TANGIBLE CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS: ASNPO 4431

Tangible capital assets held by small organizations

- To save money and time for small NPO's there is a rule that simplifies accounting for tangible capital assets
- A not-for-profit organization does not need to follow the rules in this section if the **average of annual revenues** recognized for the **current** and **preceding** period **of the organization** and **any entities it controls** is less than **$500,000**
- If this is met the NPO can:
    1. Directly expense the costs of tangible capital assets
    2. Capitalize the costs of tangible capital assets and not amortize; or
    3. Choose to follow this section; thereby, capitalizing and amortizing the cost of tangible capital assets
- If the NPO chooses not to capitalize and amortize tangible capital assets; they must disclose:
    a) the **policy followed in** accounting for tangible capital assets
    b) information about **tangible capital assets not capitalized**, including a description of the assets; and
    c) if tangible capital assets are **expensed when acquired**, the amount expensed in the current period.
- Once the organization fails to meet this criteria, it can never get on side; this means that even if revenues dip down below 500K in the future, the organization must still follow 4431 and capitalize and amortize tangible capital assets

Recognition and measurement

- A tangible capital asset (i.e. property, plant and equipment) is recorded at cost
    - The cost of the tangible capital asset include the following: purchase price, installation costs, design and engineering costs, legal fees, survey costs, site preparation, freight charges, transportation insurance costs, import duties
- A **contributed tangible capital asset** is recorded at the **fair value** on the date of contribution; if the fair value is not known the tangible capital asset and the related contribution revenue is recorded at a nominal amount (i.e. $1)
- **Betterments** are capitalized (betterments increase the service potential by increasing quality/quantity of the output or the useful life of the asset

Amortization

- **Tangible capital assets with a limited useful** life are to be amortized
- The **cost less residual value** is amortized over the **useful life**
- The **amortization method** and the **estimate of the useful life** of a tangible capital asset should be reviewed on a regular basis

Write-downs

- When a tangible capital asset **no longer contributes to the organization's ability to provide services**, its **carrying amount** would be written down to **residual value**
- A write-down should not be reversed