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THE UNIVERSITY OF BRITISH COLUMBIA

University of British Columbia Capital Accounting Guidelines





Purpose of this presentation

1. To raise awareness of the importance of appropriate treatment of capital expenditures
2. To provide guidance to help distinguish capital expenditures from other expenses
3. To promote an understanding of the capitalization process at the University
4. To achieve consistency of capital accounting across all units and the University.



Why does it matter?

- Units follow *cash basis* of accounting - recognizes expenses when *payments are made*
- For external reporting, UBC must follow *accrual basis* of accounting - recognizes expenses at the time they are *incurred*
- Timing difference between when UBC pays for capital items and when UBC receives the benefits of using/owning the asset
- For external reporting, UBC is required to spread the cost of an asset over its useful life through “depreciation”



Account Summary

Account Code	Account Type	Common examples
100000's	Assets	Cash, capital assets, prepaid expenses & inventory
200000's	Liabilities	Deferred revenue, accrued liabilities, payables
400000's	Revenue	Tuition fees, sales and external grants/donations
490000-799999	Expenses	Operating costs, travel reimbursements and professional fees
8XXXXX	Expenses	Most capital expenditures (89XXXX series is depreciation expense)
488xxx & 988xxx	Inter-fund Transfers	Funding distribution



What is Capital Expenditure?

An item is considered as a capital expenditure and should be recorded to a capital expenditure account code if all of the following criteria is met:

1. **Not a normal office supply** and has a useful life of more than **1 year**;
2. acquired, constructed or developed with the **intention of being used on a continuing basis**; and
3. **Not intended for sale** in the ordinary course of operations



Cost of Capital Assets

Cost including all charges directly attributable to the acquisition, construction, development or betterment of the capital asset.

- Consideration given up to acquire the asset
- Direct construction or development costs
- Overhead costs directly attributable to the construction or development activity
- Cost of installing the asset
- Training costs



Choosing Account Codes

1. A complete list of account codes with brief descriptions available on FMS NQuery
2. Expected useful life of the acquired asset vs. estimated useful life pertaining to the capital expenditure account code at UBC
3. A list of capital expenditure account codes with detailed descriptions and examples will be available on the [Accounting for Capital Items](#) section of the UBC Finance website.



Asset Classes

- Capital items are categorized into asset classes based on the nature of the assets and their estimated useful lives.
- Asset classes are represented by capital expenditure account codes.
- Depreciation - allocation of the cost of assets to periods in which the assets are used.



Commonly Used Asset Classes

Asset Class	Useful Life in Years	Capital Expense Account Code
Major Renovation	15	841000
Major Upgrades	25	844000
Building Renewals	40	843000
Minor Renovation	5	842000
Furniture	8	810000
Equipment	8	820XXX
Vehicles	5	825000
Computing Equipment	3	830000
Major Software	5	835000
Network/Server Equipment	7	830301/3
Library Books	10	637XXX



Software Development Cost

Software development costs that add future value should be capitalized. These include

- Costs incurred to develop internal-use software
- All costs incurred during the preliminary stage and the post-implementation stage should be expensed.
- Upgrades that increase the functionality or service potential of the software should be capitalized.
- One-off license fees can be capitalized but yearly license/maintenance fees are expensed



Capitalization Process

Unit-level

- Units only need to ensure that appropriate account codes are charged based on the **account code description** and the **useful life** of the asset.

Central Finance

- Capital expenditures are reallocated to Asset account codes under Central Dept IDs
- The depreciation process begins in the year of acquisition based on the useful life pertaining to the capital expenditure account code.



Summary

- Accrual basis of accounting is required for external financial statement presentation
- An item should be capitalized if it is not a normal office supply and has a useful life of more than 1 year.
- Introduction of new building addition categories: Major Upgrades (844000) & Building Renewals (843000)
- Units are responsible for identifying capital expenditures and coding them to the most appropriate account codes based on the useful life and the nature of the expenditure.



Questions?

- Please contact [Financial Reporting](#) for any clarifications
- Detailed capital accounting policy with a table of major asset classes will be available on the [Capital Accounting](#) section of the UBC Finance website
- A complete list of account codes can be found in FMS nQuery under the Chartfields menu



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