



## Policies and Procedures

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Subject: <b>Fixed Assets</b>	Date Issued:	Supersedes:
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### POLICY/PURPOSE:

It is J&E Hall (the “Company’s”) and its subsidiary Coulstock and Place to establish policy standards and procedures to ensure that *capital asset*<sup>1</sup> transactions are in compliance with management objectives, proper internal control procedures, and IFRS Accepted Accounting Principles. The purpose of this policy is to outline procedures for acquiring, disposing, capitalizing, depreciating, transferring and maintaining control of capital assets. Any non-compliance to this policy requires written approval by the applicable Business Unit Manager with notification to the Director of Finance.

### SCOPE:

This policy applies to all capital assets in the Company’s consolidated business units. Computer hardware and software purchased for internal use is covered under this policy.

### POLICY AND PROCEDURES:

#### 1.0 ACQUISITIONS AND CAPITALIZATION

- 1.1 Capital asset additions will be made within the established financial approval policies and procedures prescribed in policy number XXX, “Limits of Authority” (“LOA”).
- 1.2 A capital asset with a capitalizable value of £1,000 for tooling and a useful life in excess of one year will be capitalized. All personal computers and all other assets will be capitalized, regardless of value, for tracking purposes. Expenditures for capital assets other than personal computers or for capital assets that do not meet the minimum GBP and useful life requirement will be expensed.

All Capital assets will require multiple quotes (3) where possible but at least two for comparative purposes.

- 1.3** The invoiced cost net of any vendor discounts, plus *sales tax, freight* and all significant costs necessary to prepare an asset for its intended use will be capitalized. Other capitalizable costs may include initial inspection and testing, *installation costs* and similar expenses only if material in amount.
- 1.4** Each tooling *upgrade* in excess of £1,000 (or equivalent in local currency) or more that clearly extends the useful life of the assets is allocated a new capex number and the sum will be depreciated over its new estimated useful life.
- 1.5** While construction is taking place, all costs associated with the construction will be accumulated on the asset (at status = investment) Internal indirect labor, including departmental salaries, will not be capitalized as part of the project costs. When the project is complete, the status of the asset is changed to Active with depreciation beginning in the month of status change. A project will be deemed completed at the earlier of either the operational completion of the project or occupation on the premises.
- 1.6** BU Directors and Managers with authority within their LOA limits need to inform finance of receipt of all invoices relation to the asset. Invoices will be matched to the original (authorized) capital expenditure form (approved by the MD and FD). The asset will be added to the fixed asset register by finance.
- 1.7** A spare part that is acquired concurrently with equipment will be capitalized as part of the cost of the equipment and depreciated over the useful life of the equipment. A spare part acquired for any reason after the equipment is in service for six months will be capitalized only if it meets the GBP threshold in section 1.2 of this policy and depreciated over five years.
- 1.8** Capital and Operating Leases:
- 1.8.a** All assets financed under leases will be accounted for in accordance with policy number XXX, "Lease Accounting".
- 1.8.b** All leases will be made within the established financial approval policies prescribed in policy number XXX, "Limits of Authority".
- 1.9** Other:
- 1.9.1** Internal order and processing fees for capital expenditures will be expensed as incurred.
- 1.9.2** Normal *repairs and maintenance* costs will be expensed as incurred.
- 1.9.3** The costs of maintenance contracts on equipment and software will be expensed when incurred.
- 1.9.4** Rearranging, removing, dismantling, or demolishing capital assets will be expensed as incurred.
- 1.9.5** Training and education will be expensed as incurred.

**1.9.6** Loaners, demos, borrow to buy and evaluation units will be capitalized and depreciated if the period in which they are placed in service exceeds three months.

**1.9.7** Show trailers and show models used to market the products and services will be expensed as incurred.

**1.9.8** Pre-production units used in research and development will be expensed when placed into service.

## **2.0 DEPRECIATION**

**2.1** The entire cost of the asset will be depreciated on a straight-line basis over their estimated useful life. See the table in section **2.5** for useful life by asset category.

**2.2** Depreciation is to commence in the first month after the asset is placed into service.

**2.3** Depreciation continues until the accumulated depreciation equals the original cost, or until the asset is retired from service.

**2.4** A fully depreciated asset will remain in the fixed asset subledger until the asset is retired from service.

**2.5** Guidelines for estimated useful lives by capital asset category are as follows:

<u>Capital Asset Category</u>	<u>Useful Life (in years)</u>
Computer and Software	3-5
Auto	3
Tooling	5
Spare Parts acquired six months after equipment is placed in service	5
Machinery and Equipment	10-12
Furniture and Fixtures	7-10
Building	40
<i>Building or Leasehold Improvements</i>	The shorter of 20 years or the remaining life of lease

## **3.0 TRANSFERS**

**3.1** The transfer of *capital assets* between departments, divisions, or business units will have no impact on its net book value. All assets are transferred with no recognition of a gain or loss by the department transferring the asset. If the transfer is occurring within the same legal entity, the gross amount and accumulated depreciation will be transferred. If the transfer is to another legal entity, then the net book value will be transferred.

- 3.2** The depreciation method used by the transferring department will also be used by the acquiring department unless local or asset conditions require a change.
- 3.3** All costs associated with the transfer will be expensed by the department, division or business unit acquiring the asset.
- 3.4** A change in a capital asset's location or ownership occurs when:
- 3.4.1** a *capital asset* is moved to another office or building, even if the ownership remains the same.
- 3.4.2** a *capital asset* is transferred to another department, even if the location remains the same.
- 3.4.3** a *capital asset* is transferred to another primary user, even if the location and/or department remain the same.
- 3.5** Interdepartmental transfers of assets will be reported to the appropriate accounting department in writing including the description, serial number/asset tag number and the name of the department receiving the property.
- 3.6** The department manager to whom the item was assigned originally will be held accountable for the asset until Finance is notified of the transfer. After being notified, the department manager acquiring the property assumes responsibility.

#### **4.0 RETIREMENTS AND DISPOSALS**

- 4.1** Company owned *capital assets* will be retained as long as they continue to contribute in an efficient and economical manner to the company's operations. This may extend beyond the useful life used for depreciation purposes.
- 4.2** If a sales price can be received for the fixed asset then before disposal of an asset, the appropriate Vendor will be selected by getting various quotes from suitable buyers. An invoice is to be produce for the agreed sale price of the asset. To remove from the fixed asset register then the cost and accumulated depreciation to date are to be transferred to an asset disposal account in the P&L (see 4.5 below). There will be an asset disposal form that finance will fill out and it will be signed off by the Director of Finance. Anything over £3,000, will need to be countersigned by the Managing Director
- 4.3** All asset dispositions will be approved prior to the disposition and comply with policy number 553, "Limits of Authority". After the appropriate forms are completed and proper written approvals obtained in accordance with the LOA, the form will be sent to the appropriate accounting department, with at least two quotations where possible. Documentation on disposals shall be maintained in accordance with the Company's record retention policy.
- 4.4** Prior to any asset disposition, the location disposing of the asset will ascertain whether other Company locations have use for the asset.

**4.5** Upon determination that an asset has been sold or otherwise disposed of, the asset's cost and associated accumulated depreciation will be removed from the General Ledger and Fixed Asset subledger. The difference between the net book value and the proceeds from the sale of the asset will be recorded as a gain/loss on the sale of fixed assets in "Other Income or Expense".

## **5.0 ASSET IMPAIRMENT**

**5.1** A fixed asset should be reviewed for impairment whenever events or changes in circumstances indicate the carrying amount (net book value) might not be recoverable. Indicators of impairment might include:

**5.1.1** A significant decrease in market value of the asset.

**5.1.2** A significant adverse change in the extent or manner in which the asset is being used or in its physical condition.

**5.1.3** A current period operating or cash flow loss combined with a history of losses or a projection or forecast that demonstrates continuing losses associated with the asset's use.

**5.1.4** A current expectation that an asset will likely be sold or disposed of significantly before the end of its previously estimated useful life.

**5.2** If any of the above impairment indicators are present or if other circumstances indicate that impairment may exist, management must determine whether an impairment loss should be recognized. An impairment loss should be recognized if the undiscounted cash flows used to test for recoverability are less than the carrying value of the asset. The model outlined in FAS 144 "Accounting for Impairment or Disposal of Long-Lived Assets" should be used to test an asset for impairment.

**5.3** Questions regarding asset impairment or disposal of fixed assets should be directed to the AMI Corporate Controller.

## **6.0 FINANCIAL AND PHYSICAL CONTROL**

- 6.1** The Company's assets will be safeguarded.
- 6.2** The Regional/Business Unit Controllers are responsible for appointing a fixed asset administrator, where appropriate. The Regional/Business Unit Controllers will also ensure that every operating location has a fixed asset liaison to communicate asset transactions to the fixed asset administrator.
- 6.3** Capital asset identification/serial/bar code tags will be promptly affixed to all *capital assets* except where inappropriate (i.e. modular furniture, building partitions, P.C. boards, etc.). The accounting department is responsible for issuing and attaching asset tags to the *capital asset* where it can be readily located. If the accounting department and *capital asset* location are not the same, the accounting department will issue the tag and will ensure that operations attach the tag to the *capital asset*.
- 6.4** The detailed fixed asset records will be reconciled to the general ledger and all differences researched and resolved on at least a quarterly basis.
- 6.5** A full physical inventory for the *capital assets* will be performed by operations at least once every three years. The fixed asset administrator will be ultimately accountable for the physical inventory process.
- 6.6** Capital assets that are not accounted for during the physical inventory will be investigated and reported to the appropriate manager(s). Shrinkage will be written off to the appropriate account after proper approval is obtained in compliance with policy number 553, "Limits of Authority".
- 6.7** Any exceptions to this policy will be placed in writing and reviewed and approved by the Regional/Business Unit Controller, with a copy to the AMI Corporate Controller.

## **7.0 ASSET RECORDS**

- 7.1** Detailed records of fixed assets and equipment leased to others will be maintained and will include the costs, accumulated depreciation and net book value of the individual *capital assets*. These records will also include information regarding asset description, location, asset tag number or bar code tag number, date acquired, and useful life.

## **8.0 DEFINITIONS**

**8.1** Capital asset (i.e. fixed asset) – a single item of tangible property; including equipment, property, furniture, fixtures, and leasehold improvements which are acquired by the Company for use in operations and not for resale.

**8.2** Building or leasehold improvements – modifications or attachments to a leased facility which becomes an integral part of the structure. This may include internal building configurations such as walls, electrical work, carpeting, as well as facility-related equipment such as heating and air conditioning equipment.

**8.3** Repairs and maintenance – expenditures made to physically maintain an asset in usable condition without extending the useful life or significantly increasing its capacity.

**8.4** Upgrade – physical modifications to an existing capital asset, which clearly adds value to, expands the functionality or extends the useful life of the original asset.

**8.5** Installation costs – expenditures made in order to acquire and place a capital asset into service.

**8.6** Freight – expenditures made to transport the asset to the asset's resident location.

**8.7** Sales tax – any state and local sales tax applied to the purchase value of an acquired asset.

## **9.0 PARTIAL LIST OF APPLICABLE ACCOUNTING GUIDANCE:**

**9.1** FAS Statement No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*

/s/ Gary Burnett  
Director of Finance, J&E HALL