CHAPTER 4 ASSETS

4.1 ACCOUNTS RECEIVABLE

1. Effective Date

This Policy is effective as of April 1, 2001.

2. Policy Objective

The objective of this policy is to outline the accounting treatment and financial statement presentation of accounts receivable.

3. Definitions

Account receivables are short-term receivables that are normally but not necessarily, expected to be collected within one year. Accounts receivable may include trade and non-trade receivables. Trade receivables represent amounts owing by customers for goods and services sold or rendered as part of normal business operations. Non-trade receivables arise from a variety of transactions including overpayments, refunds, cost recoveries or other claims for payment.

Allowance for doubtful accounts is a contra account to accounts receivable. It is an estimate of the amount of accounts receivable that the organization does not expect to be ultimately realized (i.e. accounts receivable for which collection is not expected to occur).

Contra-account is an account that is deducted from another account to modify the recorded amount of that latter account; sometimes called a valuation account.

Debt write-off occurs when the balance of an account receivable for a particular client is reduced because the account is considered uncollectible.

4. Scope

This policy applies to granting credit, issuing invoices or credit notes, receiving payments, recording receipt of payments, maintaining accounting records, or reconciling payment receipts with accounting records.

5. Policy Statement and Requirements

It is CSC policy to account for accounts receivable in accordance with the accrual basis of accounting.

Invoices will be issued immediately upon providing a product, a service, the use of a facility, or a right or privilege.

Credit will only be granted if it benefits CSC and the government, or if it is the only practical way of doing business with a particular client.

Accounts receivable records must contain all debts and other claims that are due to CSC. They will be recorded in the departmental financial system, Integrated Financial and Materiel Management System (IFMMS) when the goods have been delivered, the services rendered or when the terms of an agreement or contract have been complied with, e.g. advances due from an OGDs.

The accounts receivable records must include amounts owed to CSC for:

- sales of goods, provision of services, and the use of CSC facilities;
- claims by CSC, at their estimated value, on behalf of the Crown;
- court awards;
- overpayments and erroneous payments of supplier accounts, grants, contributions, salaries, wages, benefits and allowances;
- interest and administrative charges on overdue receivables;
- amounts due from other government departments (to be recorded through the Interdepartmental Settlement process); and;
- accounts assigned for collection by CSC to a third party, such as a collection agency.

The sample CSC invoice contained in appendix A to this policy is to be used for all amounts owing to CSC. The full form is located at the following url: http://infonet/forms/forms/1213.doc

Accounts receivable will be monitored by means of an ageing analysis. Prompt and vigorous collection will be taken action to keep accounts receivable at a minimum.

Finance staff shall ensure that accounts receivable are not deleted until CSC has received full payment, or until a CSC officer with the appropriate delegated authority, has authorized a credit note, write-off, deletion, or other form of remission or forgiveness.

6. Procedural Requirements

Within CSC there are six distinct processes that generate accounts receivable. The procedures dealing with each vary significantly. The six processes are as follows:

- accounts receivable arising from transactions with entities external to the government;
- accounts receivable arising from transactions with entities internal to the government; i.e., Other Government Departments (OGDs) creditor initiated transactions;
- accounts receivable arising from transactions with entities internal to the government; i.e., Other Government Departments (OGDs) debtor initiated transactions;
- accounts receivable arising from transactions with CORCAN;
- accounts receivable arising from transactions with Inmate Owned Canteens and transactions initiated on behalf of Inmates; and
- accrual of accounts receivable for amounts that have not yet been processed in IFMMS.

6.1 Accounts Receivable with Parties External to the Government

6.1.1 Granting Credit

Managers, in consultation with Finance officers, must ensure that credit is granted only after confirming that the potential debtor's credit status is satisfactory.

6.1.2 Creating the Receivable

Managers are responsible for identifying when amounts are due to CSC. Managers will initiate a CSC Invoice (see appendix A), including the following:

- customer name;
- customer address;
- customer phone/fax numbers;
- description of the transaction;
- amount, including any applicable taxes and delivery/shipping charges;
- coding to which the transaction should be credited (i.e., Resp-Subresp-Cost Centre-Project-Allotment-Line Object)

The invoice is to be forwarded to Finance at their location. Finance will review the invoice for completeness, assign an invoice number and forward one copy to the customer and retain one copy on file.

Finance staff will then record the transaction in the General Ledger module of IFMMS, creating the following entry:

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR. A/R - External	XXXXX	XXX	XXXXX	700	53101	1	1	$xxx	11221	R300	5399	E
CR Revenue	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1	$xxx	XXXXX	E500	XXXX	E or I

6.1.3 Collecting and Recording Payment

Managers and financial officers must monitor individual accounts receivable balances on a monthly basis to ensure that accounts are collected when due.

Payments received from debtors must be accounted for in accordance with the TB and CSC policies on receipt and deposit of public money.

Collection actions must be the most appropriate and cost effective in each case.

Transactions involving external customers will involve receipt of funds in physical form (i.e., cash, cheque or money order). Finance staff will normally receive payments for deposit.

Finance will prepare a journal voucher, indicating the coding to which the payment will be applied. The completed journal voucher is entered into IFMMS. When the payment relates to previously recorded revenue and an account receivable, the entry must credit the account receivable. In the case of a cash sale where the establishment of an account receivable is not required, the credit will be coded directly to the revenue coding. Note: the total amount of each bank deposit must equal the total amounts of payments recorded on one journal voucher.

Following is an example of the entry required:

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR Deposit Control Account	99999	999	99999	610	BCM01	1	1		11112	R300	5241	E
CR Accounts Receivable External*	XXXXX	XXX	XXXXX	700	53101	1	1		11221	R300	5399	E

(*same coding as used upon initial recording of the receivable)

6.1.4 Allowance for Doubtful Accounts

As there are always some customers who cannot pay their debts, selling on credit necessarily involves credit losses. Such losses, as distinguished from amounts that are uncollectible because of damage to goods or failure to meet some specified quality or standard of performance, are known as "bad debt losses."

Establishing an allowance for doubtful accounts permits the allocation of possible bad debt losses to the period in which the revenue was earned. The estimated allowance for doubtful accounts should be made using professional judgement, taking the amounts and past collection experience into account. The actual amount of the loss realized may be more or less than the estimate.

In CSC, the allowance for doubtful accounts is related to only those receivables with non-OGD customers (as all intra/interdepartmental receivables are assured of being collected). The following method will be used to calculate the allowance for doubtful accounts in CSC:

Total: Non-OGD Receivables (Allotment 700)
Less: Non-OGD Receivables over 365 days
Less: Non-OGD Receivables gone to collection agency
Equals: Amount to apply % against Non-OGD Receivables

Calculate 2 % of the above amount
Add: Non-OGD Receivables over 365 days
Add: Non-OGD Receivables gone to collection agency

Total = amount that should be in the Allowance for Doubtful Accounts

Each site finance officer will be responsible to record the adjusting record entries in the General Ledger module of IFMMS to reflect the appropriate balance in their allowance for doubtful accounts. These adjusting entries will be required on an annual basis and must be recorded prior to the close of the books for the fiscal year. The adjustment will be either:

a) if the current balance in the allowance for doubtful accounts is less than the required year-end balance;

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR Bad Debt Expense	XXXXX	XXX	XXXXX	270	13900	1	1		51732	F122	3462	E
CR Allowance for Doubtful Accounts	XXXXX	XXX	XXXXX	700	53199	1	1		11229	F412	5399	E

b) if the current balance in the allowance for doubtful accounts is greater than the required year-end balance;

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR Allowance for Doubtful Accounts	XXXXX	XXX	XXXXX	700	53199	1	1		11229	F412	5399	E
CR Bad Debt Expense	XXXXX	XXX	XXXXX	270	13900	1	1		51732	F122	3462	E

The accounts receivable are shown on the Statement of Financial Position net of the allowance for doubtful accounts, allowing users of the statement to view the net realizable amount of accounts receivable.

6.1.5 Forgiveness of Accounts Receivable

On occasion, there may be circumstances that exist to warrant the forgiveness of an amount due the Crown. The mechanism to forgive amounts due to the Crown is a remission order that requires Treasury Board approval. Once an account is forgiven, no further follow-up action is required. In the event that authorization for forgiveness of a receivable is obtained, finance staff will make the following entry in IFMMS:

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR Forgiveness of Debts	XXXXX	XXX	XXXXX	270	13910	1	1		11229	B162	3217	E
CR Accounts Receivable	XXXXX	XXX	XXXXX	700	53101	1	1		11221	R300	5399	E

Normally entries to remove uncollectible accounts would be coded against the Allowance for Uncollectible Accounts. In this situation, it is necessary to use a code that can be charged against the appropriate authority. This line object will be mapped to the FRA "Allowance for Doubtful Accounts" in the accrual records.

6.1.6 Deduction and Set-Off - s.155 Financial Administration Act

Receivable/payable situations involving CSC, an Other Government Department (OGD) and an independent third party may be handled according to s.155 of the *Financial Administration Act (FAA*). The *FAA* allows any federal government department to recover amounts owed to it by a person by way of set-off or deduction from amounts owed to that person by another government department. CSC may have receivables due to it from an independent third party while the independent third party has amounts owed to it by an OGD. In these cases, a request may be made for deduction or set-off of funds by CSC to the OGD.

As per section 155(4), the request for deduction or set-off must be approved by the Minister (or his/her delegate) of the OGD from which payment to the individual would have been made. Set-offs or deductions against payments due or payable by CSC must be approved by either the Commissioner, the Assistant Commissioner Corporate Services (Senior Financial Officer), or the Comptroller (Senior Full-time Financial Officer) as per the CSC Financial Signing Authority.

When initiating a request to set-off, the particular site finance office must assemble the supporting documentation to request the set-off. The request should be sent through the regional finance office to the Director Operations at NHQ to co-ordinate the request. The request must include the applicable coding to which recovery should be credited, an IS Organization Code and an IS Reference Number and an indication of possible OGDs that may owe the debtor amounts.

Once confirmed with an OGD that an amount is owing to the debtor and the applicable approvals have been obtained, NHQ Corporate Accounting will contact the OGD requesting that the set-off be made and supplying the necessary information. Presumably, the OGD will raise a debtor initiated IS to send the funds to CSC. The process described in the section on Interdepartmental (OGD) Accounts Receivable of this policy will then apply. Through that process the amount will be credited to the applicable coding.

6.1.7 Write Offs

Debts, in full or in part, must not be written off unless:

a) all reasonable and cost-effective collection action has been taken and all possible means of collection have been exhausted; and
b) there is no possibility now, or in the foreseeable future, of collection through deduction and set-off under s. 155 of the *Financial Administration Act*.

Persons authorized in the CSC Financial Signing Authorities Document may write off a debt, or a part of a debt, in accordance with the Treasury Board *Debt Write-Off Policy and Regulations*, for the following reasons:

- the debt is deemed to be uncollectible; and
- the administrative expense or other costs of collecting the debt are not justifiable in relation to the amount of the debt or the probability of collection.

Debt write-off authorizations and procedures must be in accordance with the debt write-off requirements and conditions outlined in CSC's Financial Signing Authorities, and other debt write-off regulations and related TB policy.

CSC must obtain Treasury Board approval to write off accountable advances or other debts arising from the overpayment of salaries, wages, or employment-related benefits or allowances to debtors who are still employed in the public service.

Once approval has been obtained to write off a debt, the applicable site finance office will process the following entry in the General Ledger module of IFMMS:

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR A/R Debts Written Off	XXXXX	XXX	XXXXX	270	13911	1	1		11229	B161	3214	E
CR Accounts Receivable	XXXXX	XXX	XXXXX	700	53101	1	1		11221	R300	5399	E

Normally entries to remove uncollectible accounts would be coded against the Allowance for Uncollectible Accounts. In this situation, it is necessary to use a code that can be charged against the appropriate authority. This line object will be mapped to the FRA "Allowance for Doubtful Accounts" in the accrual records.

Information on amounts written off should be retained on file for the eventuality that the debtor does become capable of paying the outstanding amount. Corporate accounting should request a schedule of such write-offs as part of its year-end procedures.

6.1.8 Interest on Overdue Accounts

Interest, at the average bank rate plus three percent, will be calculated and compounded monthly on all overdue accounts receivable, as per TB Circular 1996-03 Interest and Administrative Charges Regulations.

CSC has obtained Treasury Board approval to waive the interest charges for overdue accountable advances to employees for travel and relocation.

The Commissioner or the Senior Financial Officer may waive or reduce the interest charges if:

a) the administrative costs of assessing, billing, and collecting would exceed the interest owing;

b) the interest is in respect of an amount in dispute that has been settled, totally or partially, in favour of the debtor;

c) an overpayment or erroneous payment of salary, wages, or recurring benefits or allowances (other than those due to fraud, misrepresentation, or falsification of documents) is to be recovered from subsequent payment of salary, wages, or benefits, or allowances;

d) a penalty or fine includes interest; or

e) the debtor was unable, due to circumstances beyond his/her control, to settle the account on time.

When interest has been charged, site finance staff will generate an invoice to the debtor and forward copies to the debtor and responsible manager. Site finance staff will record the invoice in the IFMMS General Ledger module using the following coding:

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR Accounts Receivable	XXXXX	XXX	XXXXX	700	53101	1	1		11221	R300	5399	E
CR Interest on Overdue Accounts Receivable (Revenue)	XXXXX	XXX	XXXXX	160	14609	1	1		42541	E500	4832	E

6.1.9 Administrative Fees on NSF Cheques

CSC will charge the debtor an administrative fee of $15.00 for each cheque returned by a financial institutional because of insufficient funds. However, if CSC has to reimburse a financial institution for a NSF cheque, the debtor will be charged $10.00 in addition to the administrative fee of $15.00.

When interest and/or an administrative fee has been charged, site finance staff will generate an invoice to the debtor and forward copies to the debtor and responsible manager. Site finance staff will record the invoice in the IFMMS General Ledger module using allotment 160 and line object 14608.

6.1.10 Use of Private Collection Agencies

Private sector collection agencies (selected from a master standing offer) may be used under the following conditions:

a) all other collection methods and efforts have been exhausted;

b) the debt cannot be readily recovered through set-off or by negotiating a revised payment schedule (e.g., reducing the amount of each scheduled payment and extending the due date for final payment);

c) the debtor is not another government department, agency or organization;

d) the debt is not in litigation or under appeal, i.e. there is no disagreement as to the amount of the debt;

e) the debtor is not an inmate or parolee; or,

f) the cost of recovering the debt is substantially less than the debt being collected.

Fees payable to a collection agency for the **successful** collection of debts due to the Crown are authorized under section 17.1 of the *Financial Administration Act (FAA)* and are chargeable to a statutory authority. Any such fees must be reported in the Public Accounts and in the final Supplementary Estimates when required by the Treasury Board.

CSC staff will cease all contacts and collection actions once a private sector collection agency has been contracted to collect a particular account. However, the expenses for credit assessment, tracing debtors, and cheque verification **must** be charged to CSC's operating vote.

Private sector collection agencies and their agents are required to abide by all federal and provincial acts and regulations governing the collection of accounts.

When amounts are placed with private collection agencies, the accounts receivable will remain as outstanding until such time as it is either collected, forgiven, or written off.

The IFMMS entry for fees payable to a collection agency for successful collection of accounts receivable is as follows:

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR Collection Agency Services	XXXXX	XXX	XXXXX	240	04587	1	1		51321	A123	0815	E
CR Accounts Payable	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1		XXXXX	XXXX	XXXX	E

Any expenses related to credit assessment, tracing debtors, and cheque verification will be recorded in IFMMS as follows:

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR Miscellaneous Expenses	XXXXX	XXX	XXXXX	240	04588	1	1		51321	B120	0859	E
CR Accounts Payable	XXXXX	XXX	XXXXX	XXX	XXXX	1	1		XXXXX	XXXX	XXXX	E

6.1.11 Garnishments

When all collection efforts have failed, site Finance staff, in consultation with the responsible manager, should consider the feasibility of initiating a garnishment order against the debtor.

Any request for garnishment of money payable from an independent third party must be supported by the appropriate documentation of the applicable province. Garnishment is subject to the law of the province in which a garnishment order is to be actioned. Garnishment situations requiring further clarification should be referred to Legal Services

6.1.12 Monitoring and Reporting Receivables

Internal controls over receipts of public money and accounts receivable records must be adequate to ensure that no one individual employee has total control over all of the following separate functions. Those functions include; granting credit, issuing invoices, issuing credit notes, receiving payments, preparing deposits, delivering deposits to financial institutions, maintaining general ledger and sub-ledger accounting records, reconciling payment receipts with accounting records and authorizing cancellations, remissions, forgiveness, or write-offs, of receivables.

Corporate Accounting will periodically review the adequacy of the processes for recording and collecting accounts receivable.

A complete audit trail must be maintained to permit the tracing of transactions from initiation to settlement for each receivable.

Site finance staff should periodically produce aged accounts receivable reports, highlighting significant overdue charges and the related interest due. Problems in collecting overdue amounts should be referred to the manager who initiated the accounts receivable.

The aged accounts receivable report should indicate the value of receivables:

- Not overdue
- Overdue
  - less than 31 days
  - 31-60 days
  - 61 to 90 days
  - 91 to 365 days
  - over 1 year
- Total Receivables

6.2 Interdepartmental (OGD) Accounts Receivable - Creditor Initiated

6.2.1 Initiating the Invoice

Managers are responsible for identifying when amounts are due to CSC and initiating a CSC Invoice (see appendix A), including the following information:

- department name;
- department number;
- IS organization code obtained from the OGD;
- IS reference code obtained from the OGD;
- Contact name, telephone and fax;
- Department address;
- Department phone/fax numbers;
- description of the transaction;
- amount, including any applicable taxes and delivery/shipping charges; and
- coding to which the transaction should be credited (i.e., Resp-Subresp-Cost Centre-Project-Allotment-Line object)

Appendix B includes a form that may be used to facilitate the receipt of the required information.

The invoice is to be forwarded to the Finance office at their location. The Memorandum of Understanding or other documentation indicating the agreement between CSC and the OGD will also be forwarded to the site Finance staff. Finance will review the invoice for completeness, assign an invoice number and forward one copy to the OGD and retain one copy on file.

6.2.2 Recording creditor initiated IS to OGDs

Upon receipt of the CSC accounts receivable invoice, finance staff will record the invoice in IFMMS crediting the coding identified by the Manager.

The current process for recording these invoices in IFMMS will result in the creation of a "creditor initiated" transaction. Once this process is initiated and accepted by the OGD, the account receivable will be considered settled. No further follow-up action is required to collect the account receivable.

Generally, all accounts receivable due to CSC from OGDs will be creditor initiated by CSC; i.e., CSC will generate and process the necessary documentation and files to extract payment from the OGD.

CSC will creditor initiate all OGD accounts receivable with the exception of those transactions in which CSC does not know the amount.

Following is an example of an entry generated when the invoice is recorded in IFMMS:

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr. SPS/IS Debit Account (A/R)	99999	999	99999	177	SPS06	1	1		11242	R300	0000	I
Cr. Revenue/ Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1		XXXXX	XXXX	XXXX	I

Next, the interdepartmental settlement is batched for transmission to PWGC SPS/IS system. No entries are generated at this time.

SPS/IS will send a SPS/IS Notification file back to CSC and the IS Status field in IFMMS will be updated accordingly by the system and the IS Reference Number field will be populated. The following entry will be automatically generated and posted at that time.

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr. RGGL IS Debit Clearing	99999	999	99999	177	RGL0 6	1	1		11242	R300	0000	I
Cr. SPS/IS Debit Account (A/R)	99999	999	99999	177	SPS06	1	1		11242	R300	0000	I

SPS/IS sends summary data for control accounts to the RGGL on a daily basis. Once this file is received in RGGL, the following entry would be recorded to set up the appropriate balance in the control account.

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr. SPS/IS Debit Control Account	99999	999	99999	C64	99998	1	1		64053	0000	0000	I
Cr. RGGL IS Debit Clearing	99999	999	99999	177	RGL06	1	1		11242	R300	0000	I

If the transaction is approved by the OGD (or upon lapse of the grace period with no questioning by the OGD), there is no further action to be taken by CSC.

6.2.3 Reconciliation of the SPS/IS Debit Control Account

Upon completion of the clearing process, a balance will be present in the SPS/IS Debit Control Account. The Head of Corporate Accounting is responsible for the clearing of this account. Following the daily load and process, exception reports will be produced to assist Corporate Accounting staff in the reconciliation of the control accounts. Regional finance staff will be notified of any amounts unable to be reconciled by Corporate Accounting, which will require regional finance staff input.

In the event that the SPS/IS Debit Control Account does not balance to the RGGL at month-end, then Corporate Accounting may process an adjustment to the SPS/IS Debit Control Account, to be reversed the following month.

6.2.4 Questioned Transactions

The debtor department may be question any interdepartmental settlement processed through the SPS/IS interface if they disagree with the amount being charged.

When dealing with other government departments, the following situations may occur:

a) if the initiated interdepartmental settlement is under the OGD's limit, it will automatically be approved, but the recipient department may still question the interdepartmental settlement within the same fiscal year if there is a problem with the Interdepartmental Settlement (IS) transaction.

b) if the initiated interdepartmental settlement is over the department's limit, the OGD department has 5 calendar days to either Approve or Question the IS. If the IS is not approved within 5 calendar days, the IS is automatically questioned. The questioning of an IS is an action which will reverse the original IS transaction and report the reversed amount to the Receiver General - General Ledger (RGGL) and the two departments involved in the transaction. Finance staff must cancel/reverse the IS entry in IFMMS.

In the event that a reversal of an entry is required in IFMMS, NHQ Corporate Accounting staff must obtain approval by a manager with authority under section 33 of the *FAA*. Corporate accounting staff will notify the manager and then reverse the entry. When the transaction originated in a regional office, Corporate Accounting staff will notify regional finance staff who will, in turn, notify the regional manager.

Notification that a receivable has been either approved or questioned normally occurs through the receipt of return files from the SPS/IS interface. Therefore, it is advisable for CSC finance staff to call the OGD when posting an account receivable over the departmental limit and request notification by phone, e-mail, etc. if the OGD intends to question the transaction.

6.3 Interdepartmental (OGD) Accounts Receivable - Debtor Initiated

In some instances, accounts receivable due from OGDs will be debtor initiated; i.e., the OGD will generate and process the necessary files to electronically send payment to CSC.

Debtor initiated accounts receivable will occur where CSC does not know the specific amount to expect and the OGD initiates payment to CSC. CSC is the creditor department but the OGD initiates the transaction. This will occur for such items as Crown Asset disposals and settlement of OGD suspense accounts by OGDs when the OGD must return unused funds to CSC.

Prior to the debtor initiating the transaction, the OGD will have requested an IS Organization Number and an IS Reference Number from the applicable CSC Manager. The IS Organization Number will be the Managers Resp/Sub Resp and Cost Centre Number. The IS Reference Number will be a unique number assigned by the Manager and cannot exceed 22 characters. When agreements are entered into with OGDs, Managers must ensure that IS Organization Codes and IS Reference Numbers are identified.

The OGD will initiate the payment in the SPS/IS Receiver General System. This will generate a SPS/IS Notification File that NHQ Corporate Accounting will load and process into IFMMS. An entry will be created in IFMMS crediting the amount to a suspense line of coding - Undistributed IS Receipts Suspense. The following entries are generated:

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR RGGL IS Debit Clearing	99999	999	99999	177	RGL06	1	1		11242	R300	5299	I
CR. Undistributed IS Receipts Suspense	19600	000	00000	175	14900	1	1		42719	E500	4659	I

Upon processing of the RGGL Control Data file, the following entry will be automatically created:

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR IS Debit Control Account	99999	999	99999	C64	99998	1	1		64053	R300	0000	I
CR RGGL IS Debit Clearing	99999	999	99999	177	RGL06	1	1		11242	R300	5299	I

NHQ Corporate Accounting will use the "IS Creditor Transactions Initiated by OGD" report to review the IS transactions periodically to ensure that the transaction is valid and to redistribute amounts to the correct accounting codes so that the Undistributed IS Receipts Suspense account is cleared.

Through contact with the Regions / Managers, Corporate Accounting will determine to which revenue/ expense codes amounts appearing in the IS suspense account will be credited. The IS Organization Numbers and IS Reference Numbers will be used to identify the recipient Manager for the credit. Once the proper revenue / expense coding has been identified, they will make the following entry(s) in the General Ledger module of IFMMS:

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR A/R or Revenue (Suspense)	19600	000	00000	175	14900	1	1		42719	E500	4659	I
CR Revenue / Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1		XXXXX	XXXXX	XXXXX	I

The "IS Suspense Account Detail Report" can be run on demand and gives a listing of all transactions coded to the IS Suspense Account. It can be used to investigate the balance in the IS Suspense Account.

Detailed instructions for the creation of receivables due to CSC from OGDs can be found in the FIS IS Processing Training Manual.

6.4 Accounts Receivable arising from transactions with CORCAN

CSC's managers are responsible for identifying when amounts are recoverable from CORCAN and for initiating CSC's invoice to CORCAN. The manager should complete the "Transmission of Information for Invoice Production" [CSC/SCC 1213 (03-12)] form ensuring that the following information appears on the form:

- Invoice in account with: CORCAN, Institution/RHQ/NHQ name, address, contact name, telephone number, fax number and email address
- CSC originator's contact information: contact name, telephone number, fax number, and email address
- a description of the transaction;
- the total amount, including any applicable taxes and delivery/shipping charges; and
- the coding to which the transaction should be credited (i.e., Resp – Subresp - Cost Centre - Project - Allotment - Line object)
- Order back-up information (e.g. Contract, MOU, etc)

The Memorandum of Understanding or other documentation between CORCAN and CSC duly approved by both parties that outlines the nature and amount of the receivable to be initiated against CORCAN by CSC is to be forwarded to the site finance staff. Any such documentation should be attached to the invoice that is forwarded to CORCAN.

Once the form is completed, the form should be forwarded to finance for processing. Finance will review the form for completeness and then input the form into the AR module; thereby creating the invoice in IFMMS with a credit to the coding identified by the Manager.

CSC creates an AR invoice to recover costs incurred on behalf of CORCAN. The invoice is printed and sent to CORCAN for collection. Transaction Type = CORCAN INTRA.

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR AR Intra	19600	000	00000	703	53301	1	1	10,000	21612	R300	6299	I
CR Expense	XXXXX	XXX	XXXXX	240	XXXXX	1	1	10,000	51321	B120	XXXX	I

Overnight, the invoice is posted and a receipt created using the CORCAN INTRA lockbox. Receipt Source = CORCAN INTRA.

CORCAN receives the AR invoice and creates an AP invoice for the amount due to CSC and then processes the payment on the invoice.

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR Intra Receipt Clearing	99999	999	99999	CRC	INT02	1	1	10,000	21612	R300	6299	I
CR AR Intra	19600	000	00000	703	53301	1	1	10,000	21612	R300	6299	I

6.4.1 Reconciliation Process

Since CSC's and CORCAN's Intra transactions should net to zero at the Government-Wide Coding level the following reconciliation process is to be followed. On a monthly basis, regional finance staff will run the CSC-CORCAN Intra Reconciliation Reports available in the AR Module. Follow up is required with CORCAN, if they have not created an AP transaction to match CSC's AR or an error must be corrected in their AP posting.

It is CSC's responsibility to ensure that both the AR and AP entries are completed and accurate.

6.5 Accounts Receivable arising from Inmate Owned Canteens and Transactions initiated on behalf of Inmates

6.5.1 Sale of a CSC owned canteen to an Inmate Committee

The following accounting entry is required to record the sale of a CSC owned canteen to an Inmate Committee. In the A/R Module, the receivable is set-up as follows when transferring the canteen inventory to the Inmate Committee. Please note that the receivable would include the GST/HST that must be charged on the sale of the canteen inventory.

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr Accounts Receivable	XXXXX	XXX	XXXXX	703	53101	1	1	10,700	11221	R300	5399	E
Cr. Canteen Purchases	XXXXX	238	XXXXX	240	07001	1	1	10,000	51321	B120	1179	E
Cr. GST Payable	19600	000	00000	603	35000	1	1	700	13392	G111	8171	E

Important Note: No accounting entries are required in the Inmate Accounting System (IAS) at this stage.

6.5.2 Repayments of monies owed from the "INITIAL" Sale of the Canteen

As repayments are made on the monies owed to CSC from the sale of a canteen, the Finance Technician is required to make two entries to properly reflect the transaction.

The first entry to be made in IFMMS is to reduce the invoice amount in the A/R Module by the amount received. When processing this entry, please select the "No Tax" field and **ensure that no receipt is recorded in the A/R Module**.

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr Canteen Purchases	XXXXX	238	XXXXX	240	07001	1	1	1,000	51321	B120	1179	E
Cr. Accounts Receivable	XXXXX	XXX	XXXXX	703	53101	1	1	1,000	11221	R300	5399	E

The second entry is to enter a manual journal voucher which charges the Inmate Welfare Fund for the amount of the payment.

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr Inmate Welfare Fund	XXXXX	XXX	XXXXX	820	44002	1	1	1,000	23223	P532	6086	E
Cr. Purchases for Canteens	XXXXX	238	XXXXX	240	07001	1	1	1,000	51321	B120	1179	E

The payment in IAS will be considered as a non-cheque disbursement and must not be transferred to IFMMS since the two preceding IFMMS entries reduced the invoice amount manually and charged the Inmate Welfare Fund for the repayment amount.

The net impact on purchases for canteens will be nil as 100% of the charges will be absorbed by the Inmate Welfare Fund.

6.5.3 Future Transactions on behalf of the Inmate owned Canteens

All future inventory purchases made on behalf of Inmate owned canteens are to be charged to the Inmate Welfare Fund.

For more detailed procedures regarding purchases for Inmate owned Canteens, please see Chapter 5.1, Section 6.5, “Accounts Payable arising from transactions with Inmate owned canteens”.

6.6 Accrued Accounts Receivable

Managers should forward all information relating to accounts receivable to Finance staff as they arise. Finance staff will prepare all invoices and maintain a sequential log.

To ensure that all receivables are recorded in the proper period, Finance staff will canvass managers prior to the second last working day of each period to ensure there are no unrecorded receivables. Any receivables brought to the attention of Finance staff at this time will be accrued immediately (e.g., ESAs). All entries will be made by the second last working day of the period.

Finance staff will accrue receivables at period-end through the following entry in IFMMS:

	CSC Coding								Government-Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Obje ct	Internal/ External
DR Accrued Accounts Receivable External	XXXXX	000	00000	697	89200	1	1		11225	R300	5299	E
DR Accrued Accounts Receivable External	XXXXX	000	00000	697	89500	1	1		11225	R300	5299	E
DR Accrued Accounts Receivable OGD	XXXXX	000	00000	698	88200	1	1		11241	R300	5299	I
DR Accrued Accounts Receivable OGD	XXXXX	000	00000	698	88500	1	1		11241	R300	5299	I
DR Accrued Accounts Receivable CORCAN	XXXXX	000	00000	696	87200	1	1		21612	R300	6399	I
DR Accrued Accounts Receivable CORCAN	XXXXX	000	00000	696	87500	1	1		21612	R300	63	I
CR Revenue	XXXXX	XXX	XXXXX	XXX	14XXX	1	1		XXXXX	E500	XXX X	E or I

This entry will be reversed at the beginning of the following period, with the accrual process to be repeated at each period-end.

7. Financial Statement Presentation and Disclosure

7.1 Statement of Financial Position

Accounts receivable should appear in the Assets section of the Statement of Financial Position under the category Financial Assets. Receivables will be presented net of the valuation account Allowance for Doubtful Accounts.

7.2 Statement of Operations

Included in the Statement of Operations will be Bad Debt Expense, related to the annual adjustment of the Allowance for Doubtful Accounts.

7.3 Notes

The policy regarding accounts receivable and the allowance for doubtful accounts appears in the Notes to the Financial Statements. Note 2(g) Summary of Significant Accounting Policies - Accounts Receivable should include a statement to the following effect:

> *"Receivables are stated at amounts expected to be ultimately realized. A provision is made for doubtful debts owing from non-Other Government Departments, for any amounts the recovery of which is considered uncertain. No such provision is made for uncertain amounts owing from other government departments."*

7.4 Schedules

Schedule 1 to the financial statements, Accounts Receivable - Net of Allowances, will show the amount of receivables owing from Other Government Departments (OGD) and External Parties, followed by the total amount of receivables.

8. References

Treasury Board Accounting Standard 1.2 - Departmental and Agency Financial Statements
Treasury Board Circular 1996-03 - Interest and Administrative Charges Regulations
Treasury Board FIS Accounting Manual Section 3.2.1 - Accounts Receivable
Treasury Board FIS Accounting Manual Section 3.2.4 - Debt Deletions
Financial Administration Act Section 155
CICA Handbook Section 3020 - Accounts and Notes Receivable
CSC Financial Signing Authorities, Schedule VI, Set-offs and Debt write-offs

Appendix A

Correctional Service Canada | Service correctionnel Canada

FINANCIAL INFORMATION STRATEGY (FIS) INVOICE NOTIFICATION
AVIS DE FACTURE ENTAMÉ PAR LA STRATÉGIE D'INFORMATION FINANCIÈRE (SIF)

INVOICE IN ACCOUNT WITH: **FACTURE AU COMPTE DE :**	Invoice notification number: Numéro d'avis de facture :
	INTRA
	Date of notification: Date de l'avis :

VERY IMPORTANT – TRÈS IMPORTANT
Please fill out organization and reference codes below. Prière de fourni
les codes d'organisation et de référence ci-après.

IS organization code Code d'organisation RI	IS reference code Code de référence RI
➡	➡

Date of service Date du service	Particulars of material or services Détail du matériel ou des services	Quantity Quantité	$ Unit price Prix unitaire	$ Amount Montant

Financial coding: Codage financier :	**AMOUNT DUE:** **MONTANT DÛ :** ➡

ORIGINATOR	**EXPÉDITEUR**
Correctional Service Canada 340 Laurier Avenue West 7th Floor Ottawa, Ontario K1A 0P9	Service correctionnel du Canada 340, avenue Laurier Ouest 7e étage Ottawa (Ontario) K1A 0P9

➡

FOR FURTHER INFORMATION REGARDING THIS INVOICE, CONTACT:
POUR DE PLUS AMPLES RENSEIGNEMENTS CONCERNANT CETTE FACTURE, COMMUNIQUER AVEC :

Name – Nom

Telephone no. – Nº de téléphone	FAX NO.– Nº DE

Email Address - Adresse du courrier électronique

Non-government customers should make remittance payable to the Receiver General of Canada and send it to the originator.
Les clients non gouvernementaux devrait établir leur chèque à l'ordre du Receveur général du Canada et le faire parvenir à l'expéditeur.

CSC/SCC 1213 (00-08)

DISTRIBUTION

Original =	FINANCE	Copy =	Originator
Original =	FINANCES	Copie =	Expéditeur

Appendix B

Information Required for an Interdepartmental Settlement Transaction

Correctional Service Canada, Dept. No. 053, will be sending an invoice to your department. With the government-wide change to FIS, we now require the following information from the department to complete our invoice to your department.

Details on the invoice we are sending are:

Invoice Number ____

Particulars ____

Please provide the following information by return fax:

Department Name ____

Department Number ____

IS Organization Code ____

IS Reference Code ____

Contact Name ____

Telephone ___________________________Fax ___________________________

Signature ___________________________Date ___________________________

Return to :

Name ____

Telephone ___________________________ Fax ___________________________

4.2 ACCOUNTABLE ADVANCES (TEMPORARY ADVANCES)

1. Effective Date

This Policy is effective as of April 1, 2001.

2. Policy Objective

The objective of this policy is to outline the accounting treatment of temporary advances and requirements for financial statement presentation in accordance with Generally Accepted Accounting Principles (GAAP) and to ensure a consistent application of this policy.

3. Definitions

A **temporary advance** is an accountable advance of a limited amount of cash. It is usually issued to facilitate and accelerate the payment of specific expenditures and is cleared immediately following the use for which they are issued.

An **accountable advance** is:

a) a sum of money advanced to a person from an appropriation, or

b) a sum of money advanced to a person from a standing advance such as a petty cash fund.

When the advance is no longer required the balance of the advance will be returned to the department with a full accounting of the used portion.

Accountable Advances Regulations SOR/86-438 define the regulatory requirements for the administration of accountable advances and are issued by Treasury Board pursuant to Section 38 (1) of the *FAA*.

4. Scope

This policy applies to all temporary advance accounts. This includes providing temporary advances, recording of expenses through temporary advances, replenishment of payments and maintaining accounting records**.**

5. Policy Statement and Requirements

It is Correctional Service Canada (CSC) policy to:

a) account for temporary advances in accordance with the accrual basis of accounting, as required under GAAP, and under a modified cash basis until Central Agencies advise otherwise;

b) use temporary advances only when it is more effective than other payment methods; and
c) record all temporary advance transactions in the Integrated Financial and Materiel Management System (IFMMS).

Approval to establish temporary advance accounts will be in accordance with the requirements of Receiver General Directive and applicable departmental policies.

Expenses paid through a temporary advance will be recognized and accounted for at the time the reason for the expenditure is complete and the advance account is retired.

An employee or contractor should hold only one temporary advance account at a time.

6. Procedural Requirements

6.1 Types of Advances

Accountable advances (temporary advances) issued by CSC include the following types of advances:

Line Object	Name
01500	Vacation Pay Advances
01501	Emergency Salary Advances
02400	Travel Advances
02500	Relocation Advances
04091	Tuition Advances
04161	Education Travel Advances
04490	Chaplaincy Fees Advances
04491	Chaplaincy Travel Advances
04515	Counselling & Liaison Fees Advances
04516	Counselling & Liaison Travel Advances
04520	Counselling & Liaison Fees Advances
04521	Counselling & Liaison Travel Advances
04610	Residential Services Advances

6.2 Issuing a Temporary Advance

The Activity Centre Manager will prepare the necessary documentation and justification to request the temporary advance. Local finance officers will create the temporary advance by the issuance of an advance in the name of the Payee requesting the advance. The advance may be in the form of petty cash, a DBA cheque, traveller's cheques, a Receiver General cheque or acquisition card. The advance will be subject to the accountable advance policy and procedures outlined in the Treasury Board Manual, Comptrollership Chapter 7-9 *Accountable Advances Regulations*.

The following example illustrates the Accounting Entry, required to establish a temporary travel advance issued with a Receiver General cheque:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr. Travel Advance	XXXXX	XXX	XXXXX	240	02400	1	1		13314	B120	5032	E
Cr. Accounts Payable.	99999	999	99999	DAP	99999	1	1		21111	R300	6299	E

NB. The offset coding for the credit entry is automatically generated by the IFMMS.

Relocation advances for employees required to settle hotels bills while on relocation status will be issued monthly and cleared at the end of the month for which the advance is issued and renewed for the following month. The following example illustrates the Journal Entry, required to establish a temporary monthly advance for relocation:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr. Relocation Advance	10000	156	00000	240	02550	1	1		13314	B120	5030	E
Cr. Accounts Payable	99999	999	99999	DAP	99999	1	1		21111	R300	6299	E

The following example illustrates the accounting entry required to record the issuance of a travel advance using travellers cheques:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr. Travel Advance	XXXXX	XXX	00000	240	02400	1	1		13314	B120	5032	E
Cr. American Express	19600	000	00000	670	43102	1	1		21111	R300	7099	E

6.3 Recording travel expenses against an ongoing advance

Where circumstances warrant, an ongoing advance that does not have to be accounted for until the end of the assignment may be issued.

To claim expenses and retire the advance the employee will, within 10 working days for normal travel and at month end for relocation advances, submit a travel claim accompanied by all vouchers and invoices and retire the temporary advance account.

Contractors must account for temporary advances in accordance with the terms set out in their contract.

The accounting entry for recording the expense and returning the unused portion of a temporary travel advance is as follows:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr. Travel Expense	XXXXX	XXX	XXXXX	240	02100	1	1		51321	B120	0201	E
Dr. Deposit Control Account	99999	999	99999	610	BCMO1	1	1		11112	R300	0000	E
Cr. Travel Advance	XXXXX	XXX	XXXXX	240	02400	1	1		13314	B120	5032	E

6.4 Monitoring and Reporting

The Activity Centre Manager and the local financial officer will, on a periodic basis, ensure the proper accounting for all outstanding advances to employees. This will include the timely submission of related expense reports and return of unused portions of the advance.

6.5 Year-end Reporting

Financial Officers in responsibility centres will review the status of all outstanding accountable advances at year-end.

All advances that were issued in the old year for expenses that will occur in the new-year must be removed from old year expenses and carried forward to the new-year.

The following example illustrates the accounting entry required:

Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr. Travel Advance	XXXXX	XXX	XXXXX	701	02400	1	1		13314	H182	0201	E
Dr. Tuition Advance	XXXXX	XXX	XXXXX	701	04091	1	1		51321	H182	0445	E
Cr. Travel Advances	XXXXX	XXX	XXXXX	240	02400	1	1		51321	B120	0201	E
Cr. Tuition Advance	XXXXX	XXX	XXXXX	240	04091	1	1		51321	B120	0445	E

In the new-year the regions must reverse old year entry in the GL module to charge the advance against the new-year budget.

All advances accounted for by year-end will be journal vouchered to the applicable expense account and the applicable Accounts Receivable or Accounts Payable set-up for the remaining amounts. See the year-end procedures for the applicable entries to be made.

7. Financial Statement Presentation and Disclosure

7.1 Statement of Financial Position

Temporary advances will be treated as a financial asset and included under "Loans, and Advances" on the Statement of Financial Position.

7.2 Statement of Operations

When accountable advances have been accounted for they will be included as operating expenses.

7.3 Notes

Not Applicable.

7.4 Schedules

Not Applicable.

8. References

Financial Administration Act Sub Section 38, 80
Treasury Board Minute 796169, Modification of the Requirements of the *Accountable Advances Regulations* (December 20, 1984)
Treasury Board Manual, Comptrollership, Chapter 7-9, *Accountable Advances Regulations*
Accountable Advances Regulations SOR/86-438
Standard Operating Practices - Comptroller's Branch, 235-023, Losses of Money, Offences and Other Illegal Acts Against the Crown

4.3 STANDING ADVANCES (INCLUDING PETTY CASH)

1. Effective Date

This Policy is effective as of April 1, 2001.

2. Policy Objective

The objective of this policy is to outline the accounting treatment and requirements for financial statement presentation of standing advances in accordance with Generally Accepted Accounting Principles (GAAP).

3. Definitions

Standing Advances are classified as Accountable Advances and issued pursuant to Section 38 of the *Financial Administration Act (FAA)*. They are recorded directly against PWGSC Loan Vote L15b, *Appropriation Act No. 3,1990*. Standing advances are issued in a specific amount for an indeterminate period to facilitate and accelerate the processing and payment of specific expenditures. They include advances for petty cash and standing advances for travel that are issued to employees who, by the nature of their employment, are required to travel regularly. Standing advances are replenished to the original amount and increased or decreased as required.

Petty Cash is a standing advance of a limited amount of cash held to facilitate and accelerate the processing and payment of low value expenditures.

Accountable Advances are defined in the *Accountable Advance Regulations (SOR/86-438)* as follows:

a) A sum of money advanced to a person from an appropriation, and
b) A sum of money advanced to a person from the sum of money described in (a) above such as a petty cash fund

for which the recipient will be held accountable.

Accountable Advances Regulations SOR/86-438 define the regulatory requirements for the administration of accountable advances and are issued by Treasury Board pursuant to Section 38 (1) of the FAA.

Working capital advance account is the total amount of standing advances that can be issued by a department.

Petty Cash custodian is an individual who is responsible for the control, safeguarding and operation of a petty cash fund.

4. Scope

This policy applies to all Correctional Service Canada (CSC) managers, Finance staff, and any other staff involved in the establishment, operation and custody of standing advance accounts. This policy applies to the provision of advances from the working capital advance account, the recording of expenses through petty cash, the replenishment of payments, and the reconciliation of receipts and disbursements to accounting records.

5. Policy Statement and Requirements

It is CSC policy to:

a) Account for standing advances, including petty cash, in accordance with the accrual basis of accounting, as required under GAAP, and under a modified cash basis until Central Agencies advise otherwise.

b) Use standing advance payments only when it is more effective than other payment methods.

c) Record all standing advance transactions in the Integrated Financial and Materiel Management System (IFMMS).

A standing advance will be established only if it has been proven that it is the most cost-effective means to settle accounts and that there are no other adequate means of payments, such as Receiver General cheques, departmental bank account cheques or acquisition cards.

Expenses paid through a standing advance (including petty cash) will be recognised and accounted for at the time the reason for the expenditure is complete and the account is replenished.

The holder of the standing advance will sign a statement confirming that he/she has received, read and understood the standing advance policies, regulations, procedures and instructions and acknowledging that he/she is personally responsible for the cash advance.

Approval to establish petty cash accounts will be in accordance with the requirements of the Receiver General Directive.

The petty cash fund will be used to facilitate and accelerate the processing and payment for low value expenditures.

The amount of the fund will be calculated based on operational needs and will generally have a ceiling of $2,000 per site (RESP and Sub-RESP). The petty cash fund can be increased to $ 4,000 per geographic site i.e. institutions, parole offices and Community Correctional Centres, providing the dollar value of transactions warrants it and the replacement cheques for petty cash cannot be obtained from Public Works and Government Services Canada (PWGSC) within one week.

No single expenditure paid out from a petty cash fund will exceed $200.

An employee will hold only one standing advance account. There will be only one custodian per petty cash fund at any given time.

Procedural Requirements

The following procedures relate to the management and accounting for standing advances within CSC.

6.1 Authority

The authority to establish standing advance accounts is provided under section 38 of the *FAA* and the *Accountable Advance Regulations*.

6.2 Working Capital Advance Account

The Manager of Financial Operations at NHQ is responsible to obtain approval from the Receiver General to establish a working advance account at CSC for the purpose of establishing standing travel advances and petty cash funds.

The Manager of Financial Operations will approve all amounts issued against the working capital advance to ensure that the approved level is not exceeded.

6.3 Petty Cash

6.3.1 Establishing a Petty Cash Fund

When an Activity Centre Manager has an operational requirement for a petty cash fund, a request will be submitted to their local finance office for onward submission to the Regional Administrator of Finance (RAF) for approval. The RAF will request approval from the Manager Financial Operations at NHQ to create the petty cash fund.

The Manager of Financial Operations will approve all amounts issued against the working capital advance ensuring that the approved departmental level is not exceeded and give approval to the Regional Administrator of Finance to create the petty cash fund.

The regional finance office will create the petty cash fund by the issuance of a Receiver General cheque in the name of the custodian. The custodian should be an indeterminate, full-time employee who has no responsibilities associated with handling accounts receivable, verifying accounts, or requisitioning payments for settlement of accounts.

The custodian will sign for the cheque and sign a statement (see Appendix A) acknowledging that the petty cash policy has been received, read and understood and that he/she is personally responsible for the petty cash fund.

The Activity Centre Manager of the custodian must ensure that the security and safeguards arrangements are commensurate with the risk of loss and the size of the petty cash fund.

The following example illustrates the Accounting Entry required to establish a Standing Advance for Petty Cash:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr. Petty Cash	XXXXX	XXX	XXXXX	720	41402	1	1		13315	H181	5030	E
Cr. Accounts Payable.	XXXXX	XXX	XXXXX	DAP	99999	1	1		21111	R300	6299	E

6.3.2 Operation of the petty cash fund

The custodian of the petty cash fund will reimburse the claimants upon receipt of a properly authorized petty cash voucher. All vouchers and invoices submitted in support of a requisition for reimbursement will be cancelled with a stamp as "paid" and annotated with the date of reimbursement to preclude any possibility of reuse.

The custodian of the petty cash will balance the petty cash at least monthly and maintain a record of the cash and receipts on hand. The custodian of the petty cash will balance and replenish the petty cash fund and record the expenditures prior to the month-end close. Receipts that have accumulated in the interval since the prior replenishment will be totalled and classified according to the nature of the expense item.

The accounting entry for recording the expense is as follows:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr. Expense Item 1	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1		XXXXX	XXXX	XXXX	E
Dr. Expense Item 2	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1		XXXX	XXXX	XXXX	E
Cr. Petty Cash Liability	XXXXX	XXX	XXXXX	660	41450	1	1		21612	R300	6299	E

The accounting entry for recording the replenishment is as follows:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr. Petty Cash Liability	XXXXX	XXX	XXXXX	660	41450	1	1		21612	R300	6299	E
Cr. Accounts Payable	XXXXX	XXX	XXXXX	DAP	99999	1	1		21111	R300	6299	E

If the custodian of a petty cash fund is absent, there must be an official handing over of the petty cash fund to a new custodian. No two persons will have access to the same fund at the same time.

When the current custodian is present to do the handover, the contents will be counted and summarized in the presence of the current custodian and the new custodian. Both custodians will sign the petty cash certificate (see Appendix A) acknowledging the transfer. The applicable Activity Centre Manager will approve the transfer and ensure that the new custodian fully understands the responsibilities, policies and procedures.

When the current custodian is absent, the Activity Centre Manager and the new custodian will together retrieve the petty cash fund and count and summarize the contents. It is important that this be done in the presence of each other to protect the integrity of both custodians. Both the new custodians and the Activity Centre Manager will sign the petty cash certificate (see Appendix A) acknowledging the transfer.

6.3.3 Overages, Shortages and Losses

Overages, shortages, losses and thefts must be reported promptly to the custodian's supervisor. After documenting the circumstances of the case, the supervisor will advise the regional financial officer who in turn will advise the Director, Financial Operations at NHQ.

When monies cannot be returned to its rightful owner during the detection of an overage the amount involved will be deposited to the credit of the Receiver General and recorded as a credit to a miscellaneous non-tax revenue account. The accounting entry is as follows:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr. Deposit Control Account	XXXXX	XXX	XXXXX	610	BCM01	1	1		11112	R300	5299	E
Cr. Misc. Non-tax Revenue.	XXXXX	XXX	XXXXX	160	14606	1	1		42319	E500	4593	E

Losses and theft of petty cash funds must be reported to the local security officer, and the Regional Administrator of Finance who will advise the Manager of Financial Operations, NHQ. An investigation should be initiated to document the circumstances and to make recommendations for either write-off or recovery from the employee. Legal Services should be consulted.

The accounting entry to record the replacement of lost funds and replenish Petty Cash is as follows:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr. Losses Awaiting Write-Off	XXXXX	XXX	XXXXX	720	41404	1	1		13315	H181	5049	E
Cr. Accounts Payable	XXXXX	XXX	XXXXX	DAP	99999	1	1		21111	R300	6299	E

At the time that a shortage (loss) of petty cash funds is deemed to be unrecoverable, an application will be made to NHQ for approval to write off the loss. The following accounting entry will be made:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr. Losses Approved for Write-Off	XXXXX	XXX	XXXXX	240	12508	1	1		51321	B161	5041	E
Cr. Losses Awaiting Write-Off	XXXXX	XXX	XXXXX	720	41406	1	1		13315	H181	5049	E

NHQ Corporate Accounting will, as appropriate advise Treasury Board Secretariat in addition to reporting the losses in the Public Accounts. These losses can be charged against the departmental appropriation under the authority of the Commissioner or the Senior Financial Officer as outlined in Standard Operating Practices - Comptroller's Branch, 235-026, Financial Signing Authorities, Schedule IX.

The custodian of the petty cash fund will be required to reimburse losses and shortages unless it can be ascertained that:

a) The prescribed procedures were followed;
b) The petty cash was properly secured;
c) There is physical evidence of a break-in; and
d) The custodian’s act or omission did not contribute to the loss.

6.3.4 Year End Processing

The custodian of the petty cash account will ensure that it is replenished to its authorized level at year end and all payments made through petty cash will be expensed in the period that they were made.

6.3.5 Accounting and Control

The petty cash fund itself will be safeguarded in a lockable cash box. This box will be kept locked at all times and secured in a safe or filing cabinet. Keys and/or combination will be kept in a secure place. The security officer will assist in establishing the necessary physical controls over the fund.

The petty cash fund **must not** be used for the following:

- Expenditures exceeding $200.00
- Purchases made by or authorized by the petty cash custodian **(pre-authorized purchases made by the custodian will be allowed in exceptional circumstances for small sites with one person)**[1]
- Personal loan
- Emergency salary advances
- I.O.U.s
- Making change or cashing cheques
- Refunds of revenue
- Membership fees
- Ex-gratia payments
- Professional services
- Relocation advances or expenses
- House hunting trip advances or expenses
- Adding revenue into the balance of the fund
- Depositing some or all of the fund in a bank account
- Mixing with non-public monies
- Issuing another petty cash fund
- Payment for any transaction where legality of payment and/or proper financial codes are unknown.
- Replenishment of another petty cash fund
- Greeting cards
- Wreaths

A complete audit trail must be provided to permit tracing all transactions related to payment through the petty cash fund.

6.3.6 Monitoring and Reporting

The Manager responsible for the fund will conduct periodic unscheduled audits at least twice a year. These audits will be conducted to determine whether the funds are:

a) Intact;

b) Being used as intended;

c) Adequately protected against loss or misuse; and

d) Properly accounted for.

Any losses discovered as a result of auditing the petty cash fund will be investigated immediately and reported to NHQ and Treasury Board as appropriate.

[1] Revised 05-02-01

Finance Offices at each site must maintain an up-to-date schedule for petty cash funds held at their site to include:

NAME and Number of Responsibility Centre		NAME OF CUSTODIAN	
Date	Custodian Name	Amount	

At March 31 of each fiscal year, each custodian must complete a Certificate of Standing advance - see year-end instructions - and forward to NHQ via their regional finance office. The Manager will sign the certificate indicating the continuing need.

At each year-end, NHQ Corporate Accounting will complete a schedule supporting the amount reflected in the Balance Sheet.

LOCATION	CODING	NAME OF CUSTODIAN	AMOUNT

6.4 Standing Travel Advances

6.4.1 Establishing a Standing Travel Advance Account

Under normal operations employees required to travel regularly will apply for an Individual Travel Card (ITC) to be used when on travel status. However, when an organization within the department identifies a requirement for a standing travel advance account, a request to establish the account will be submitted to NHQ. NHQ will review the application and, under special circumstances the Manager of Financial Operations will approve a Standing Travel Advance and inform the applicant and finance staff in the applicable region.

The standing advance will be created by the issuance of a Receiver General cheque in the name of the employee requesting the advance and will be subject to the accountable advance policy and procedures outlined in the Treasury Board Manual, Comptrollership Chapter 7-9 Accountable Advances Regulations.

The employee will sign for the cheque and acknowledge that the policy has been read and understood.

The following example illustrates the Accounting Entry required to establish a Standing Advance:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Line Object	Internal/ External
Dr. Standing Advance	XXXXX	000	00000	730	41502	1	1		13315	H181	5032	E
Cr. Accounts Payable	99999	999	99999	DAP	99999	1	1		21111	R300	6299	E

6.4.2 Recording travel expenses

The employee will, on a monthly basis, submit a travel claim accompanied by all vouchers and invoices and replenish the standing advance account.

The accounting entry for recording the expense and requisitioning the replenishment is as follows:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
Dr. Expense Item 1	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1		XXXXX	XXXX	XXXX	E
Cr. Accounts Payable	99999	999	99999	DAP	99999	1	1		21111	R300	6299	E

6.4.3 Retiring a Standing Travel Advance

When retirement of a standing advance account coincides with a claim for travel, the payment of which was made through the standing advance, the claimant will claim the expense separately in the manner described above and reimburse the department for the full amount of the original advance.

The following entry records the return of the full amount of the original advance:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Line Object	Internal/ External
DR. Deposit Control Account	19600	000	00000	610	BCM01	1	X	10,000	11112	R300	5299	E
CR. Standing Advance	XXXXX	000	00000	730	41501	1	1	(10,000)	13315	H181	5032	E

7. Financial Statement Presentation and Disclosure

7.1 Statement of Financial Position

The petty cash fund will be treated as a financial asset and included under "Loans, and Advances" on the Statement of Financial Position.

7.2 Statement of Operations

Any losses written off will be included in the operating expenses of the department.

7.3 Schedules

Not Applicable

7.4 Notes

Not Applicable

8. References

Financial Administration Act Sub Section 38, 80
CICA Handbook Section 3000 Cash
Accountable Advance Regulations (SOR/86-438)
Treasury Board Minute 796169, Modification of the Requirements of the *Accountable Advances Regulations* (December 20, 1984)
Treasury Board Manual, Comptrollership, Chapter 2-11 Policy on Petty Cash
Treasury Board Manual, Comptrollership, Chapter 4-7 Policy on Losses of *Money* and Offences and Other Illegal Acts Against the Crown
Treasury Board Manual, Comptrollership, Chapter 7-9, *Accountable Advances Regulations*
Treasury Board Manual, Comptrollership, Chapter 7-6, *Receipt and Deposit of Public Money Regulations*
PWGSC Loan Vote L15b, *Appropriation Act No. 3,1990*
Standard Operating Practices - Comptroller's Branch, 235-026, Financial Signing Authorities, Schedule IX

4.4 PAROLEE LOANS

1. Effective Date

This Policy is effective as of April 1, 2001.

2. Policy Objective

The objective of this policy is to outline the accounting treatment of parolee loans and requirements for financial statement presentation in accordance with Generally Accepted Accounting Principles (GAAP).

3. Definitions

Forgiveness of debt is the removal of amounts from the financial records of the department and the extinguishing of the debtor's obligation to pay the amount, used where the department wishes to grant relief and waive recovery action on compassionate or other grounds.

Parolee and Mandatory Supervision Assistance Loans are funds provided to parolees and individuals on mandatory supervision when other sources of monetary assistance are not available.

Write-off of debt is the removal of amounts from the financial records of the department after all reasonable collection efforts have failed and a debt has been deemed truly uncollectible, but does not free the debtor from his/her obligation to pay the debt.

4. Scope

This policy applies to the initial recording of loans, retirement of loans and the maintenance of accounting records.

5. Policy Statement and Requirements

It is Correctional Service Canada (CSC) policy to:

a) account for parolee loans in accordance with the accrual basis of accounting, as required under GAAP; and
b) record all parolee loan transactions in the Integrated Financial and Materiel Management System (IFMMS).

The Parolee and Mandatory Supervision Assistance Loan Fund was established by Vote L103B, *Appropriation Act No. 1, 1969*. Under this authority, assistance is made available to parolees and individuals on mandatory supervision when other sources are not available. Total loans outstanding may not exceed $50,000.

Accounting for parolee loans will be in accordance with the requirements of the *Financial Administration Act (FAA)* - e.g. Sections 38.

The total amount outstanding in parolee loans will not exceed the amount approved for the Parolee and Mandatory Supervision Assistance Loan Fund by the Treasury Board of Canada Secretariat (TBS).

Parolee loan accounts will be established at the request of an authorized parole officer.

Loans will be issued and managed at the District and Area Parole Office within whose jurisdiction the inmate's affairs are administered.

The individual loan ceiling and the aggregate loan amount extended to a parolee will not exceed the amount prescribed by the Parolee Assistance Loan Regulations.

Procedural Requirements

6.1 Establishment of regional parolee loan fund levels

CSC currently has authority to issue loans up to an aggregate total of $50,000. To ensure that the departmental limit is not exceeded, NHQ Financial Management division will annually allocate a ceiling to each region taking into consideration their previous year's usage.

6.2 Establishing a parolee loans account

Assistance will be provided to parolees when it is determined, by the parolee's parole officer that circumstances exist in which the parolee requires immediate assistance in order to continue his/her rehabilitation.

The maximum amount of each loan will not exceed $100 and the aggregate of all loans outstanding per Parolee will not exceed $200.

Parolee Officers will prepare the necessary documentation to request payment of the loan to the local Area / Parole office. Generally, loans are issued either by petty cash or departmental bank account cheque.

The following example illustrates the accounting entry required to establish a Parolee Loan:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR. Parolee Loan Issued	XXXXX	XXX	XXXXX	750	41802	1	1		13391	G299	5010	E
CR. Petty Cash Liability	XXXXX	XXX	XXXXX	660	41450	1	1		21612	R300	6299	E

For all approved parolee loans, parole officers must ensure that parolees are informed of their responsibilities to repay the loans, and monitor the status of loan accounts within their area of responsibility.

6.3 Retiring parolee loans

Upon repayment of the parolee loan the loan will be cleared from the parolee loan account. The accounting entry for retiring a parolee loan is as follows:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR. Deposit Control	99999	999	99999	610	BCMO1	1	1		11112	R300	5299	E
CR. Parolee Loan Repaid	XXXXX	XXX	XXXXX	750	41801	1	1		13391	G299	5015	E

6.4 Forgiving a parolee loan

When it is deemed that a parolee loan is uncollectible, the loan may be forgiven under the *Parole and Mandatory Supervision Assistance Loan Regulations*. Reasons for forgiveness of loans include the following:

a) parole was revoked and the parolee or mandatory supervision case is reincarcerated to serve a further term of imprisonment,
b) the collection of the balance of a loan outstanding would, in the opinion of the Solicitor General or his / her delegate, seriously affect the reform and rehabilitation of the parolee, and
c) all reasonable steps to recover the loan have been taken and further expense to collect the loan is not justified in relation to the amount to be collected.

On an annual basis NHQ Corporate Accounting will issue a call letter for each region to compile a listing of all parolee loans being recommended for forgiveness.

Corporate Accounting will prepare the necessary documentation to obtain the Commissioner's approval, as required by the departmental signing authorities. Once approval is obtained, Corporate Accounting will record the forgiveness in IFMMS and notify the regions to adjust their records accordingly.

The following entry records the forgiveness of the loan and the removal from the accounting records:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR. Parolee Loans Forgiveness	XXXXX	XXX	XXXXX	425	12308	1	1		51321	B162	3217	E
CR. Parolee Loans W/Off	XXXXX	XXX	XXXXX	750	41804	1	1		13391	G299	5021	E

Monitoring and Reporting

A complete audit trail must be provided to permit the tracing of all transactions related to the establishment, management and retirement of parolee loans.

Each local parole finance officer will, on a periodic basis, not less than once each fiscal year, provide a report of all outstanding parolee loans to the responsible parolee officers. The report should include the following:

- Name of parolee
- Date loan was issued
- Amounts collected
- Amounts forgiven
- Balance outstanding

The parole officer should ensure that the parolees are held accountable for the loans and provide confirmation to the local parole finance office as to the status of the parolee and the collectability of the loan.

If it is determined that a parolee has been reincarcerated, the outstanding balance will be journal vouchered to the applicable institution for collection.
At year-end, regional finance officers will provide a listing to NHQ Corporate Accounting of all parolee loans outstanding to support the balance being reported in the statement of financial position. This requirement will be included in the year-end instructions.

Corporate Accounting will provide an estimate of an allowance for uncollectible parolee loans to Treasury Board as required by the Receiver General. No entries will be recorded in IFMMS until further advised by Treasury Board. However, the information will be reported in a note to our financial statements.

Financial Statement Presentation and Disclosure

7.1 Statement of Financial Position

Parolee loans will be treated as a financial asset and included under "Loans, and Advances" on the Statement of Financial Position.

7.2 Statement of Operations

The amount of loans forgiven in the current fiscal year will be included in the department's total operating expenses on the Statement of Operations.

Schedules

The amount of parolee loans outstanding will appear within the schedule to the financial statements entitled "Loans, Investments, and Advances."

7.4 Notes

The note to the financial statements will disclose CSC's authority for parolee loans, the amount of parolee loans outstanding, amounts forgiven during the year and an estimate of an allowance for uncollectible amounts that was provided to Treasury Board. The note may read as follows:

> *The Parolee and Mandatory Supervision Assistance Loan Fund was established by Vote L103B, Appropriation Act No. 1, 1969. The amount of parolee loans outstanding as at March 31st, 20xx is $XXX, with an allowance of $XXX for uncollectible amounts as provided to Treasury Board. During the fiscal year, parolee loans in the amount of $XXX were forgiven.*

8. References

Financial Administration Act Sub Section 38, 80
Treasury Board Manual, Comptrollership, Chapter on Debt Write-offs
Standard Operating Practices - Comptroller's Branch, 235-026, Financial Signing *Authorities*, Schedule IX
Vote L103B, *Appropriation Act No. 1*, 1969

4.5 INVENTORIES

1. Effective date

This policy is effective as of April 1, 2001.

2. Policy Objective

The objective of this policy is to outline the accounting treatment and financial statement presentation of inventories.

3. Definitions

Inventory is all materials and supplies held for sale and all materials and supplies that are held for future use in carrying out the operations of CSC.

Materiality is a term used to identify when an item or amount is considered significant enough to be disclosed, as it's disclosure would have an impact on decisions being made.

4. Scope

This policy applies to all activities required to record and account for inventories of CSC, excluding CORCAN. CORCAN will have a separate inventory policy.

5. Policy Statement and Requirements

It is CSC policy to account for inventory in accordance with the accrual basis of accounting.

When the total of all materials and supplies on hand **meet** the materiality criteria identified in this policy, then they will be recorded as inventory and expensed when removed from inventory and used in operations.

When the total of all materials and supplies on hand **do not meet** the materiality criteria identified in this policy, then they will be recorded as expenses when received.

The application of materiality in CSC will consider two primary questions:

- Is there a management requirement to report on the value of inventories held by CSC? ;and

- Does the value of all inventories held by CSC exceed 1 % of total operating expenses calculated on an accrual basis?

If the answer to either question is yes; then inventories of materials and supplies will be recorded as inventory and expensed as used.

Currently, inventories of materials and supplies on hand are not considered material and therefore will be expensed when received. See appendix A for calculations.

6. Procedural Requirements

At year-end, responsibility centre finance officers, in consultation with the responsible managers, will provide an estimate of all materials and supplies on hand. This requirement will be detailed in the year-end instructions. The amounts submitted will be used to validate whether inventories of materials and supplies are material or immaterial. The listing of materials and supplies will include the following:

- 0700 Canteen / stores items held by CSC
- 0720 Rations
- 0740 Household and sanitary supplies
- 0750 Office supplies
- 0770 Fuel and propane
- 0774 Parts and supplies
- 0775 Building materials
- 0780 Inmate clothing
- 0785 Officer clothing
- 0790 Health Care supplies

On an annual basis, Corporate Accounting at NHQ will review the level of materials and supplies held determine if they are to be considered material. If the inventory of materials and supplies are to be considered material, procedures will be developed to ensure they are treated as inventories and expensed as used.

7. Financial Statement Presentation and Disclosure

7.1 Statement of Financial Position

Inventories will appear in the Assets section of the Statement of Financial Position if considered material.

7.2 Statement of Operations

Inventories will be included in the operating expenses of the department.

7.3 Notes

The policy regarding the treatment of inventories will be disclosed in the notes to the financial statements. Following is the note that will appear:

"Inventories of materials and supplies are currently considered immaterial and are expensed when received."

8. References

Treasury Board Accounting Standard 1.2 – Departmental and Agency Financial Statement, December 28, 2000
Treasury Board Accounting Standard 3.4 - Inventories, March 29, 2001

PSAB Section 1500.47, 1500.49, 1800.16, 1800.17 and 1800.21

Appendix A

Calculation of Materiality Limits

1.	Total of operating expenses on an accrual basis:	$1,200,000,000
2.	1% of total operating expenses	$12,000,000
3.	Value of materials and supplies on hand (value supplied by regions)	$5,000,000

Inventories of supplies will only be considered material when the value on hand exceeds 1 % of total operating expense or management identifies a requirement for the information on a monthly basis.

4.6 PREPAID EXPENSES

1. Effective Date

This Policy is effective as of April 1, 2001.

2. Policy Objective

The objective of this policy is to outline the accounting treatment and financial statement presentation of Prepaid Expenses.

3. Definitions

Advance payments are payments, under the terms of an agreement that are made before the performance of that part of the agreement for which the payment is being made.

A **prepaid expense** is an amount paid or accrued for goods or services that have been received or paid in accordance with the terms of a contract, however they will not be consumed and allocated to expense until future accounting periods when the benefits will occur.

A **prepayment** is an amount paid in advance of receiving goods or services.

4. Scope

This policy applies to all prepaid expenses.

5. Policy Statement and Requirements

It is Correctional Service Canada (CSC) policy to account for material prepaid expenses in accordance with the accrual basis of accounting. As such, material prepaid expenses will be accounted for as assets until the related services are rendered or goods are received/consumed.

Amounts will be considered material and recorded as prepaid expenses if the amount exceeds $100,000 and the benefits will occur in future accounting periods.

Material prepaid expenses will be accounted for as assets until the goods or services are consumed during the delivery of CSC operations.

Prepaid expenses generally occur when goods and services have been paid for but have not been entirely consumed *at the time of payment.* The portion of the expense paid that is considered a future benefit becomes the prepaid expense.

Prepaid expenses will be amortized to expense on a systematic and rational basis *each month* until there are no future benefits remaining *(services have been completely rendered and goods have been completely received or consumed).*

Inclusions

The following types of transactions may result in prepaid expenses:

- long term contracts;
- software maintenance agreements and licenses;
- subscriptions;
- advance rent payments;
- payments in lieu of taxes (PILT);
- CORCAN training fees paid in advance;
- vehicle licenses and registration; and
- employee Benefit Plan Amounts to TB.

5.2 Exclusions

Prepayments of less than *$100,000* at the end of the current fiscal year will be charged to current year's expenditures at the time of payment.

All research and development costs will be expensed in the period in which they have been incurred.

6. Procedural Requirements

Payments that are prepayments in accordance with this policy will be coded to prepayment at the time of payment. Finance Staff will prepare and forward a listing of prepaid expenses to managers for their review and concurrence.

Finance Staff will be responsible to enter any adjustments to the prepaid expenses in the IFMMS prior to month-end based on the managers' comments from the review of the listing.

6.1 To establish a prepaid expense (ongoing)

When the amount being recorded constitutes a prepaid expense it must be recorded using allotment 244 Prepaid Expenses.

The following is an example of an entry to establish a prepaid expense for paying the CORCAN Training Fee in advance of the periods in which it is earned:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR CORCAN Training Fee *(Prepaid Expense)*	XXXXX	XXX	XXXXX	244	04155	1	1		14110	B120	0499	I
CR. IS CORCAN Suspense	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1		XXXXX	XXXX	XXXX	I

To record the monthly amortization (month-end)

Prior to the end of each month, the local finance officer must review amounts in the prepaid expense allotment, consult with the responsible Manager to determine the basis of the amortization and record the appropriate amortization expense in IFMMS.

In each of the months to which the prepaid is attributable, the relevant portion will be amortized.

Following is an example of an entry to record the amortization of expense for the current period:

	CSC Coding								Government Wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR CORCAN Training Fee *(Amortization Expense)*	XXXXX	XXX	XXXXX	245	04155	1	1		51321	B120	0499	E
CR CORCAN Training Fee *(Prepaid Expense)*	XXXXX	XXX	XXXXX	244	04155	1	1		14110	B120	0499	E

6.3 Monitoring and Reporting

At year-end, each site financial office will be required to provide a schedule of amounts remaining in allotment 244 - Prepaid Expenses. Details will be provided in the year-end instructions.

7. Financial Statement Presentation and Disclosure

7.1 Statement of Financial Position

Prepaid expenses are reported on the Statement of Financial Position as a current non-financial asset. Major items should be shown separately or disclosed in the notes and schedules to the financial statements

7.2 Statement of Operations

Amortization expense relating to prepaid expenses will be included in the total operating expenses, appearing on the Statement of Operations.

7.3 Notes

Major prepaid items not shown separately in the Statement of Financial Position should be disclosed in the notes to the financial statements.

7.4 Schedules

Major items will be shown in the Prepaid Schedule attached to the financial statements. The schedule should include the following items:

- a description of the goods or services,
- the cost of the goods and services received,
- the period over which the goods and services are being received/consumed,
- the value of the prepaid expenses at the end of the current fiscal year, and
- the amount of the monthly amortization.

8. References

Treasury Board FIS Accounting Manual, Section 3.4 Prepayments (Including Prepaids and Deferred Charges)
CICA Handbook Section 3040
TBAS 3.3 Prepayments

4.7 DEFERRED CHARGES

1. Effective Date

This policy is effective as of April 1, 2001.

2. Policy Objective

The purpose of this policy is to outline the accounting treatment and financial statement presentation of Deferred Charges.

3. Definitions

A **deferred charge** is a classification used to describe amounts paid in a period, the use and benefit of which will accrue to the department in future periods (i.e., beyond the next fiscal year).

Leasehold improvement is a permanent improvement or betterment that increases the usefulness of the leased property and will revert to the lessor at the end of the lease term.

4. Scope

This policy applies to all deferred charges incurred by CSC.

5. Policy Statement and Requirements

It is CSC policy to:

a) account for deferred charges in accordance with the accrual basis of accounting, as required under GAAP;

b) record all deferred charges in the departmental financial system, IFMMS; and

c) take appropriate action to record the amortization of the asset in the period(s) of use, when applicable.

Costs incurred for leasehold improvements are not to be classified as deferred charges but rather capitalized as Leasehold Improvements.

Costs related to construction in progress will not be classified as deferred charges since these costs will be capitalized as part of the assets owned by the department.

Deferred charges are distinguishable from tangible assets and work in process in that they lack physical substance - e.g., patents, copyrights, trademarks, mineral rights - as well as involve an element of risk that the related physical asset may not be created/acquired. Software is a tangible asset and, therefore, will not be accounted for as a deferred charge.

Deferred charges are distinguishable form prepaid expenses in that they usually extend over a longer period of time than the next fiscal year and may or may not be recurring.

6. Procedural Requirements

An example of a possible deferred charge in CSC includes a software license agreement that extends beyond one fiscal year. A second example of a deferred charge would be an option to purchase land. If the option was exercised, the cost would be transferred from the deferred charge account to a work in progress account where it would remain until the land was placed in service.

At this time we are not aware of any deferred charges in CSC. Finance officers that identify any possible deferred charges should contact the Head, Corporate Accounting at NHQ to request that appropriate coding be created.

Deferred charges are to be amortized on a systematic, rational basis to the period in which the benefit accrues.

7. Financial Statement Presentation and Disclosure

7.1 Statement of Financial Position

Deferred charges should be included in the asset section of the Statement of Financial Position <u>but are not prepaid expenses</u> and should therefore not be included in Current Assets.

7.2 Statement of Operations

The amount charged for the amortization of the deferred charges should be disclosed in the Statement of Operations.

7.3 Notes

The basis of the amortization and other relevant explanations should be disclosed in the Notes to the Financial Statements.

7.4 Schedules

Major items of deferred charges should be disclosed separately in a schedule to the financial statements.

8. References

Treasury Board FIS Accounting Manual
Public Sector Accounting and Auditing Board Handbook, Section PS 3410 "Government Transfers"
CICA Handbook Section 3070, 3450

4.8 CAPITAL ASSETS & CAPITAL LEASES

1. Effective Date

This Policy is effective as of April 1, 2001.

2. Policy Objective

The objective of this policy is to outline the accounting treatment and financial statement presentation of capital assets and capital leases.

3. Definitions

Assets are economic resources controlled by the entity as a result of past transactions or events and from which future economic benefits may be obtained.

Assets under construction represent the accumulation of capital expenditures to build a capital asset estimated at over $10,000 upon completion. Capital expenditures are transferred from construction in progress upon substantial completion of the constructed capital asset.

A **betterment** is a cost incurred to increase the service potential of a capital asset, either by increasing the physical output or service capacity, lowering the operating costs, extending the useful life, or improving the quality of output.

A **capital asset** is a tangible or intangible asset that has the following attributes and characteristics:

a) <u>Specific Use:</u> A capital asset is held for use in the production or supply of goods, delivery of services or to produce program outputs;
b) <u>Life exceeds one year:</u> A capital asset must have a useful life extending beyond one fiscal year and is intended to be used on a continuing basis;
c) <u>Not for resale:</u> A capital asset is not intended for resale in the ordinary course of operations;
d) <u>Ownership and control that clearly rests with the government:</u> An asset of CSC is first and foremost an asset of the Crown and at the same time departmental property of CSC;
e) <u>Used to achieve government objectives:</u> The asset's use is clearly linked to government objectives; and,

f) <u>Risks and benefits of ownership clearly rest with the government:</u> This applies to capital leases including leasehold improvements.

A **capital lease** is a lease that, from the point of view of the lessee, transfers substantially all the benefits and risks of ownership of the asset to the lessee (CSC). One or more of the following conditions should be present at the inception of the lease in order for the lease to qualify as a capital lease:

- A transfer of ownership takes place.
- A bargain purchase option exists.
- The lease term is greater than or equal to 75% of the asset's economic life.
- The present value of payments is greater than or equal to 90% of the fair value of the asset.

Depreciation is the systematic allocation of the capitalized value of an asset over its useful life by periodic charges to expenses. It is used interchangeably with **amortization**.

A **disposal** is a cessation of ownership, whether voluntarily (sale or donation) or involuntarily (theft or destruction). The full depreciation of an asset does not constitute a disposal, and fully depreciated assets should continue to be reflected in the asset records as long as they are being used productively.

The **economic life** is the estimate of either the period over which a capital asset is expected to be used for its intended purpose by any or all parties that will utilize it.

Intangible capital assets lack physical substance such as copyrights, trademarks, patents, easements and rights of way.

A **lease** is a contract between the owner of as asset (lessor) and another party (lessee) for the possession and use of the asset for a specified term, in return for rent or other consideration.

A **leasehold improvement** is a permanent improvement or betterment paid for CSC (lessee) that increases the usefulness of a leased property and reverts to the owner (lessor) at the end of the lease term.

Maintenance is the ongoing work required to retain the asset's useful life.

Repairs are costs incurred to maintain rather than improve the service potential of an asset; the repair activity is in response to a problem with the asset, due to breakage, damage or other circumstances that render the asset inoperable.

Useful life is the estimate of either the period over which the capital asset is expected to be used by the department, or the number of production or similar units that can be obtained from the capital asset during use by the department.

A **whole asset** is an approach to asset identification which allows a collection of unique assets to form an identifiable functional unit. The unique assets may or may not have the same estimated economic life, however, from an accounting perspective, the components are recorded as one whole asset.

A **write-down** is a partial reduction in the value of an asset to its net realizable value.

Write-off (of a capital asset) is the complete reduction in the value of an asset and the removal of the asset from the accounting records of the entity.

4. Scope

This policy applies to all CSC assets and capital leases.

5. Policy Statement and Requirements

It is Correctional Services Canada (CSC) policy to account for capital assets in accordance with Generally Accepted Accounting Principles (GAAP).

The principles of capitalization will apply to both tangible and intangible assets including those developed or constructed by CSC.

Heritage Buildings will be included as the capital assets only if they are used for operational purposes (e.g. office space).

Immoveable assets located on Indian Reserves such as land, buildings and infrastructure are not to be included as capital assets.

5.1 Identification as a Capital Asset

5.1.1 Threshold

All capital assets and betterments with a useful life in excess of 1 year and an acquisition cost of $10,000 or more, excluding GST/HST and interest expense on financing costs, will be capitalized and depreciated over their useful life.

5.1.2 Bulk Purchases

Bulk purchases, also referred to as bundling or pooling, of small dollar items such as furniture, tools, signs, software, PC's, etc. that are **not** used as a collective whole, are only considered capital assets if the cost of each individual unit is equal to or greater than the threshold value of $10,000.

5.1.3 Whole Asset vs. Component Method

For purposes of capitalization, there are two methods of defining a capital asset: the whole asset method and the component approach. Both are equally acceptable under GAAP.

Under the whole asset approach, the entire cost of an asset would be capitalized and depreciated. The whole asset identification approach should be applied to assets such as a **building** comprised of floors, walls, roof, elevators etc. or parcels of land that comprise a site (of land). The whole asset is then subject to one economic life for depreciation purposes. The definition of a whole asset cannot be applied to combine distinguishable categories of assets such as land, buildings and infrastructure into one whole asset called an institution.

Under the component approach, the different components of an asset are separately capitalized and depreciated based on each component's useful life. CSC will apply the component approach to informatics hardware such as the switches, routers and servers that make up a network.

5.1.4 Intangible capital assets

Intangible capital assets include patents and copyrights. CSC does not have intangible capital assets at this time.

5.1.5 Spare Parts

Spare parts, acquired as part of the same procurement as the original capital asset, should be considered integral to the acquisition of the asset and form part of the total cost of the capital asset.

5.2 Determination of Cost

The cost of an asset is the actual amount paid to acquire, construct or develop an asset plus all costs of bringing the asset to the location and condition necessary for its intended use. The cost of a capital asset generally includes the following:

- the purchase price (i.e. invoice amount);
- other acquisition costs such as option costs, where an option is exercised;
- spare parts, acquired as part of the same procurement as the original capital asset;
- brokers' commissions;
- installation costs including architectural, design and engineering fees;
- legal fees;
- survey costs;
- site preparation costs (in the case of land, this includes grading, filling, draining, and clearing);
- freight charges;
- transportation insurance costs (while the asset is in transit);
- assembling costs;
- duties (i.e. customs fees); and
- testing and preparation charges.

5.2.1 Excluded Costs

The Goods and Sales Tax (Harmonized Sales Tax), the interest expense for financing the asset and the late payment interest penalty are excluded from the cost of the asset and are therefore not capitalized.

5.3 Classification of Capital Assets

Capital assets are divided into distinct asset categories. Within each category, several classes of assets may exist. For example, CSC has buildings constructed of concrete, wood or mixed materials which have useful lives ranging from 25 to 40 years. The proper classification is important because the useful life of each class is different affecting the calculation of depreciation.

CSC has the following major categories of capital assets which correspond to the Government of Canada Chart of Accounts financial reporting accounts (FRA) codes used for government-wide reporting purposes.

1. Land, buildings and Infrastructure		FRA
1.1	Land	16111
1.2	Buildings	16112
1.3	Infrastructure	16113
1.4	Perimeter Security Systems (PSS)	16113
1.5	Leasehold improvements	16641
2. Machinery and Equipment		
2.1	Machinery and Equipment	16121
2.2	Informatics hardware	16122
2.3	Informatics software	16123
2.4	Arms and weapons	16124
2.5	Other equipment, including furniture	16129
3. Vehicles		
3.1	Aircraft	16132
3.2	Motor Vehicles	16133
3.3	Other Vehicles	16135
4. Construction/Work in Progress		
4.1	Buildings in progress of construction	16311
4.2	Infrastructure and PSS in progress of construction	16312
4.3	Software development in progress	16315
4.4	Other construction or WIP	16319
5. Capital Assets - Leased		
5.1	Land	16611
5.2	Buildings	16612
5.3	Infrastructure and PSS	16613
5.4	Machinery and Equipment	16621
5.5	Informatics hardware	16622
5.6	Informatics software	16623
5.7	Arms and weapons	16624
5.8	Other equipment	16629
5.9	Aircraft	16632
5.10	Motor vehicles	16633
5.11	Other vehicles	16639

5.4.1 Composition of Categories

It is important to understand what falls into each asset category to ensure consistency in the financial coding which in turn will provide useful and reliable financial information. Below is a description of the composition of each category that applies in CSC. In areas where the categorization is not clear, Finance should be contacted for assistance.

1. Land, Buildings, Infrastructure and Perimeter Security Systems

1.1 Land

Land includes all land that is under the administration of CSC and for which CSC is the custodian. When land has been purchased for the purpose of constructing a building, all costs incurred in the process of acquisition including appraisals, fees, options, surveys, land transfer taxes and registrations up to the excavation for the new buildings are considered land costs.

1.2 Buildings

A building is a space completely enclosed by exterior walls, a roof and a floor. As a general rule, the building components that make the building habitable and that are affixed to the building structure would be considered as part of the building. This includes built-in furniture and equipment such as kitchen cabinetry attached to the building, commercial dishwashers, built-in freezers, built-in cupboards and closets.

All costs incurred, from planning and design to completion, are considered part of the building costs.

At institutions, this would include (but is not limited to) the following types of buildings (in alphabetical order):

- Administration buildings
- Bakeries
- Barns
- Cell blocks
- Chapels
- Composter Building
- Cultural Centres
- Family visiting units
- Garages
- Greenhouses
- Gymnasiums
- Hobby shops
- Housing units
- Hospitals
- Industrial and vocational shops
- Kitchens

- Maintenance buildings
- Power house buildings
- Schools
- Stores
- Storage
- Training Centers
- Warehouses

1.3 Infrastructure

Infrastructure is defined as non-building specific services running overhead or underground to the building, or between buildings.

This category includes (but is not limited to) the following:

- Roads (excluding perimeter patrol road and turn-around)
- Parking lots
- Sidewalks and covered walkways
- Other paved surfaces
- Water distribution systems (including water towers)
- Pump houses
- Sewer systems (storm and sanitary)
- Sewage lift station
- Electrical distribution systems
- Transformers sub stations
- Boilers, co-generation, emergency power, diesel generators
- Incinerators
- Wells
- Plants (including sewage plants, power plants, central plants, filtration plants, water treatment plants)
- Reservoirs / Tanks for gas, oil and other fuel sources
- Retaining walls
- Landscaping (including planting, recreation yard and interior site lighting)
- Lagoons
- Dams
- Dikes
- Bridges
- Duct banks
- Site clearing and preparation of non-building and non-perimeter specific drainage
- Electronic surveillance systems (other than perimeter Security)
- Energy Management Control System (EMCS) - Central hub
- Fire alarm systems (backbone and head end)

- Telecommunication systems (including telephone lines and fibre optics)
- Cablevision lines
- Informatics - Central installation
- Fences (other than perimeter Security)

1.4 Perimeter Security Systems

CSC has created a sub-category of the Infrastructure category and included the Perimeter Security Systems. Note that gatehouses are not part of this category but are included in the building category.

This sub-category includes (but not limited to) the following:

- Clearing and site preparation of perimeter
- Fences (including fence fabrication and installation, gates, posts, cross bars, brackets, concertina, hardware, etc.)
- Underground anti-tunneling fence
- Fabric and grade cover between fences
- Towers (including outdoor walls and free standing towers)
- Perimeter Intrusion Detection System (PIDS) Integration Unit
- Perimeter Intrusion Detection System Public Address (PIDS PA)
- PIDS cameras including towers and bases
- Fence Detection System (FDS)
- Motion Detection System (MDS)
- Perimeter lighting
- Perimeter patrol road and turn-around

2. Machinery and Equipment

2.1 Machinery and Equipment

Machinery and equipment includes office equipment, factory equipment and similar capital assets which are moveable (i.e. not permanently affixed to the building or infrastructure), and are non-informatics mechanical devices.

Office equipment includes machinery for office use, such as desk calculators, typewriters, photocopy equipment, and dictaphones.

The following is a listing of machinery and equipment at CSC:

- Telecommunication equipment
- Generators (portable)

- Industrial machinery
- Woodworking machinery
- Medical equipment
- Dental equipment
- Laboratory equipment
- Veterinary equipment
- Audio and Photographic equipment
- Food preparation equipment (portable)
- Laundry equipment (portable)
- Agricultural machinery
- Warehouse equipment
- Non-motorized snow removal equipment

2.2 Informatics hardware

Informatics hardware includes:

- Mainframe computers (including cabling)
- Servers
- Switches
- Routers
- Personal computers (including speakers, mouse, etc.)
- Peripherals (printers, scanners, plotters, etc.)

2.3 Informatics software (purchased and developed)

The computer software purchased from a third party is included in this category. Also, any internally developed software would be included here.

If CSC purchases the software from its suppliers but the actual implementation is done by its employees, the implementation costs will be capitalized if the software is capitalized.

If CSC's website is a primary component of its operations or delivery, the initial website development costs are capitalized. If CSC's website is designed for general marketing and information purposes, and is not directly linked to operations, the initial development costs are expensed. If the initial development costs were capitalized, on-going development costs incurred in the first year after start up of the Website will be capitalized. Content changes and regular maintenance costs are always expensed since there is no future benefit beyond a year.

If CSC pays a one-off licensing fee in order to use the software, CSC has essentially acquired service potential relating to that software and therefore the cost of license fee should be capitalized as part of the software. Any yearly licensing fee which typically covers maintenance and upgrades automatically provided by the vendor should be expensed.

2.4 Other equipment

This category includes office furniture, fixtures and furnishings such as desks, tables, etc.

3. Vehicles

3.1 Aircraft

This category includes all costs incurred to place the aircraft into service including customs duties, painting, modifications etc.

3.2 Motor Vehicles

This category includes cars and other vehicles, primarily used for transporting persons. Examples of motor vehicles used at CSC are:

- Passenger vehicles
- Vans
- Half tons

3.3 Other Vehicles (less than one ton)

Other vehicles include all vehicles less than one ton which are primarily used for transporting goods. Examples of vehicles in this category are:

- Trucks (> half ton but < one ton)
- Trailers
- All Terrain Vehicles (ATVs)
- Snowmobiles
- Fork lifts
- Golf carts
- Graders
- Bobcats
- Motorized snow removal equipment
- Heavy Trucks (greater than or equal to one ton)

Heavy truck vehicles are primarily used for transporting goods. Examples of vehicles in this category are:

- Special purpose trucks such as garbage trucks and dump trucks
- Fire trucks

- Transfer bus
- Buses
- Tractors
- Ploughs

4. Construction/Work in Progress

This category applies to assets which are under construction or development which will be considered as capital assets when completed and placed in production or service. Construction in progress is normally valued at the sum of direct material, labor and overhead costs incurred to date. Costs should be accumulated against a project number, and no depreciation will commence on the asset until it is put into use.

5. Capital Leases

This category includes assets which are acquired by a lease arrangement that is determined to be a capital lease. Please see Definitions and section 6.8.

6. Leasehold Improvements

CSC has a number of lease agreements for office space (e.g. NHQ, some RHQs and most parole offices). Where CSC pays for leasehold improvements to leased accommodations, these costs should be capitalized and amortized over the term of the lease if all of the following characteristics exist:

- the improvement must be made to assets that have been rightly leased
- CSC must pay for the improvement
- the improvement must have future benefits of over 1 year
- the improvement must revert back to the lessor at the end of the lease.

Leasehold improvements would include costs to reconfigure office space by the installation of new permanent walls, but would not include movable drywall partitions. The changes must be an enhancement to the real property (similar in concept to a betterment) and not simply maintenance or repairs due to normal wear and tear.

5.5 Financial Coding for Capital Assets

To accommodate the accounting for capital assets in CSC, the following allotment values are to be used.

Allotment/Description
Budgetary Allotments
211 Salaries – Work in Progress
240 O&M including Equipment <$10K Non-capitalized
241 O&M – Work in Progress – Software Capitalized
501 NHQ Managed - Major Construction Capitalized New Construction, Betterments
502 NHQ Managed - Major Construction Non-capitalized Repairs
503 Construction on Indian Reserves Non-capitalized *New Construction, Betterments*
511 RHQ/Inst'l Managed - Minor Construction Capitalized Betterments
512 RHQ/Inst'l Managed - Minor Construction Non-capitalized Repairs
513 RHQ/Inst'l Managed - Minor Construction on Indian Reserve Non-capitalized Betterments
570 Respend - Capital Assets Disposals
581 Capital (02xxx-12xxx) WIP
582 Capital Equipment>10K Capitalized
Non-Budgetary Allotments
281 Loss on Sale of Capital Assets
282 Gain on Sale of Capital Assets
521 Depreciation - Buildings
522 Depreciation - Infrastructure and PSS
523 Depreciation - Machinery and Equipment
524 Depreciation - Informatics Hardware
525 Depreciation - Informatics Software

Allotment/Description
526 Depreciation - Arms and weapons
527 Depreciation - Other equipment including furniture
528 Depreciation - Aircraft
529 Depreciation - Motor vehicles (non-military)
530 Depreciation - Other vehicles
531 Amortization - Leasehold Improvements
532 Amortization – Capital Leased Assets
710 Proceeds from Sale Crown Assets - Clearing
711 Cost of Removal of Crown Assets - Clearing
712 Equipment - Clearing
713 Major, Minor Construction - Clearing
714 Proceeds from Sale - GL only Clearing
775 Historical Cost Accounts
875 Accumulated Depreciation

6. Procedural Requirements and Responsibilities

The accounting of capital assets in CSC will involve the following phases:

6.1 Budget allocations
6.2 Purchase of assets
6.3 Construction of assets / Betterments
6.4 Maintenance and Repairs to assets
6.5 Depreciation and Salvage Value
6.6 Disposal and transfer / Removal from service
6.7 Write-downs and Write-offs
6.8 Capital Leases
6.9 Leasehold improvements
6.10 Monthly accounting processes
6.11 Annual accounting processes
6.12 Monitoring / reporting / reconciliations

6.1 Budget Allocations

Financial Management allocates funds to each allotment.

Periodically, NHQ Corporate Accounting will provide a report of proceeds of Crown Assets sales by Region to Financial Management at NHQ who will increase regional allotments 290 “Spending of Crown Assets – Operating” and 570 “Spending of Crown Assets - Capital” accordingly.

Proceeds from the disposal of vehicles must be setup (and expended) as a budget amount under 570.09500 “Spending Crown Assets – Capital – Motor Vehicles” while the proceeds from all other capital asset disposals will be setup as a 570.09100 budget; and

Proceeds from the disposal of custodial assets (non-capital) are usually setup as a budget amount under 290.02000 “Spending Crown Assets – Operating”.

Example:

Type of asset sold or disposed	Specific class of assets sold or	Revenue Coding Allotment.LOBJ	Budgetary Coding - Allotment.
Capital Assets	Fleet vehicles (e.g. cars, trucks, mini vans), Other capital assets (e.g. Tractors, informatics hardware)	283.48302	570.09500 570.09100
Non-capital assets (custodial assets)	Furniture, office and audio/visual equipment	140.1450x	290.02000

Rather than lapsing unused allotment 290 or 570 funds at fiscal year end, this spending authority may be carried forward and used in the subsequent fiscal year only (up to CSC's departmental reference level of $295,200).

At fiscal year-end, the estimated proceeds value of those assets identified for disposal should be recorded as accrued accounts receivables. See year-end procedures for more details.

6.2 Purchase of Assets

When purchasing assets managers are responsible for assigning the correct coding as indicated in the previous section. Managers must ascertain that the purchase will meet the requirements of a capital asset as identified in this policy. The delivery cost from the supplier to CSC should be capitalized as part of the cost of the asset. However, the freight cost incurred to move the asset from one CSC location to another is expensed.

Two possible entries exist for the recording of the purchase of a capital asset. The possibilities vary on whether the purchase is from:

- the Capital vote; or
- the Crown Asset Respond vote

For example, the entry to record the purchase of a passenger vehicle from the **capital** vote is:

	CSC Coding								Government-wide Coding			
Entry	Resp. Centre	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR. Capital Asset	XXXXX	XXX	XXXXX	582	09500	X	1		16133	B140	1261	E
DR GST Refundable Advance	19600	000	00000	603	35000	X	1		13392	G111	8171	E
CR Accounts Payable	99999	999	99999	DAP	99999	X	1		21111	R300	6299	E

The entry to record the purchase of a passenger vehicle from the **Crown Assets Respend** vote is:

	CSC Coding								Government-wide Coding			
Entry	Resp. Centre	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR. Capital Asset	XXXXX	XXX	XXXXX	570	09500	X	1		16133	A131	1261	E
DR GST Refundable Advance	19600	000	00000	603	35000	X	1		13392	G111	8171	E
CR Accounts Payable	99999	999	99999	DAP	99999	X	1		21111	R300	6299	E

6.2.1 Assets transferred from OGD

When an asset is transferred from an OGD, the OGD will initiate an IS for the NBV amount of the asset. The following sequence of GL entries will be the result. CSC would record the asset at its original historical cost and accumulated depreciation.

For example, a vehicle with an historical cost of $10,000 is transferred to CSC from another department. The vehicle was depreciated by $4,000 at the OGD before the transfer took place. CSC would receive an IS notification from SPS/IS via SPS/IS Notification file for the NBV of $6,000.

NHQ Financial Operations processes this file (Journal Category/Source: IS Cash Clearing /IS):

	CSC Coding								Government-wide Coding			
Entry	Resp. Centre	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR. IS Unreconciled CR Recipient Cash Clearing	99999	999	99999	176	SPS25	1	1	6,000	21615	B420	6299	I
CR IS RGGL CR Cash Clearing	99999	999	99999	176	RGL05	1	1	6,000	21615	B420	6299	I

NHQ enters payments into IFMMS using suspense coding to allotment 660 and LOBJ 43300 in the Accounts Payable Module. The Responsibility Centre is used to identify the site. The ISRN is entered as the invoice number since it is unique to each transaction.

	CSC Coding								Government-wide Coding			
Entry	Resp. Centre	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR. IS Suspense Account	xxxxx	xxx	xxxxx	660	43300	1	1	6,000	21615	B420	6299	I
CR A/P	99999	999	99999	DAP	99999	1	1	6,000	21132	R300	6299	I

NHQ would then process Section 33 and the following entry would be generated:

	CSC Coding								Government-wide Coding			
Entry	Resp. Centre	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR. A/P	99999	999	99999	DAP	99999	1	1	6,000	21111	R300	6299	I
CR SPS/IS Cash Clearing	99999	999	AAAA1	999	99999	1	1	6,000	21111	R300	6299	I

The finance technician would go into the Accounts Payable Module in IFMMS and find the invoice to change the coding on the transaction to the one provided by the Section 34 Manager. The Financial Officer should review and sign each transaction as if it was the section 33 on a regular invoice.

	CSC Coding								Government-wide Coding			
Entry	Resp. Centre	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR. Asset Acquisition	xxxxx	xxx	xxxxx	582	09500	X	1	6,000	16133	B140	1261	I
CR IS Suspense Account	xxxxx	xxx	xxxxx	660	43300	1	1	6,000	21615	B420	6299	I

The corresponding RGGL Control account amount is received via the RGGL Notification File (which is processed by NHQ Financial Operations). RGGL Control entry (GL Category/Source: RGGL Control Account/IS)

	CSC Coding								Government-wide Coding			
Entry	Resp. Centre	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR. IS CR Control Offset	99999	999	99999	C65	CE998	1	1	6,000	65053	000	0000	I
CR. IS CR Unreconciled CR Recipient Cash Clearing	99999	999	99999	176	SPS25	1	1	6,000	21615	B420	6299	I
DR. SPS/IS Cash Clearing	99999	999	AAAA1	999	99999	1	1	6,000	21111	R300	6299	I
CR. IS CR Control	99999	999	99999	C65	CE997	1	1	6,000	65053	0000	0000	I
DR. IS RGGL CR Cash Clearing	99999	999	99999	176	RGL05	1	1	6,000	21615	R300	6299	I
CR. IS CR Control Offset	99999	999	99999	C65	CE998	1	1	6,000	65053	0000	0000	I

Prior to completing the following entry in the FA Module, NHQ Financial Operations must be contacted. The FA Coordinator would enter the asset at its historical cost of $10,000 and accumulated depreciation of $4,000. The following GL entry will then be generated:

Entry	Resp. Centre	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR. Historical Cost	xxxxx	xxx	xxxxx	775	13289	X	1	10,000	16133	F999	7099	I
CR Clearing Account	xxxxx	xxx	xxxxx	712	13289	X	1	10,000	16133	F999	7099	I
DR. Amort. Expense	xxxxx	xxx	xxxxx	529	13000	X	1	4,000	51433	F111	3451	I
CR. Acc. Depreciation	xxxxx	xxx	xxxxx	875	48289	X	1	4,000	16233	F999	7099	I

NHQ Financial Operations will then complete a manual journal voucher to reverse the current year amortization automatically generated by IFMMS:

Entry	Resp. Centre	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR. Clearing Account	xxxxx	xxx	xxxxx	712	13289	X	1	4,000	16133	F999	7099	I
CR Amort. Expense	xxxxx	xxx	xxxxx	529	13000	X	1	4,000	51433	F111	3451	I

6.2.2 Donated Assets

CSC may receive a donation or gift. Such contributions are referred to as non-reciprocal transfers because they are transfers of assets in one direction. The cost of an asset transferred from an outside third party is considered equal to its fair market value at the date of donation. The fair market value should be used .

The accounting entry when receiving a passenger vehicle is:

	CSC Coding								Government-wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR. Capital Asset	XXXXX	XXX	XXXXX	775	13289	X	1		16133	R300	1261	E
CR Retained Earnings	99999	999	99999	DRE	99999	X	1		32053	F999	7099	E

6.3 Construction of Assets (Work in Progress)

The cost of expenses incurred during the development or construction of capital assets with an expected end cost of $10,000 or more will be capitalized.

Assets under construction can be defined as internally developed assets, internally implemented assets and in-house developed assets. They may include real property assets such as land, buildings, infrastructure, perimeter security systems or in-house developed software. Assets under construction also include assets that have been acquired but require additional work to get them ready for use. For example, the implementation and/or customization cost of a purchased software.

A typical project usually involves three basic stages and costs are accounted for differently depending on which stage they are.

- In the preliminary project stage, all costs incurred prior to "project approval in principle" will be expensed. Project start-up costs (e.g. options analysis, feasibility studies, socio-economic studies, pricing and availability studies) incurred after approval in principle may be capitalized.
- In the development stage, costs will be capitalized.
- In the post-implementation stage, all costs will be expensed.

Without a purchase price or contract price, CSC must allocate costs to arrive at the cost of a self-constructed asset. The cost of a constructed asset, generally includes the following:

- direct materials
- direct labour including sub-contractor cost plus internal staff time
- variable costs that are directly attributable (i.e. incremental) to the project such as, feasibility studies, environmental assessment studies, building permits, rental fees for equipment, etc.

The interest expense related to financing costs incurred during the time an asset is under construction is not capitalized.

Depreciation is not charged on assets under construction until the asset is completed and placed into service.

Costs incurred for internal training should not be included in the historical cost of an asset developed by CSC.

Any on-going licensing fee (i.e. a yearly licensing fee which typically covers maintenance and upgrades automatically provided by the vendor) should not be included in the historical cost of software.

6.3.1 CSC Construction

CSC construction projects consist of major and minor capital projects.

Major capital projects are normally greater than $1 million dollars in value and are managed by NHQ Facilities Branch. They tend to be long term projects spanning over several fiscal years such as new institutions, expansions, retrofits or modifications to existing institutions. In general, major construction project expenditures result in multiple assets (land, buildings, infrastructure etc.) being created. Significant repair and maintenance projects are also possible.

Minor capital projects are normally less than $1 million dollars in value and are managed by RHQ and/or institutional Facilities officers. They are usually shorter term in length but can also span over more than one fiscal year. Minor construction project expenditures often result in additions or betterments to existing assets but may also involve repairs and maintenance.

During the construction phase, Facilities officers will code all invoices to a specific construction project code (e.g. 9XXXX).

Until a construction project (that is not a repair or maintenance project) is complete, no action is required by the responsible Facilities officer in the Fixed Assets module as the project expenditures will remain as Work /Construction in Process (WIP). When the project is completed and placed into service, the Facilities officer will review the total costs for the project. The officer must then determine which asset category the costs will be allocated to (i.e. land, buildings, etc.) and whether a new asset must be created or if the costs should be added to existing assets (i.e. betterments). The costs are allocated to the appropriate asset(s) using an Additions process of the Fixed Assets module.

The accounting entry to accumulate capitalized construction costs is:

	CSC Coding								Government-wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR Capital Expenses	XXXXX	XXX	9XXXX	501, 511	XXXXX	X	1		1631X	B140	0101 to 0890	E
CR Accounts Payable	99999	999	99999	DAP	99999	X	1		21111	R300	6299	E

The accounting entries to accumulate costs associated with WIP **at year-end** only are:

	CSC Coding								Government-wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR Historical Cost-WIP	XXXXX	XXX	9XXXX	775	0850X	X	1		1631X	F999	7099	E
CR Major/minor Construction Clearing Account	XXXXX	XXX	XXXXX	713	1328X	X	1		1631X	F999	7099	E

The entry to transfer the WIP portion of a multi-year construction project to a capital asset when the asset is placed into service is as follows:

	CSC Coding								Government-wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR Historical Cost Asset	XXXXX	XXX	XXXXX	775	1328X	X	1		1611X	F999	7099	E
CR Historical Cost-WIP	XXXXX	XXX	9XXXX	775	0850X	X	1		1631X	F999	7099	E

6.3.2 Betterments

Over the course of the useful life of an asset, the custodian may make decisions to invest in enhancements or betterments with respect to an asset.

From a CSC accounting perspective, these will be treated the same as construction of assets.

Betterments improve the service potential of an asset, and results in one of the following:

- an increase in physical output, service capacity or functionality,
- a significant reduction in operating costs,
- an extended useful life, or
- an improvement to output quality.

An addition or betterment that has a total cost in excess of the threshold amount of $10,000 will be capitalized. It will be added to the capital asset to which it relates.

When a betterment (the Child asset) is added to an existing asset (the Parent asset), IFMMS will automatically amortize the new Net Book Value (NBV) over the remaining life of the asset. If the betterment extends the asset's life, then the Asset Coordinator should adjust the amortization period.

If a cost has the attributes of both a repair and a betterment, the portion considered to be a betterment should be included in the cost of the capital asset.

If the distinction between a repair and a minor betterment cannot be made easily and cost-effectively, the costs should be expensed.

6.3.3 Software Upgrades/Development

Software upgrades meet the definition of a betterment if they provide new tools that enhance the quality of output from the software and consequently increase the useful life of the software. Examples would be a new version of software which delivers new functionality or where CSC acquires commercial software and must do significant modifications to enable it to meet CSC requirements.

A betterment would be recorded as follows:

	CSC Coding								Government-wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR Capital Asset	XXXXX	XXX	XXXXX	241, 582	XXXXX	X	1		16133	B120 or B140	1261	E
CR Accounts Payable	99999	999	99999	DAP	99999	X	1		21111	R300	6299	E

Costs incurred for the maintenance of the service potential of a capital asset are a repair and will be expensed. Examples of software maintenance include programming changes required for the software to remain current to meet user needs (such as to meet changes in legislative requirements), or changes required for systems to remain compatible.

Note: Annual fees for software licenses will be expensed in the year they are incurred.

6.4 Maintenance and Repairs to Assets

Over the course of the useful life of an asset, the custodian may make decisions to carry out repairs and maintenance with respect to an asset.

Maintenance is defined as the ongoing work required to retain the asset's useful life.

Repairs are conducted in response to a problem with the asset, due to breakage, damage or other circumstances that render the asset inoperable.

Maintenance and repairs are considered to be a cost of operations, and are not added to the capital cost of the asset. These transactions are coded to expense accounts in the fiscal year in which they are incurred.

A repair to a passenger vehicle would be recorded as follows:

	CSC Coding								Government-wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR Expense	XXXXX	XXX	XXXXX	240	06400	X	1		51321	B120	0682	E
CR Accounts Payable	99999	999	99999	DAP	99999	X	1		21111	R300	6299	E

6.5 Depreciation and Salvage Value

In accordance with GAAP, capital assets are depreciated over their useful life except in the cases of leasehold improvements or leased capital assets which are amortized over the respective terms of the lease.
Depreciation is a concept that attempts to match the cost of an asset with the benefits it provides by allocating a portion of the cost of the asset to expense over the course of its useful life. This provides a more realistic view of asset use.

Generally, the historical cost of capital assets less any expected salvage value will be depreciated on a **straight-line basis** over the useful life of the asset, unless a more appropriate method of amortizing is applicable and readily available.

The useful life is specified based on the major asset classification. The useful lives of all assets within a major asset class are **pre-determined**, based on Treasury Board guidelines, industry standards and departmental experience. The useful life for in-house developed software will be determined on a case-by-case basis based on discussions between the Comptroller's Branch, the Information Technology Branch and the eventual custodian of the software.

Depreciation is to be charged **monthly** to an expense account, and will commence on the first day of the month following the acquisition or when the asset is placed into service. Depreciation will end when the asset is disposed or, taken out of service (includes assets consigned for sale e.g. CADC, etc.) or when its useful life has expired and the asset is fully depreciated.

The acquisition cost for land is not depreciated, as it has an unlimited life.

Depreciation is not charged for work-in-progress, as these assets do not contribute any benefits until they are completed and placed into service.

When a betterment to an asset is made, the amount of monthly depreciation changes. The remaining undepreciated amount plus the amount of the betterment is depreciated over the revised remaining useful life, that is, the original remaining life plus any additional useful life arising from the betterment. If the useful life does not change, and the betterment produces additional benefits in terms of increased output or reduced operating costs, the period of depreciation remains the same, and the increased cost is depreciated over the remaining useful life.

Note that the maximum depreciation period is limited to 40 years unless CSC can clearly demonstrate that the useful life of the asset is expected to exceed 40 years.

CSC has decided that the salvage value for most capital assets will be equal to zero with the exception of aircraft and vehicles where salvage value is 10% of original cost.

The useful life of each asset class is as follows:

Asset Category / Class	Useful life
Land	not applicable
Buildings	
Masonry and Concrete	40 years
Mixed Construction	30 years
Wood Frame Construction	25 years
Infrastructure	
Infrastructure	25 years
Perimeter Systems	20 years
Machinery & equipment	
Machinery and equipment	10 years
Informatics - hardware (PCs and peripherals)	3 years
Informatics - hardware (switches, routers, servers)	5 years
Informatics - purchased software	3 years
Vehicles	
Aircraft	15 years
Motor Vehicles	5 years
Other Vehicles	10 years
Electronic (security systems)	20 years
Capital Leases	term of lease
Leasehold Improvements	term of lease

The useful life to be used in the calculation will be predetermined and set-up in the tables of IFMMS. The journal entries for depreciation will be automatically generated by IFMMS.

The accounting entry to record the depreciation of a capital **asset** at month-end is:

	CSC Coding								Government-wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR Depreciation Expense	XXXXX	XXX	XXXXX	521 to 531	13000	X	1		514XX	F111	3451	E
CR Accumulated Depreciation	XXXXX	XXX	XXXXX	875	482XX	X	1		162XX	F999	7099	E

6.6 Disposal and Transfer of Capital Assets

Capital assets may be disposed of at any time during their useful lives for a variety of reasons. A disposal refers to a cessation of ownership, whether voluntarily (sale or trade-in or scrapped) or involuntarily (theft or destruction). The full depreciation of an asset does not constitute a disposal, and fully depreciated assets should continue to be reflected in the asset records as long as they are being used productively.

When an asset is disposed of, the disposal should be recorded promptly and accurately in IFMMS in order that the system reflects only those assets currently owned by CSC, that depreciation not be recorded from the time of disposal, and that financial statements accurately reflect assets on hand. The historical cost and accumulated depreciation amounts relating to the particular capital asset will be removed from CSC's appropriate general ledger account.

Since an asset with a historical cost of less than $10,000 is not capitalized but expensed in the year of acquisition, any amount received from disposition will be recorded as revenue - allotment 140 - Proceeds from Sale of Crown Assets.

6.6.1 Disposal to a Non-OGD

When capital assets are disposed of to an outside party, the asset will be removed from the accounting records, and a gain or loss on disposal will be recognized and recorded in IFMMS via the Fixed Assets (FA) Module. The gain or loss is calculated as the difference between the proceeds and the net book value.

When a CSC vehicle or any other capital asset is disposed of via auction, the auction company will usually provide the Regional Fleet Manager with a cheque for the net proceeds of sale. The local CSC DAO will do the bank deposit and process this revenue in the Accounts Receivable (AR) Module with the following sample entry:

	CSC Coding								Government-wide Coding (for NhQ use only)			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR. Deposit Control Account	99999	999	99999	610	BCM01	X	1	4,500	11125	R300	0	E
CR .Proceeds from Sale of Capital Assets	XXXXX	XXX	00000	283	48302	X	1	4,500	51511	D321	4843	E

The above accounting entry would also be applicable to the proceeds from disposal by any external entity.

In the FA Module, the FA Co-ordinator must always retire a capital asset that has been disposed of with the “Proceed of Sale” amount equal to zero. The effect of this is that IFMMS will automatically generate a GL entry with a Proceeds Clearing entry for zero and a Gain/Loss on Disposal entry equal to the asset’s net book value (NBV). The accounting entry whether there is a **gain** or a **loss** on the disposal of a vehicle or any other asset sold via auction or to an external entity is:

	CSC Coding								Government-wide Coding (for NHQ use only)			
Entry	Resp. Centre	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR. Proceeds of sale Clearing	XXXXX	XXX	XXXXX	710	48300	X	1	0	21627	F999	7099	E
DR Accumulated Depreciation-Vehicles	XXXXX	XXX	XXXXX	875	48289	X	1	15,000	16233	F999	7099	E
CR .Historical Cost-Vehicles	XXXXX	XXX	XXXXX	775	13289	X	1	20,000	16133	F999	7099	E
DR Loss on disposal	XXXXX	XXX	XXXXX	281	48301	X	1	5,000	51511	F999	7099	E

6.6.2 Transfer of Capital Assets to Other Government Department (OGD)

Prior to FIS, federal departments had the option to sell assets to OGDs. With FIS, assets are transferred (not sold) to an OGD (per TBS Accounting Standard 3.1 which also mandates that asset transfers take place at net book value (NBV)). As such, there are no proceeds of disposal and therefore no authority to spend the proceeds from sale. Note that depreciation is taken in the month of disposal.

When a CSC capital asset is transferred to an OGD, CSC will initiate an IS to the OGD recipient department for the NBV amount of the asset. The following sequence of GL entries will be the result. The receiving department would record the asset at its original historical cost and accumulated depreciation.

In the AR Module, the Finance Technician enters a manual IS invoice (a copy of which is forwarded to the OGD). Only the credit line is entered as the debit to Accounts Receivable will automatically be generated by the system (Journal Category/Source: Sales Invoices/Receivables).

	CSC Coding							Government-wide Coding (for NHQ use only)			
Entry	Resp Centre	Act	Project	Allot	Line Object .	Entity	Dept	FRA	Auth.	Econ Object	Internal or External
DR. AR	xxxxx	000	00000	703	53101	1	1	11242	F999	5399	I
CR. Proceeds from sale of Capital Asset	xxxxx	xxx	xxxxx	714	48302	1	1	21627	F999	4843	I

The AR Module will then automatically generate an IS Receipt entry (Journal Category/Source: Trade Receipt/Receivables) via the “SPS/IS Extract IS Information” process as per the following table. **There is no user intervention in this step.**

	CSC Coding							Government-wide Coding (for NHQ use only)			
Entry	Resp Centre	Act	Project	Allot	Line Object	Entity	Dept	FRA	Auth.	Econ Object	Internal or External
DR. IS Receipt Clearing	99999	999	99999	177	SPS06	1	1	21615	R300	0000	I
CR. AR	XXXXX	XXX	XXXXX	703	53101	1	1	11242	F999	5399	I

NHQ Financial Operations will then submit the IS to SPS/IS as a creditor initiated IS using the “Prepare IS Requisition Process” (GL Category/Source: IS Cash Clearing/IS).

	CSC Coding							Government-wide Coding (for NHQ use only)			
Entry	Resp Centre	Act	Project	Allot	Line Object	Entity	Dept	FRA	Auth	Econ Object	Internal or External
DR. SPS/IS Debit Cash Clearing	99999	999	99999	177	SPS06	1	1	21615	R300	0000	I
CR. IS Receipt Clearing	99999	999	99999	177	SPS06	1	1	21615	R300	0000	I

An approved IS notification is received for the IS from SPS/IS via SPS/IS Notification file. NHQ Financial Operations processes this file (Journal Category/Source: IS Cash Clearing/IS.

	CSC Coding							Government-wide Coding (for NHQ use only)			
Entry	Resp Centre	Act	Project	Allot	Line Object	Entity	Dept	FRA	Auth.	Econ Object	Internal or External
DR. SPS/IS RGGL Debit Cash Clearing	99999	999	99999	177	RGL06	1	1	21615	R300	0000	I
CR. SPS/IS Debit Cash Clearing	99999	999	99999	177	SPS06	1	1	21615	R300	0000	I

The corresponding RGGL Control account amount is received via the RGGL Notification File (which is processed by NHQ Financial Operations). This RGGL Control entry (GL Category/Source: RGGL Control Account/IS) charges the IS Debit Control Account and clears the IS RGGL Cash Clearing Account as follows:

	CSC Coding							Government-wide Coding (for NHQ use only)			
Entry	Resp Centre	Act	Project	Allot	Line Object	Entity	Dept	FRA	Auth.	Econ Object	Internal or External
DR. SPS/IS Debit Control Account	99999	999	99999	C64	99998	1	1	64053	0000	0000	I
CR. SPS/IS RGGL Debit Cash Clearing	99999	999	99999	177	RGL06	1	1	21615	R300	0000	I

The following entry illustrates the net effect (after all the entries) to the GL as a result of the IS initiated by CSC.

	CSC Coding							Government-wide Coding (for NHQ use only)			
Entry	Resp Centre	Act	Project	Allot	Line Object	Entity	Dept	FRA	Auth.	Econ Object	Internal or External
DR. SPS/IS Debit Control Account	99999	999	99999	C64	99998	1	1	64053	0000	0000	I
CR. Proceeds from sale of capital assets	XXXXX	XXX	XXXXX	714	48302	1	1	21627	D321	4843	I

In the FA Module, the FA Coordinator processes a retirement of the transferred asset with the **“Proceeds of Sale” field value equal to the NBV of the asset**. With the proceeds of sale amount equal to the NBV of the asset, the resulting GL retirement entry will not generate a gain or loss on the retirement of the asset.

Example of a capital asset transferred to an OGD:

CSC transfers a vehicle to an OGD with a NBV of $5,000. The FA Coordinator enters the retirement in the FA Module which generates the following GL entry:

	CSC Coding								Government-wide Coding (for NHQ use only)			
Entry	Resp. Centre	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR Proceeds of Sale Clearing	XXXXX	XXX	XXXXX	710	48300	X	1	5,000	21627	F999	7099	E
DR Accumulated Depreciation-Vehicles	XXXXX	XXX	XXXXX	875	48289	X	1	15,000	16233	F311	7099	E
DR Loss on disposal-Sale	XXXXX	XXX	XXXXX	281	48301	X	1	0	51511	F999	7099	E
CR Historical Cost-Vehicles	XXXXX	XXX	XXXXX	775	13289	X	1	20,000	16133	F999	7099	E

Note: The net effect on the GL of the preceding “Proceeds” entries is zero (i.e. allotment 710 $5,000 Debit – Allotment 714 $5,000 Credit).

If the NBV of the asset being transferred is zero (i.e. the asset is fully depreciated), then the Proceeds of Sale value to be entered is zero and no IS entry is required.

6.6.3 Disposal via PWGSC - Crown Assets Disposal Centre (CADC)

When a capital asset is disposed of via CADC, NHQ receives these proceeds via SPS in the form of a Creditor Recipient IS (GL Category: IS Receipt) that is automatically credited to CSC’s IS Suspense Account: 19600.000.00000.175.14900.1.1

NHQ Financial Operations then processes an entry through the AR Module to redistribute this revenue to the specific responsibility centre that disposed of the capital asset with the following sample entry:

	CSC Coding							Government-wide Coding (for NHQ use only)			
Entry	Resp. Centre	Act	Project	Allot	Line Object	Entity	Dept	FRA	Auth.	Econ Object	Internal or External
DR. Accounts Receivable	xxxxx	000	00000	703	53101	X	1	11242	F999	0000	I
CR. Proceeds from Sale of Capital Assets	xxxxx	xxx	00000	283	48302	X	1	51511	D321	4843	I

The entry above initiates overnight processes in IFMMS that will clear the IS Suspense and AR accounts.

In the FA Module, the FA Co-ordinator must always retire a capital asset that has been disposed of with the "Proceed of Sale" amount equal to zero. The effect of this is that IFMMS will automatically generate a GL entry with a Proceeds Clearing entry for zero and a Gain/Loss on Disposal entry equal to the asset's net book value (NBV). The accounting entry whether there is a **gain** or a **loss** on the disposal of an asset sold via CADC is:

	CSC Coding								Government-wide Coding			
Entry	Resp. Centre	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR. Proceeds of sale Clearing	XXXXX	XXX	XXXXX	710	48300	X	1	0	21627	F999	7099	E
DR Accumulated Depreciation-Vehicles	XXXXX	XXX	XXXXX	875	48289	X	1	15,000	16233	F999	7099	E
CR .Historical Cost-Vehicles	XXXXX	XXX	XXXXX	775	13289	X	1	20,000	16133	F999	7099	E
DR Loss on disposal	XXXXX	XXX	XXXXX	281	48301	X	1	5,000	51511	F999	7099	E

When custodial assets such as furniture or office equipment are disposed by CSC using CADC, NHQ Financial Operations records the proceeds from disposal with the following entry through the AR Module:

	CSC Coding							Government-wide Coding (for NHQ use only)			
Entry	Resp. Centre	Act	Project/	Allot	Line Object	Entity	Dept	FRA	Auth.	Econ Object	Internal or External
DR. AR	xxxxx	000	00000	703	53101	X	1	11242	F999	0000	I
CR. Sales of Surplus Material	xxxxx	240	00000	140	1450x	X	1	42412	D321	4843	I

Note: Custodial assets that are shipped to CADC for disposal must be retired in the FA Module; this type of retirement transaction will not generate any GL entries in IFMMS.

6.6.4 Trade-ins

A trade-in is defined as an exchange of a non-monetary asset for a similar asset where there is a significant monetary consideration involved (up to 90% of asset value).

For example, a vehicle with an original cost of $19,000 and a net book value of $2,000 is traded -in on a new vehicle that costs $20,000. CSC receives $1,200 on the trade-in. The journal entries are as follows:

	CSC Coding								Government-wide Coding			
Entry	Resp. Centre	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR. Proceeds Clearing	XXXXX	XXX	XXXXX	710	48300	X	1	1,200	21627	F999	7099	E
DR Accumulated Depreciation	XXXXX	XXX	XXXXX	875	48289	X	1	17,000	16233	F999	7099	E
DR. Loss on disposal	XXXXX	XXX	XXXXX	282	48301	X	1	800	51511	F999	7099	E
CR Historical Cost- Old Asset	XXXXX	XXX	XXXXX	775	13289	X	1	19,000	16133	F999	7099	E

	CSC Coding								Government-wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR. Vehicles- New Asset	XXXXX	XXX	XXXXX	582	09500	X	1	20,000	16133	B140	1219	E
CR. Sale of Crown assets	XXXXX	XXX	XXXXX	140	14500	X	1	1,200	51511	F999	7099	E
CR Accounts Payable	99999	999	99999	DAP	99999	X	1	18,800	21111	R300	6299	E

6.6.5 Non-monetary Transactions

A non-monetary exchange is defined as an exchange of non-monetary assets, liabilities or services for other non-monetary assets, liabilities or services where little or no monetary consideration is involved
.
For the purposes of this policy, a non-monetary transaction occurs when CSC exchanges an existing capital asset for another asset. This new asset will (generally) be valued at either the carrying value or fair market value of the asset given up. There may also be a monetary component (up to10% of asset value) to a non-monetary transaction.

If the exchange involves an asset with fair market value (or book value where the fair market value is not reasonably determinable) of less than $100K, CSC will record the following entry which has no budgetary impact but recognizes any applicable gains or losses:

	CSC Coding								Government-wide Coding			
Entry	Resp. Centre	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR. Historical Cost- New Asset	XXXXX	XXX	XXXXX	775	1328X	X	1		1613X	F999	7099	E
DR Accumulated Depreciation	XXXXX	XXX	XXXXX	875	4828X	X	1		1623X	F999	7099	E
DR/CR. Loss/Gain on disposal	XXXXX	XXX	XXXXX	281/ 282	48301	X	1		51511	F999	7099	E
CR Historical Cost- Old Asset	XXXXX	XXX	XXXXX	775	1328X	X	1		1613X	F999	7099	E

Note: In IFMMS, the above transaction will generate 2 journal entries; one for an asset addition (the new asset) and the other for an asset retirement (the Old asset).

When a non-monetary exchange involves an asset with a value in excess of $100K , the entry must be recorded as though it were monetary (i.e. charged to a budget). NHQ Policy, Authorities and Performance Measures should be contacted in the event this situation occurs.

Capital Assets removed from service

When a capital asset is removed from service, **and** the long-term expectation is that the asset **may again contribute** to the department's ability to provide goods and services sometime in the future, CSC will cease charging depreciation expense. The historical cost and accumulated depreciation of the asset remain on the department's books and the fact that the asset is no longer in service is disclosed in the notes to the financial statements.

No entry is required.

Note: If the asset is placed back into service, IFMMS will automatically generate "catch-up" depreciation.

Obsolete Capital Assets

When a capital asset becomes obsolete, **and** the long-term expectation is that the asset **will no longer contribute** to the department's ability to provide goods and services, CSC will write down the net carrying amount of the asset to its net realizable value. The write-down is a loss that is reflected as an expense in the income statement. If the capital asset is subsequently returned to service, CSC must not write-up its book value unless betterments have been made.

The entry would be the same as in the next section on write-downs.

6.7 Write-downs and Write-offs

If the value of an asset has been reduced and the reduction is expected to be **permanent**, the cost of the asset should be reduced, or written down to reflect the change in value. A write-down should **not** be reversed if the net recoverable amount subsequently increases. This applies only for reductions in value. An increase in value is **not** added to the cost of the asset. Any gain in value will be recognized at the time of disposal.

A decline in value could result from a number of circumstances, such as obsolescence, a change in the law or policy, physical damage or a change/ abandonment of a program.

The custodian of the asset is generally in the best position to observe any changes in asset value. In other cases, Finance will become aware of reductions in value and a determination should be made as to whether the reduction in value is expected to be permanent. Finance should record the write down, with the rationale for the write down retained on file.

The entry to write-down the value of a capital asset is as follows:

	CSC Coding								Government-wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR Depreciation Expense	XXXXX	XXX	XXXXX	521 to 531	13000	X	1		514XX	F111	3451	E
CR Accumulated Depreciation	XXXXX	XXX	XXXXX	875	482XX	X	1		162XX	F311	7061	E

A write-off is the complete reduction in the value of an asset along with its removal from the accounting records. An example is a vehicle involved in a major collision where the estimated cost to repair the vehicle is significantly more than the remaining value of the vehicle.

The entry to write-off the value of a capital asset to zero is as follows:

	CSC Coding								Government-wide Coding			
Entry	Resp. Centre	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR Loss on write-down of capital assets	XXXXX	XXX	XXXXX	282	48301	X	1		51511	F999	7099	E
DR Accumulated Depreciation	XXXXX	XXX	XXXXX	875	482XX	X	1		162XX	F999	7099	E
CR Historical Cost	XXXXX	XXX	XXXXX	775	132XX	X	1		161XX	F999	7099	E

6.8 Capital Leases

A lease is a contractual agreement between a lessor (owner of the asset) and a lessee (party using the asset and paying rent) that gives the lessee the right to use specific property owned by the lessor for a specific period of time in return for periodic cash payments. For accounting purposes, leases are categorized by the lessee as either operating or capital, and from the lessor's perspective as either operating or direct financing.

From the perspective of the lessee, a lease is considered a capital lease if, any of the following conditions are met:

- A transfer of ownership takes place.
- A bargain purchase option exists.
- The lease term is greater than or equal to 75% of the asset's economic life.
- The present value of payments is greater than or equal to 90% of the fair value of the asset.

When CSC enters into a lease agreement, the responsible financial officer should analyze the lease against the four criteria above. If the lease is considered to be a capital lease, then the financial officer will make the appropriate accounting entries.

When a lease is considered to be a capital lease, both the asset and liability portion must be shown on the Statement of Financial Position at the present value of the lease payments, excluding executory costs. The asset portion of the lease will be amortized on a straight-line basis over the term of the lease. The liability portion will be reduced over the term of the lease with the difference between the lease payments and their present value being charged as interest expense.

The asset value and the amount of the obligation are recorded at the beginning of the lease term at the present value of the lease payments.

The accounting entry to record a capital **lease** is:

	CSC Coding								Government-wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR Informatics Equipment – Lease (Asset)	XXXXX	XXX	XXXXX	775	132XX	X	1		16622	R300	1221	E

CR Informatics Equipment – Capital lease (Liability)	XXXXX	XXX	XXXXX	693	XXXXX	X	1		24222	R300	6299	E

The accounting entry to record the first lease payment is:

	CSC Coding								Government-wide Coding			
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR Informatics Equipment – Capital lease (Liability)	XXXXX	XXX	XXXXX	693	XXXXX	X	1		24222	A131 B120 B140	6299	E
CR Accounts Payable	99999	999	99999	DAP	99999	X	1		21111	R300	6299	E

6.9 Leasehold Improvements

A leasehold improvement is a permanent improvement or betterment that increases the usefulness of the leased property. The terms and conditions of a lease may provide for the cost of leasehold improvements, such as modifications of the leased property to the operating needs of CSC, to be the responsibility of CSC, and thus paid by CSC. These costs should be capitalized and amortized over the term of the lease.

In order to be considered a leasehold improvement, the improvement must have all of the following characteristics:

- the improvement must be made to assets that have been rightly leased
- CSC must pay for the improvement
- the improvement must have future benefits of over 1 year
- the improvement must revert back to the lessor (owner) at the end of the lease

Upgrades to the electrical system and the installation of walls qualify as improvements however, carpeting and painting are not considered improvements.

If CSC occupies a building owned or managed by PWGSC "free of charge", the arrangement is considered to be lease-like and any betterment paid for by CSC will be treated as a leasehold improvement.

	CSC Coding								Government-wide Coding			
Entry	Resp. Centre	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Econ Object	Internal/ External
DR. Leasehold Improvements	XXXXX	XXX	XXXXX	501 511	XXXXX	X	1		16641	B140	0101 to 0890	E
CR . Accounts Payable	99999	999	99999	DAP	99999	X	1		21111	R300	6299	E

6.10 Monthly accounting processes

IFMMS will run the depreciation processes to record the monthly depreciation expense and the related accumulated depreciation.

Newly completed construction projects including betterments will be allocated to the appropriate new or existing assets.

Fixed Asset coordinators will perform asset re-classifications, transfers, cost adjustments, retirements and corrections if required.

6.11 Annual accounting processes

Construction/Work in progress will be setup via manual journal entries by Finance with the assistance of Facilities and Informatics Branches.
The Asset Clearing accounts will be closed out to the Retained Earnings account.

6.12 Monitoring, reporting and reconciliations

Managers will ensure that major and minor capital asset betterments are entered in the Fixed Assets module of IFMMS consistently and in a timely way. Finance and Materiel management will assist Managers in doing this by providing a report that identifies the total amount posted for the year to allotments 241, 501, 503, 511, 513 and 582 by combination of resp/allot/project, and the total amounts entered as additions in the assets module using the same combination.

7. Financial Statement Presentation and Disclosure

Treasury Board requires extensive disclosure regarding capital assets on the financial statements, and accompanying notes that include related schedules. Financial Statements must distinguish between assets that are owned and those that are leased.

7.1 Statement of Financial Position

The capital assets are presented on the Statement of Financial Position under the non-financial assets section. A single amount representing the total net carrying value (net book value) (the difference between original cost and accumulated depreciation) of CSC's capital assets must be disclosed.

On the statement of Financial Position, obligations related to leased assets should be shown separately from other long-term obligations.

7.2 Statement of Operations

The Statement of Operations must disclose as expenses: depreciation, losses on disposals and amounts of any write-downs. Gains on disposal should be reflected as revenue.

The amount of depreciation related to leased assets must be reported, but will be included in the total depreciation expense. Similarly, interest expense related to lease obligations must be reported, and is included with all other interest on long-term indebtedness.

7.3 Notes

In Note 2 of the Notes to the Financial Statements, departments are required to describe their accounting policy for capital assets. This must include:

- the threshold used,
- a statement to the effect that capital assets are recorded at acquisition cost,
- any exclusions (for example, assets located on Indian reserves),
- the basis of depreciation used, and
- the classes of assets and the applicable rates used in calculating depreciation

The threshold amount must be consistent from year to year. If CSC decides to lower the threshold, this change in accounting policy must be disclosed in a note to the financial statements. The change should be applied retroactively and a re-statement of the previous fiscal year's comparative figures will be made. If the figures cannot be restated, a justification to this effect will be written and retained on file.

The fact that assets have been excluded from the Financial Statements must be disclosed in a note to the financial statements. It is not necessary to indicate the value of the excluded assets in the note.

7.4 Schedules

The most detailed presentation is required in Schedule 4 - Capital Assets. For each major category of capital assets, the following is disclosed:

- cost,
- additions in the period,
- disposals in the period,
- the amount of any write-downs in the period,
- the amount of depreciation for the period,
- accumulated depreciation at the beginning and end of the accounting period, and
- the net carrying value (book value) at the beginning and end of the accounting period

The total of this schedule must equal the total shown on the Statement of Financial Position.

The net carrying amount of a capital asset not being depreciated, because it is under construction or development, or has been removed from service for an extended period of time, should be disclosed.

Schedule 5 of the Financial Statements should disclose the following information on the capital lease obligation:

- future minimum lease payments for **<u>each</u>** of the five succeeding years and in total for all years thereafter,
- the total of the future minimum lease payments, and
- a deduction from the total figure for amounts included in minimum lease payments representing imputed interest.

8. Transition Policy Notes

The new threshold of $10,000 is effective April 1, 2001. Therefore, assets received after March 31, 2001 must meet the threshold of $10,000.

As of April 1, 2001, CSC will have capital assets in the Fixed Asset Module that cost more than the current $1,000 threshold but less than the new $10,000 threshold. These assets will form part of the opening balances and represent primarily PC's. These assets will be fully depreciated over the next one to ten years.

Any capital assets over $10,000 received up to March 31st but not invoiced, should be entered in the Fixed Asset module in Period 12.

9. References

TBAS 3.1 - Capital Assets
TBAS 3.1.1 - Software
TBAS 1.2 - Departmental and Agency Financial Statements
TBAS 2.1 - Summary of Significant Accounting Policies
FIS Accounting Manual Section 3.5
PSSAB Handbook Section 3150
CICA Handbook Sections 1506, 3060, 3065 and 4430