Capitalization and Depreciation Policy

University of Waterloo

- **Purpose**
- **Related links**
- **General**
- **Procedures**
  - Capitalization
  - Depreciation
  - What to Include in the Cost of a Capital Asset
    - Initial Cost
    - Costs Incurred Over Time

**Purpose**

For University of Waterloo (the “University”) purposes, a capital asset is a tangible item with an expected useful life of 3 years or more (i.e. not a consumable item) valued at $20,000CAD or more, subject to certain exceptions as noted below.

**Related links**

Finance - Capital Assets
Secretariat Policy 74 – Capital and Non-Capital Assets
General Ledger - Segment Values

**General**

The capitalization threshold is calculated on a per unit basis, after tax (and associated rebate), in Canadian dollars.

**Procedures**

**Capitalization**

All assets meeting the definition of a capital asset and valued at $20,000CAD or more are recorded in the Capital Fund (Fund 104). Vehicles and Works of Art are not subject to capitalization thresholds.
The University’s capital asset categories include Buildings, Parking Lots & Roads, Equipment & Furnishings, Vehicles, Computer Equipment, Land and Works of Art.

**Depreciation**

As capital assets are used by the University over time, the cost of each asset is depreciated over a period that represents the amount of time the asset is expected to be used by the University subject to a minimum of 3 years. An exception is made for both Land and Works of Art, which are not subject to depreciation as it is expected that capital assets falling into these categories will retain their value over time.

The useful lives associated with each asset category are summarized in the table below.

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Useful Life (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building</td>
<td>40</td>
</tr>
<tr>
<td>Parking Lots &amp; Roads</td>
<td>15</td>
</tr>
<tr>
<td>Equipment &amp; Furnishings</td>
<td>10</td>
</tr>
<tr>
<td>Vehicles</td>
<td>5</td>
</tr>
<tr>
<td>Computer Equipment</td>
<td>3</td>
</tr>
<tr>
<td>Land</td>
<td>N/A</td>
</tr>
<tr>
<td>Works of Art</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**What to Include in the Cost of a Capital Asset**

**Initial Cost**

Capital assets are recorded at the amounts given up to acquire, construct, or develop them.

The cost of acquired capital assets includes the purchase price and any other costs directly attributable to the asset, including installation, related software, and customs/freight charges (if greater than $100). The non-recoverable portion of applicable sales taxes are also included in the cost of a capital asset.

Some costs should not be capitalized and should be charged to an expense account, including:

- Freight and customs charges less than $100
- Software not purchased with or integral to capital equipment
- Training related to purchased equipment
- Extended warranty costs greater than one year

The cost of constructed capital assets such as buildings includes direct construction or development costs (including materials and labour), site services, design fees and overhead directly attributable to construction activity.
Contributed capital assets, such as works of art, are recorded at fair value based on market or appraisal values only where a reliable estimate of fair value is available.

**Costs Incurred Over Time**

Costs incurred following the purchase or construction of a capital asset are included in the cost of the capital asset if the cost results in an enhancement to the service potential of an existing capital asset, defined as:

- an increase in the previously assessed service capacity;
- significantly lower operating costs (greater efficiency);
- an extended useful life; or
- an improvement in the quality of output.

Costs incurred that merely maintain the service potential of a capital asset are characterized as repairs and are charged to an expense account in the period incurred. This includes costs incurred to:

- restore a capital asset to its original condition where its useful life is not extended;
- replace a capital asset with a similar component; or
- undertake repairs to realize benefits originally projected from the capital asset.