CAPITALIZATION AND AMORTIZATION PROCEDURE

This procedure is governed by its parent policy. Questions regarding this procedure are to be directed to the identified Procedure Administrator.

### Functional Category:
Financial Services

### Parent Policy:
Tangible Capital Asset Management Policy

### Approval Date:
April 11, 2022

### Effective Date:
April 11, 2022

### Procedure Owner:
Vice President, Administration and Chief Financial Officer

### Procedure Administrator:
Director, Financial Services and Controller

### Overview:
Assets are regularly acquired by NorQuest College (college). Accounting practice permits these expenditures to be treated as either:
- an expense in the year that the asset was acquired; or
- to have the expense apportioned over a period of time based on the nature of the asset.

For purposes associated with capitalization and amortization, the college is required to comply with accounting practices that are outlined in the Chartered Professional Accountants of Canada (CPA Canada) Public Sector Accounting (PSA) Handbook.

The PSA Handbook sets out:
- conditions for determining when an expenditure is to be classified as a tangible capital asset,
- information on the amortization period of tangible capital assets,
- actions required by operating divisions to identify tangible capital asset acquisitions,
- actions required by Financial Services regarding tangible capital asset and amortization activities, and
- Treatment of Asset Retirement obligations (ARO)

Authority to establish this procedure is derived from the NorQuest College Board of Governors Policy No. 7, which delegates responsibility for the college’s financial planning and activities to the President and CEO and Board Policy No. 5, which delegates authority to the President and CEO to establish policies and procedures for the college’s management and operation.

College assets will be identified and accounted for as follows:

**Determining Capital versus Non-Capital Assets**

Depending on the characteristics of an asset, an asset is determined to be either “capital” or “non-capital”.

Non-capital assets are fully expensed in the period in which they are received while tangible capital assets are amortized over their useful life. Intangible assets are not recognized as tangible capital assets. When the
amounts become material, they are disclosed in the notes to the financial statements.

Tangible capital assets have the following characteristics:

- beneficial ownership and control clearly rest with the college;
- the asset is used to achieve college objectives; and
- per item cost is greater than or equal to $5,000.

The following table specifies the conditions that apply in determining if an asset is to be recognized as capital or non-capital.

<table>
<thead>
<tr>
<th>Conditions</th>
<th>Tangible Capital</th>
<th>Non-Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual assets have a useful life ≥ 1 year and cost ≥ $5,000</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Individual assets have a useful life &lt; 1 year or cost &lt; $5,000</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Bulk purchase: assets where individual cost &lt; $5,000 but when assessed in aggregate represent a material increase in business capacity (as determined by the Director, Financial Services and Controller)</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Composite assets that are composed of several pieces intended to operate as a unit that collectively cost &gt; $5,000</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td><strong>Exceptions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets (e.g. curriculum development and program development costs, marketing, branding, etc.)</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Works of art and historical treasures</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Land</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Non-recoverable Goods and Services Tax and Harmonized Sales Tax associated with a tangible capital asset</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Interest expense when financing during time asset is under construction</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Betterments to a capital asset; non-leasehold improvements</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Leasehold improvements have a useful life ≥ 1 year and cost ≥ $5,000</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Leasehold improvements have a useful life &lt; 1 year or cost &lt; $5,000</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Repairs and maintenance to a capital asset</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Cannot determine if a cost is a betterment or a repair</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Capital lease</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Non-capital lease (operating lease)</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Future site restoration costs - net of expected recoveries but excluding cost related to environmental liability due to contaminated site.</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Building or infrastructure built on leased land</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Library collection items regardless of cost</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Rental books</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>
Computer software where cost ≥ $5,000 (including upfront cost such as setting up a new system, configuration and customization) ✓

Upfront costs ≥ $5000 for cloud-based software arrangements that are determined to be a multi-element contract. ✓

Upfront costs for cloud-based software arrangements that are determined to be a service contract. ✓

Data migration from old system to new system ✓

Enhancement or upgrade to software where cost ≥ $5,000 ✓

Software licenses ✓

New internally developed software where cost ≥ $5,000 ✓

New internally developed software where cost < $5,000 ✓

Software maintenance, minor fixes, patches ✓

Warranty ✓

Notes:
- Work in progress: construction or development of an asset is capitalized when the project is substantially complete and the asset is in service. Projects that have not been completed as of the date of the financial statements are recorded as “Work in Progress”.
- All lease agreements must be reviewed to determine if a leased asset should be accounted for as a leased tangible capital asset using the Leased Tangible Capital Asset Determination form and approved by the Director, Financial Services and Controller.
- All capital purchases and lease agreements will be reviewed by the Capital Asset team to determine if there are any applicable ARO’s.
- Donated tangible capital assets are to be appraised as specified in the Donation Acceptance Procedure.

Amortization of Tangible Capital Assets
Amortization of capital assets and related ARO’s will be recognized as an expense in the financial statements.

The following table specifies the amortization periods associated with various capital assets. Amortization expense is determined on a straight-line basis in relation to the amortization period.

<table>
<thead>
<tr>
<th>Tangible Capital Asset Description</th>
<th>Amortization Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>not amortized</td>
</tr>
<tr>
<td>Buildings</td>
<td>up to 50 years</td>
</tr>
<tr>
<td>Site improvements</td>
<td>Remaining useful life of building</td>
</tr>
<tr>
<td>Machinery, Vehicles and equipment</td>
<td>5 to 20 years</td>
</tr>
<tr>
<td>Computer hardware and software</td>
<td>3 to 10 years</td>
</tr>
<tr>
<td>Furniture and fixture</td>
<td>10 years</td>
</tr>
<tr>
<td>-----------------------</td>
<td>----------</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>Period 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 reasonably assured.</td>
</tr>
</tbody>
</table>

Notes:
- The amortization method and estimate of the useful life of the remaining unamortized portion of a tangible capital asset should be reviewed every four years and revised when the appropriateness of a change can be clearly demonstrated.
- Work in Progress is not amortized until the asset is substantially complete and in use.

**Definitions:**

- **Amortization**: is an expense that is systematically allocated to operations based on the useful life of a tangible capital asset.

- **Asset Retirement Obligation (ARO)**: is the legal obligation associated with the retirement of a tangible capital asset.

- **Betterment**: is a cost incurred to enhance the service potential of a tangible capital asset. In general, for tangible capital assets other than complex network systems, service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, where associated operating costs are lowered, the useful life of the property is extended or the quality of the output is improved.

- **Cost**: is the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset, and includes all costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use. Cost also includes the asset retirement cost.

- **Fair value**: is the amount of the consideration that would be agreed upon in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act.

- **Intangible asset**: is an identifiable non-monetary asset without physical substance.

- **Leased tangible capital asset**: is a non-financial asset that has physical substance and a useful life extending beyond a fiscal year, and is held

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1 PS3150.05(b), CPA Canada PSA Handbook.
2 PS3150.05(c), CPA Canada PSA Handbook.
under lease by the entity 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 entity without necessarily transferring legal
ownership.

**Leasehold improvement**: betterment made to leased property. To be
considered a leasehold improvement, the modification must have the
following four characteristics:
- The modifications must be made to assets that have been leased;
- The lessee must pay for the improvements. If the expenses are the
  responsibility of the lessor then it will account for the expenses in its
  own records;
- The leasehold improvements should be durable, they should bring
  benefits to the department for more than one year; and
- The betterment reverts to the lessor at the end of the lease (i.e. cannot
  be detached from the leased property).

**Multi-element software contract**: is a contract that meets the following
criteria:
- The college has the contractual right to take possession of the software
  at any time during the term of the cloud computing arrangement
  without significant penalty; and
- It is feasible for the entity to run the software on its own hardware (or
to contract with another party to host the software).
A **service contract** is an arrangement that does not meet the above two
criteria.

**Net book value**: is a tangible capital asset cost less both accumulated
amortization and the amount of any write-downs.

**Operating Lease**: is a lease for which the lessee acquires the property for
only a small portion of its useful life. An operating lease is commonly used
to acquire equipment on a short-term basis. Any lease that is not a capital
lease (see definition of **leased tangible capital asset** above) is an
operating lease.

**Repairs and Maintenance**: are actions that maintain the functionality of
an asset.

**Tangible capital assets**: are non-financial assets having physical
substance that is owned by the college, whose value is recognized for more
than one fiscal year and whose cost exceeds the prescribed threshold
value.

Tangible capital assets specifically:
- are held for use in the supply of goods and services, for
  administrative purposes or for the development, construction,
  maintenance or repair of other tangible capital assets;
• have useful economic lives extending beyond a fiscal year;
• are to be used on a continuing basis; and
• are not for sale in the ordinary course of operations.

**Useful life:** is the estimate of the period over which a tangible capital asset is expected to be used by the college. The life of a tangible capital asset may extend beyond the useful life of a tangible capital asset to the college. The life of a tangible capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial and legal life.

**Related NorQuest College Information:**
- Asset Inventory Management Procedure
- Contract Management Procedure
- Donation Acceptance Procedure
- Goods and Services Procurement Procedure
- Leased Tangible Capital Asset Determination form
- Tangible Capital Asset Management Policy

**Related External Information:**
- Capital vs. Expense Decision Tree
- CPA Canada Public Sector Accounting Handbook PS 3150, PS 3280

**Next Review Date:**
October 2026

**Revision History:**
June 2012: new
June 2013: revised
August 2013: update for document links and branding
November 2014: update for document links
June 2016: revised
October 2016: revised
August 2019: Compliance Office template & reorganization update
February 2020: revised
June 2020: update to position titles and capital asset thresholds
April 2022: update for useful life determinations and ranges along with cloud computing arrangements and to reduce detail to shorten the document.