Tangible Capital Assets

Guideline 6: Demolition Costs

Overview

The purpose of this guideline is to provide clarification regarding the accounting treatment for demolition costs related to buildings.

The following guideline is intended to supplement the Tangible Capital Assets (TCA) Policy and provide further guidance on its application. It should be noted that this guideline is not all inclusive and professional judgment must be exercised in applying it to each circumstance.

References

Public Sector Accounting Standard PS 3150.13 states:

> "When, at the time of acquisition, a portion of the acquired tangible capital asset is not intended for use, its costs and any costs of disposal, net of any estimated proceeds, are attributed to that portion of the acquired tangible capital asset that is intended for use. For example, the cost of acquired land that includes a building that will be demolished includes the cost of the acquired property and the cost of demolishing the building."
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> Public Sector Accounting Standard PS 3150.39 states:
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> "Disposals of government tangible capital assets in the accounting period may occur by sale, destruction, loss or abandonment. Such disposals represent a reduction in a government's investment in tangible capital assets, regardless of how that investment is reported."

Definition

The TCA Policy provides the following definition:

COST
Cost is the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset and includes all costs directly attributable to acquisition, construction, development or betterment of capital assets including installing it at

the location and in the condition necessary for its intended use. Contributions are not to be netted against the cost of the related tangible capital asset. Salaries will be capitalized as part of the asset cost only if those salaries relate directly to the project.

Discussion

Generally, costs of demolition are expenses in the period in which they are incurred except for the purchase of land and building with the intention to demolish the building. Some situations are described below to illustrate application of proper accounting:

DEMOLITION COSTS AS OPERATING EXPENSE

When land is already owned and contains a building that has been declared to have no further use, the building is deemed to be "an impaired asset". For example, the building may be unsafe or is no longer needed for operations. A decision is made to demolish the building for safety reasons and the land will be left cleared. The building's net book value should be written down to zero and the cost of demolishing such a building would be charged to expense as incurred.

DEMOLITION COSTS AS COST OF LAND

When land and building are purchased, and when at that time the building is not intended for use and will be demolished, the building demolition costs should be capitalized as part of the acquisition cost of the land. These costs are necessary site preparation costs to prepare the land for its intended use.

DEMOLITION COSTS AS COST OF BUILDING

When an existing building is being demolished for the purpose of constructing a new building on the same site, the net book value of the existing building should be written down to zero. The demolition costs should be capitalized as part of the cost of the new building as these costs are attributable to creating the new construction project.

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