

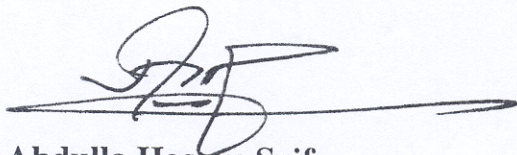
Preface

Having referred to Article 59 of Law No. 39 of the year 2002 regarding the National Budget, which vests the power of financial accounting enforcement in the Minister of Finance and National Economy.

MoFNE has completed the formulation of the accounting policies and procedures for the government fixed assets, which include the accounting rules and policies that have to be followed by government agencies in controlling and recording fixed assets using FMIS Fixed Assets System.

The fixed assets policies and procedures define the accounting requirements to record fixed assets and procedures to be followed in treating the addition, removal, and loss or theft of fixed assets. In addition, they define the capital assets categories.

Fixed assets accounting policies and procedures are applicable to and binding on all ministries and government entities starting from the date of implementation of the FMIS Fixed Assets System by ministries.



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Minister of Finance and National Economy

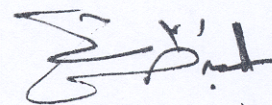
مقدمة

استناداً إلى المادة رقم (٥٩) من المرسوم بقانون رقم (٣٩) لسنة ٢٠٠٢ بشأن الميزانية العامة، التي تفوض وزير المالية والإقتصاد الوطني إصدار اللوائح والقرارات المتعلقة بالنظم المحاسبية والمالية الحكومية.

قامت وزارة المالية والإقتصاد الوطني بإعداد السياسات والإجراءات المحاسبية للموجودات الثابتة الحكومية، التي تحدد السياسات المحاسبية والقواعد الواجب اتباعها من قبل الجهات الحكومية، لمعالجة وتسجيل الموجودات الثابتة بنظام الموجودات الثابتة بأنظمة FMIS.

وتشتمل السياسات والإجراءات الخاصة بالموجودات الثابتة على تعريف بالمتطلبات المحاسبية لتسجيل الموجودات الثابتة، والإجراءات الواجب اتباعها لمعالجة إضافة أو استبعاد الموجودات الثابتة وتصنيفها ضمن سجل الموجودات الثابتة.

وعلى الجهات الحكومية الإلتزام بتطبيق السياسات والإجراءات الخاصة بالموجودات الثابتة، اعتباراً من التاريخ الذي يتم فيه تطبيق نظام الموجودات الثابتة بأنظمة FMIS بالجهة الحكومية المعنية.



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**Ministry of Finance & National Economy
Accounting Directorate**

**Policy and Procedures
for the Implementation of
Fixed Assets System
FMIS**

Prepared by

Standard Finance Manual & Accounting Standards Section

NOVEMBER, 2002

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1- GENERAL

1-1- Purpose

The purpose of a fixed asset system is two fold:

- 1) to gather and maintain information needed for the preparation of financial statements, and
- 2) to provide control and accountability over fixed assets,

The policies contained in this section represent the minimum requirements to be met by ministries.

1-2 Authority

Royal Decree for Budget Law No 39 of 2002 vests the power of systems and regulations enforcement in the Minister Of Finance And National Economy. This power is exercised through the appropriate directorates of MOFNE

1-3 Applicability

- 1.3.1 The accounting policies and procedures outlined in this paper are applicable to and binding on all ministries and governmental entities.
- 1.3.2 Ministries may request a waiver from complying with specific requirements of the approved accounting policies and procedures. The request must be in writing and approved in writing by MOFNE before the waiver takes effect.
- 1.3.3 The accounting policies and procedures outlined in this paper are not applicable to library books and reference materials. Control of such items is to be through cataloging systems maintained by the custodian ministry.

1- 4 DEFINITIONS

- 1.4.1 **Ancillary Costs** - Costs, in addition to purchase or construction costs, related to placing a fixed asset into its intended state of operation. Normally, ancillary costs are to be included in the capitalized cost of a fixed asset; however, minor ancillary costs, not measurable at the time a fixed asset is recorded in an authorized property inventory system, are not required to be capitalized. Ancillary costs include such items as:
 - For Buildings and Buildings Improvements Other Than Buildings - Professional fees of architects, attorneys, appraisers, financial advisors, etc.; damage claims; costs of fixtures permanently attached to a building or structure; insurance premiums and related costs incurred during construction; and any other costs necessary to place a building or structure into its intended state of operation.
 - For Plant and Equipment - Transportation charges, sales duties, installation costs, extended maintenance/warranty contracts, and any other normal and necessary costs required to place the asset in its intended state of operation.
 - For Land - Legal and title fees, surveying fees, appraisal and negotiation fees,

damage payments, site preparation costs, and costs related to demolition of unwanted structures.

- 1.4.2 **Fixed Assets** - Tangible Assets acquired by the ministry through donation, gift, purchase, capital lease, or self-construction, with a life expectancy of more than one year. Fixed assets do not include depleteable resources, but do include that portion of capital projects classified as construction in progress.
- 1.4.3 **Capitalized Fixed Assets** - Includes all land, and all remaining fixed assets with a unit cost equal to or exceeding the capitalization threshold.
- 1.4.4 **Inventoriable Fixed Assets** - Includes all capitalized fixed assets plus heritage assets and all fixed assets meeting the definition of small and attractive as defined in Subsection 2-9
- 1.4.5 **Heritage assets** - Includes assets that have cultural, environmental or historical significance. Examples of heritage assets include historical buildings, archaeological sites, conservation areas and nature reserves. Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):
 - a. Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;
 - b. Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
 - c. They are often irreplaceable and their value may increase over time even if their physical condition deteriorates; and
 - d. It may be difficult to estimate their useful lives, which in some cases could be several hundred years.
- 1.4.6 **Small and Attractive Assets** - Fixed assets with a unit cost (including sales duties and ancillary costs) over BD 100 and less than capitalization threshold, which a ministry considers particularly vulnerable to loss, thus subject to special property control.

2 Accounting Requirements

2-1 Title to the Fixed Assets

- 2.1.1 Fixed assets should be recorded in the fixed assets register when legal title to the fixed assets passes to the ministry.
- 2.1.2 Title to the fixed assets will pass to the ministry when:
 - a. The ministry purchases fixed assets for their use in the normal operation of business.
 - b. The government allocates or transfers fixed assets to the ministry for its permanent use in the normal operation of business.
 - c. The ministry receives a donation of fixed asset.
 - d. The ministry completes a Self-constructed fixed asset.
 - e. The ministry acquires leasehold fixed assets through capital lease (see Subsection 2-6).

2-2 Asset Valuation

Fixed assets of the government are to be valued according to the following criteria:

- 2.2.1 **Allocated/Transferred Fixed Assets** – the cost assigned is to be the fair market value at time of allocation or transfer plus all appropriate ancillary costs. If the fair market value is not practicably determinable due to lack of sufficient records, estimated value is to be used.
- 2.2.2 **Donated Assets** - For those assets acquired by gift, donation, or payment of a nominal sum that is not reflective of the asset's fair value, the cost assigned is to be the fair value at time of acquisition plus all appropriate ancillary costs. If the fair value is not practicably determinable due to lack of sufficient records, estimated value is to be used.
- 2.2.3 **Purchased Assets** - Valuation of purchased assets is to be made on the basis of historical costs, and all appropriate ancillary costs less any trade discounts or rebates. If the historical cost is not practicably determinable, then estimated value is to be used.

The cost of extended maintenance/warranty contracts is included in the valuation of the fixed asset provided the contract is purchased at the same time (or soon thereafter) as the fixed asset. These contracts are depreciated over the useful life of the asset. Payments for contracts not purchased at the same time as the fixed asset are not to be capitalized.

2.2.4 **Self-Constructed Assets** - When a ministry constructs an asset for its own use, the following policy is to govern the valuation of the asset:

- All direct costs associated with the construction are to be included.
- Ministry may not capitalized direct manpower cost if it is less than 5% of the total cost of the self constructed asset.
- Ministry project management costs may be capitalized directly, when practicably discernible and directly associated with the project, or through the application of a percentage of total budgeted project costs. The application rate may or may not be designed to recover total ministry project management costs. Indirect costs are to be excluded unless they are increased by the construction.
- Borrowing costs should be recognized as an expense in the period in which they are incurred.

2-3 Transitional Provision for Asset Recognition

2.3.1 Fixed assets bought following the date of first implementation of the FMIS Fixed Assets system, shall be recognized and recorded by ministries in the FMIS Fixed Assets system in accordance to the approved accounting policies and procedures

2.3.2 Because of the expected difficulties in compiling comprehensive information of the information on the existence and valuation of assets acquired prior to FMIS Fixed Assets system implementation, ministries are not required to recognize fixed assets for reporting periods beginning on a date within five years following the date of first implementation of the FMIS Fixed Assets system if they don't have the historical or fair value of such assets.

MOFNE will issue appropriate policies and guidelines to help the ministries in the evaluation and recognition of fixed assets within the transitional period.

2-4 Recording and Identification Policy

2.4.1 Ministries shall use the FMIS Fixed Assets Systems operated by MOFNE to record all inventoriable fixed assets.

2.4.2 Upon receipt and acceptance, all inventoriable fixed assets of the ministry are to be marked in such a manner as to identify that the property belongs to the government and to the responsible ministry.

2- 5 Capitalization Policy

2.5.1 *An item of fixed assets should be recognized as an asset when:*

- (a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
- (b) the cost or fair value of the asset to the entity can be measured reliably.

2.5.2 An item of property, plant and equipment, which qualifies for recognition, as an asset should initially be measured at its cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

- 2.5.3 The following standard capitalization thresholds for capitalizing assets have been established for each major class of assets. All ministries are required to use these thresholds.

Class of assets	Threshold (B.D)
Land and land improvements	Capitalize All
Buildings and building improvements	10,000
Facilities and other improvements	10,000
Leasehold and leasehold improvements	10,000
Infrastructure	10,000
Plant and equipment	500

- 2.5.4 **Subsequent expenditure** relating to an item of property, plant and equipment that has already been recognized should be added to the carrying amount of the asset when it is probable that future economic benefits or service potential over the total life of the asset, in excess of the most recently assessed standard of performance of the existing asset, will flow to the entity. All other subsequent expenditures should be recognized as expenses in the period in which they are incurred.

- 2.5.4.a **Extraordinary repairs, betterments, or improvements** - Outlays that increase future benefits from an existing fixed asset beyond its previously assessed standard of performance are to be capitalized when the costs of extraordinary repairs, betterments, or improvements is equal to or greater than the capitalization threshold for such asset. Increased future benefits typically include:

- An extension in the estimated useful life of the asset.
- An increase in the capacity of an existing fixed asset.
- A substantial improvement in the quality of output or a reduction in previously assessed operating costs.

- 2.5.4.b **Replacement** - Acquisition of a fixed asset to replace a part of another fixed asset is capitalized when the cost of the replacement is equal to or exceeds the capitalization threshold and equal to at least the lesser of 10 percent of replacement value of the asset or B.D. 10,000.

Example:

A BD.9,000 replacement of a heating boiler (which did not meet any of the criteria listed in the previous paragraph) in a building having a replacement value of BD.120,000 would not be capitalized. The cost, in this case, is not equal or greater than 10 percent of the building's replacement value. Had the building's replacement value been less than BD.90,000, the BD.9,000 boiler replacement would have been capitalized.

EXCEPTIONS to this policy are:

- Replacement roof coverings are not capitalized (whether or not the replacement is with superior materials) unless the replacement extends the useful life of the building.
- Replacement floor coverings and window coverings are not capitalized.
- Costs to remodel (convert) a building to a different use, where the remodeling

does not extend the useful life of the structure itself, are not capitalized.

The cost and accumulated depreciation of the replaced fixed asset are to be removed from the accounting records if the amounts are determinable and the replacement is capitalized.

- 2.5.4.c **Addition** – cost of expansion of or extension to an existing capitalized fixed asset are to be capitalized when the costs of additions equal or exceed the capitalization threshold.
- 2.5.4.d **Addition to Infrastructure** – Additions of a continuous nature to infrastructure should be capitalized if their estimated annual costs are equal to or exceed the capitalization threshold (i.e. BD.10,000).
- 2.5.4.e **Bulk Purchase** - Bulk purchases of like fixed assets with unit costs of less than the capitalization threshold and with a total cost of BD. 10,000 may be capitalized as a group where the allocation of costs for the bulk assets over time is matched to the corresponding revenue generated by the bulk assets.

2-6 Capital Leases

- 2.6.1 A capital lease is a lease that transfers substantially all the benefits and risks inherent in the ownership of property to the ministry. A lease must meet one or more of the following four criteria to qualify as a capital lease:
 - By the end of the lease term, ownership of the leased property is transferred to the government; or
 - The lease contains a bargain purchase option; or
 - The lease term is equal to 75 percent or more of the estimated useful life of the leased property; or
 - The lease qualifies as a capital lease if, at the inception of the lease, the present value of the minimum lease payments, excluding executory costs (usually insurance and maintenance) is 90 percent or more of the fair value of the leased property. MOFNE shall specify the interest rate (rate in effect at the execution date of the lease) to be used in the computation of the present value.
- 2.6.2 Capital leases with a net present value of the future minimum lease payments or fair value, whichever is less, of B.D. 10,000 or more are to be accounted for as an acquisition of a capitalized asset and the incurrence of a liability. If such a lease involves the acquisition of more than one asset, each asset is to be considered capitalizable if its fair value equals or exceeds the capitalization threshold. Capital leases with a net present value of less than B.D. 10,000 are to be accounted for as operating leases.
- 2.6.3 Capital leases between ministries with a net present value or fair value, whichever is less, of BD.10,000 or more are to be recorded as follows:
 - The lessor ministry is to treat the lease as a sales type lease (record a sale and remove the asset from its fixed asset inventory).
 - The lessee ministry is to treat the lease as a capital lease (record the acquisition of a capitalized fixed asset).
- 2.6.4 Capital leases are to be used only to acquire assets considered capitalizable (refer to Subsection 2-4).

2-7 Depreciation Policy

- 2.7.1 **Depreciation** is to be calculated and recorded for all capitalized fixed assets with the exception of land, construction in progress, heritage assets, library books and materials and works of art.
- 2.7.2 Depreciation shall be calculated on a straight line basis. Depreciation shall be calculated as from the beginning of the month during which the fixed asset has been acquired up to the end of the month that precede the month during which the fixed asset has been permanently withdrawn from use.
- 2.7.3 The following expected useful lives shall be used for the normally used fixed assets and the concerned Ministry may use a different estimate of useful life to suit its circumstances:
- | | |
|---------------------------------|-----------------------|
| Land | not to be depreciated |
| Buildings | 25 years |
| Vehicles | 5 years |
| Engineering Machinery and Tools | 5 years |
| Furniture | 10 years |
| Equipment | 5 years |
| Tools and Machinery | 10 years |
| Ships | 10 years |
| Computers Equipment | 3 years |
| Infrastructures | 40 years |
- 2.7.4 Ministries are responsible for establishing and utilizing an appropriate useful life for assets acquired in less than new condition.

2-8 Inventory Policy

- 2.8.1 The following fixed assets are to be considered inventorable assets and carried on the Fixed Assets records of a ministry when its cost equal to or exceed the capitalization threshold, unless otherwise noted:
- Land and land improvements.
 - Building and building improvements.
 - Infrastructure
 - Plant and equipment.
 - All Heritage assets, regardless of their cost.
 - All Works of Art, regardless of their cost.
 - Fixed assets identified as small and attractive.
- 2.8.2 Ministries are responsible for developing internal policies and procedures to protect and control the use of all inventorable fixed assets. Ministries are to consider costs vs. benefits in developing their individual policies and procedures.
- 2.8.3 Library books and materials, including books, films, documents, or other audiovisual material, which are under the control of a recognized cataloging system, may be recorded on the property records of the ministry as a single item. Primary control of this type of asset is to be maintained through the cataloging system. See Sub-Section 4-7).

2-9 Small and Attractive Assets

- 2.9.1 Ministries are to develop written internal policies, including a risk assessment, defining small and attractive assets and specifying control measures applicable to these assets. Ministries are required to define, at a minimum, the following assets with unit costs exceeding BD.100 and below capitalization threshold as small and attractive:
- Communications Equipment, Public Safety: Audio and video
 - Optical Devices, Binoculars, Telescopes, Infrared Viewers, and Rangefinders.
 - Cameras and Photographic Projection Equipment
 - Microcomputer Systems, Laptop and Notebook Computers
 - Other IT Accessorial Equipment and Components (Scanners, Data Displays, etc.)
 - Office Equipment
 - Record Players, Radios, Television Sets, Tape Recorders, VCRs, and Video Cameras, Home Type

2-10 Infrastructure

- 2.10.1 Some assets are commonly described as “infrastructure assets”. While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:
- (a) They are part of a system or network;
 - (b) They are specialized in nature and do not have alternative uses;
 - (c) They are immovable; and
 - (d) They may be subject to constraints on disposal.

Although ownership of infrastructure assets is not confined to ministries in the public sector, significant infrastructure assets are frequently found in the public sector. In most cases infrastructure assets meet the definition of fixed assets.

- 2.10.2 Infrastructure includes public domain general fixed assets that are immovable and of value only to the government. Such assets normally do not impact the value of the land on which they are located. Infrastructure includes certain improvements other than buildings such as roads, bridges, curbs, gutters, streets, sidewalks, drainage systems, lighting systems, and similar assets.

2-11 Heritage Assets

- 2.11.1 A ministry may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.
- 2.11.2 Ministries are not required to capitalize heritage assets.
- 2.11.3 Some heritage assets have service potential other than their heritage value, for

example, an historic building being used for office accommodation. In these cases, they may be recognized and measured on the same basis as other items of fixed assets. For other heritage assets, their service potential is limited to their heritage characteristics, for example, monuments and ruins. The existence of alternative service potential can affect the choice of measurement base.

- 2.11.4 For control purposes heritage assets shall form a part of inventoriable fixed asset. Ministries are required to record the descriptive information of those assets in the FMIS fixed assets system.

2-12 Physical Inventories

- 2.12.1 Ministries are to initiate and document an inventory program to ensure that every inventoriable fixed asset is subject to a physical count or verification every year.
- 2.12.2 For library books and reference materials, a perpetual inventory shall be maintained through a recognized cataloging system. These assets are to be inventoried biennially if practical. If not, they are to be periodically sampled on a revolving basis or inventoried via accepted industry standards.
- 2.12.3 The fixed assets inventory is to be subject to verification by a person who is neither directly responsible (having custody and receipt/issue authority) for the assets nor supervised by the person responsible.
- 2.12.4 Ministries may conduct their fixed assets inventory on a revolving basis if the following conditions are met:
- Every item is subject to a physical count or verification every year.
 - The inventory program is documented and active.

2-13 Removal of Assets from Register

- 2.13.1 Fixed assets must be maintained in an economically useful condition and their physical condition reviewed and their useful lives reassessed periodically. Fixed assets shall not be disposed before the end of their useful lives, except where there are economical or technical reasons for early disposal.
- 2.13.2 An item of fixed assets should be eliminated from the statement of financial position on disposal or when the asset is permanently withdrawn from use and no future economic benefits or service potential is expected from its disposal.
- 2.13.3 Fixed assets are to be removed from the active register based on the completion and approval of a Request for Disposal Fixed Assets (Form MF 1902).
- 2.13.4 Ministries are to maintain documents of fixed asset disposal in accordance with approved records retention schedules.
- 2.13.5 When removing fixed assets from the register, ministries are to follow policies and guidelines outlined in Subsection 6- Public auction- of the Standard Finance Manual.

3- PROCEDURES

3.1 General

- 3.1.1 These procedures represent the minimum standards to be applied by each ministry to control their fixed assets.

3.2 Addition of Fixed Assets to records

- 3.2.1 Upon receipt and acceptance of an inventoriable fixed asset, the inventory officer is responsible for supervising the addition of the asset to the inventory system. This includes the assignment of tagging responsibilities to specific individuals as well as the development and implementation of procedures to ensure that the necessary information is entered into the fixed asset records.

3.3 Removal of Fixed Assets from Inventory

- 3.3.1 Ministries are to adopt internal policies and procedures regarding the timely removal of fixed assets from inventory, including procedures for the proper approval of disposal requests (refer to Subsection 2.13).

3.4 Lost or Stolen Fixed Assets

- 3.4.1 The following procedures are applicable regarding suspected or known losses of inventoriable fixed asset property.
- 3.4.2 A search of the ministry for the missing property should be undertaken. The search should include transfers to other directorates or ministries, storage, scrapping, conversion to another asset, etc. If the missing property is not found, the following procedures are to be performed.
- a. A disposal form is to be completed and signed by the individual deemed to be primarily responsible for the asset as well as that individual's supervisor. Included on the Request is to be a description of events surrounding the disappearance of the property, who was notified of the loss, and steps taken to locate the property
 - b. The ministry is to remove the lost or stolen property from its inventory and accounting records.
 - c. Ministries are to maintain records of fixed asset losses in accordance with the approved retention policy specified in section 24 of the Standard Finance Manual.

3.5 Physical inventories

- 3.5.1 Physical inventories are to be conducted no less than once every year for inventoriable fixed assets.
- 3.5.2 In order to ensure objective reporting of inventory items, physical inventories are to be performed by personnel having no direct responsibility (custody and receipt/issue authority) for assets subject to the inventory count. If the use of such personnel is not feasible for any part of an inventory, then those portions are, at least, to be tested and verified by a person with no direct responsibility for that portion of the inventory. (Refer to Subsection 2.12 for additional information.)
- 3.5.3 Written physical inventory instructions are to be developed, distributed, and explained to each person participating in the inventory process. They are to include directions as to how and where each item counted is to be recorded, what information is to be recorded, what to do when they have a question, what procedures are to be followed when they finish their assignments, and what procedures are to be followed when equipment is located but is not listed. The person counting the assets is to attest to the accuracy of the count by signing his or her name at the bottom of each inventory page.
- 3.5.4 Provision is to be included in instructions for the conduct of an inventory of fixed assets to record assets not being used or in an obviously unserviceable condition. Such information is to be used to schedule repair or disposal of such assets.
- 3.5.5 After the physical count is completed, the reconciliation process is to be performed by the inventory officer. Reconciliation is defined as the process of identifying, explaining, and correcting the differences occurring between the physical count and the inventory records. When all differences have been identified, and explained, the inventory is considered reconciled.
- 3.5.6 During the reconciliation process, the fixed assets inventory lists are to be searched to determine whether inventory noted during the count as unrecorded is, in fact, listed on another portion of the inventory. Unrecorded assets are to be entered into the Fixed Assets system as soon as possible after discovery. If a significant number of unrecorded assets are located, indicating a major problem with the asset recording procedures, the inventory officer is to determine why the problem is occurring and correct it. Also, during the reconciliation process, a search is to be made in an effort to locate missing assets. For those assets not located, inventory officers are to follow procedures outlined in Sub-section 3-2.
- 3.5.7 After the Fixed Assets inventory is reconciled, the inventory officer is to certify the reconciliation with a statement and signature that it is correct and report this to the supervisor. If the certification cannot be made, the inventory officer is to disclose that fact and the supervisor is to determine the appropriate course of action.
- 3.5.8 The certification, together with the reconciliation and the inventory listing, serves as the basis for accounting adjustments and is to be retained by the ministry as documentary support for, and part of, its inventory. This documentation is to be retained in accordance with the approved retention policy specified in section 24 of the Standard Finance Manual.

3.6 IDENTIFICATION PROCEDURES

- 3.6.1 All newly acquired inventorable fixed assets are to be marked upon receipt and acceptance to identify the asset as government property. Such identification is to facilitate accounting for the asset; aid in its identification if the asset is lost or stolen; discourage theft; and ultimately, reduce the magnitude of the government's property losses. The identification is to be permanently affixed to the asset by using a standardized adhesive tag.
- 3.6.2 The identification and control number are to be located on the principal body of the asset, rather than a removable part.
- 3.6.3 Responsibility for controlling asset control numbers rests with the ministry's fixed assets inventory officer.

4. Capital Asset Categories

4.1 Main categories :

4.1.1 Fixed Assets shall be classified for the purpose of disclosure in the financial statements to the following four main categories:

- 1- *Lands and Buildings.*
- 2- *Infrastructure.*
- 3- *Plant and Equipment.*
- 4- *Construction in progress.*

Minor-categories

4.1.2 Fixed Assets must be uniformly classified; utilizing the FMIS category codes structure. Each main category will include Minor-categories of fixed assets that have the same nature or characteristics of main category:

4.1.2.a Lands and Buildings:

- *Land and land improvements.*
- *Building and building improvements.*
- *Facilities and other improvements*
- *Leasehold improvements.*

4.1.2.b Infrastructure

- *Highways and Roads.*
- *Bridges.*
- *Sewerage and drainage network.*
- *Water and power supply system.*
- *Communication network.*

4.1.2.c Construction in progress

4.1.2.d Plant and equipment (Personal property):

- *Aircrafts and aircraft support equipment.*
- *Motor Vehicles, trailers and cycles.*
- *Machinery and equipment.*
- *Ships and marine equipment.*
- *Furniture and fixtures.*
- *Refrigeration and air-conditioning.*
- *Office equipment.*
- *Information technology equipment.*

4.1.3 *The following inventorable fixed assets shall be included in the fixed assets register for control purposes:*

- 1- *Heritage assets.*
- 2- *Small and attractive assets.*
- 3- *Works of art.*

- 4.1.4 *The following Items shall be controlled through special cataloging system:*
a. Library books and reference materials.

4-2 Land and Land Improvements

Land Definition

- 4.2.1 Land is a fixed asset reflecting the cost or fair value of land owned by the ministry. If land is purchased, the capitalized value is to include the purchase price plus all appropriate ancillary costs such as legal fees, filling, and excavation costs which are incurred to put the land in condition for its intended use. If land is acquired by gift, the capitalized value is to reflect its appraised or fair value at time of acquisition. Land is characterized as having an unlimited life (indefinite).

Land Improvement Definition

- 4.2.2 A fixed asset, which reflects the cost of permanent improvements (other than buildings) that add value to the land and/or leased facilities (leasehold improvements). Land improvements consist of betterments, site preparation and site improvements (other than buildings) that ready land for its intended use. The costs associated with improvements to land are added to the cost of the land.

Depreciation Methodology

- 4.2.3 Land and land improvements are inexhaustible assets and do not depreciate over time.

Capitalization Threshold

- 4.2.4 All acquisitions of land and land improvements will be capitalized.
- 4.2.5 Examples of Expenditures to be Capitalized as Land and Land Improvements

- Purchase price or fair market value at time of acquisition.
- Commissions.
- Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.)
- Land excavation, fill, grading, drainage.
- Demolition of existing buildings and improvements (less salvage)
- Removal, relocation, or reconstruction of property of others (telephone and power lines).
- Accrued and unpaid fees at date of purchase.
- Other costs incurred in acquiring the land.

4-3 Buildings and Building Improvements

Building Definition

- 4.3.1 A fixed asset which reflects the acquisition and capital improvement costs of a permanent structure owned or held by a ministry. Such improvements include not only structures in the form of office buildings, storage quarters, or other

facilities, but also associated items such as loading docks, heating and air-conditioning equipment, refrigeration equipment, and all other property permanently attached to, or an integral part of, the structure. It does not include furniture, fixtures, or other equipment not an integral part of the building.

Building Improvement Definition

- 4.3.2 Building improvements are capital events that materially extend the useful life of a building or increase the value of a building, or both. A building improvement should be capitalized as a betterment and recorded as an addition of value to the existing building if the expenditure for the improvement is at the capitalization threshold, or the expenditure increases the life or value of the building.

Depreciation Methodology

- 4.3.3 The straight-line depreciation method (Historical cost –residual value)/useful life) will be used for buildings, building improvements and their components. Subsequent improvements that change the use or function of the building shall be depreciated. Buildings designated as “heritage” will not be depreciated unless used in the operations of the ministry. However, any improvements or betterments not deemed “heritage” will be depreciated the same as any other improvements or betterments made to a building.

Capitalization Threshold

- 4.3.4 The capitalization threshold for buildings and building improvements is B.D 10,000.

4.3.5 Examples of Expenditures to be capitalized as Buildings

PURCHASED BUILDINGS

- Original purchase price
- Expenses for remodeling, reconditioning or altering a purchased building to make it ready to use for the purpose for which it was acquired
- Environmental compliance.
- Professional fees (legal, architect, inspections, title searches, etc.).
- Cancellation or buyout of existing leases.
- Other costs required to place or render the asset into operation.

CONSTRUCTED BUILDINGS

- Completed project costs
- Cost of excavation or grading or filling of land .
- Expenses incurred for the preparation of plans ,specifications, blueprints, etc.
- Cost of building permits and Professional fees (architect, engineer, management fees for design and supervision, legal)
- Costs of temporary buildings used during construction
- Unanticipated costs such as rock blasting, piling, or relocation of the channel of an underground stream
- Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building

- Additions to buildings (expansions, extensions, or enlargements)

4.3.6 **Examples of Expenditures to be capitalized as Improvements to Buildings**

- Structures attached to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.
- Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents
- Original installation/upgrade of wall or ceiling covering such as carpeting, tiles, paneling, or parquet.
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing
- Installation or upgrade of window or door frames, upgrading of windows or doors, built-in closets and cabinets
- Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.
- Exterior renovation such as installation or replacement of siding, roofing, masonry, etc.
- Installation or upgrade of plumbing and electrical wiring
- Installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, wiring required in the installation of equipment (that will remain in the building)
- Other costs associated with the above improvements

Building Maintenance Expense

4.3.7 The following are examples of expenditures not to capitalize as improvements to buildings. Instead, these items should be recorded as maintenance expense.

- Adding, removing and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building
- Improvement projects of minimal or no added life expectancy and/or value to the building
- Plumbing or electrical repairs
- Cleaning, pest extermination, or other periodic maintenance
- Interior decoration, such as draperies, blinds, curtain rods, wallpaper
- Exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.
- Maintenance-type interior renovation, such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections; sink and fixture refinishing, etc.
- Maintenance-type exterior renovation such as repainting, replacement of deteriorated siding, roof, or masonry sections •Replacement of a part or component of a building with a new part of the same type and performance capabilities, such as replacement of an old boiler with a new one of the same type and performance capabilities
- Any other maintenance-related expenditure which does not increase the value of the building.

4-4 Facilities and Other Improvements

Facilities Definition

- 4.4.1 Assets (other than general use buildings) built, installed or established to enhance the quality or facilitate the use of land for a particular purpose.

Other Improvements Definition

- 4.4.2 Depreciable improvements made to a facility or to land that should be capitalized as betterment if the improvement is at the capitalization threshold or the expenditure increases the life or value of the asset by 25 percent of the original cost or life period.

Depreciation Methodology

- 4.4.3 The straight-line depreciation method (historical cost less residual value, divided by useful life) will be used for Facilities and Other Improvements.

Capitalization Threshold

- 4.4.4 The capitalization threshold for facilities and other improvements is B.D 10,000.

4.4.5 Examples of Expenditures to be Capitalized as Facilities and Other improvements

- Fencing and gates
- Landscaping
- Parking lots/driveways/parking barriers
- Outside sprinkler systems
- Recreation areas and athletic fields (including bleachers)
- Paths and trails
- Stadiums
- Swimming pools, tennis courts , basketball courts
- Fountains
- Plazas and pavilions
- Retaining walls.

4-5 Infrastructure

Infrastructure Definition

- 4.5.1 Assets that are long-lived capital assets are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Infrastructure assets are often linear and continuous in nature.

Infrastructure Improvements

- 4.5.2 Infrastructure improvements are capital events that materially extend the useful life or increase the value of the infrastructure, or both. Infrastructure improvements should be capitalized as betterment and recorded as an addition of value to the infrastructure if the improvement or addition of value is at the capitalization threshold or increases the life or value of the asset or life period.

Maintenance Costs

- 4.5.3 Maintenance costs allow an asset to continue to be used during its originally established useful life. Maintenance costs are expensed in the period incurred.

Preservation Costs

- 4.5.4 Preservation costs are generally considered to be those outlays that extend the useful life of an asset beyond its original estimated useful life, but do not increase the capacity or efficiency of the asset. Preservation costs should be capitalized, if the cost is at the capitalization threshold

Additions and Improvements

- 4.5.5 Additions and improvements are those capital outlays that increase the capacity or efficiency of the asset. A change in capacity increases the level of service provided by an asset. For example, additional lanes can be added to a highway or the weight capacity of a bridge could be increased. A change in efficiency maintains the same service level, but at a reduced cost. For example, a heating and cooling plant could be reengineered so that it produces the same temperature changes at reduced cost. The cost of additions and improvements should be capitalized.

Depreciation Methodology

- 4.5.6 The straight-line depreciation method(historical cost less residual value, divided by useful life) will be used for infrastructure assets.

Capitalization Threshold

- 4.5.7 The capitalization threshold for infrastructure is B.D 10,000.

4.5.8 Examples of Expenditures to be Capitalized as Infrastructure

- Highway and rest areas.
- Roads, streets, curbs, gutters, sidewalks.
- Bridges.
- Canals, waterways, wharf, docks, sea walls, bulkheads, boardwalks.
- Dam, drainage facility.
- Radio or television transmitting tower.
- Electric, water and gas (main lines and distribution lines, tunnels)
- Fiber optic and telephone distribution systems (between buildings)
- Light system (traffic, outdoor, street, etc.).
- Airport runway/strip/taxiway /apron.

4-6 Plant And Equipment

Plant and Equipment Definition

- 4.6.1 A fixed asset that reflects the actual or fair value of fixed assets (other than land, buildings, infrastructure and construction in progress). Such assets include office equipment, furniture, machine tools, and motor vehicles. Equipment may be attached to a structure for purposes of securing the item, but unless it is permanently attached to, or an integral part of, the building or structure, it will be classified as equipment and not buildings.

Depreciation Methodology

- 4.6.2 The straight-line depreciation method (historical cost less residual value, divided by useful life) will be used for plant and equipment.

Capitalization Threshold

- 4.6.3 The capitalization threshold for plant and equipment is B.D 500.

4.6.4 Examples of Expenditures to be capitalized as plant and equipment

- Original contract or invoice price
- Freight charges
- Import duties
- Handling and storage charges
- In-transit insurance charges
- Sales, use, and other taxes imposed on the acquisition
- Installation charges
- Charges for testing and preparation for use
- Costs of reconditioning used items when purchased
- Parts and labor associated with the construction of equipment.

4-7 Library Books and Reference Materials

Library books and Materials Definition

- 4.7.1 A library book is generally a literary composition bound into a separate volume and identifiable as a separate copyrighted unit. Library reference materials are information sources other than books which include journals, periodicals, microforms, audio/visual media, computer-based information, manuscripts, maps, documents, and similar items which provide information essential to the learning process or which enhance the quality of academic, professional or research libraries. Changes in value for professional, academic or research libraries may be reported on an aggregated net basis.

Library Characteristics

- 4.7.2 A professional, academic or research library normally has one or more of the following characteristics:
- Internal controls are in place in lieu of central property management.
 - Information is housed in a centralized location.
 - Physical security measures are in place to protect the assets.
 - Checkout procedures and policies exist and are used.
 - Individual item costs and supplemental information is generally contained in a supplemental database.
 - Volumes assigned to libraries are typically available to employees, students, and other individuals for check-out or use.
 - Existence of the library helps the entity fulfill its mission.
 - The value is material to the organization.

Equipment assigned to libraries typically remains under central security for on-premises use. A library may be reported on a composite basis by making net adjustments to total value to reflect increase or decrease in total value. Net

adjustments must be made at least once annually by the close of the fiscal year.

Depreciation Methodology

- 4.7.3 Library books and materials are considered inexhaustible assets and should not be depreciated. These library books and materials have an economic benefit or service potential that is used up slowly, and their estimated useful lives are extraordinarily long. Some books have a cultural, aesthetic, or historical value, and efforts are usually applied to protect and preserve these assets in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.

Capitalization Threshold

- 4.7.4 If a ministry want to capitalize Library Books and Reference Materials all purchases of books and materials should be capitalized, as there is no minimum amount. Library acquisitions are valued at cost or one other reasonable basis; deletions are valued at annually adjusted average cost. The library shall maintain records of all books and other library items, which suffice as detailed inventory records. Books, periodicals and other materials purchased but not used in a library should be expensed.

4.7.5 Examples of Expenditures to be capitalized as Library Books and Materials

- Invoice price
- Freight charges
- Handling
- In-transit insurance charges
- Binding
- Reproduction and like costs required to place assets in service, with the exception of library salaries.

4-8 Works of Art

Works of Art Definition

- 4.8.1 Collections or individual items of significance that are owned by a ministry, which are not held for financial gain, but rather for public exhibition, education or research in furtherance of public service. Collections or individual items that are protected and cared for or preserved and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. Exhaustible collections or items –items whose useful lives are diminished by display or educational or research applications. Inexhaustible collection or items –where the economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily long. Because of their cultural, aesthetic, or historical value, the holder of the asset applies efforts to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.

Depreciation Methodology

- 4.8.2 The straight-line depreciation method (historical cost less residual value, divided by useful life) will be used for exhaustible collections. Inexhaustible items should not be depreciated.

Capitalization Threshold

- 4.8.3 All works of art acquired or donated will be capitalized unless held for financial gain.

4.8.4 Examples of Expenditures to be capitalized as Works of Art

- Collection of rare books, manuscripts.
- Maps, documents and recordings
- Works of art such as paintings, sculptures, and designs
- Artifacts, memorabilia, exhibits

4-9 Leasehold Improvements

Leasehold Improvements Definition

- 4.9.1 Construction of new buildings or improvements made to existing structures by the lessee, who has the right to use these leasehold improvements over the term of the lease. These improvements *will revert to the lessor* at the expiration of the lease. Moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement. Leasehold improvements do not have a residual value.

Depreciation Methodology

- 4.9.2 Leasehold improvements are capitalized by the lessee and are amortized over the shorter of (1) the remaining lease term, or (2) the useful life of the improvement. Improvements made in lieu of rent should be expensed in the period incurred. If the lease contains an option to renew and the likelihood of renewal is uncertain, the leasehold improvement should be written off over the life of the initial lease term or useful life of the improvement, whichever is shorter.

Capitalization Threshold

- 4.9.3 The capitalization threshold for leasehold improvements is 10,000.

4-10 Construction in Progress

Construction in Progress Definition

- 4.10.1 Construction in Progress reflects the economic construction activity status of buildings and other structures, infrastructure (highways, energy distribution systems, pipelines, etc.), additions, alterations, reconstruction, installation, and maintenance and repairs which are substantially incomplete.

Depreciation Methodology

- 4.10.2 Depreciation is not applicable while assets are accounted for as Construction in Progress. See appropriate capital asset category when asset is capitalized.

Capitalization Threshold

4.10.3 Construction in progress assets should be capitalized to their appropriate capital asset categories upon the earlier occurrence of:

- Issuing of final certificate
- Occupancy
- When the asset is placed into service

4.10.4 A ministry should be responsible for the closing of the work in progress account. Project Directorate Approval should be obtained for the closing of construction in progress account if the value is BD.10,000 and above.