Tangible Capital Assets

Guideline 5: Assets Under Construction—Phased-In Approach

Overview

Certain projects are completed in defined phases instead of all at once. Normally, in these cases, project costs are accumulated in an asset under construction until a defined phase of the project has been completed. The costs are then transferred to the related asset in use and amortization commences to be charged.

This guideline is intended to supplement the Tangible Capital Assets (TCA) Policy by providing further guidance on its application regarding TCA projects using a phased-in approach. It should be noted that this guideline is not all-inclusive and professional judgement must be exercised in applying it to individual circumstances.

References

Appendix 14-B of the TCA Policy describes Assets Under Construction as "Some assets go through a period of construction before they are ready to be put into use. Costs related to assets under construction are accumulated in the asset under construction class and transferred to a regular asset class when the asset is ready for use."

Appendix 14-C of the TCA Policy states "In the year of acquisition, amortization will be prorated from the month of purchase or the month the constructed asset is available for use."

As part of the definition of amortization in Appendix 14-A, the TCA Policy states "Amortization of tangible capital assets does not commence until they are available for use."

Guideline Directives

As project costs are incurred they are accumulated in the asset under construction class. Total project costs should be transferred to the related asset in use class when the asset is ready for use. The amortization of the asset will commence at this time.

There is an important distinction between when an asset is ready for use and when the asset is put into use. Costs should be transferred to the related asset in use class when the asset is ready for use, regardless of when the asset is put into use.

Many TCA projects are implemented using a phased-in approach or are rolled-out with staggered implementation dates. The most common type of projects are associated with the development of customized software, although other projects such as building construction may also use the phased-in approach.

Projects may be phased-in for a number of reasons such as geographic location (e.g., county by county),entity basis (e.g., hospital by hospital), functionally (e.g., general ledger, payroll, accounts payable) or component basis (e.g., building wing by building wing).

Costs for each phase should be tracked separately and as accurately as possible. Using the asset sub-number feature in the SAP Asset Management (AM) module enables departments to track costs by phase, but keeps the total project costs together. As each phase is completed and ready for use, the costs should be transferred from the asset under construction to the appropriate asset in use class so that amortization commences at that time for that phase. Therefore, it is possible that each phase of the project would have different amortization start dates.

While a project may be constructed in phases, there are often initial costs incurred that, while they relate to all phases, must be incurred to complete the initial phase. These may be referred to as foundation costs. The allocation of foundation costs to the different phases of a project must be reviewed and assessed on a project by project basis. However, if the foundation costs would have been incurred regardless of the number of phases in the project, then it would be appropriate to allocate the foundation costs to Phase 1 and move these costs to the appropriate asset in use class when Phase 1 is ready for use.

Allocating the foundation costs to the different phases should only take place if certain foundation costs can be clearly linked to the subsequent phases and were not necessary for the first phase to be available for use.

The examples below should provide more clarification.

EXAMPLES

Financial System Implementation

A department may develop a financial system in three phases - Phase 1 Development of the general ledger; Phase 2 Development of an integrated accounts payable module; and Phase 3 Development of a payroll module.

Each phase of the project should be accounted for as a separate sub-number in the SAP AM module. However, there may be certain costs that, while relevant to all phases, must be incurred before any phase can be completed, such as user setup and password tables, business area tables, etc. These costs would be considered foundation costs and should be associated with Phase 1 of the project. Once the general ledger phase is completed and available for use, the costs would be transferred to the asset in use class, including the foundation costs, and amortization would commence.

Province-wide system (e.g., email)

The Province may decide to implement a new email system for all of government, but roll-out the system to users on a department by department basis or county by county basis. Again, there would be certain costs that would have been incurred regardless of how many departments use the new email system. For example, initial software licensing fees, consultants' fees, etc., all would have been incurred regardless of the number of departments using the new system. These costs would be considered foundation costs and should be associated with Phase 1 of the project and moved to the asset in use class when the first roll-out of the system takes place.

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