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| **University of Edinburgh**  **Capital Accounting Policy** |
| **Purpose** |
| This document states the University’s policies for accounting for assets and capital expenditure, defining how the University complies with the Higher Education Statement of Recommended Practice and Financial Reporting standards. It supports accurate reporting of tangible and intangible assets, capital expenditure and funding used to conduct its mission.  This policy states the different types of expenditure that may or may not be capitalised and the basis for measurement. It states the University’s capital accounting policy for the following different classes of assets:   * Tangible Assets – Equipment * Tangible Assets – Land and Buildings * Intangible Assets * Heritage Assets   It states the required accounting treatment for capital funding, such as grants and donations.  It also includes the University’s policy for asset disposal. |
| **Scope** |
| This policy applies to all University Group entities.  The policy applies to all University assets funded from all sources, including donations. |
| **Exclusions** |
| None |

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| **Tangible assets – equipment** | |
| **Accounting policy** | Capital Equipment is defined as ‘an article of unexpendable tangible property with a useful life exceeding one year, costing £10,000 or more, such as IT equipment. A group of functionally related equipment items costing over £10,000 in aggregate can be capitalised when acquired as part of the fit out of a newly constructed building. Otherwise, such items should be written off in the year of acquisition.  The capitalisation threshold is inclusive of irrecoverable VAT.  Revenue costs incurred as part of capital acquisitions (such as training, maintenance and warranties) will not be capitalised as part of the asset costs. |
| **Measurement** | Capitalised equipment is recorded in the accounts at cost, less accumulated depreciation and impairment losses. Depreciation is calculated on straight line basis over a four-year period. |
| **Subsequent expenditure** | Where the costs of upgrading or enhancing an existing equipment asset exceeds £10,000, it will be treated as a separate asset addition in the accounts. This means it will be measured on the same basis as an asset, subject to the same thresholds as if it were new. |
| **Donated assets** | Donated equipment assets are capitalised at fair value in the year of donation. Fair value is defined as the estimated market price. |
| **Revaluations and impairments** | The University does not revalue equipment assets. A review for impairment is carried out if events or changes in circumstances indicate that the carrying value of an asset may be lower than stated. |
| **Depreciation** | A full year’s depreciation is charged in the year an asset becomes available for use (regardless of actual usage period) and depreciation is charged up to the month of disposal. Changes in an asset’s carrying value are depreciated over its remaining life. |
| **Other considerations** | |
| **Annual equipment verification exercise** | The Financial Information and Reporting Strategy Team (FIRST) carry out an annual verification exercise of existing assets held. In the exercise, each college and professional services group confirm that its asset records are correct, that no capital assets have been omitted and any asset disposals are reflected in the register. |

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| **Tangible assets – land and buildings** | |
| **Accounting policy** | Land and buildings (including plant and infrastructure assets) are stated at their deemed cost less accumulated depreciation and impairment losses.  Gerald Eve LLP independently valued land and buildings owned by the University on 1 August 2014. Deemed cost comprises those valued amounts and the cost of any additions, or the fair value of any donations, after that date, in accordance with section 35.1 of Financial Reporting Standard 102.  Freehold land is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated on a straight line basis over their expected useful economic lives as follows: |
|  | |  |  | | --- | --- | | Major plant and infrastructure | 10 to 15 years | | System built properties (ie a modular building) | 15 to 25 years | | General buildings | 50 to 80 years | | Historic and legacy properties | 100 years | | Major repair and refurbishments | 10 to 20 years | |
| **Depreciation** | Leasehold land and buildings are depreciated over the life of the lease up to a maximum of 50 years. No depreciation is charged on assets during the course of construction. |
| **Subsequent expenditure**  **Capital and Revenue Classification** | Subsequent expenditure on an asset is capitalised where the cost of renovating, upgrading or converting buildings prolongs the useful economic life, substantially adds to the total area of the building or enhances the economic benefits provided by the building.  When accounting for subsequent expenditure on property, the following is classified as **capital**:  Expenditure on the construction or acquisition of new buildings  Subsequent expenditure on renovations, upgrades and building conversion work  Demolition costs to enable the construction of a new building  Loose furniture and fittings acquired as part of a new build or initial fit out (capitalised and depreciated as equipment assets).  Major equipment purchases, such as medical or veterinary scanners, included within major projects (capitalised and depreciated as equipment assets)  **Revenue** costs incurred in such project budgets will not be capitalised, and include:  Other equipment costs not capitalised as detailed in the capital equipment policy above  Other demolition costs  Asbestos removal  Decanting and subsequent reoccupation costs  Elements of repairs and maintenance – where they do not upgrade or extend the useful economic life of the asset.  Departmental costs, travel & meeting expenses  Public realm works and financial contributions towards assets not owned by the University |
| **Donated assets** | Donated land and building assets are capitalised at fair value in the year of donation. |
| **Revaluations and impairments** | The University no longer revalues its land and buildings. An annual review for impairment is carried out on land and buildings to identify material events which would indicate changes in the life, use or condition of assets.  Project budgets will often include fees incurred in the planning stages of an Estates project. If a project is not pursued at the end of the planning process, these costs are expensed as part of the annual impairment review. |
| **Depreciation** | ~~.~~ A full year’s depreciation is charged in the year an asset becomes available for use and depreciation is charged up to the month of disposal.. Changes in an asset’s carrying value are depreciated over its remaining life |

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| **Intangible Assets** | |
| **Accounting policy** | Intangible assets represent the cost of software acquisitions, development and implementation costing £10,000 or more. Associated research and training costs are written off as incurred. Where software is integral to the operation of an item of equipment, its cost will be accounted for as a tangible asset provided that any other requirements for that class of asset are met.  The capitalisation threshold is inclusive of irrecoverable VAT. |
| **Measurement** | Assets are held at cost minus impairment losses and amortisation. |
| **Subsequent expenditure** | The cost of upgrading or enhancing an existing intangible asset will be treated as a separate asset addition, measured on the same basis and subject to the same thresholds as if it were new. |
| **Donated assets** | Donated intangible assets are capitalised at fair value in the year of donation. |
| **Revaluations and impairments** | The University does not revalue intangible assets. A review for impairment is carried out if events or changes in circumstances indicate that the carrying value of an asset may be lower than stated. |
| **Amortisation** | A full year’s amortisation is charged in the year an asset becomes available for use and amortisation is charged up to the month of disposal. Amortisation is calculated on straight line basis over an asset’s useful economic life, being between four and ten years. |
| **Other considerations** | |
| **Software as a service and cloud computing** | Whilst the licensing costs and subscriptions for software as a service arrangements and cloud computing services are revenue and cannot be capitalised, the development costs incurred customising, configuring and implementing these services can be capitalised where they meet the thresholds for this asset type. |

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| **Heritage Assets** | |
| **Accounting policy** | The University holds, preserves and makes available a number of collections, exhibits, artefacts and other assets of historical, artistic or scientific importance. Heritage asset acquisitions are held at cost, or fair value for donations, and are subject to revaluation at fair value through other comprehensive income. |
| **Measurement** | Heritage assets are not depreciated since their long economic life and high residual value mean that any depreciation would not be material.  There is no lower limit on the capitalisation of heritage assets as, while individual purchases may be low in value, their impact as an addition to an existing collection can be significant, or their individual significance (or potential significance in the future) supports their capitalisation.  Heritage assets purchased prior to 1 August 1999 have not been capitalised. |
| **Donated assets** | The University receives a high volume of donated assets, which are not valued unless they are of special interest or expected to be of a material value. The cost of valuing items received in such high volumes would exceed the relative benefit to readers of the Annual Report and Accounts. Where it’s determined to be of benefit, donated assets are recorded at fair value through income and expenditure in the year of donation. |
| **Revaluations and impairments** | Heritage assets are valued on a cyclical basis as determined by management. Independent, external valuers are used wherever possible. However, in the case of specialised collections, some values are assessed internally by the University’s Centre for Research Collections. Any movement in value is applied if commensurate with market activity, or material benefit to the readers of the Annual Report and Accounts.  A review for impairment is carried out if events or changes in circumstances indicate that the carrying value of an asset may be lower. |
| **Collections management policy** | The University’s Collections Management Policy governs the treatment of additions and disposals to the University’s Collections. |

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| **Capital Funding Accounting** | |
| **External Funding** | Capital expenditure can be funded by externally sourced grants and donations. These funding types are recognised in line with the performance model adopted by the University under FRS 102.[[1]](#footnote-2)  If funding does not impose performance-related conditions, all income will be recognised on receipt and held in restricted reserves until it is spent. If there are performance-related conditions, funding will be recognised in line with expenditure, with any unspent funds deferred as a creditor until they can be applied to the asset.  There is a UKRI requirement that research-funded assets must be recorded on [UK University Facilities and Equipment Open Data](https://equipment.data.ac.uk/), an open access database for users to locate research equipment facilities in the UK. |
| **University Capital Funding** | University-funded capital purchases are funded through the University’s Capital Budget. Capital budgets are awarded based on the capital plan which is prioritised to ensure the overall affordability of capital expenditure while ensuring resources are allocated to allow the University to achieve its strategic objectives. |

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| **Asset Disposal** | |
| **Asset Disposals** | The disposal of capital assets must only take place with the appropriate authorisation according to the University’s Delegated Authority Schedule (DAS). Disposal includes Sales, Trade Ins, and Transfers to Third Parties.  Where the DAS does not distinguish between particular classes of asset, the disposal should follow the same process of authorisation as for its original purchase.  Where the terms of an asset’s purchase limits its useful economic life or require that it be transferred to another party at a future date, the asset should be disposed of at the end of this term or the agreed date |
| **Disposal of Heritage Assets** | The disposal of heritage assets is governed by the University’s Collection Management Policy in addition to these requirements |
| **Disposal of Externally Funded** | Externally funded assets may have additional conditions relating to asset use, retained ownership and disposal. Individual terms and conditions of the original funding should be consulted before disposal of any asset. All equipment disposals must comply with legislative requirements as detailed by the University’s waste & recycling policies. |

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| **Equality and Diversity** | The Equality Impact Assessment has been completed and no impact has been identified. |
| **Further Information/Queries** | Any queries regarding the Capital Accounting policy should be directed to the Financial Information Reporting and Strategy Team (FIRST) via finance.helpline@ed.ac.uk. |
| **Useful links** | [University of Edinburgh Delegated Authority Schedule](http://www.docs.sasg.ed.ac.uk/GaSP/Governance/Governance/DelegatedAuthorisationSchedule.pdf)  [Statement of Recommended Practice: Accounting for Further and Higher Education 2019](https://www.universitiesuk.ac.uk/what-we-do/policy-and-research/publications/statement-recommended-practice)  [University of Edinburgh Collections Management Policy](https://www.ed.ac.uk/files/atoms/files/cmp2020-2030.docx)  [FRS102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland](https://www.frc.org.uk/accountants/accounting-and-reporting-policy/uk-accounting-standards/standards-in-issue/frs-102-the-financial-reporting-standard-applicabl) |

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| **Policy History and Review** | |
| Date policy approved | 18/01/2022 |
| Final approval by | University Executive |
| Consultations held | Finance Operations and Technical Accounting Group |
| Date of commencement of policy | 1/08/2022 |
| Date for review of policy |  |
| Policy review by | Deputy Director of Finance |
| Policies superseded by this policy | Capital Policy – Estates and Equipment Capital  Expenditure and Funding |

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| **Version control** | | | |
| **Version** | **Amendment made** | **Approval date** | **Approved by** |
| 1.0 | First Version | 18 January 2022 | University Executive |
| 1.1 |  |  |  |
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1. FRS 102 defines a performance-related condition as; ‘a condition that requires the performance of a particular level of service of units or output to be delivered, with payment of, or entitlement to, the resources conditional on that performance. [↑](#footnote-ref-2)