



**EGERTON UNIVERSITY**

**CAPITALIZATION POLICY  
2010**

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## **1.0 PREAMBLE**

### **a) DEFINITIONS**

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

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

### **b) SIGNIFICANT VALUES**

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

<b>Class of Capital Asset</b>	<b>Significant Value Kes.</b>
Machinery and Equipment	10,000/=

## **2.0 TYPES OF CAPITALASSETS**

### **2.1 LAND**

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

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

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

### **2.11 LAND IMPROVEMENTS**

#### **(a) Definition**

Land improvement shall include any improvements with a limited life made to ready land for its intended use that is not part of an infrastructure network, or allocated to such as

**(b) Capitalized costs**

The following costs shall be capitalized

- (i) Costs incurred in preparing land for its intended use (grading, filling, draining) and any additional land betterments.

## **2.30 BUILDING IMPROVEMENTS**

### **(a) Definition**

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

### **(b) Capitalized Costs**

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

## **2.4 COMPUTER SOFTWARE AND HARDWARE**

### **(a) Definition**

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

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

## **2.5 DONATED ASSETS**

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

## **2.6 EQUIPMENT**

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



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

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

## **2.7 INFRASTRUCTURE**

### **(i) Definition**

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

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

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

### **3.0 LEASED ASSETS**

#### **(a) Definition**

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

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

## **(b) Operating Leases**

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

### **3.1 LEASEHOLD IMPROVEMENTS**

#### **(a) Definition**

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

#### **(b) Capitalized Costs**

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

### **4.0 LIBRARY RESOURCES**

#### **(a) Definition**

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

#### **(b) Capitalized Costs**

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

are considered a composite asset.

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

## **5.0 OTHER PARTY OWNED ASSETS**

### **(a) Definition**

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

### **(b) Capitalized Costs**

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

## **6.0 REPAIRS AND MAINTENANCE**

### **(a) Definition**

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

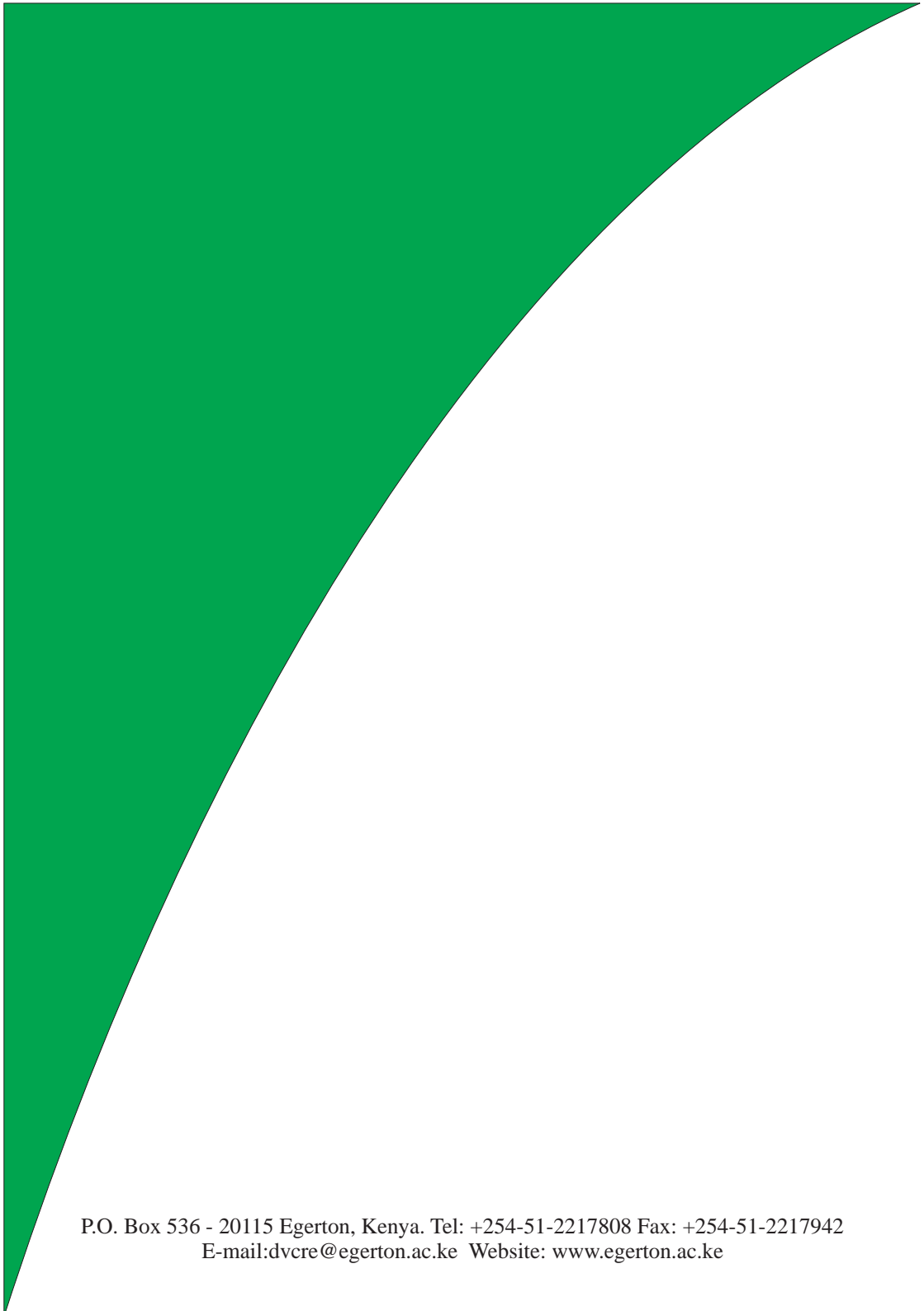


The following rates of depreciation shall be used for each category of asset:

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

### **Disposition of Assets**

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



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