

Accounting For Your Tangible Capital Assets

The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants has approved Section PS3150 - Tangible Capital Assets of the Public Sector Accounting Handbook, which requires that all municipalities in Canada present information about the complete stock of their tangible capital assets and related amortization in their summary financial statements. This requirement is effective for fiscal years starting January 1, 2009. As such, municipalities only have 18 more months to develop an asset register, and value and amortize those assets, which may be an onerous task for some.

The requirement provides guidelines for the reporting of tangible assets on a consistent full accrual basis. This allows for a fuller understanding of the investment in, and management of, your municipality's tangible asset base. Through this, your managers will better understand the full costs of delivering services to their clients and the impact of future decisions on those costs. As well, properly implemented, the new guidelines can provide your municipality with information to better manage assets, and a starting point to develop a full asset management program.

What does PS 3150 involve?

Your municipality will need to create a current capital asset ledger for all tangible capital assets with replacement costs above certain value thresholds (set by your municipality). This includes not only insurable assets such as buildings and equipment, but infrastructure such as roadways, water systems, traffic signals, and electrical systems will need to be included. Municipal accounting policy will determine which assets to include, and so your Finance department will need to be directly involved from the onset.

Next, you will need to determine the original cost of each item, as well as the date of acquisition. PS 3150 suggests reviewing historical expenditures to determine the actual date and cost of acquisition. For those assets which the original cost cannot be determined from records, the municipality will need to make an estimate of the original cost. Note that the process of determining this estimate has been left to each municipality, leaving a variety of approaches that can be used. It is recommended that before an alternative method is used, the municipality's auditors be consulted to confirm acceptance of the approach.

Finally, once an asset ledger has been compiled, you will need to apply appropriate amortization schedules to each asset class, to arrive at a current depreciated value for each asset and class under the management of your municipality.

Some helpful suggestions:

As with all projects, the devil is in the details; while straightforward in intent, a number of issues need to be dealt with before PS 3150 is successfully implemented. Add to this the substantial asset base existing at this time, and the process can feel overwhelming. With a little planning and foresight, however, it does not have to be.

1. Start early

While not a difficult process, implementing PS 3150 will be time consuming. Starting early will ensure that your team has sufficient time to develop the ledger while completing their normal tasks, and allow proper testing of your accounting system prior to 2009.

2. Plan

Develop an initial project plan, and accept that this will change as unanticipated challenges arise. Identify one individual whose primary role will be to manage this project. Due to time requirements we do not recommend the municipal Treasurer for this role, although the project manager should report directly to the Treasurer. Ensure your project team has a full comprehension of what will be required to meet PS 3150's requirements. Publications from various associations can provide an excellent primer for this subject. ex: Guide to Accounting For and Reporting Tangible Capital Assets, April 2007, prepared by the Public Sector Accounting Group.

3. Review existing data

In addition to your insurance Statement of Values (SOV), it is highly likely that departments have compiled lists of assets they manage, thereby assisting in completing your inventory. Involving departments in the collection and review of asset data will also allow you to leverage off their knowledge of assets and purchasing cycles.

4. Involve your auditors

Remember, accounting standards are conceptual and principle-based; the specifics of implementation are up to each municipality. It will be your auditors signing off on your financial statements, and therefore it is mandatory to involve them throughout your efforts.

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5. Consider Outsourcing

The added burden of inventorying, valuing, and amortizing your tangible fixed assets may exceed the ability of your staff. Some municipalities have retained appraisal and engineering firms to assist in managing the process. Outsourcing this function can be beneficial in two ways. First, it will provide a full capital asset schedule that can be amortized to meet PS 3150's requirements. Second, consideration can be given to expanding the scope of the project to include building appraisals to determine current replacement costs for insurance purposes.

6. Talk to other municipalities

At this time a small but growing body of best practices exists in Canada, augmented with information from sources where similar requirements have been implemented. Of particular note would be the experience in the United States, and several pilot studies completed recently in Ontario.

Finally...

Some municipalities see this as merely an accounting exercise, to be completed by 2009 to meet accounting requirements. It should be noted that, properly implemented, PS 3150 will not only provide your municipality with the tools to manage your capital assets more accurately, but also the basis upon which to build a proper asset management program.

For a more in-depth version of this article, please contact Ken Steger, P Eng, Director – Engineering, CGI Risk Management Services at ken.steger@cgi.com