Asset depreciation and electronic resources

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Depreciation

"Decrease in property value because of time, use, deterioration, or obsolescence. An example is the decline in value of machinery and equipment."

(In *Dictionary of Economics, Wiley*. Hoboken, NJ: Wiley. Retrieved May 08, 2009, from http://www.credoreference.com/entry/2764586/)

Background

A broad discussion around the consideration of library physical collections as assets has been carried on within the accounting profession for more than 10 years (see brief bibliography below), primarily by Dr. Garry Carnegie, currently at Ballarat University. In general terms his argument posits that library collections should not be considered assets. To an accounting layperson, it would appear that the same arguments would apply to digital collections. Geoff Maslen ran a front page article on Campus Review in 2004 (see reference below) on valuation and depreciation of physical collections, and the impact on the reliability of University financial reporting, which was accompanied by a useful sidebar on the issue.

It appears that little has been published on the theory or practice around valuation and depreciation of electronic resources.

Recently the Financial Services Group at RMIT started to investigate the appropriate depreciation regime for electronic materials, such as databases, monographs and individual serial titles. This investigation was in anticipation of, rather than in response to, audit inquires. At RMIT all material to which we have "permanent "access (physical books, and journals, and databases or individual titles to which we gain permanent access) is accounted for as a capital expenditure, and depreciated over a ten year period.

The Financial Services Group asked what practice is in other Universities, and a CAUL Survey was run as a result. The survey period ran from 16 March to 30 March 2009, and had just 3 questions:

1. Are e-journals and e-books (or databases which are mainly e-journals or e-books) for which you receive permanent access capitalized at your institution?

2. If the answer to Q 1 is "Yes", over what period are these depreciated?

3. Any other comments?

Findings

A total of 22 responses were received. The replies illustrate the wide variety of practices around asset accounting and academic libraries. In summary, nine institutions (including three GO 8s) do not capitalize these resources, and in some instances, do not capitalize any library purchases, regardless of format.

Fourteen institutions do classify these electronic purchases as assets and they generally depreciate these. The rate of depreciation ranges from four to 30 years, with five institutions setting "useful life "at ten years. One respondent classifies these materials as "perpetual assets". Of those who do regard these items as capital, most (five in total) set a "useful life" which is the same as book and physical subs.

Summary

Accounting treatment practice varies greatly in this area. If these survey results can be extrapolated (noting the relatively small number of respondents), it would appear that:

i. a majority of libraries do capitalize these assets, and
ii. a significant minority are treating these as "expensed" or operating budget material.

The verbatim survey responses follow.

Some additional readings

Garry Carnegie, Peter Wolnizer. (1999). Unravelling the rhetoric about the financial reporting of public collections as assets. *Australian Accounting Review, 9*(1), 16-21. Retrieved May 8, 2009, from Accounting & Tax Periodicals database. (Document ID: 40742047).

Hone, Phillip: (1997) The Financial Value of Cultural, Heritage and Scientific Collections: A Public Management Necessity: Australian Accounting Review (V. 7, no. 13) pp 38-43 CPA Australia: DOI: 10.1111/j.1835-2561.1997.tb00026.x

Maslen, Geoff (2004) Accounting for difference: rich or poor depends on how the library stacks up Campus Review (Paddington, NSW), v.14, no.26, 7-13 July 2004: pp.1, 4: http://search.informit.com.au.ezproxy.lib.rmit.edu.au/fullText;dn=200407598;res=APAFT

West, Brian & Carnegie, Garry, (2004), Accounting's chaotic margins: Financial reporting of the library collections of Australia's public universities, Fourth Asia Pacific Interdisciplinary Research in Accounting Conference, Singapore 2004, 4-6 July 2004, Singapore – see http://www.cecc.com.au/clients/sob/research/docs/bwest/APIRA-1243.pdf

RMIT UNIVERSITY

Survey Results

University	**Q1.** *Are e-journals and e-books (or databases which are mainly e-books or e-journals) for which you receive permanent access capitalized at your institution?*	**Q2.** *If the answer to Q1 is "Yes", over what period are these depreciated?*	**Q3.** *Any other comments?*
1	**No** - expensed (print journals and textbooks are expensed too)	N/A	Only things we capitalise are rare books (revalued every three years) and research monographs (20% depreciation)
2	**No** - current subscriptions to e-resources are expensed over the appropriate accrual period and not capitalized. Back sets which are purchased with perpetual access are treated as 'perpetual assets'.	N/A	Our standard depreciation period for library materials is 7 years which was the longest period that the state auditors would accept.
3	**No** - they are expensed in the year of purchase.	N/A	We will welcome the results of this survey as soon as feasible. We have raised this issue with our Financial Services as we believe these items should be capitalised. The issue has not yet been resolved.
4	**No** - electronic journals and books (and databases) are considered to be operating expenses for the purpose of Collection Valuation and are not included in the valuation. The Collection Valuation is concerned only with physical items added to the collection.		Hence there is no depreciation. However the auditor is interested in looking into it, especially in regard to those to which we have permanent access as opposed to a subscription.
5	**No**	N/A	At present none of our electronic products, whether purchased outright or as part of an ongoing subscription, are included in our asset register. They are therefore expensed in the year of purchase and not depreciated. Our collections as a whole are valued in accordance with a relatively recent Queensland Treasury accounting standard for library collections which, curiously, from memory, is largely silent on electronic resources.
6	**No**	N/A	N/A

University	***Q1.*** *Are e-journals and e-books (or databases which are mainly e-books or e-journals) for which you receive permanent access capitalized at your institution?*	***Q2.*** *If the answer to Q1 is "Yes", over what period are these depreciated?*	***Q3.*** *Any other comments?*
7	**No**	N/A	University 7 would like to capitalise some electronic purchases but are unable to do so at present due to accounting restrictions. The depreciation rate of all other capital items is 10 years but we are reviewing this at present.
8	**No**	N/A	The databases are in operational expenses each year and not calculated as a capital asset or depreciated. There isn't a process to capitalise or depreciate these online resources that are offered by Third Party vendors. Consequently the capital asset (i.e. library collection) appears to be less that it truly is.
9			University9's collection is expensed, apart from one small physical collection that's capitalised.
10	**Yes**	10 years, but under investigation	N/A
11	**Yes**	10 years	N/A
12	**Yes**	10 years	Currently, this is the same as applied to monographs and periodicals.
13	**Yes**	30 years	The amortisation rate applied to electronic resources is consistent with the rate applied to physical journals/serials. We use this rate as an estimate of the average useful life of the content of electronic resources.

University	**Q1.** *Are e-journals and e-books (or databases which are mainly e-books or e-journals) for which you receive permanent access capitalized at your institution?*	**Q2.** *If the answer to Q1 is "Yes", over what period are these depreciated?*	**Q3.** *Any other comments?*
14	**Yes** - for permanent purchased access such as purchased back sets (e.g. Web of Knowledge) and eBooks in packages which are permanent purchases, not subscriptions. No for the much larger expenditure on leased datasets, which are not capitalised.	Purchased back sets and eBooks are not depreciated in current calculations.	Retaining original price as the asset value of purchased back sets and purchased eBooks effectively depreciates the capital by the annual rate of inflation. In twenty years, for instance, today's cost of an eBook will be of the order of 10% of the 2029 cost. Such an item will only be written off the capital value when/if it is permanently removed from the collection.
15	**Yes -** electronic material that is acquired for 'permanent' ownership is treated the same as hard copy for asset purposes (and all must satisfy other criteria such as reference works vs textbooks - textbook works are expensed in year of purchase whereas reference works are capitalised and depreciated)	10 years	Our policy was revised in December last year and the defining elements for asset treatment are now whether we own or license the content, not the format, and a distinction between "common use" materials (expensed in year of acquisition) and "reference/heritage use" materials (depreciated over 10 years).
16	**Yes** – if the definition of permanent access includes a purchased backfile >$1k. If the resource is subscription based, the answer is no regardless of the cost.	Over 5 years	N/A
17	**Yes –** these are capitalised in the same way as our print purchases, i.e. 100% depreciation after 4 years.	4 years	N/A
18	**Yes**	For depreciation purposes the value of the Library collection is held to be the cost of assets acquired over the last three year period. Each year the new year's costs are added to the value and the earliest year's costs are removed as depreciation.	Prior to 2007 all electronic resources were treated as assets (whether we had permanent access or not) and depreciated using the method described
19	**Yes**	Depreciated over 3 years. This may be reviewed.	N/A

University	***Q1.*** *Are e-journals and e-books (or databases which are mainly e-books or e-journals) for which you receive permanent access capitalized at your institution?*	***Q2.*** *If the answer to Q1 is "Yes", over what period are these depreciated?*	***Q3.*** *Any other comments?*
20	**Yes** – for ebooks and ejournals for which we have a perpetual access.	Flat line 6.7% pa - in effect, 15 years!	University 20 depreciates all collections at a flat 6.7%. We've separated out online resources to which access is dependent on continuing annual subscription, and we do not capitalize 21these.
21	**Yes**	10% annually	N/A
22	**Yes**	They are written off over 5 years.	University 22 will need to also investigate as this was based on old thinking about electronic being replaceable.
23	**Yes**	Currently they are not depreciated	N/A