PS 3150 Tangible Capital Assets: Summary of Key Provisions

"What is the benefit?" is one of the most often asked questions related to the tangible capital assets project. Chapter 1 of the CICA/PSAB *Guide to Accounting For and Reporting Tangible Capital Assets* provides some helpful information to answer this question. An excerpt from Section 5.0 outlines the answer as follows:

> *"From a management perspective, the key benefit to having local governments adopt tangible capital asset accounting is to obtain better information for decision making. While financial statements themselves will not necessarily provide detailed information about the stock, condition and costs of a local government's assets, it is the underlying information, records and discipline that allows such to be reported that gives local government the information it needs to make informed decisions."*

Those individuals with responsibility for implementation of the tangible capital asset requirements should be familiar with the contents of Public Sector Handbook Section 3150 (PS3150). The information below is organized in a summary format according to the key criteria, by paragraph references, which should be adhered to in order to comply with the new accounting standard. A complete text of the standard is also provided for reference as part of the implementation toolkit.

This summary may also be useful for discussions with elected officials, senior management in the organization and/or the public.

What is the definition of a tangible capital asset?

Tangible capital assets are a significant economic resource managed by governments and a key component in the delivery of many government programs. Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware and software, dams, canals, and bridges. (.02)

Tangible capital assets are non-financial assets having physical substance that:

i. are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
ii. have useful economic lives extending beyond an accounting period;
iii. are to be used on a continuing basis; and
iv. are not for sale in the ordinary course of operations. (.05(a))

What are the recording requirements?

- Tangible capital assets should be recorded at cost. (.09)
- The cost, less any residual value, should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the government. (.22)
- The amortization of the costs should be accounted for as expenses in the statement of operations. (.23)
- The amortization method and estimate of the useful life of the remaining unamortized portion of a tangible capital asset should be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated. (.29)
- When conditions indicate that a tangible capital asset no longer contributes to a government's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value. (.31) The net write-downs of tangible capital assets should be accounted for as expenses in the statement of operations (.32) and should not be reversed. (.33)
- The difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset should be accounted for as a revenue or expense in the statement of operations. (.38)
- Fully amortized assets still in use need to be recorded. (.48)

What are the reporting requirements?

- Tangible capital assets should be accounted for and reported as assets on the statement of financial position. (.07)
- The financial statements should disclose, for each major category of tangible capital assets, the total cost, accumulated amortization and net book value at the beginning and end of the period and the total additions, disposals, write-downs and amortization for the period. (.40)
- The financial statements should also disclose other information about tangible capital assets such as amortization methods and rates, tangible capital assets under construction, donated tangible capital assets, the nature of tangible capital assets recorded at a nominal value or considered to be works of art or historical treasures and the amount of interest capitalized in the period. (.42)

When is this requirement effective and what are the transitional provisions?

- The effective date for this requirement is for fiscal years beginning on or after January 1, 2009. (.43)
- A progress report on implementing this requirement is to be included in the notes to the financial statements beginning with the 2007 fiscal year. (.45)
- When a government does not have historical cost accounting records for its tangible capital assets, it will need to use other methods to estimate the cost and accumulated amortization of the assets. (.47)