

Finance Department Policies			
SECTION: Tangible Capital Assets			POLICY FIN-01
POLICY: General Definitions			
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PURPOSE:

The objective of this policy is to provide definitions to some of the terminology within and surrounding tangible capital asset accounting.

GENERAL DEFINITIONS:

Tangible Capital Assets:

Assets, which have *physical* substance that;

- a) Are used on a continuing basis in the County's operations
- b) Have useful lives extending beyond one year
- c) Are not held for re-sale in the ordinary course of operations

Software is considered to be a tangible capital asset for purposes of this definition.

Please consult the policy on thresholds further direction regarding the capitalization of assets.

Betterments:

Subsequent expenditures on tangible capital assets that fulfill one or more of the following requirements:

- a) Significantly *Increase* previously assessed physical *output* or service capacity;
- b) Significantly *Lower* associated operating *costs*;
- c) Significantly *Extend* the *useful life* of the asset; or
- d) Significantly *Improve* the *quality* of the output.

Any other expenditure would be considered a repair or maintenance and should be expensed in the period.

For purposes of this definition, the determination of whether or not the subsequent expenditure meets the 'Significantly' requirement, will be made by the department head, through consultation with the Treasurer.

Fair Value:

The amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act in a biased manner. Fair value would be used to assign an amount to a donated asset received by the County of Renfrew.

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‘In Service’ Date:

Realized as the date at which an asset begins to be utilized by the County. The calculation and recording of amortization will not begin until the ‘in service’ date has been reached.

Capital Lease:

Lease with contractual terms that transfer substantially all of the benefits and risks inherent in ownership of property to the County. For substantially all of the benefits and risks of ownership to be transferred to the lessee, one or more of the following conditions must be met:

- a) Reasonable assurance that the County will obtain ownership of the leased property by the end of the lease term.
- b) Lease term is of such a duration that the County will receive substantially all of the economic benefits to be derived from the use of the leased property over its life span
- c) The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement

Leasehold Improvements:

Improvements and/or betterments to leased assets, which do not qualify under the definition of a capital lease. These improvements will be capitalized and amortized based on the criteria contained in the Valuation and Amortization policy.

Whole Asset / Component Approach

When recording relatively large assets such as a building or a road network, a decision must be made regarding the level of detail desired for that particular asset. Two principle options are available - the whole asset approach and the component approach.

The whole asset approach is the process of combining what could be considered to be several assets, into one single capital asset. The underlying concept behind this determination is whether or not it would be cost beneficial to segregate the asset in question. Where it would be relatively difficult to track the individual components of a particular asset, and there are no clear benefits to doing so, the whole asset approach would be the method of choice.

The component approach is the process of subdividing an asset into individual segments or ‘components’. Similar to the above, the qualifying question is “Would it be cost beneficial to divide this asset into components?” Where the cost required to track the individual components is relatively insignificant, and the benefits obtained through more accurate reporting are considered significant, then the component approach would be the method of choice.

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The County of Renfrew will utilize a modified component approach, electing to record individual asset components where clearly beneficial, and to record the 'whole asset' when the benefit is not evident.

Capital Asset Adjustments

Trade-in

A trade in occurs when an asset is disposed of and replaced with a new asset through the same supplier in the same transaction. This transaction should be accounted for as two separate entries. The trade in value should be treated as proceeds of disposal and is used in calculating the gain or loss on the disposal of the assets being traded in. The new asset acquired is recorded at its full cost; trade in value for the old asset does not affect the cost of the new asset.

Disposal

The disposal of a capital asset results in its removal from service as a result of sale, destruction, loss or abandonment. When a capital asset is disposed of, the cost and the accumulated amortization should be removed from the accounting records and any gain or loss is recorded at that time. Costs that are associated with the disposal and paid by the County of Renfrew will form a part of the gain/loss calculation. The gain or loss on disposal is the difference between the revenue received less any expenses and the net book value of the asset and should be accounted for as a revenue or expense respectively, in the period the disposal occurs.

Write-Down / Write Off

A capital asset should be written down when a reduction in the value of the asset's service potential can be measured and the reduction is expected to be permanent. Write-downs of capital assets should be accounted for as an expense in the current period. Annual amortization of an asset that has been written down should be calculated using the net book value after the write down and the remaining estimated useful life. Conditions that indicate a write down is necessary may include:

- Removal of the asset from service;
- Physical damage;
- Significant technological developments;
- A decline in, or cessation of the need for the service provided by the asset;
- A decision to halt construction of the asset before it is complete or in a usable or saleable condition; or
- A change in the law or environment affecting the extent to which the asset can be used.