



EU/8/CP/2010

EGERTON UNIVERSITY

CAPITALIZATION POLICY

2010

Transforming Lives Through Quality Education
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1.0 PREAMBLE

a) DEFINITIONS

A capital asset is a piece of property that meets the following requirements:

- (i) The asset is tangible and complete
- (ii)The asset is used in the operations of the University
- (iii)The asset has a useful life of more than one financial year
- (iv)The asset is of significant financial (recognizable) value.

b) SIGNIFICANT VALUES

The following significant values will be used for different classes of assets:

<u>Class of Capital Asset</u>	<u>Significant Value Kes.</u>
Machinery and Equipment	10,000/=
Building & Building Improvements	200,000/=
Land Improvements	300,000/=
Land	Any amount

C) MODE OF ACQUISITION

Capital assets may be acquired through donations, purchases or self-construction. The value for donated assets shall be the fair market price, plus all costs related to placing the asset into operation. The cost of self-constructed assets will include all costs of construction.

2.0 TYPES OF CAPITALASSETS

2.1 LAND

Land may be acquired through purchase by the University or as a gift or bequest.

All expenditures incurred to acquire land and to prepare it for its intended use shall be capitalized. These costs include purchase price, closing costs, legal and other professional fees and assumption of any liens, mortgages or encumbrances on the land. The capitalized costs shall be recorded as:

- (i) The amounts paid for the land itself and all incidental costs for land acquired through purchase.
- (ii) The fair market value at the date of the acquisition for land received through gift or bequest.
- (iii) The total cost at the date of acquisition allocated to the land and building in reasonable proportions for land acquired with building erected thereon.

2.11 LAND IMPROVEMENTS

(a) Definition

Land improvement shall include any improvements with a limited life made to ready land for its intended use that is not part of an infrastructure network, such as parking lots, landscaping, fountains, retaining walls, septic systems, outdoor lighting, covered walkways, fences, tennis courts and running tracks.

(b) Capitalized costs

The following costs shall be capitalized

- (i) Costs incurred in preparing land for its intended use (grading, filling, draining) and any additional land betterments.
- (ii) Costs of razing the buildings to prepare the land for its intended purpose.

(c) Non capitalized costs

The following costs shall not be capitalized

- (i) Costs incurred in landscaping.
- (ii) The costs incurred in general repairs on roads, parking lots and running tracks

2.2 BUILDINGS

(a) Definition

* Buildings shall either be purchased or constructed. Construction projects are initially capitalized to work in progress. Subsequently, the capitalized expenditure is recorded as an asset on completion of the building.

(b) Work in progress

This includes all projects for buildings or land improvements construction that are not complete at the end of the financial year.

2.30 BUILDING IMPROVEMENTS

(a) Definition

Building improvement may be defined as the value addition to an existing building. This may include a concrete floor for a wood floor or any change to the building which increases its future service potential and extends its useful life.

(b) Capitalized Costs

- (i) The costs of improvements include expenditure incurred to increase the service potential of the building the contract price, engineering, architectural and attorney's fees shall be capitalized.
- (ii) Components Units (plumbing systems, sprinkler systems, elevators) When building components units are replaced, the new component unit will be capitalized separately, and the old component subsequent to original construction) will be removed from the property report. However, if the original component unit was included in the original construction, it will not be removed since it was not a separately valued component. The new component unit will be depreciated over the remaining useful life of the building.
- (iii) Major Renovations or Alterations
Any major renovations or alterations within an existing building will be added to the cost of the original building. These renovations/alterations will be depreciated over the remaining life of the building/structure.

2.4 COMPUTER SOFTWARE AND HARDWARE

(a) Definition

A computer shall include the hardware and operating systems software purchased as an integral part of the system.

- (b) The purchase of printers, text scanners and other similar devices for office systems are typically not considered an integral part of the system.
- (c) If such a system is assembled by the department by purchasing these components from more than one vendor (and thus more than one purchase order) the department should consider setting up a fabricated project to assure that all related costs are captured and capitalized.
- (d) Where computer software is purchased then cost of such acquisition and installations shall be capitalized. Such costs shall include purchase costs, consulting fees and travel costs.*
- (e) Where the software is generated internally for use within the University then the costs shall not be capitalized.

2.5 DONATED ASSETS

Capital Assets received as donations shall be capitalized and recorded at their fair market values at the time of receipt.

2.6 EQUIPMENT

- a) Equipment is an article that does not lose its identity when

fixed to or installed in other property and has a useful life greater than one year, The equipment could be purchased or fabricated.

- b) The purchase price installments and associated costs of equipment or if fabricated the cost of fabrication that exceeds Kshs.20,000/^ shall be capitalized. The equipment will be depreciated over its useful life as per depreciation policy.
- c) The exceptions to the Equipment definition include:~
 - (i) Assets purchased as repair parts for existing parts in previously tagged equipment.
 - (ii) Materials used in repair or replacement of assets in structures.
 - (iii) Household equipment (drapes, bedding, carpet replacement).
 - (iv) Built-in equipment - such items become part of the building or structure after installation and may be capitalized as building improvements. These may include built-in cabinets, garbage disposals, furnaces and air conditioners.

2.7 INFRASTRUCTURE

(i) Definition

These are long-lived capital assets that are part of the network of assets that can have service potential for an extended period and that are normally

stationary such infrastructure networks -roads sidewalks, electrical sewer and water systems, fiber optic cabling system, transit systems, bridges, dams and tunnels.

- (ii) All expenditures incurred to acquire or construct infrastructure assets are capitalized.

3.0 LEASED ASSETS

(a) Definition

An asset may be acquired under lease purchase contracts or agreements. The purchase price of Leased Assets is capitalized while the interest costs are expensed if the non-cancelable lease agreement meets any one of the following requirements:

- (i) The Lease transfers ownership of the property to the lessee by the end of the lease term.
- (ii) The Lease contains a bargain purchase option that allows the lessee to purchase the assets for a price that is substantially lower than the expected fair value of the asset at the date the option becomes exercisable
- (iii) The lease term is equal to 75 per cent or more of the estimated economic life of the leased property.
- (iv) The present value of the minimum lease payments at the inception of the lease equals to at least 90 percent of the fair value of the leased property.

(b) Operating Leases

Lease agreements not meeting any one of the above criteria are considered operating leases and not capitalized. The period payments are recorded as an expense.

3.1 LEASEHOLD IMPROVEMENTS

(a) Definition

Improvements to land and building leased by the University may include walls and partitions, electrical wiring and fixtures, heating and cooling systems, roofing and plumbing. Repairs, maintenance and painting of existing improvements are not leasehold improvements.

(b) Capitalized Costs

The total cost of alterations made to the leased land or building should be capitalized.

4.0 LIBRARY RESOURCES

(a) Definition

Library acquisitions include regular volumes, books, and journals periodicals archives, subscriptions, microforms, audio/visual media, CD-ROMs and electronic resources.

(b) Capitalized Costs

(i) Library books and reference materials are capitalized at purchase cost or fair market value for donated books and gifts. Library books

are considered a composite asset.

- (ii) The value of books lost, stolen, destroyed or disposed is annually written off from the composite capitalized value of library books.

5.0 OTHER PARTY OWNED ASSETS

(a) Definition

Other party owned assets include assets purchased with grant funds (other than government funds) or assets furnished by the grantor (non-government). These grantor furnished assets are tagged, recorded and tracked in University fixed assets system but are not reported in the financial statement of the University. The title of such assets generally remains with the grantor. However, in some situations the grantor may transfer the title of the asset to the University.

(b) Capitalized Costs

Such assets are recorded in the Fixed Assets Register at their acquisition cost, as provided by the grantor, plus any transportation and installation costs. When the title to such assets is transferred to the University, the assets are recorded at their fair market value (net book value at the time of transfer).

6.0 REPAIRS AND MAINTENANCE

(a) Definition

Repairs and maintenance expenditure is incurred to maintain assets in operating condition but does not usually make the asset more useful or add to the estimated life of the asset.

(b) Capitalized Costs

Repairs and maintenance expenditure is not capitalized and is charged as operating expense.

7.0 WORKS OF ART, LITERATURE AND HISTORICAL TREASURES

a) Definition

The University maintains various collections of inexhaustible assets including contributed works of art (paintings, sculptures, and other artifacts), historical treasures (memorabilia, unique and significant structures) and literature (rare books and manuscripts). These are held for exhibition, education, research and furtherance of public service. These collections are not disposed off for financial gain.

These assets are highly maintained to protect and preserve them because of their cultural and historical value.

(b) Capitalized Costs

These assets shall not capitalized since no value can practically be determined.

8.0 DEPRECIATION POLICY

(a) Method of Depreciation

The "straight line" method of depreciation is used to depreciate capital assets, over the estimated useful lives of the related assets:

(b) Depreciation Rate

The following rates of depreciation shall be used for each category of asset:

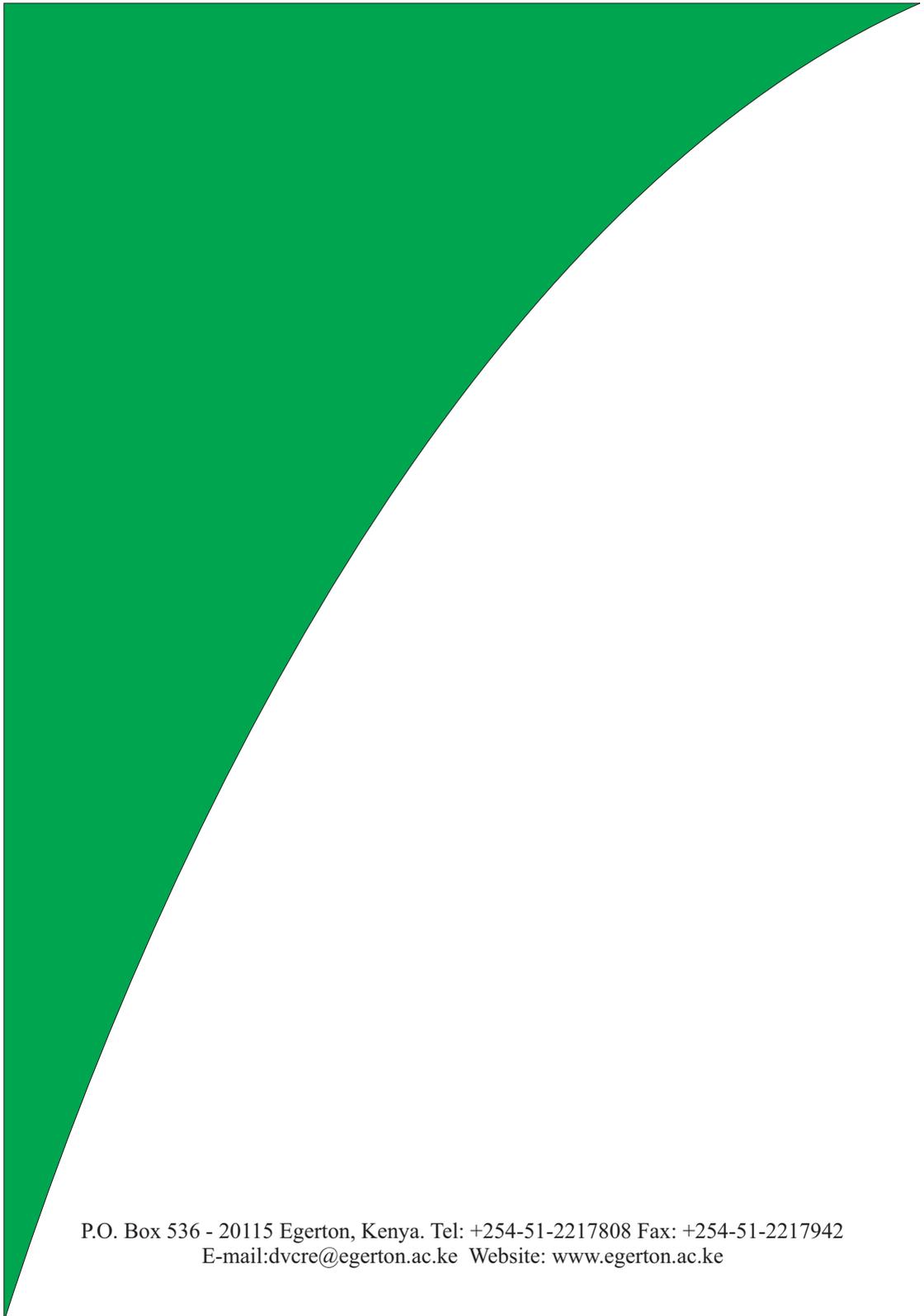
ASSETS CLASS	No. of Years	Rates (%) p.a.
(i) Buildings		
Permanent Buildings	40 years	2.5
Building Additions	Remaining useful life up to 40 years	
Building Improvements		
Laboratory equipment	40 years	2.5
Vehicles (trucks, vans, Tractors, forklifts, etc	4 years	25
Outdoor Equipments	5 years	20
Miscellaneous	5years	20
Buses	4 years	25
Land Improvements	40 years	-
Kitchen Equipments	-	-

Disposition of Assets

When capital assets are sold or otherwise disposed of, the inventory of Capital Assets shall be relieved of the cost of the assets and the associated accumulated depreciation. The Assets Register shall be updated annually. The appropriate depreciation for the assets disposed shall be taken for the year of disposal.

The University Council is requested to:

- (i) Consider and approve the implementation of the capitalization policy for the Financial Year 2009/2010.



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