

McMASTER UNIVERSITY

Complete Policy Title: **Asset Capitalization Guidelines**

Approved by: **Director of Finance**

Date of Most Recent Approval: December 2006

Revision Date(s): May 1, 2007

Position Responsible for Developing
and Maintaining the Policy: **Director of Finance**

Contact Department: **Director of Finance**

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General Definition from the Canadian Institute for Chartered Accountants Handbook:

“Capital assets, comprising tangible properties, such as land, buildings and equipment, and intangible properties, are identifiable assets that meet all of the following criteria:

- (i) are held for use in the provision of services, for administrative purposes, for production of goods or for the maintenance, repair, development or construction of other capital assets;*
- (ii) have been acquired, constructed or developed with the intention of being used on a continuing basis;*
- (iii) are not intended for sale in the ordinary course of operations; and*
- (iv) are not held as part of a collection.”*

Application at McMaster University

With the exception of computers, items with a life expectancy of 2 years or more and a value of \$2,000 (\$5,000 as of May 2007) or more are considered capital assets. All computers are considered capital assets.

Items with a value of less than \$2,000 (\$5,000 as of May 2007) are considered non-capital purchases.

Renovations and alterations that meet the definition of a betterment (see below) and have a value of \$ 25,000 (\$100,000 as of May 2007) or more are considered major renovations and alterations. These are considered a capital asset.

All other renovations and alterations are considered minor renovations and alterations, a non-capital item.

The sub codes for most departments and faculties to use when recording assets that meet the capitalization policy above are as follows:

- 5001 – Equipment - Major
- 5011 – Computer Equipment
- 5108 – Renovations and Alterations - Major

There are additional department-specific sub codes which are capitalized in the audited financial statements. For a list of these specific codes please see

http://www.mcmaster.ca/bms/finance/cat_subcodes.pdf

Non-capitalized equipment and renovations should be recorded in the following subcodes:

- 5020 – Equipment - Minor
- 6082 – Computer expenses
- 6045 – Renovations and Alterations – Minor
- 6116 – Books & Periodicals (for Department use)

Betterments versus repairs:

In many cases, expenditures are made to maintain an existing fixed asset, for example, replacing a roof, re-pointing a building etc. Such items are repairs rather than betterments. The definition of betterment is given as:

“The cost incurred to enhance the service potential of a capital asset is a betterment. Service potential may be enhanced when there is an increase in the previously assessed service capacity, associated operating costs are lowered, the useful life is extended, or the quality of output is improved. The cost incurred in the maintenance of the service potential of a capital asset is a repair, not a betterment. If a cost has the attributes of both a repair and a betterment, the portion considered to be a betterment is included in the cost of the capital asset”.^{1[2]}

Example: Expenditures to convert a meeting room into a lab may be a betterment while the cost of refurbishing an existing classroom would be a repair.

Although amortization of capital assets is not presently recorded in FAS, for Financial Statement purposes, amortization is recorded on a straight-line basis at the following annual rates:

Asset	Rate
Buildings	2.5% - 10%
Nuclear reactor asset retirement cost	4%
Major Renovations and Alterations & Site Improvements	5%
Library Materials	10%
Equipment, furnishings and vehicles	20%
Computing Systems	10%
Computing equipment	33.3%

^{1[2]} CICA Handbook