

Volume No. 1—Policies and Procedures	TOPIC NO	30405
Function No. 30000—Capital Asset Accounting	TOPIC	Additions, Renovations, and Repairs
Section No. 30400—Asset Revaluations	DATE	May 2009

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Overview

Introduction The purpose of this topic is to provide guidance in accounting for additions, renovations and repairs to capital assets. Certain types of expenditures add value to the underlying asset and result in revaluation, whereas other types of expenditures are merely a current period expense. It is important for agency management to analyze each occurrence as a separate event to fully understand the intent of the expenditure and to apply the proper accounting treatment.

Policy

General All additions, renovations and repairs to capital assets that increase the economic benefits of the assets should be capitalized in FAACS. Routine costs incurred to maintain the asset in its operating condition are expensed and not included in the Fixed Asset Accounting and Control System (FAACS).

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Procedures

Revaluation The agency must determine if the expenditures will increase the economic benefits to be derived from the assets. Expenditures that increase the economic benefits of the underlying assets are those that materially extend the useful lives, increase the capacity, or improve the efficiency. The useful life of the *original* asset should be adjusted accordingly *if the repair or improvement extends the life of the original asset*. If the revalued asset is \$5,000 or greater, it should be capitalized; if less than \$5,000, the policy for controllable assets should be followed. See CAPP Topic No. 30305, *Capitalized or Controlled Assets*.

FAACS captures Construction-in-Progress data (CAPP Topic No. 30310, *Asset Categorization*) which provides necessary detail for the capitalization of both new and renovated assets. Since building additions and renovations make up a large portion of the State's capital projects, the completed Construction-in-Progress records provide support for the total cost of a building, including the project(s) under which it was built and the project(s) which represent additions or renovations.

Routine Repairs Routine repair costs incurred to maintain the asset in its operating condition do not increase the asset's economic benefits over those originally intended are not included in FAACS and are expensed.

Major Renovations Major renovations to an older, perhaps fully depreciated, building could add as much as twenty years to the building's useful life. The determination of the actual increase to the building's useful life is somewhat subjective. On the other hand, improvements that would not increase the building's useful life but do increase its value should be given an expected useful life equal to the remaining useful life of the relevant building.

In order to assist in determining whether the value has been significantly impacted, DOA suggests using the CAFR building capitalization threshold of \$100,000. As such, the following criteria should be used to determine when an improvement to an existing building may be capitalized:

- *If the building improvement is greater than or equal to \$100,000, then the improvement may be capitalized as a separate "Building" asset.*
- *If the building improvement results in an improvement or replacement of an existing "Equipment" item and is greater than or equal to \$50,000, the new asset may be capitalized as a separate "Equipment" asset.*
- *Expenditures not capitalized should be expensed.*

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Procedures, Continued

Major Renovations: Example A **Repairs**—A roof is destroyed by a windstorm and costs \$100,000 to repair and/or replace. If the expenditure merely restores the building to its pre-storm status, it will not be included in FAACS.

The monies appropriated for the building are to restore it to its original state and no change in the economic benefit occurs. The project is not entered in FAACS.

Major Renovations: Example B **Repair with Improvement**—Same situation as above except that the State decides to install a better roof with solar collection panels at a cost of \$750,000. The improvement either extends the useful life of the building and/or enhances productivity.

The transaction or event is included in FAACS. The amount to be entered is calculated by—

- 1) determining the remaining book value of the portion of the building which was damaged (net of depreciation), and
- 2) subtracting this amount from the total cost of the repair and improvement.

Agency personnel must review these types of transactions to determine which ones increase the economic benefits to be derived from the asset versus those which are merely repairs and maintenance. This decision must be made on a case-by-case basis.

Here, the monies appropriated for the building have an impact on the economic benefit and the cost associated with this repair would be recorded using one of the following two methods:

1. Record costs incurred during construction in FAACS as Construction-in-Progress (CIP) quarterly via a summary entry (Form 4).
 - Transaction code 622 debits CIP for *governmental type agencies*.
 - Transaction code 638 debits CIP for higher education, proprietary, and trust fund activity.

Upon completion of the project, the total accumulated cost in CIP must be transferred to the appropriate asset category (e.g., Buildings).

Since CIP is updated **quarterly**, it may be necessary to post one additional summary debit entry to bring the balance in CIP to the total cost of the project. This total cost should then be reversed out of CIP with a summary entry.

- Transaction code 626 is used to reverse (credit) CIP for governmental activity.
 - Transaction code 642 is used to credit CIP for higher education, proprietary, or trust fund activity.
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Procedures, Continued

Once CIP has been properly reversed out, the cost is posted by an add transaction that creates a master file record in FAACS. At a minimum, this requires Input Screens 1 & 2.

- Transaction code 614 is used to debit buildings for governmental fund activity.
 - Transaction code 632 is used for higher education, proprietary, or trust fund activity.
2. Record the entry by entering an add transaction in FAACS using the appropriate transaction codes (see above transaction code **614** to add a building for a governmental type agency or transaction code **632** to add a building to a higher education, proprietary or trust type agency).

Assign Separate ID Number

Since the repair will likely have an estimated useful life that is NOT equal to that remaining life of the building, a separate ID # should be assigned and a separate master file record created. The repair has taken place after the acquisition of the building and, therefore the depreciation and financial information should be based on the date of repair. The date of repair is recorded in the acquisition date field and the cost of the project recorded in the funding amount field for the new asset record. The component ID fields on the input screen should be completed with the agency number, asset category, and identification number of the original building to which the improvement to the building has been made. Use of the component ID fields in this manner will link the record for the repair to the record for the underlying building in FAACS.

Choose a Nomenclature Code

The appropriate Building Improvement nomenclature code may be found by referring to the table in CAPP Topic No. 60302, *Nomenclature Codes*. The code with a useful life closest to the useful life remaining for the improved building should be chosen.

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Procedures, Continued

The above described repair project was not assumed to extend the useful life of the original building. Accordingly, the record for the repair was assigned a useful life that would expire at or at about the same time as that of the original building. On the other hand, a renovation or addition project could be determined to extend the useful life of the original building.

If the original building is not fully depreciated and a renovation project is determined to extend its useful life, then the useful life of the original building should be increased accordingly by changing its nomenclature code as appropriate. The useful life of the record created for the renovation should be assigned a useful life that expires at or at about the same time as that newly assigned to the original building.

If the original building has been fully depreciated then its useful life should not be changed as a result of a repair, renovation or addition project. The record created for repair, renovation or addition should be assigned an acquisition date for the time of completion of the project and an appropriate useful life.

In all cases where a new record has been created for a repair, renovation or addition to an existing building, the record created for the repair, renovation or addition should be linked to the record for the existing building by use of agency number, asset category and FAACS ID of the existing building in the component ID fields of the new record.

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Internal Control

General

Each agency and institution should implement cost beneficial internal control procedures to ensure that:

- All transactions involving additions, renovations and repairs are evaluated on a case by case basis to determine whether costs should or should not be entered on FAACS;
 - Costs to be entered into FAACS are properly referenced against the underlying original asset;
 - Proper transaction dates are used for financial reporting and depreciation calculations.
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Records Retention

General

Fiscal records related to managing capital assets should be retained for a period of 2 years plus current fiscal year, or until audited, whichever is greater. However, for pending, ongoing, or unresolved litigation, audits or claims, retain documentation until completion, resolution, or negotiation of settlements.

Destruction of records must be in accordance with policies and procedures of the Records Management Section, The Library of Virginia.

DOA Contact

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Subject Cross References

References

CAPP Topic No. 30305—*Capitalized or Controlled Assets*

CAPP Topic No. 30310—*Asset Categorization*

CAPP Topic No. 60302—*Nomenclature Codes*

CAPP Topic No. 70325—*Data Entry*
