

Financial Reporting Standards: An overview of the changing accounting standards relevant to Public Sector Organizations

Report Prepared by:

ALTUS GROUP LIMITED

Prepared for:

The National Executive Forum on Public Property

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May 20, 2008

Ms. Cathie MacDonald

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539 Policy Studies Building
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Dear Ms. MacDonald:

**Re: Financial Reporting Standards:
An overview of the changing accounting standards relevant to Public Sector Organizations**

In accordance with your request, we have completed our report on the Financial Reporting Standards: An overview of the changing accounting standards relevant to Public Sector Organizations.

If you have any questions, Philip Smith or Bob Khurana would be pleased to discuss this report with you further.

Respectfully submitted,

ALTUS GROUP



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Executive Summary

The purpose of this report is to address the implications of new accounting standards on municipalities and other public sector organizations in Canada. In particular we have considered the implications of the Public Sector Accounting Board's (PSAB) standards, the International Financial Reporting Standards (IFRS), and the International Public Sector Accounting Standards (IPSAS).

In general, with respect to accounting standards in Canada, organizations in the public, not-for-profit, and private sector, will be required to meet either IFRS, not-for-profit GAAP, or PSAB standards.

Private-sector entities that are publically listed companies, non-listed financial institutions, securities dealers and many co-operative enterprises - commonly referred to as Publically Accountable Enterprises (PAEs) – will be required to follow IFRS standards. Private companies and not-for-profit organizations are not required to adopt IFRSs, but can adopt them if they choose to.¹ Not-for-profit institutions also have the option to continue to apply not-for-profit GAAP.

In the public-sector, certain organizations will fall under PSAB, while others will be required to follow IFRS. The majority of public-sector entities - typical federal, provincial and local government organizations - will be required to follow PSAB. Certain public-sector entities, such as government business enterprises and government business-type organizations, will be required to comply with IFRS standards.

A summary of the reporting requirements and their application to different organization types within each sector is indicated below:

Sector	Organization Type	Reporting Requirements		
		IFRS	Not-for-Profit GAAP	IPSASB
Private Sector	Publically Accountable Enterprises (PAEs) - listed companies, non-listed financial institutions, securities dealers and many co-operative enterprises	X		
	Private Companies	X*		
Not-for-Profit	Not-for-Profit	X**	X**	
Public Sector	Government business enterprises	X		
	Government business type organizations	X		
	Remaining Canadian Federal, provincial, local government (majority of public sector entities)		X	
	International Public Sector			X

* Private companies are not required to adopt IFRSs, but can adopt them if they choose to.

** Not-for-profit institutions are not required to adopt IFRSs, but can adopt them if they choose to. They also have the option to continue to apply not-for-profit GAAP.

For further clarification on the definitions of organization types, please refer to the "Application of Accounting Standards" section of this report or see the Glossary.

¹ IFRSs in Canada: Cleared for Take-Off; Accounting Standards Board of Canada.

http://www.acsbcanada.org/download.cfm?ci_id=43905&la_id=1&re_id=0

At present, many local governments do not use full accrual accounting to monitor, manage and report on their financial position. As a result, tangible capital assets are most often recorded as expenditures in the year of acquisition, as opposed to being recorded as depreciable capital assets. Effective January 1, 2009, these assets will have to be recorded in the latter form in order to be compliant with the new PSAB standard. These assets will then be amortized over their useful lives, decreasing the value of the asset accordingly.

At a high level, improved accounting methods for capital assets facilitates better management of assets, the development of appropriate maintenance and replacement policies, identification and disposal of surplus assets, and better management of risks. Furthermore, identifying assets and the manner in which they are depreciated helps managers understand the impact of using capital assets in the delivery of services and encourages them to consider alternative ways of managing costs and delivering services.

This shift towards full accrual accounting provides information about the full costs of services, thereby providing managers with a guideline for future revenue requirements, the performance and sustainability of existing programs and the likely cost of future proposed activities and services.

The key steps involved in becoming compliant with PS 3150 include:

1. Developing a Tangible Capital Assets Inventory
2. Valuing the Tangible Capital Assets
3. Amortizing the Tangible Capital Assets

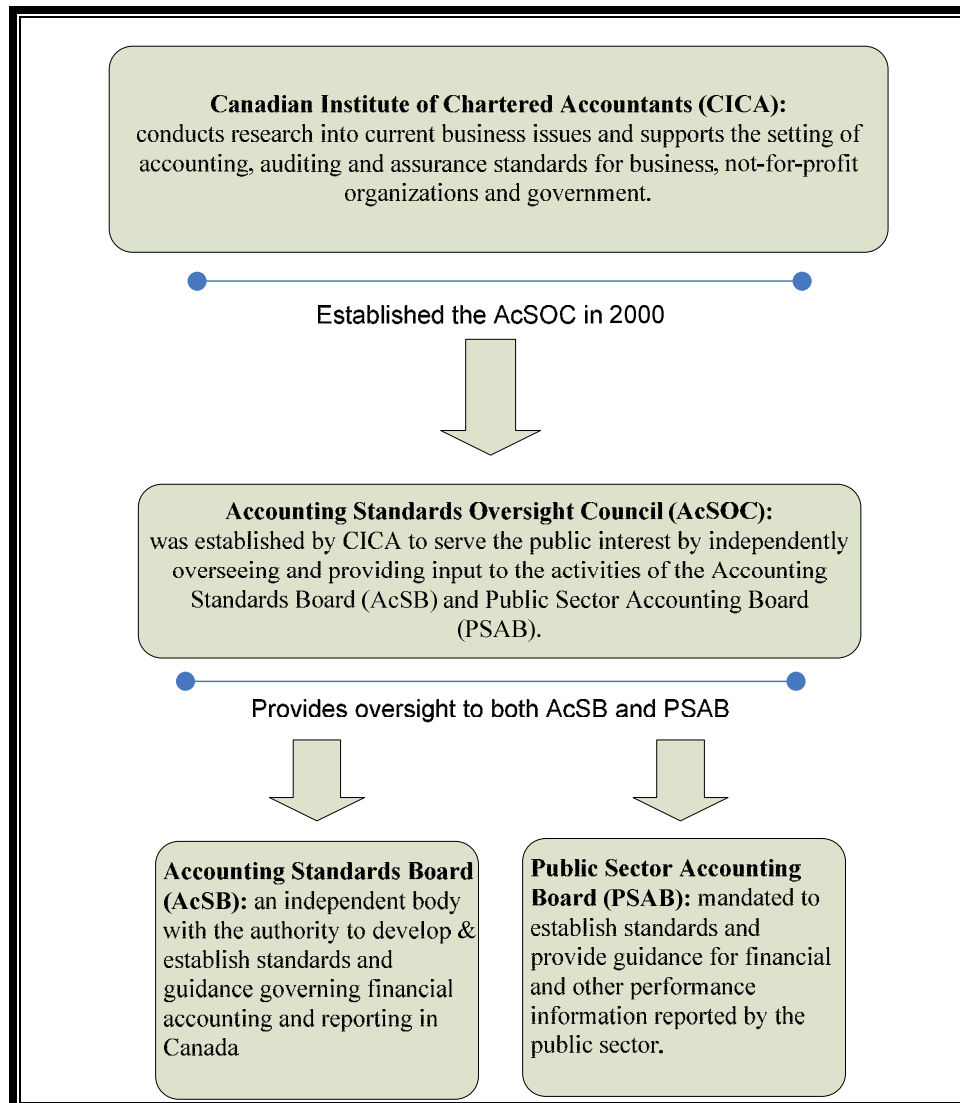
Purpose

The purpose of this report is to provide the National Executive Forum on Public Property (NEFoPP) with the following:

- An overview of International Financial Reporting Standards (IFRS), International Public Sector Accounting Standards (IPSAS), and Public Sector Accounting Board (PSAB) standards.
- A summary of the background, reasons for changing the standards, key changes, main objectives and timelines pertaining to PSAB, IPSAS, IFRS standards.
- The implications of the new global accounting standards on municipalities and other public sector organizations in Canada in the specific context of their capital assets (i.e. buildings, infrastructure and equipment).
- An approach to address the changes resulting from PS-3150 - Tangible Capital Assets.

Canadian Context

The Accounting Standards Oversight Council (AcSOC) was established in 2000 by the Canadian Institute of Chartered Accountants (CICA) to serve the public interest by overseeing and providing input to the activities of the Accounting Standards Board (AcSB). The AcSB is an independent body with the authority to develop and establish standards and guidance governing financial accounting and reporting in Canada. In January 2006, the Canadian Accounting Standards Board (AcSB) announced its decision to replace Canadian Generally Accepted Accounting Principles (GAAP) with International Financial Reporting Standards (IFRS) for all Canadian Publicly Accountable Enterprises. Commencing in 2003, the AcSOC now also oversees and provides input to the activities of the Public Sector Accounting Board (PSAB). PSAB was established in 1981 to improve and harmonize accounting in the Canadian public sector.



Public Sector Accounting Board (PSAB)

PSAB's primary mandate is to establish standards and provide guidance for financial and other performance information reported by the public sector. The underlying goal is to enhance confidence in public sector reporting.

The board is comprised of members that are senior government executives and experts in government financial reporting, representing all levels of government. PSAB is accountable to the Accounting Standards Oversight Council (AcSOC).

PSAB develops standards based on the premise that the information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond simple financial statements. It asserts that external information adds depth and enhances understanding of the financial statements. To this end, PSAB develops generally accepted accounting principles (GAAP) for governments. It also issues guidance in the developing area of performance reporting by issuing Statements of Recommended Practices (SORPs).

New PSAB Standards

The Public Sector Accounting Board has recently released several new standards which will impact on the manner in which local governments conduct financial reporting.

New PSAB Standards	
Standard	Topic
PS-1000	Financial Statement Concepts
PS-1100	Financial Statement Objectives
PS-1200	Financial Statement Presentation
PS-3150	Tangible Capital Assets

For the purposes of this report, we will focus on PS 3150 – the new standard pertaining to Tangible Capital Assets.

Unique Characteristics of Government

In order to understand the reasoning behind the use of a specific set of standards (PSAB standards) for government, one must first recognize the unique role that governments play and how that impacts their decision-making and how their reporting should be tailored accordingly.

Section PS 1100 of the PSAB Handbook details the key differences between government operations and business. The key elements are identified below:

“The objectives of financial reporting for government and business are not the same. Specifically, the accounting standards for business do not adequately prescribe the recognition, measurement, presentation and disclosure of government financial information that is needed for accountability by governments and useful for decision making by users of government financial statements.” (Sub-section .06)

“The goals of government are not the same as those of business. The primary goal of a business is profit and its resources are employed to that end. Investors put up capital in expectation of a return, and financial statements report the success or failure of the business in providing that return.” (Sub-section .07)

“Governments differ from business in both objectives and financing. In general, governments provide public service and redistribute wealth for a variety of social and economic purposes. The delivery of a services does not, however, normally give rise to revenue, and the payment of taxes does not necessarily entitle a taxpayer to any particular public service or benefit. Because governments are granted the power to tax, their revenues are not substantially dependant upon voluntary contributions nor on the profitable sale of goods and services in the marketplace” (Sub-section .08)

In addition to reviewing the PSAB Handbook in detail for further clarity on this subject, please also refer to Appendix A for additional information on the unique characteristics of government (sourced from Appendix A of Section PS 1100 in the PSAB handbook).

PS 3150 - Tangible Capital Assets

Introduction

At present, many local governments do not use full accrual accounting to monitor, manage and report on their financial position. As a result, tangible capital assets are most often recorded as expenditures in the year of acquisition, as opposed to being recorded as depreciable capital assets. Effective January 1, 2009, these assets will have to be recorded in the later form in order to be compliant with the new PSAB standard. These assets will then be amortized over their useful lives, decreasing the value of the asset accordingly.

In order to be compliant with PS 3150, local governments will have to build tangible capital asset inventories. These inventories can then be used to develop strategic asset management plans and improved financing options.

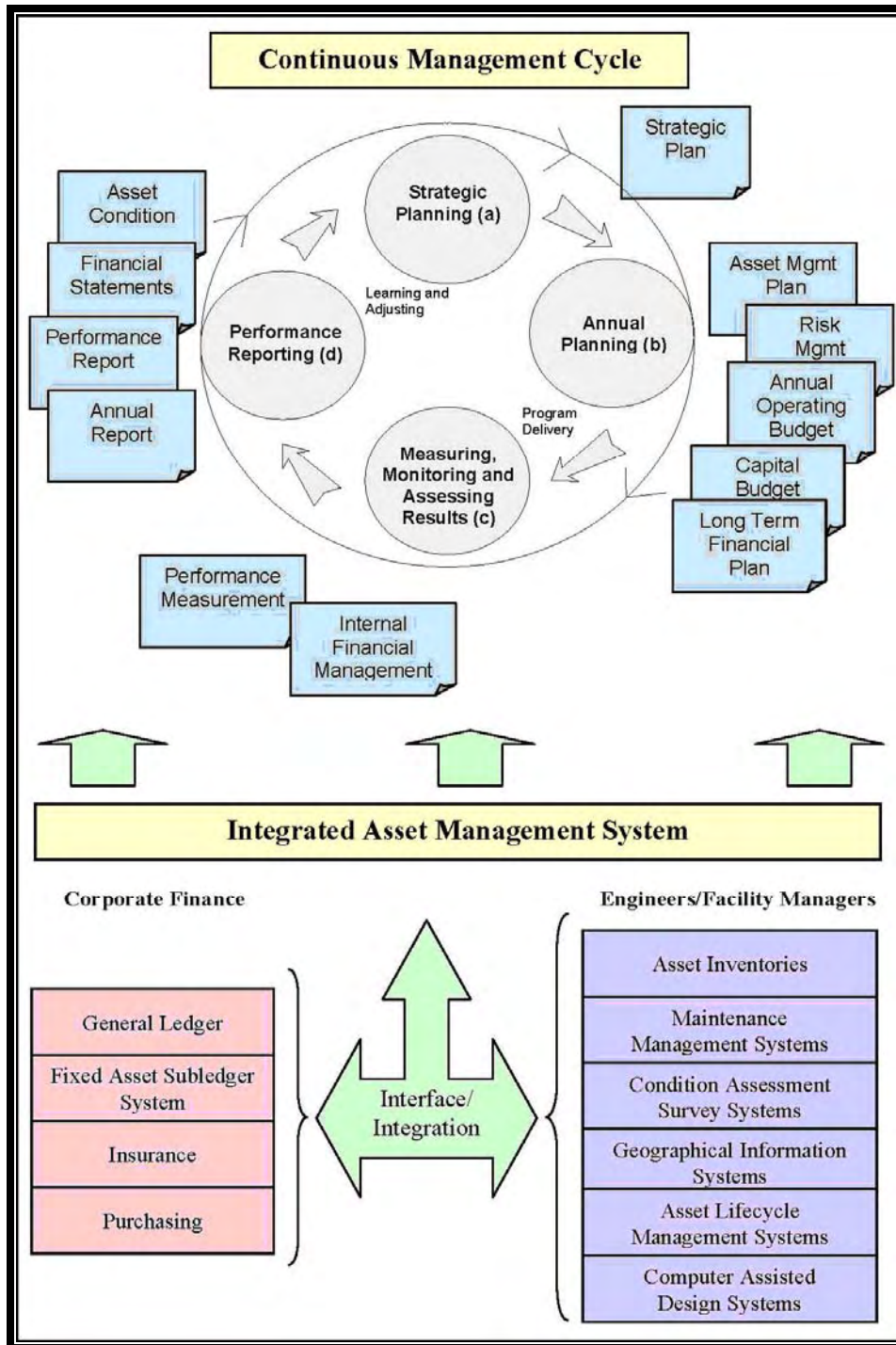
What is the benefit of PS 3150?

The PSAB Guide to Accounting for and Reporting Tangible Capital Assets provides some meaningful reasoning:

“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.”

The key message is to view PS 3150 as not just an accounting exercise, but as an opportunity to develop a value-adding asset management strategy, achievable through information integration via Finance and Engineering/Facilities Management resources. The asset management information should then tie into strategic and annual planning, program measurement, and performance reporting in order to be directly tied into management decision making.

The following figure, taken from the PSAB Guide to Accounting for and Reporting Tangible Capital Assets (p.13), helps to illustrate how financial statement information about assets can be utilized for a multitude of different purposes.



The Canadian Institute of Chartered Accountants' report, *Accounting for Infrastructure in the Public Sector*, identified the following benefits of accounting for the stock of infrastructure assets:

- Provides a proper context and inventory for debating maintenance, renewals, replacement, funding, financing and rate-setting decisions.

- *Establishes a common basis of measurement, allowing for enhanced comparability.*
- *Provides a useful starting point and basis for evaluating the condition of infrastructure on a regular basis and for highlighting changes in its condition over time.*
- *Is useful in identifying a local government's flexibility in responding to a community's changing service demands.*
- *Helps decision makers assess the long-term sustainability of existing debt loads, current program costs and the need for future infrastructure replacement or improvements.*
- *Contributes to the evaluation of contingencies related to infrastructure by promoting an understanding of the type of infrastructure a local government has and, thus, identifying types of unexpected events that could befall that infrastructure.*

At a high level, improved asset accounting methods facilitate better management of assets, development of appropriate maintenance and replacement policies, identification and disposal of surplus assets, and better management of risks.

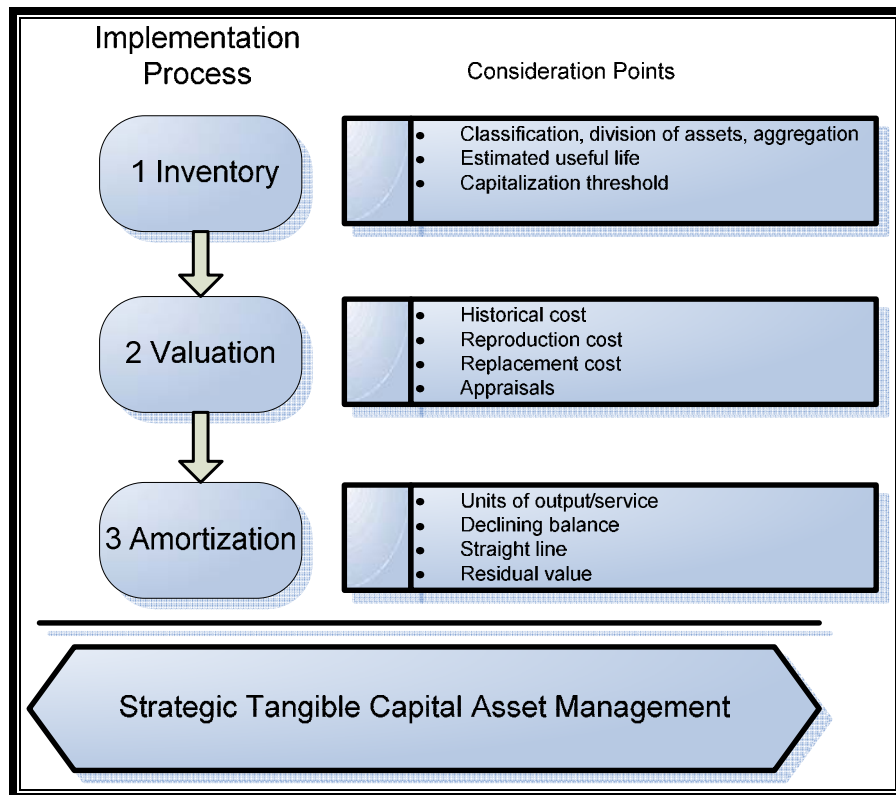
Furthermore, identifying assets and the manner in which they are depreciated helps managers understand the impact of using capital assets in the delivery of services and encourages them to consider alternative ways of managing costs and delivering services.

The full accrual accounting method provides information about the full costs of services, thereby providing managers with a guideline for future revenue requirements, the performance and sustainability of existing programs and the likely cost of future proposed activities and services.

The key steps involved in becoming compliant with PS 3150 include:

1. Developing a Tangible Capital Assets Inventory
2. Valuing the Tangible Capital Assets
3. Amortizing the Tangible Capital Assets

The following diagram, adapted from the Ontario Municipal Benchmarking Initiative (OMBI)'s *Guide to Accounting for and Reporting Tangible Capital Assets*, provides an overview of the steps required to implement and manage the accounting changes associated with meeting the new Tangible Capital Assets standard:



Consultations

With the financial support of the Ontario Government, the Association of Municipal Managers, Clerks and Treasurers of Ontario (AMCTO) and the Municipal Finance Officers' Association (MFOA) have taken a lead role in identifying and communicating the changes pertaining to the new PSAB standards. Here are some highlights from our discussions with the AMCTO:

PSAB Readiness Survey

The survey was released to all 445 municipalities in Ontario, with approximately a 45% response rate. The most recent survey results, from February 2008, indicate a positive trend among municipalities in that awareness and readiness has increased significantly since the 2006 survey was released. For the 2008 survey, 93% of respondents said they are at least somewhat familiar with the new rules (up from 64% in a May 2006 survey), while 59% said that their municipality is somewhat prepared for the conversion (up from 10% in the previous survey). However, there still appear to be gaps in municipal preparedness for the PSAB conversion.

PSAB Training

Training sessions on PSAB accounting and municipal budgeting will be offered in May 2008. Sessions will be offered at various locations in Ontario. Further details will be available from the AMCTO web site (<http://www.amcto.com/psab/assetmgmt.asp>).

PSAB and IFRS

Discussions between the Canadian Institute of Chartered Accountants (CICA) and the AMCTO have indicated that IFRS does not apply to municipalities (notwithstanding government business enterprises and government business-type organizations) and that PSAB should be the primary focus.

Furthermore, our consultations with the MFOA yielded the following key points:

Size and Age of Municipality Impacting PSAB Readiness

In terms of population, the top 10 of Ontario's 445 municipalities encompass approximately 50% of the provincial population. Accordingly, over 90% of the remaining municipalities are significantly smaller, with fewer resources, and in many cases are experiencing additional challenges with the PSAB transition. Older municipalities, with aging infrastructure assets are further challenged because in many cases there is little to no asset information available, making the inventorying process that much more difficult.

Local Governments Own well over 50% of Public Assets

While the federal and provincial stock of public assets has steadily been decreasing over the past several decades, municipal governments have seen an immense increase in public asset ownership.

Gas tax funding can be allocated to developing an asset management plan

Further detail wasn't provided, but this may prove useful if municipalities are looking for alternative funding options.

Our research also led us to meet with a CICA/PSAB Director, who offered the following:

Application of IFRS

Certain "commercially-oriented" municipal organizations (government business enterprises and government business-type organizations) must apply IFRS.

PSAB and International Public Sector Accounting Standards Board (IPSASB)

IPSASB is following in the footsteps of PSAB in a number of ways. IPSASB is, however, expanding their conceptual framework which is currently planned to be released by 2012. Although the two groups are now co-located in Toronto's downtown core, at present, there are no defined plans for a convergence or consolidation between these two groups.

Developing a Tangible Capital Asset Inventory

What is a Tangible Capital Asset?

PSAB 3150.02 states that "tangible capital assets are a significant economic resource managed by governments and a key component in the delivery of many government programs."

According to PS 1000.36, assets have three essential characteristics:

- (a) *They embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;*
- (b) *The government can control access to the benefit; and*
- (c) *The transaction or event giving rise to the government's control of the benefit has already occurred.*

Furthermore, the PSAB Handbook states that tangible capital assets:

- (a) *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;*
- (b) *have useful economic lives extending beyond an accounting period;*
- (c) *are to be used on a continuing basis; and*
- (d) *are not for sale in the ordinary course of operations.*

Accordingly, the PSAB Handbook specifically states that "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." For the purposes of PS 3150, tangible capital assets are explicitly defined to include computer software, even though it lacks physical substance. Furthermore, "contributed assets such as those provided by a developer, are tangible capital assets whether the municipality paid anything for the assets or not."

Excluded Tangible Capital Assets

According to our research, tangible capital assets that are currently excluded from the scope of PS 3150 include:

- Former Crown lands transferred to, but not purchased by the municipality
- Works of art or historical treasures

- Intangible assets (e.g. goodwill, trademarks, copyright)
- Assets related to government business enterprises²

Tangible Capital Asset Classification

In order to initiate the inventory process, there is a need to develop asset classifications. As an example, a local government may define its major asset classifications as follows:

Category
Land
Building
Infrastructure
Vehicles
Machinery
Furniture
Computers & Office equipment

These categories may then be further divided into subcategories. For example, vehicles may be categorized into cars, trucks and buses, and machinery may be broken down into heavy and light equipment.

Tangible Capital Asset Segmentation: Single Asset vs. Component

The next major decision will involve whether or not to segment assets into separate components. This is an important decision because it will have implications in terms of the level of detail required for the asset inventory and the approach and complexity of calculating amortization. The approach to segmentation is particularly key for any asset which has component parts with useful lives that are different from the asset as a whole.

Using the example of a typical building, assuming component accounting is used, the roof, elevator and HVAC system would likely be segmented and therefore amortized differently.

The decision on whether or not to use component accounting has a significant impact on amortization and the manner in which future capital expenditures are accounted – either capitalized as betterments or expensed as repairs. This decision should be based on how the asset inventory is linked to the overall

² Please refer to the Glossary for further clarity on this term.

asset management strategy. Further detail on the advantages and disadvantages of each approach can be found in Appendix B.

Capitalization Thresholds


In addition to asset segmentation decisions, it is also essential to define threshold values as part of the initial asset inventory process. PS 3150 does not provide specific threshold values or even general guidance on minimum dollar thresholds to determine whether or not a given asset will be categorized as a capital asset. However, US Government Accounting Standards, specifically GASB (Government Accounting Standards Board) Statement 34, does provide some guidance:

Asset category	Revenues less than \$10 million	Revenues \$10million - \$100 million	Revenues exceeding \$100 million
Land	Always Capitalize	Always Capitalize	Always Capitalize
Land improvements	\$12,500	\$25,000	\$50,000
Buildings	\$25,000	\$50,000	\$100,000
Construction in progress	Always Capitalize	Always Capitalize	Always Capitalize
Machinery & equipment	\$2,500	\$5,000	\$5,000
Vehicles	\$2,500	\$5,000	\$5,000
Infrastructure	\$100,000	\$250,000	\$3,000,000

Ultimately, it is each government's decision on how to establish and structure its capitalization thresholds. GASB 34 should only be used as a guideline, as each government's specific operational conditions should drive threshold decision-making. Of primary importance should be the goal of maintaining financial reporting accuracy, while also keeping the cost of services within a reasonable range, year over year. For example, in situations in which the capitalization threshold is set too high, the cost of services may differ significantly from year to year because major expenditures would be expensed in the year they were incurred. Conversely, if thresholds are set too low, costs and support to maintain the inventory of tangible capital assets may be too costly. It may be beneficial for governments to consult with their auditors and consider financial statement materiality before establishing thresholds.

The Region of Halton has also established its own Tangible Capital Asset thresholds as part of their Tangible Capital Asset/Asset Management (TCA/AM) Plan:

Thresholds	
Asset Class	Threshold
Land	\$0 (capitalize all)
Land Improvements	\$10k
Buildings & Building Improvements	\$10k
Leasehold Improvements	\$10k
Machinery & Equipment	\$5k
Vehicles	\$5k
Linear Assets	\$50k



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Compiling the Tangible Capital Asset Inventory

After the aforementioned decisions have been made, compilation of the inventory may begin

When compiling the inventory, some consideration will have to be given to leased tangible capital assets. Leases are typically categorized as capital leases or operating leases. Public Sector Guideline-2 (PSG-2: Leased Tangible Capital Assets) helps to provide some clarity on the definition of a leased tangible capital asset with respect to PSAB:

“ A leased tangible capital asset is a non-financial asset that has physical substance and a useful life extending beyond an accounting period, and is held under lease by a government 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 government without necessarily transferring legal ownership.” (PSG 2, paragraph 3)

Essentially, PSAB has adopted a "benefits and risks" approach to assessing whether a government should classify a lease as a leased tangible capital asset. PSG-2 also identifies the criteria to be considered when determining when substantially all of the benefits and risks are transferred to the government.

The following information is required for the tangible capital asset inventory:

- Description of the asset
- Year of acquisition
- Expected useful life at the time of acquisition
- Significant improvements made to the asset from the time of acquisition to the inventory date and the date of the improvement and the estimated useful life of the improvement

- Service hours, production or mileage to date (if applicable)
- Estimated residual value, if any, on disposal

Valuing Tangible Capital Assets

Cost Determination

Tangible capital assets are required to be recorded at cost. (PS 3500.09) The 'cost' should include the gross amount of consideration given up in the acquisition, construction or development a tangible capital asset. This should include all costs that are "directly attributable" in the process. In addition to the purchase price, costs that would typically be incorporated may include the following: installation costs, site preparation costs, design and engineering fees, legal fees, freight charges, transportation insurance costs, and duties. They may also include directly attributable carrying costs, such as interest costs when the government's policy is to capitalize interest costs.

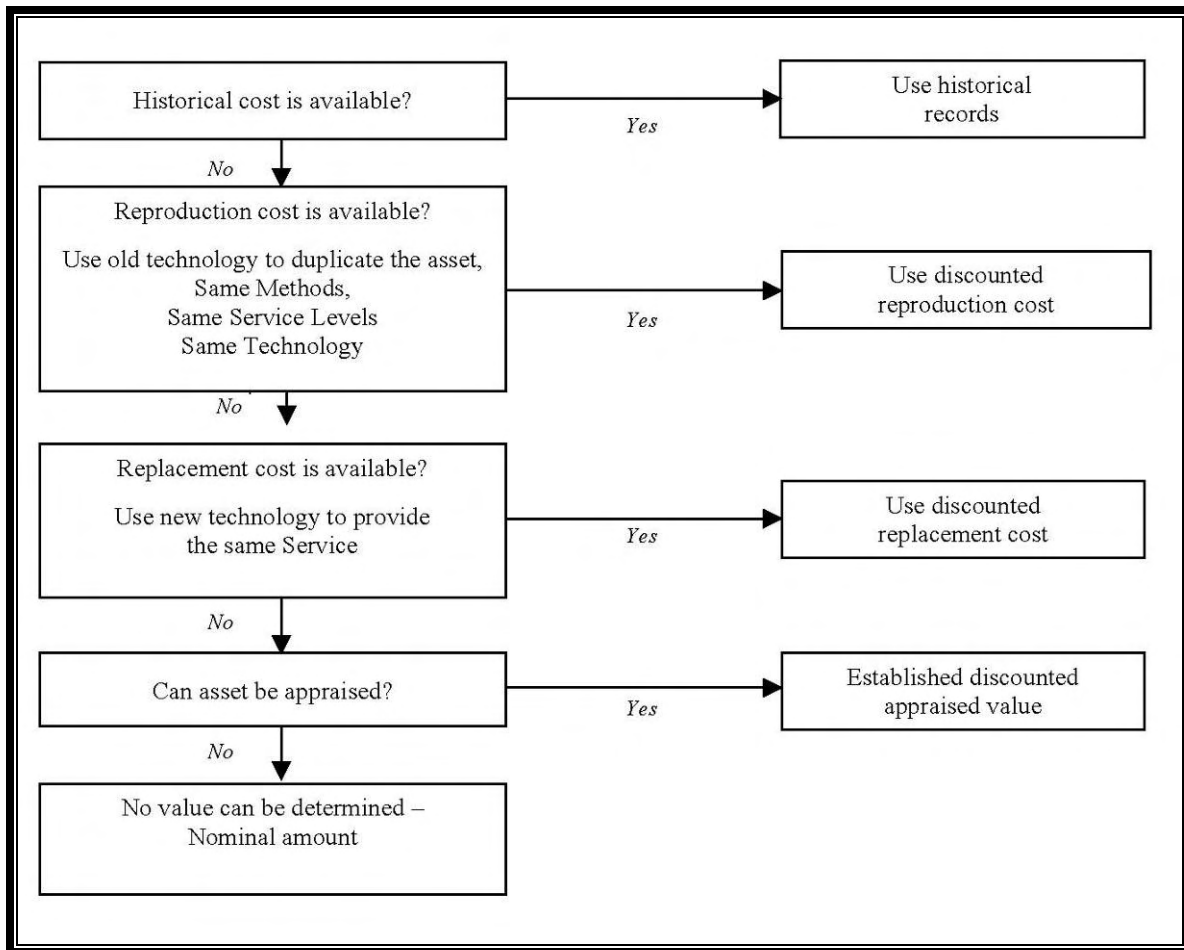
Although PS 3150 requires a historical cost approach, it also takes into account that this information may not exist for all assets, and only suggests that a consistent method of estimating be used. The Ontario Municipal Benchmarking Initiative (OMBI) suggests three methods to approximate the historical cost of a tangible capital asset:

Deflated (or discounted) Reproduction Cost – The current cost of reproducing the asset in the same physical form (substantially the same materials and design) is discounted to the cost at the time of acquisition using an appropriate inflation index to deflate the current cost to arrive at an estimate of the asset cost at the time of acquisition. The inflation index used should be consistent with the asset being valued.

Deflated (or discounted) Replacement Cost – The current cost of replacing the asset in a different physical form but with the same productive capacity is discounted to the cost at the time of acquisition using an appropriate inflation index. This method should be used in instances where, due to technological change, it does not make sense to replace an asset in similar physical form.

Appraisal – A professional assessment of what an asset is worth based on its current age and condition. This value is then discounted to the cost at the time of acquisition using an appropriate inflation index.

The OMBI has created the following decision tree to facilitate the valuation process:



Book Value Calculator (BVC)

The Book Value Calculator was developed by the Valuation Program at Public Works and Government Services Canada (PWGSC) in order to support the real property asset valuation process. Specifically, the tool was used to identify opening book values for all real property assets held by the federal government for its transition to full accrual based accounting (similar to the requirements under the PSAB 3150 initiative). The BVC allows users of the program to easily determine reasonably accurate estimates of book values.³

The federal government found that its records relating to original historic costs and betterments completed on its real property assets were either missing or incomplete in most cases. Accordingly, the BVC was used to:

³ www.bookvaluecalculator.com

- Determine ‘Gross’ and ‘Net’ opening book values, and remaining asset life for all of its real property assets using readily available information.
- Recognize and account for betterments that had been completed on real property assets (infrastructure, buildings, etc.) since they were originally built or acquired.

The BVC uses various cost indices and calculated betterment rates to develop estimates of gross and net book values, remaining asset life and effective year built. The program was reviewed extensively and endorsed by the Office of the Auditor General of Canada and the Provincial Auditor of Ontario. The BVC output data meets PSAB 3150 requirements.⁴

Betterments

A “betterment”, or subsequent expenditure, is a cost incurred to enhance the service potential of a tangible capital asset. In most cases, service potential may be enhanced when any one of the following occur:

- There is an increase in the previously assessed physical output or service capacity,
- Associated operating costs are lowered,
- The useful life of the property is extended or
- The quality of the output is improved.

In cases where there have been betterments since an asset was originally acquired or constructed, these costs must be considered as part of the valuation process. In general, betterment costs should be added to the cost of a tangible capital asset.

Differentiating between maintenance and betterments can sometimes be challenging. The PSAB Handbook offers the following guidance on this issue as per PS 3150.21:

For complex network systems, therefore, the following basic distinctions can be used to identify maintenance and betterments:

- (a) Maintenance and repairs maintain the predetermined service potential of a tangible capital asset for a given useful life. Such expenditures are charged in the accounting period in which they are made.*
- (b) Betterments increase service potential (and may or may not increase the remaining useful life of the tangible capital asset). Such expenditures would be included in the cost of the related asset.*

Furthermore, the approach taken to accounting for tangible capital assets may also impact the accounting for betterments. As referenced earlier, this relates to asset segmentation, or the decision to take a single asset vs. component approach. To use an illustrative example, if you were to replace a major component of an asset that is accounted for under the single asset approach, it would likely be categorized as

⁴ www.bookvaluecalculator.com

maintenance (e.g. the roof on a building, would likely be maintenance as it does not extend the life of the asset.) Replacing these types of components would be considered normal over the life of the asset, under the single asset approach. If the component approach is used, the replacement of a major component would be considered as an addition to the asset and a disposal of the replaced component. (e.g. If the roof were a component of the building, the replacement of the roof would be considered a new asset and amortized accordingly over its useful life.)

Amortizing Tangible Capital Assets

Once the inventory and valuation processes are complete, amortization can be calculated. Depreciating a tangible capital asset requires the cost, less any residual value, to be amortized over its useful life in a reasonable and systematic manner based on the asset's use.

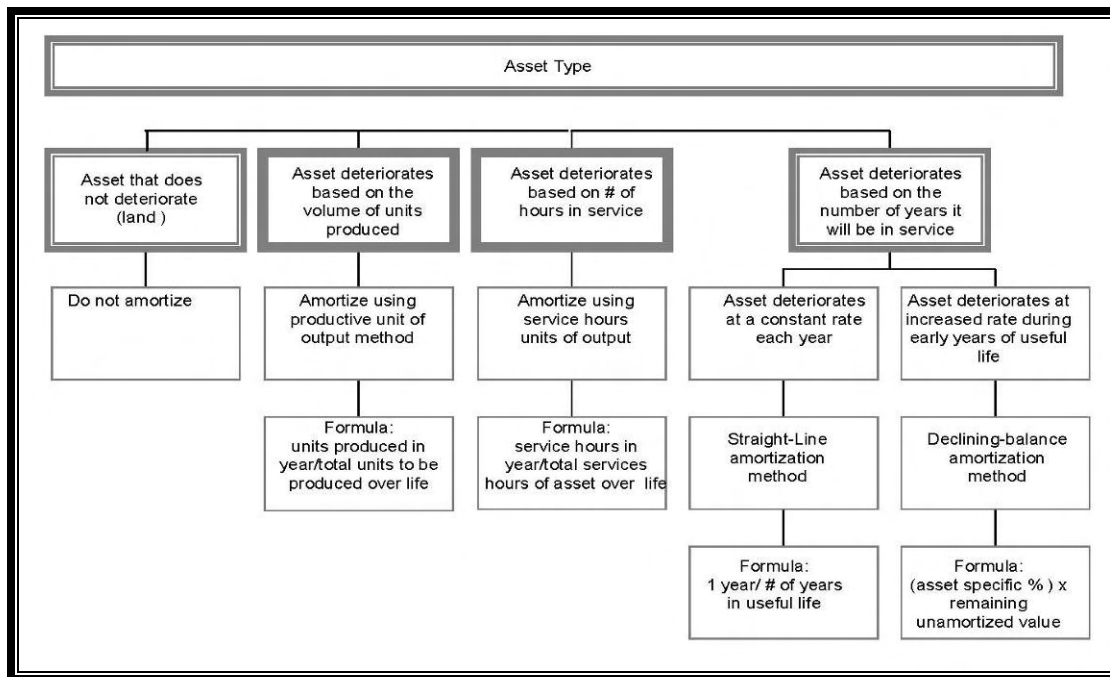
The amount of depreciation for any given asset depends on the following:

- Method of depreciation
- Useful life
- Residual value

Amortization Method

There are several depreciation methods available, however PSAB only indicates that the method must be appropriate given the asset's nature and use.

The OMBI has developed the following decision tree to assist in determining the most appropriate method of depreciation:



Useful Life

The useful life of a tangible capital asset

- expected future usage
- effects of technological obsolescence
- expected wear and tear from use or the passage of time
- the maintenance program
- studies of similar items retired
- the condition of existing comparable items

Land is normally the only asset that has an infinite useful life and therefore is not subject to amortization.

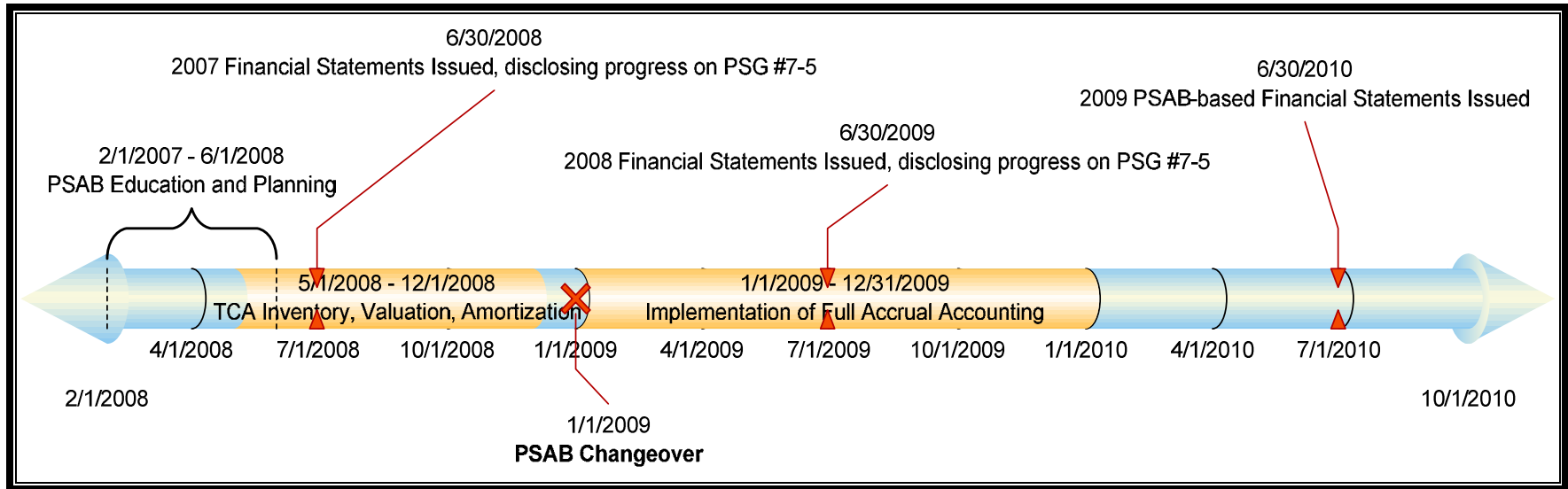
Residual Value

The residual value is the value expected to be received on disposal of the asset. This amount is to be deducted from the initial cost in the determination of the annual depreciation.

Write-downs

Once the accumulated depreciation has been determined, the net book value can be calculated as the initial cost less accumulated depreciation. At this time, consideration should be given to whether the net book value of the tangible capital asset is in excess of the future economic benefits expected from its use and, therefore, whether a write-down is required to establish more appropriate cost and accumulated amortization amounts for the asset.

PSAB Timeline



* The date of financial statement issuance may vary for each local government.