A betterment that is expensed is still considered to be a betterment, and the useful life of a TCA may need to be revised even if the cost of the betterment is not capitalized.

5.65 In order to determine if an increase, extension or improvement of the original service potential of the asset meets the criteria of a betterment, it is necessary to review the transaction in its entirety and exercise professional judgement in order to appropriately apply the accounting criteria.

5.66 Examples of activities that would normally qualify as betterments to an existing asset include:

- Adding more weapons or upgrading weapons on a ship;
- Installing more powerful engines on an aircraft;
- Enhancing the radar capability of a vehicle;
- Replacing armour on a tank with more resistant armour; and
- Installing a more advanced communication system on an aircraft.

5.67 Betterments are amortized over the remaining useful life of the asset to which the improvements were made or, if the useful life of the asset is extended because of the betterment, the betterment is amortized over the revised remaining useful life of the asset. The L1 Comptroller must consult with CARMA before initiating a change to the useful life of a TCA in the departmental FMS, to ensure that the change to the useful life is properly documented and communicated both within the Department and with central agencies. Refer to Appendix B for information on the useful life of API.

5.68 For guidance on how to determine if an expenditure meets the criteria of a betterment, please refer to the Betterments – Financial Procedures. Where additional guidance is required, CARMA (or Asset and Inventory Strategy and Analysis [AISA] for API) should be consulted through the appropriate comptroller for direction.

Repairs and Maintenance

5.69 In order for a TCA to realize its predetermined service potential and its estimated useful life, periodic maintenance and repairs are required over its life. These costs are expensed as incurred (PS 3150.21(a)).

5.70 Costs for work done that maintains the predetermined service potential of a TCA or that enables the asset to reach its estimated useful life will be treated as repairs and maintenance and must be expensed as incurred.

5.71 Additionally, repairs and maintenance costs that are required to restore a TCA to its previously existing condition prior to damage caused by fire, flood, accident or other similar unforeseeable events must be expensed as incurred. However, if the additional expenditures for restoring a TCA improve on its existing condition prior to damage, then some or all of the costs may need to be recorded as a betterment. Refer to the subsection Betterments for more information.

5.72 When components of a TCA are replaced with components that are essentially the same type and have similar service potential (i.e. do not extend the useful life of the TCA), the costs are also considered repairs and maintenance and must be expensed as incurred.

5.73 The replacement of a TCA's existing technology with current or state-of-the-art technology typically qualifies as a betterment. However, the costs of such enhancements must be treated as repairs and maintenance expenses when they do not meet the betterment criteria in subsection Betterments.

5.74 Even if the replacement of a component of a TCA has additional capabilities that the current asset does not, if DND is unable to use these capabilities, the replacement would be treated as repairs and maintenance.

5.75 Examples of repairs and maintenance activities include:

- Repairing a broken GPS;
- Repairing a malfunctioning radar system;
- Routine maintenance to the communication system of an aircraft, ship, tank or other vehicle; and
- Routine maintenance and repairs on a fleet of vehicles.

5.76 Where a cost cannot easily be differentiated between a repair and a betterment, CARMA (or AISA for API) should be consulted through the appropriate comptroller for direction.

TCA Validation and Assessment

Asset Validation (Periodic Physical Asset Count)

5.77 A physical asset count should be conducted periodically to validate the existence, accuracy and completeness of the department's TCAs. Any required accounting adjustments to correct discrepancies identified during a periodic physical asset count must be recorded in the departmental FMS on a timely basis.

Asset Assessment

5.78 A TCA assessment should be conducted periodically or for a specific event (e.g. the review of a departmental program) to validate the accuracy of the value of the asset recorded in the departmental FMS.

5.79 In addition, a TCA assessment measures the extent to which the asset base continues to meet and support DND's needs.

5.80 The asset assessment should also identify assets for potential impairment and determine if a write-down or write-off is appropriate. If an adjustment is required, it must be done in the departmental FMS on a timely basis.

Impairment of TCAs

5.81 When conditions indicate that the TCA no longer contributes to the department's ability to provide goods and services, or that the value of future economic benefits associated with the TCA is less than its NBV, the cost of the TCA should be reduced to reflect the decline in the TCA's value (PS 3150.31). The department must record the decline in a TCA's value by writing down its NBV on a timely basis when the reduction in future economic benefits is expected to be permanent. Where additional guidance is required for the accounting treatment of impaired assets, CARMA (or AISA for API) should be consulted through the appropriate comptroller to ensure that all relevant transactions are recorded appropriately in a timely manner in the departmental FMS.

5.82 Conditions that may indicate that the future economic benefits associated with a TCA have been reduced and a write-down is appropriate include (PS 3150.34):

- A change in the extent to which the TCA is used;
- A change in the manner in which the TCA is used;
- Significant technological developments;
- Physical damage;
- Removal of the TCA from productive use (for an extended period of time or permanently);
- A decline in, or cessation of, the need for the services provided by the TCA;
- A decision to halt construction of the TCA before it is complete or in usable or saleable condition; and
- A change in the law or environment affecting the extent to which the TCA can be used.

5.83 The persistence of such conditions over several successive periods increases the probability that a write-down is required unless there is persuasive evidence to the contrary (PS 3150.35).

5.84 Further to PS 3150.36, in cases where an impaired asset no longer contributes to the department's ability to provide goods and services (e.g. the asset has been permanently removed from service) it must be written down on a timely basis to the estimated net realizable value (NRV), if any, expected from its disposal. This is appropriate when the department has no intention of continuing to use the asset in any capacity and will dispose of it (e.g. sale, transfer to another party or demolition). Estimates of disposal costs must be taken into account when determining the NRV of the asset.

5.85 Further to PS 3150.37, in other cases when an impaired asset will continue to be used by the department, it will be necessary to estimate the value of expected remaining future economic benefits. Where DND can objectively estimate a reduction in the value of the TCA's service potential to the department and has persuasive evidence that the reduction is expected to be permanent in nature, the TCA would be written down to the revised estimate of the value of the asset's remaining service potential to the department.

5.86 A write-down should not be reversed (PS 3150.33). If a TCA that has been removed from productive use is subsequently returned to productive use, its book value should not be written up.

5.87 Further to GC 3150.17, once a TCA is removed from productive use, only betterments that were made to bring a TCA back into productive use should be added to its NBV.

Accounting for Disposals

General

5.88 The disposal of a TCA is the end of its life cycle. Disposal of DND's TCAs may occur by sale, transfer, donation, trade-in, destruction, loss, abandonment or conversion to an artefact. Completed disposals represent a reduction in DND's investment in TCAs and must have the asset's historical cost and accumulated amortization removed from the departmental FMS in a timely manner to accurately report TCAs in the Public Accounts of Canada and the departmental financial statements.

5.89 The RC Manager is responsible for ensuring that the disposal of a TCA is recorded in the departmental FMS on a timely basis once the physical disposal of the asset is completed.

5.90 When a TCA is identified for disposal, it should be assessed for impairment and must be written down to its estimated NRV (i.e. including the estimated disposal costs, parts returned to inventory, etc.) on a timely basis.

5.91 When parts from the asset being disposed of are added to inventory or API holdings for further use, the value of the parts must be deducted from the NBV of the asset being disposed prior to recording its disposal. If the NBV of the asset is zero, the value of any parts or components removed from the asset must also be zero.

5.92 Where the asset being disposed of has an ARO, all expenditures related to the asset retirement costs and the removal of the ARO from the general ledger balances must be properly accounted for in the departmental FMS. For further information on ARO, please refer to FAM Chapter 1021-2 Asset Retirement Obligations.

5.93 For material assets, when the physical disposal will take place or be completed in a future year, note disclosure of the disposal is required in the departmental financial statements.

5.94 Where additional guidance is required for the accounting treatment of a TCA disposal, CARMA (or AISA for API) should be consulted through the appropriate comptroller to ensure that all relevant transactions are recorded appropriately in the departmental FMS on a timely basis.

Disposal of TCAs to Third Parties

5.95 Sales or transfers of TCAs to third parties (i.e. Crown Corporations, other levels of government and other third parties) are generally conducted at market value, unless otherwise directed by TB or other statutory requirements.

5.96 TCAs exchanged as part of a non-monetary transaction may be valued differently depending on the nature of the transaction. Refer to FAM Chapter 1019-7, Accounting for Non-Monetary Exchanges for further information.

5.97 When TCAs are donated to organizations outside of DND, their cost and accumulated amortization must be removed from the departmental FMS in a timely manner.

5.98 Any costs incurred to dispose of the asset must be deducted from the proceeds of disposal where practical. When the net proceeds of disposal is other than NBV, an accounting gain or a loss on disposal will be recorded.

Transfers of TCAs to OGDs

5.99 Transfers of TCAs will be recorded at NBV of the asset regardless of whether the TCA was transferred to another department gratuitously, at book value, or at the market value unless a statute or other regulation requires the value to be something other than the NBV. Refer to paragraph 5.42 for more information.

5.100 In exceptional cases where the Treasury Board Secretariat has authorized the sale at amounts other than the NBV, an accounting gain or loss on disposal will be created. The gain or loss will be calculated and be reported as a gain or loss in the departmental statement of operations.

Write-Offs of TCAs

5.101 TCAs must be written-off as a result of a TCA's destruction, fire, theft, loss, damage beyond economic repair or other similar reasons.

5.102 As noted in paragraph 5.84, the TCA being written-off must be written down on a timely basis to the estimated NRV, if any, expected from its disposal. Estimates of disposal costs must be taken into account when determining the NRV of the asset. The historical cost and accumulated amortization of the TCA are removed from the general ledger accounts in the departmental FMS, once any required physical disposal of the asset, if applicable, is complete.

5.103 No asset may be written off without the proper authority as indicated in Delegation of Authorities for Financial Administration for DND and the CAF and Delegation of Authorities for Financial Administration Matrix (collectively DOA Instrument).

Other Disposals of TCAs

5.104 In some cases when a TCA is permanently removed from productive use and the department has no intention of continuing to use the asset in any capacity, but other preferred disposals methods are not feasible, conversion of the surplus asset to waste may be required (i.e. physical disposal by complete demolition or destruction). Once the required physical disposal of the asset is complete, the historical cost and accumulated amortization of the asset are removed from the general ledger accounts in the departmental FMS.

5.105 In any other case where a TCA is permanently removed from productive use, cannot be sold or transferred (e.g. not feasible) and no physical disposal of the asset is required, the historical cost and accumulated amortization of the asset must be removed from the general ledger accounts in the departmental FMS on a timely basis. An example would be software that is deleted or otherwise replaced, and could not be sold or transferred for security reasons.

Additional TCA Topics

Informatics Assets

5.106 In addition to the direction provided for all TCAs in Section 5 of this policy, please see Appendix C for further direction specific to informatics assets.

Sensitive Assets

5.107 A sensitive asset is one that is classified or designated in accordance with the National Defence Security Policy.

5.108 The majority of DND's sensitive assets are managed and reported by Canadian Special Operations Forces Command (CANSOFCOM) and are recorded in Joint Staff Information System (JSIS) in order to be compliant with operational security (OPSEC). However, any other L1 organization could also be responsible for some sensitive assets.

5.109 All DND's sensitive TCAs are subject to the policy requirements outlined in this policy (e.g. criteria for asset capitalization, amortization, useful life, etc.) and are required to be reported in the departmental financial statements while respecting DND's security policy.

TCAs Temporarily Removed from DND's Premises

5.110 All TCAs either loaned to Crown corporations, other governments, the private sector or held at a contractor location (e.g. to be repaired, overhauled or bettered) must be accounted for in accordance with this policy.

Unrecorded Assets Acquired in Previous Years

5.111 TCAs acquired or constructed in a previous fiscal year but not recorded in the departmental FMS must be recorded as a TCA in the fiscal year the asset is found.

5.112 The unrecorded asset should be valued using historical cost, adjusted for accumulated amortization. If the value cannot be reasonably determined or estimated, the asset should be recorded at a nominal value.

5.113 RC Managers must advise their L1 Comptrollers of the existence of any unrecorded TCA acquired in a previous fiscal year.

Energy Performance Contracts

5.114 Energy performance contracts are complex arrangements that may include the provision of assets, betterments to existing assets, or other services. They must be assessed to determine how they should be accounted for. Please contact CARMA through the appropriate comptroller to ensure that assets and liabilities are appropriately recorded.

Public Private Partnerships

5.115 A public private partnership is a partnership between a public sector entity (DND) and a private sector entity where the public sector entity procures new infrastructure using a private sector partner. The private sector partner's obligations include requirements to (PS 3160.01):

- Design, build, acquire or better new or existing infrastructure;
- Finance the transaction past the point where the infrastructure is ready for use; and
- Operate and/or maintain the infrastructure.

5.116 Public private partnerships are an alternative financing model for DND to acquire and make betterments to infrastructure. In a public private partnership, the private sector partner designs, builds, finances, operates and/or maintains the infrastructure. In return, the private sector partner will either receive payment from DND or receive the right to charge end users of the infrastructure.

5.117 Please contact CARMA through the appropriate comptroller to ensure that assets and liabilities for public private partnerships are appropriately recorded.

6. Roles and Responsibilities

Deputy Minister

6.1 The Deputy Minister (DM) is responsible for:

- Implementing an effective framework for the management of assets including TCAs.

Chief Financial Officer

6.2 The Chief Financial Officer (CFO) is responsible for:

- Overseeing the implementation and monitoring of this policy.

Level One Advisors

6.3 Level One (L1) Advisors are responsible for:

- Implementing the departmental asset management framework within their organization including this FAM chapter and TCA FM processes and procedures, demonstrating how the management of assets is effectively integrated with program, expenditure, financial and human resources to promote value for money; and
- Ensuring the appropriate stewardship of assets that meet program requirements and that is measured by an ongoing and systematic assessment of the physical condition, functionality, use and financial performance of those assets against targets established by DND.

Director General Strategic Financial Governance

6.4 The Director General Strategic Financial Governance (DG SFG) is responsible for:

- Ongoing monitoring of the department's key internal controls that support the completeness and accuracy of the TCAs as published in the departmental financial statements.

Director General Financial Operations and Services

6.5 The Director General Financial Operations and Services (DG FOS) is responsible for:

- Ensuring that appropriate TCA FM processes and procedures are in place to promote departmental compliance with this policy; and
- Ensuring departmental compliance with this policy is monitored.

Director Financial Accounting

6.6 The Director Financial Accounting (DFA) is responsible for:

- Preparing the departmental financial statements and submissions for the Public Accounts of Canada, including TCA plates, in compliance with relevant

legislation, regulations and all applicable financial management policy instruments;
- Monitoring, validating and when required, processing financial transactions and accounting adjustments related to TCA transactions and account balances to ensure compliance with this policy; and
- Exercising a challenge function and, where appropriate, revising the accounting treatment for TCAs to ensure that the department's financial statements are accurate and reasonable.

Capital Assets Reporting Monitoring and Analysis

6.7 Capital Assets Reporting Monitoring and Analysis (CARMA) is responsible for:

- Defining and developing departmental FM policy for TCAs;
- Overseeing the day-to-day application of this policy for non-API TCA;
- Developing and maintaining the department's FM processes and procedures for non-API TCAs to ensure that they incorporate appropriate internal controls and comply with relevant legislation, regulations and this policy;
- Performing the ongoing corporate consolidation and any added central processing required to appropriately record period activity and reflect the appropriate adjusted balances in the departmental FMS for non-API TCAs;
- Providing guidance on procedures, policy interpretation and application for non-API TCAs;
- Reviewing changes to the useful life of all non-API TCAs before their implementation;
- Monitoring DND's non-API TCA financial information over its entire life cycle to ensure that it is appropriately recorded in the departmental FMS on a timely basis, and supporting documents are kept on file; and
- Developing, managing and monitoring the departmental periodic asset validation and periodic asset assessment procedures for non-API TCAs.

Asset and Inventory Strategy and Analysis

6.8 Asset and Inventory Strategy and Analysis (AISA) is responsible for:

- Overseeing the day-to-day application of this policy for API;
- Developing and maintaining the department's FM processes and procedures for API to ensure that they incorporate appropriate internal controls and comply with relevant legislation, regulations and this policy;
- Performing the ongoing corporate consolidation and any added central processing required to appropriately record period activity and reflect the appropriate adjusted balances in the departmental FMS for API;
- Providing guidance on procedures, policy interpretation and application for API;
- Monitoring DND's API financial information over its entire life cycle to ensure that it is appropriately recorded in the departmental FMS on a timely basis, and supporting documents are kept on file; and
- Developing, managing and monitoring the departmental periodic asset validation and periodic asset assessment procedures for API.

Director Financial Systems and Integration

6.9 The Director Financial Systems and Integration (DFSI) is responsible for:

- Ensuring the effective management of the departmental FMS for recording and reporting all financial transactions in compliance with relevant legislation, regulations and all applicable TB financial management policy instruments;
- Managing the departmental FMS interface requirements for all TCA interfaces from other DND source systems;
- Reviewing TCA FM procedures to ensure that the FM procedure meets internal control requirements, aligns with FM business processes and promotes compliance;
- Developing and maintaining the FM component of TCA processes or procedures with financial implications that other L1s are responsible for to ensure that they are effective, efficient, incorporate appropriate internal controls, and comply with legislative, regulatory and FM policy requirements;
- Supporting the implementation and monitoring of this policy; and
- Providing ongoing oversight and assurance of the department's TCA financial and non-financial processes to ensure compliance with this policy.

Director Financial Policy and Controls

6.10 The Director Financial Policy and Controls (DFPC) is responsible for:

- Assessing the effectiveness of key internal controls related to TCAs and making recommendations on control gaps and deficiencies, based on the results of the assessments.

Level One Comptrollers

6.11 Level One (L1) Comptrollers are responsible for:

- Ensuring all staff within their organization fully apply this policy;
- Ensuring all processes and controls within their organization related to TCAs are working effectively;
- Ensuring that all items procured within their organization which meet the criteria for TCAs are accurately recorded in the departmental FMS on a timely basis;
- Ensuring that all TCA financial information is received from the RC Manager over a TCA's entire life cycle from acquisition to disposal (e.g. acquisitions or construction, betterments, write-downs, changes in the asset's condition, use and/or its useful life). Further ensuring this information is complete, accurate and recorded in the departmental FMS, as required, on a timely basis; and
- Providing financial direction and guidance on the department's TCA FM policy and FM procedures within their L1 organization.

Responsibility Centre Managers

6.12 Responsibility Centre (RC) Managers are responsible for:

- Ensuring that all items procured within their area of responsibility meeting the criteria for TCAs are accurately identified and recorded in the departmental FMS on a timely basis;
- Providing their L1 Comptroller all relevant TCA financial information over a TCA's entire life cycle from acquisition to disposal (e.g. acquisitions, betterments, write-downs, changes in the asset's condition, use and/or its useful life). Further ensuring this information is complete, accurate and recorded in the departmental FMS, as required, on a timely basis;
- Monitoring and managing their WIP accounts to ensure that all completed TCAs and betterments are capitalized in the departmental FMS and that amortization commences on the first day of the month following the month a TCA is ready for productive use; and
- Informing their L1 Comptroller and Assistant Deputy Minister, Materiel (ADM(Mat)) of any TCAs that are surplus to their organization's requirements or that have been permanently removed from productive use and initiating the appropriate disposal processes and required accounting entries.

TCA Source Systems Outside of Defence Resource Management Information System (DRMIS)

6.13 The Office of Primary Interest (OPI) for each TCA source system is responsible for:

- Ensuring that all TCA information over a TCA's entire life cycle from acquisition to disposal (e.g. acquisitions, betterments, write-downs, changes in the asset's condition, use and/or its useful life) is complete, accurate and recorded in their source system on a timely basis; and
- Maintaining an interface with DRMIS and providing the source system's appropriate TCA transactions summary and balances for their accounts in DRMIS on a monthly basis.

7. Consequences of Non-Compliance

7.1 Under the TB Policy on Financial Management, the DM is responsible for investigating and acting when significant issues regarding policy compliance arise, and ensuring that appropriate remedial action is taken to address such issues within DND/CAF. The TB Framework for the Management of Compliance provides guidance on the considerations for determining the possible mix of consequences, which include the impact of the non-compliance, whether there has been a history of non-compliance, was there intent and other circumstances.

7.2 To support the DM's responsibility under the TB Policy on Financial Management, the ADM(FIN)/CFO or in the case of a member of the CAF, the military chain of command at the ADM(FIN)/CFO's direction, must ensure corrective actions are taken to address instances of non-compliance with this policy. Corrective actions can include a requirement for additional training, changes to procedures or systems, removal or suspension of delegated financial authorities on a temporary or permanent basis, disciplinary action or other measures as appropriate.

8. References

Treasury Board and Central Agency FM Policy Instruments

TB Directive on Accounting Standards
TB Directive on Accounting Standards: GC Handbook 3150 Tangible Capital Assets
TB Directive on Accounting Standards: GC Handbook 3420 Inter-entity transactions
TB Directive on Accounting Standards: GCG-8 Purchased Intangibles
Accounting entries: 8.3 Accounting for the effects of the interdepartmental transfers of capital assets
TB Guideline on Common Financial Management Business Process 4.1 – Manage Other Capital Assets

DND/CAF FM Policies

FAM Chapter 1020-4-1, Real Property Assets
FAM Chapter 1021-2, Asset Retirement Obligations
FAM Chapter 1019-7, Accounting for Non-Monetary Exchanges
FAM Chapter 1021-4, Contingent Liabilities and Contingent Assets

DND/CAF FM Guides, Forms, Tools and Other References

PS Handbook 3150 Tangible Capital Assets
PS Handbook 3210 Assets
PS Handbook 3280 Asset Retirement Obligations
Public Sector Guideline (PSG) 2 Leased Tangible Capital Assets
IPSAS 45 Property, Plant and Equipment
Public Sector Accounting Board (PSAB) Statement of Principles, Public Private Partnerships
Betterments – Financial Procedures

Note:

- Please see ADM(Fin) website for tools to which the FM policy relates.

9. Enquiries

9.1 Questions on policy interpretation and clarification are to be addressed to the appropriate Comptroller.

9.2 If the local Comptroller requires assistance, the question will be escalated through the financial chain of command.

9.3 If the L1 Comptroller needs guidance on the matter(s) raised, the L1 Comptroller may contact CARMA for all questions on all non-API TCAs (+CARMA_Capital Assets - RSAI_Immobilisations@ADM(Fin) DFA@Ottawa-Hull), and AISA for all questions on API (fin.aisami.saiiim@forces.gc.ca), save for the following exceptions:

- Questions on the proceeds from the sale of a TCA must be sent to ADM(Fin)/Director Budget;
- Questions on the materiel and supply chain implications of a sale, disposal or divestment of a TCA must be sent to ADM(Mat)/Director Supply Chain Operations 7;
- Questions on the sale or disposal of real property TCAs must be sent to ADM(Infrastructure & Environment).

Appendix A – Definitions and Acronyms

Definitions

Asset Managers (Gestionnaires des biens) are managers that have TCAs under their custody or control, and also include individuals from the comptrollership groups and organizations involved with the procurement, maintenance, reporting and/or support of these assets over their lifecycle. Asset managers include, but are not limited to the following individuals:

a) Life Cycle Material Managers (LCMMs);
b) Divisional Capital Asset Accounting Officers (DCAAOs);
c) Responsibility Center (RC) Managers;
d) L1 Comptrollers;
e) Technical Authorities (TA); and
f) Procurement Authorities.

Asset Pooled Items (Éléments d'actifs groupés) are TCAs that meet all the criteria of paragraph 5.1 and which 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. Refer to Appendix B for further details.

Asset retirement costs (coûts de mise hors service d'une immobilisation) are the estimated amounts required to retire a TCA. Asset retirement costs are necessary and an integral part of owning and operating the related TCA.

Disposal costs (Coûts d'aliénation) are incremental costs directly attributable to the disposal of a TCA. Includes any applicable legal costs, costs of removing the asset (e.g. related to its appropriate demolition and destruction) and/or direct incremental costs related to bringing the asset into the condition required for sale or transfer.

Financial management system (Système de gestion financière) refers to any combination of business processes (end-to-end, automated and manual), procedures, controls, data and software applications, all of which are categorized as either a departmental financial and materiel management system or program system or central system that produces financial information and related non-financial information. DND's departmental financial management system includes DRMIS and would also include any future replacement of DRMIS.

Lease (Contrat de location) refers to a contractual agreement between a lessor and a lessee that gives the lessee the right to use specific property or other assets owned by the lessor for a specific period of time in return for periodic payments. A lease can be classified as either an operating lease or a capital lease.

Leased tangible capital asset (Immobilisation corporelle louée) is a non-financial asset that has physical substance and a useful life extending beyond an accounting period, and is held under lease by the department for use, on a continuing basis, in the production or supply of goods and services. Under the terms and conditions of the lease, substantially all of the benefits and risks incident to ownership are, in substance, transferred to the department without necessarily transferring legal ownership (PSG-2.03).

Net book value (Valeur comptable nette) of a TCA is its cost, less both accumulated amortization and the amount of any write-downs.

Net realizable value (Valeur de réalisation nette) is the estimated value of a TCA that can be realized upon its disposal less a reasonable estimate of the costs associated with the disposal of the asset.

Operational heritage assets (Biens du patrimoine opérationnels) are heritage assets that are used to achieve government objectives in addition to the maintenance of national heritage (e.g. heritage building with office space, parkland). Heritage assets are those assets, which are usually irreplaceable, that are intended to be preserved in trust for future generations.

Self-contained assets (Immobilisations indépendantes) are defined as whole assets that are only capable of performing their intended function when attached to or installed on another asset. Self-contained assets provide additional functionality to the assets to which they are attached but are not essential to the functioning of the assets (e.g. Close - In Weapons System, Remote Weapons System, Satellite System, and Floating Decoy System). Self-contained assets are not permanently attached to another asset (i.e. they are often taken off one asset and installed on another one).

Service potential (Potentiel de service) is the output or service capacity of a TCA, and is normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs, and useful life.

Tangible capital assets (TCAs) (Immobilisations corporelles) are non-financial assets having physical substance that meet the criteria in paragraph 5.1 and include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware and software, dams, canals, and bridges. For the purpose of this policy, tangible capital assets are defined to include software.

Useful life (Durée de vie utile) is the estimate of the period over which a TCA is expected to be used by the department. The useful life of a TCA other than land is finite and is normally the shortest of the physical, technological, commercial and legal life.

Work-In-Progress (WIP) (Compte de travaux en cours (TEC)) is an account that records the aggregate of all the capitalizable costs of constructing, acquiring or performing betterments to a TCA, usually as part of a DND project, where title to the TCA under construction clearly rests with DND. Capital costs are accumulated in the WIP account until the assets under construction are complete and ready for productive use.

Write-down (Dépréciation) is an action whereby the net book value of a TCA is reduced to reflect a decline in the asset's value. When conditions indicate that a TCA no longer contributes to a government's ability to provide goods and services, or that the value of future economic benefits associated with the TCA is less than its net book value, the cost of the TCA should be reduced to reflect the decline in the asset's value when the reduction in future economic benefits is expected to be permanent.

Write-off (Radiation) refers to an action whereby a TCA is removed from the records of the department and is not sold for proceeds or traded-in. A write-off is normally undertaken when there is a permanent impairment to a TCA due to destruction, fire, theft, loss, damage beyond economic repair or similar reasons.

Acronyms

ADM(Fin) – Assistant Deputy Minister, Finance

ADM(Mat) – Assistant Deputy Minister, Materiel

AISA – Asset and Inventory Strategy and Analysis

API – Asset Pooled Items

ARO – Asset Retirement Obligations

BPO – Bargain Purchase Option

CAF – Canadian Armed Forces

CANSOFCOM – Canadian Special Operations Forces Command

CARMA – Capital Assets Reporting Monitoring and Analysis

CFO – Chief Financial Officer

DCAAO – Divisional Capital Asset Accounting Officer

DFA – Director Financial Accounting

DFPC – Director Financial Policy and Controls

DFSI – Director, Financial Systems Integration

DG FOS – Director General Financial Operations and Services

DG SFG – Director General Strategic Financial Governance

DM – Deputy Minister

DND – Department of National Defence

DRMIS – Defence Resource Management Information System

EBP – Employer Benefit Plans

FAM – Financial Administration Manual

FIS – Financial Information Strategy

FM – Financial Management

FMS – Financial Management System

GC – Government of Canada Accounting Handbook

GCG – Government of Canada Accounting Handbook Guideline

GST – Goods and Services Tax

HST – Harmonized Sales Tax

IPSAS – International Public Sector Accounting Standard

JSIS – Joint Staff Information System

L1 – Level One

LCMM – Life Cycle Material Manager

NBV – Net Book Value

NPP – Non-Public Property

NRV – Net Realizable Value

O&M – Operations and Maintenance

OCG – Office of the Comptroller General

OGD – Other Government Department

OPI – Office of Primary Interest

OPSEC – Operational Security

PS – Public Sector

PSAB – Public Sector Accounting Board

PSG – Public Sector Guideline

PSI - Public Service Insurance

PSPC – Public Services and Procurement Canada

QST – Quebec Sales Tax

RC – Responsibility Center

SSC – Shared Services Canada

TA – Technical Authorities

TB – Treasury Board

TCA – Tangible Capital Asset

WIP – Work-In-Progress

Appendix B – Asset Pooled Items

B.1 General

B.1.1 This Appendix provides additional policy direction for the specific capital asset category of API. It takes precedence for policy direction on specific API topics, but Section 5 of this policy must also be consulted as it still applies and provides in-depth policy coverage on TCA topics not exclusive to API.

B.2 Definition

B.2.1 API are TCAs that meet all the criteria of paragraph 5.1 and which 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 (GC 3150.06).

B.2.2 AISA determines which types of items will be accounted for as API. They perform an overall analysis of each type of item to determine if they meet the criteria of a TCA as defined in paragraph 5.1 and if they represent significant expenditures overall for DND. Each type of item that meets both of these criteria will be accounted for as API.

B.2.3 When a type of item is accounted for as API, then all items of that type that meet the criteria in paragraph 5.1 are capitalized and accounted for as API in an appropriate pool.

B.3 Inclusions and Exclusions to API

B.3.1 API includes, but is not limited to, the following:

- Engines, transmissions, circuit cards, equipment components;
- Other major spare parts and stand-by equipment used for the support and maintenance of other TCAs;
- Small arms;
- Small vehicles; and
- Radios.

B.3.2 In addition to the items listed in paragraph 5.8, API does not include the following:

- Rations
- Filters
- Liquids
- Gases
- Drugs; and
- Inventory and items that are consumed when issued for use.

B.4 API Pools

B.4.1 API and their historical costs must be recorded and accounted for in API pools. API must be assigned to and recorded in the appropriate pool for assets of the same asset type that have the same useful life. Where there isn't an existing pool available for the same type of assets that also uses the same useful life required for the new API acquired, additional pools must be created.

B.4.2 There is no limit to the number of pools that can be created. Each individual item can only be put into one pool. In most cases, all identical API items are put into the same pool, but items that are being used differently and require a different useful life can be put into separate pools.

B.5 Amortization and Useful Life of API

B.5.1 All API in a pool are amortized using the straight line method using the same amortization rate. API must be assigned to and recorded in the appropriate pool for assets of the same asset type that have the same useful life. Where there isn't an existing pool available for the same type of assets that also uses the same useful life required for the new API acquired, additional pools must be created.

B.5.2 In cases where API spare parts and stand-by equipment are used to support a specific fleet of DND/CAF vehicles, it is appropriate to consider how those assets will be used to support the fleet in assigning a useful life. The API spare parts and stand-by equipment may have the same useful life as the fleet they support; however, the useful life of these items may be shorter or longer than that of the fleet they support (e.g. repairable spares that are replaced multiple times over the fleet's life).

Appendix C - Informatics Assets

C.1 General

C.1.1 The acquisition or development of software may result in a capital asset. When applying the whole asset approach to Informatics Assets, three distinct types of whole assets are possible, as follows:

a) Assets combining both hardware and software components;

b) Stand-alone applications software; and

c) Stand-alone hardware.

C.1.2 Where software is included in the purchase price of hardware (e.g. operating system hardware) and the cost of the software cannot be reliably calculated, the software should be capitalized and amortized as part of the hardware (GC 3150.34).

C.1.3 Further to GC 3150.13, under the whole asset approach, multiple components connected by one or more telecommunications links to form a discrete and physically identifiable network will be recorded as a whole asset. Examples of network assets include:

a) Larger integrated computer or telecommunication networks; and

b) Smaller dedicated networks for specific users.

C.2 Initial Software Costs

C.2.1 In addition to the costs to capitalize for software that was purchased directly from a vendor detailed in paragraph 5.13, the cost of software includes expenditures related to implementation activities directly attributable to preparing the software asset for its intended use. Examples of implementation activities include, but are not limited to, the following:

a) Integration;

b) Customization or coding;

c) Configuration;

d) Data conversion;

e) Costs of testing whether the software is 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[3]; and

[3] At this time, CARMA has decided not to capitalize EBP costs as they have been determined to be not material.

i) Professional fees arising directly from bringing the software to its working condition.

C.2.2 Costs that are not directly attributable to the implementation of software are expensed. Examples include, but are not limited to, the following:

j) Advertising and promotional activities;

k) End-user training; and

l) Administration and other general overhead costs.

C.2.3 DND may also have to pay licensing costs in order to use software. If DND pays a one-time licensing fee to use the software, DND 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 (GC 3150.35).

C.2.4 Data is the information that is inputted, manipulated, or treated and outputted by hardware and software. Data is not considered to be a TCA. Costs associated with data conversion should be expensed (GC 3150.36).

C.3 Betterments for Software

C.3.1 Further to GC 3150.37, upgrades and enhancements are defined as modifications to enable the software to perform tasks it was previously unable to perform (i.e. new or enhanced 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 the previously assessed service capacity or when the modifications lower the associated operating costs, extend the useful life, or improve the quality of output.

C.3.2 For software projects which are designed in cycles or phases to deliver increasing functionality, each cycle or phase subsequent to the initial cycle or phase would normally be considered a betterment to the software in use.

C.3.3 Further to GC 3150.39, if a new version of software replaces the functionality of the old version, then the NBV of the older software being replaced should be disposed and the new version should be capitalized and amortized over its anticipated useful life. If the new version of software adds to the functionality of the old version (e.g. additional modules), then the new version would be treated as a betterment to the old version. The cost of the new version would be added to the recorded cost of the old version, and the total cost would be amortized over the remaining useful life, or the revised remaining useful life if significantly different.

C.4 Repairs and Maintenance for Software

C.4.1 Further to GC 3150.38, the costs incurred in the maintenance of the service potential of software should be expensed, including software that has been capitalized. Examples of maintenance include coding changes required for the software to remain current to meet user needs or changes required for systems to remain compatible. Professional judgement is required in order to appropriately apply the accounting criteria to determine whether an upgrade or enhancement needs to be capitalized or expensed. For further assistance, please contact CARMA through the appropriate Comptroller

C.4.2 Further to GC 3150.39, the cost of implementing and/or installing new versions of software which contain primarily bug fixes (i.e. do not deliver new functionality, merely correct errors in previously promised functionality) must be expensed.

C.5 Impairment of Software Assets

C.5.1 Further to GC 3150.40, for software under development, if development ceases and a product is not anticipated, the costs captured to date in WIP accounts must be immediately written off as an expense.

C.5.2 Further to GC 3150.41, any computer software that, after use or testing, fails to deliver the expected future economic benefits or service potential should be assessed for impairment. The department must record the decline in a software's value by writing down its NBV on a timely basis when it can demonstrate that the reduction in future economic benefits is expected to be permanent.

Appendix D – Purchased Intangibles

D.1 Definitions

D.1.1 Intangible assets are non-monetary economic resources without physical substance. Intangible assets are recognized as capital assets when they are acquired through an arm's length exchange transaction between knowledgeable and willing parties. Intangible assets acquired in this manner are called purchased intangibles (PSG-8.1).

D.1.2 Examples of purchased intangibles include, but are not limited to, the following:

a) Intellectual property including:
   i) patents;
   ii) trademarks;
   iii) copyrights;
   iv) industrial designs;
   v) integrated circuit topography;
   vi) plant-breeding rights;
   vii) broadcasting rights or licences, such as spectrum licences and licences to broadcast copyright protected material;
   viii) scientific or technical knowledge;
   ix) processes;
   x) trade secrets;
   xi) domain names; and
   xii) know-how;
b) Licenses and permits, such as those for hunting and fishing;
c) Import quotas or licences; and
d) Acquired lists of contacts, users or customers.

D.1.3 Purchased intangibles do not include the following:

a) Intangibles that are acquired through a transfer or contribution (PSG-8.2), except for transfers of purchased intangibles from OGDs (refer to paragraph D.6.5 for more information);
b) Intangibles that are developed by DND;
c) Intangibles that DND paid to have third parties develop but did not acquire;
d) Software, which is accounted for as a TCA (refer to Appendix C for more information);

e) Monetary items or financial instruments, such as stocks and bonds; and

f) The rights to access or use a tangible asset, such as a lease agreement for a building.

D.2 Recognition

D.2.1 A purchased intangible must meet the following criteria:

a) Contributes to DND's ability to provide goods or services, achieve its mandate, or otherwise generate future economic benefits;

b) Has a useful life greater than one year (refer to section Useful Life for more information);

c) Is not intended for sale in the ordinary course of operations;

d) Is identifiable (refer to paragraph D.2.4); and

e) Control of the asset clearly rests with DND.

D.2.2 Purchased intangibles that have a per-item cost of $30,000 or more must be capitalized. The cost of a purchased intangible is the total of the costs that must be capitalized (refer to paragraph D.3.1 for more information). Purchased intangibles with a per-item cost below $30,000 must be expensed.

D.2.3 The cost of intangible assets that are acquired as part of the acquisition, construction, development or betterment of a TCA, such as the purchase of designs for use in construction, should be included in the cost of the TCA.

D.2.4 Purchased intangibles must be identifiable. An intangible asset is identifiable if it either:

a) Is separable, i.e., it is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

b) Arises from binding arrangements (including rights from contract or other legal rights), regardless of whether those rights are transferrable or separable from the entity or from other rights and obligations, e.g. the license to use a patent held by a third party.

An example of a non-identifiable intangible is internally generated goodwill, as it cannot be sold separately from the organization that generated it, and it does not arise from binding arrangements.

D.3 Cost and Amortization

D.3.1 Purchased intangibles are initially recognized at their historical cost (i.e. original cost at the time the asset was acquired). Unlike TCAs, the purchase price should be the only cost for a purchased intangible. DND's internal costs should not be included in the cost of a purchased intangible.

D.3.2 Amortization should be recorded monthly commencing on the first day of the month following the month the purchased intangible was acquired. Purchased intangibles shall be amortized using the straight line method. For the purposes of calculating amortization, the future salvage value of purchased intangibles is assumed to be zero, unless there is a commitment by a third party to acquire the asset at the end of its useful life.

D.4 Useful Life

D.4.1 Useful life is the estimate of the period over which a purchased intangible is expected to be used by the department. The life of an intangible asset may extend beyond its useful life to the department. The life of a purchased intangible is finite, and is normally the shortest of the technological, commercial, and legal life.

D.4.2 The estimate of the useful life of a purchased intangible should be determined on a consistent basis and requires a proper application of professional judgement in order to appropriately apply the accounting criteria identified in this policy in consideration of the asset's nature and reasonable expectations for the asset's use over its expected life. The Responsibility Centre (RC) Manager is responsible for determining the appropriate useful life of a purchased intangible. Relevant documentation supporting the useful life selected must be kept on file.

D.4.3 Factors to be considered in estimating the useful life of a purchased intangible include:

a) Expiry date (e.g. the expiration date of a patent);
b) Period of time over which a purchased intangible can be used;
c) Number of times a purchased intangible can be used (e.g. broadcasting rights allowing for a limited number of broadcasts);
d) Expected future usage (e.g. a licence that DND expects to stop using before the expiration date);
e) Expected effects of technological obsolescence; and
f) Whether the purchased intangible is renewable (refer to paragraph D.4.4 for more information).

D.4.4 Generally, the useful life of a purchased intangible would be no later than its expiry date, even if DND has the option to renew the agreement or licence. In certain cases, it may be more appropriate for the estimated useful life to include one or more renewal periods, when it can be reasonably assured that the agreement or licence will be renewed. This determination requires professional judgement and can only be made if all of the following criteria are met:

a) DND intends to renew the agreement or licence;

b) The third party from whom the purchased intangible has been acquired typically renews licences when the licensee (DND) uses the purchased intangible in accordance with the terms and conditions of the agreement or licence and maintains a good relationship with the third party;

c) DND believes that it is likely that the agreement or licence will be renewed based on evidence, such as evidence that DND can comply with the terms and conditions of the agreement or licence, and evidence that DND has been successful in renewing similar agreements or licences;

d) The number of forecasted renewals does not exceed any maximum number of renewals permitted in the agreement; and

e) The cost of renewing is insignificant compared to the original acquisition of the purchased intangible.

Note that agreements or licences that are renewed yearly are expensed, as they do not have a useful life greater than a year.

D.5 Impairment

D.5.1 When conditions indicate that the value of future economic benefits associated with the purchased intangible is less than its NBV, the cost of the purchased intangible should be reduced to reflect the decline in the purchased intangible's value. The department must record the decline in a purchased intangible's value by writing down its NBV on a timely basis when the reduction in future economic benefits is expected to be permanent. Where additional guidance is required for the accounting treatment of impaired assets, CARMA should be consulted through the appropriate comptroller to ensure that all relevant transactions are recorded appropriately in a timely manner in the departmental FMS.

D.5.2 Conditions that may indicate that the future economic benefits associated with a purchased intangible have been reduced and a write-down is appropriate include:

a) Significant technological developments;

b) A decline in, or cessation of, the need for the benefits provided by the purchased intangible;

c) A change in the expected future use of the purchased intangible; and

d) The acquired intellectual property is the subject of litigation (e.g. the validity of a patent is challenged in Federal Court).

D.5.3 Further to PS 3150.36, in cases where an impaired purchased intangible no longer contributes to the department's ability to provide future economic benefits, it must be written down on a timely basis to the estimated NRV, if any, expected from its disposal. This is appropriate when the department has no intention of continuing to use the purchased intangible in any capacity and will dispose of it (e.g. sale, transfer to another party or demolition). Estimates of disposal costs must be taken into account when determining the NRV of the asset.

D.5.4 A write-down should not be reversed (PS 3150.33).

D.6 Disposal

D.6.1 A purchased intangible is disposed of when it can no longer be used by DND, such as when it reaches its expiration date and will not be renewed. The disposal of a purchased intangible may also occur while it is still available for use, such as by sale, transfer, donation or abandonment.

D.6.2 After disposal, the RC Manager is responsible for ensuring that the purchased intangible's historical cost and accumulated amortization are removed from the departmental FMS in a timely matter to accurately report purchased intangibles in the Public Accounts of Canada and the departmental financial statements.

D.6.3 Sales or transfers of purchased intangibles to third parties (i.e. Crown Corporations, other levels of government and other third parties) are generally conducted at market value, unless otherwise directed by TB or other statutory requirements. A legal advisor should be consulted prior to the sale or transfer of a purchased intangible to ensure that the sale or transfer is compliant with all relevant legislation and regulations.

D.6.4 Purchased intangibles exchanged as part of a non-monetary transaction may be valued differently depending on the nature of the transaction. Refer to FAM Chapter 1019-7, Accounting for Non-Monetary Exchanges for further information.

D.6.5 Transfers of purchased intangibles between departments are to be recorded at the NBV of the asset. These purchased intangibles would have been previously acquired by DND or an OGD from a third party. The receiving department must record the purchased intangible at its original historical cost and accumulated amortization and the transferring department must remove the TCA's historical cost and accumulated amortization from its books. As a result, the accounting treatment of the transfer should not produce a gain or loss and there should be no impact at the government-wide level (GC 3150.29).

D.6.6 Where additional guidance is required for the accounting treatment of the disposal of a purchased intangible, CARMA should be consulted through the appropriate comptroller to ensure that all relevant transactions are recorded appropriately in the departmental FMS on a timely basis.

Appendix E - Concept of Control

E.1 General

E.1.1 Further to GC 3150.03, when more than one Government of Canada department or agency is involved in the use of a TCA, the department that controls the TCA must record and amortize it in their financial statements.

E.1.2 Further to PS 3210.16, DND controls the TCA when DND:

a) Can benefit by using the TCA to provide goods and services;

b) Can deny or regulate access to those benefits by others; and

c) Is exposed to the risks associated with the TCA.

E.1.3 Further to PS 3210.20, some TCAs are subject to certain external restrictions that specify the purposes for which the TCAs are to be used. These restrictions do not negate DND's control over the TCA.

E.1.4 Further to PS 3210.22, the concept of control requires that DND records and amortizes TCAs they control, even if DND does not possess or own the TCA.

E.1.5 Further to PS 3210.23, the ability to regulate an industry or economic resource does not, in and of itself, constitute control of a TCA. The ability to regulate should be taken into consideration when determining if DND meets the criteria of control in paragraph E.1.2.

E.2 Commonly Occurring Scenarios

E.2.1 The paragraphs below contain further details on how to assess if DND controls TCAs for commonly occurring scenarios.

E.2.2 DND uses some TCAs that are provided by Shared Services Canada (SSC) that were purchased using SSC's appropriations in accordance with SSC's mandate. Generally, although DND benefits from the use of these TCAs, SSC can deny or regulate access to the benefits of these TCAs and is exposed to the risks associated with the TCAs as SSC is responsible for their maintenance. In these situations, SSC is considered to have control of these TCAs, so DND does not record them in the departmental financial statements.

E.2.3 DND must record Non-public property (NPP) TCAs in their financial statements if DND has control over the TCA, based on the criteria in paragraph E.1.2.

E.2.4 For TCAs that are acquired or constructed in a public-private partnership arrangement, DND must record the TCAs in their financial statements if DND controls the purpose and use of the TCA, access to the TCA, and any significant value in the TCA remaining at the end of the public-private partnership's term. These criteria are measured against the terms of the public-private partnership agreement.

E.2.5 For further assistance in assessing whether or not DND controls a TCA and appropriately recording the related balances (i.e. assets and any related liabilities when applicable) in the departmental FMS, please contact CARMA through the appropriate Comptroller.