

<b>Volume No. 1—Policies and Procedures</b>	<b>TOPIC NO</b>	<b>31005 – Cardinal</b>
<b>Section No. 31000—Reporting</b>	<b>TOPIC</b>	<b>Transactions and Year-End</b>
	<b>DATE</b>	<b>May 2015</b>

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## Overview

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**Introduction** The purpose of this topic is to provide guidance in the analysis, handling, documenting, and ultimate processing of capital asset transactions through the Fixed Asset Accounting and Control System (FAACS) to ensure accuracy of data and propriety of classification. This is necessary to meet reporting requirements established by the Commonwealth, Federal grantor agencies and generally accepted accounting principles.

**Cardinal Transition Entries** Currently, FAACS interfaces with CARS and there is an interface with Cardinal under development. Each month, FAACS generates an entry (Batch Type F) to record asset and depreciation activity in CARS. In order to replicate these fixed asset entries in Cardinal, Wave 1 agencies will need to manually create a General Ledger Journal. The GL Journal should be recorded in Cardinal prior to the close of the same accounting period as was used in CARS. This will be an ongoing activity for Wave 1 agencies until the interface from FAACS to Cardinal is implemented in February 2016.

Refer to the “SW GL332 Crosswalk from FAACS Transaction Codes to Cardinal Accounts” Job Aid for further information regarding the recording of FAACS activity in Cardinal. The Job Aid can be found on the Cardinal Project website.

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## Policy

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**General** The Comprehensive Annual Financial Report (CAFR) of the Commonwealth is prepared and presented in conformity with generally-accepted accounting principles, including Governmental Accounting Standards Board Standard No. 34. Accordingly, capital asset and related depreciation information are included in the CAFR.

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## Procedures

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### General

Although detailed transactional procedures are contained throughout all of the topics included in the capital asset accounting function of the manual, a few are highlighted in this topic to focus agency management's attention on these areas. The detailed procedures for entering transactions into FAACS are found in CAPP Topic No. 70325, *Data Entry*.

**Agency records** supporting capital asset transactions should contain payment information, acquisition date, cost, vendor, asset description and location, responsible person or position, method of acquisition and fund used to acquire the asset, physical identification number and the date and method of disposition. Agency records must be maintained in an orderly manner and be available for the Auditor of Public Accounts reviews.

**Transfers** from State agencies are recorded in Cardinal by processing a voucher/receipt to record the revenue and expenditure transactions related to the asset transfer. A payment is processed in the Accounts Payable Module (AP) by the paying agency and receipt is recorded in the Accounts Receivable Module (AR) by the recipient agency. When these types of transactions occur, processing steps are similar to standard AP vouchers or AR deposits (see CAPP – Cardinal Topic No. 20310, *Expenditures* and Topic No. 20205, *Deposits*). The agency purchasing the item records the charge to the appropriate Cardinal account for the capital asset. The selling agency records the asset as a disposal in FAACS by using code T (transfer) and indicates in the description field to who transferred. The purchasing agency enters the asset in FAACS and uses the description fields to indicate the selling agency. Note: If there is no cash payment between agencies, the entry is only made in FAACS. Wave 1 agencies will have to manually record asset and depreciation activity in Cardinal with a General Ledger Journal until the interface from FAACS to Cardinal is implemented in February 2016.

All **land and building add transactions** entered into FAACS should reference the appropriate tract I.D. number to control real estate information contained in the Integrated Real Estate Management System maintained by the Department of General Services (DGS). Refer to CAPP – Cardinal Topic No. 30310, *Asset Categorization*.

**Other Funds:** A separate schedule should be prepared for all proprietary, trust and agency and higher education funds to show total acquisition cost and associated accumulated depreciation totals for each major asset category. See CAPP – Cardinal Topic 30310, *Asset Categorization*. A separate schedule should be prepared for **all**

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## Procedures, Continued

**fund types** showing changes in capital asset balances from year-to-year accounting for the two major components of change (additions and dispositions), plus or minus any other material changes (e.g., revaluations, restatements, etc.)

Agency management is responsible for accurate and timely **reporting** of the necessary capital asset activity comprising its overall reporting requirements to federal grantor agencies. General federal requirements are contained in various OMB Circulars and specific requirements are contained in grant agreements. See CAPP – Cardinal Topic No. 20605, *Federal Grants Management*, for further detail.

**Management Review:** Agency management is responsible for reviewing capital assets under their stewardship to ensure that proper action is taken to identify materially overstated assets and write them down to net realizable value for reporting purposes.

### FAACS Transaction Samples

To understand the processing of capital asset transactions, the following sample illustrations are encountered by central FAACS users. The samples illustrate a typical processing cycle through the life of an asset for each major asset category.

<b>Date</b>	<b>Step</b>	<b>Action</b>
July 15, 20XX	1	Equipment (A) is purchased for \$5,000, useful life 5 years (60 months), no salvage value.
July 17, 20XX	2	A parcel of land is purchased for \$15,000.
July 18, 20XX	3	Completed construction of a new building (A). Accumulated costs associated with the building are currently recorded in construction in progress \$275,000, estimated useful life 45 years, salvage value \$5,000.
July 18, 20XX	4	During an inventory a piece of equipment (B) purchased for \$6,000 in December of 20XX was discovered as not recorded in FAACS. Estimated useful life from date of acquisition is 5 years (60 months), salvage value \$600.
July 19, 20XX	5	Paved a gravel parking lot owned by the agency at a cost of \$10,000. Its estimated useful life is 8 years with no salvage value.

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**Procedures, Continued**

Agency input (July) transactions submitted into FAACS.

<b>Transaction Code</b>	<b>DEBIT</b>	<b>CREDIT</b>
618 (1) Equipment (A)	5,000	
Investment in General Fixed Assets		5,000
612 (2) Land	15,000	
Investment in General Fixed Assets		15,000
626 (3) Investment in General Fixed Assets	275,000	
Construction in Progress		275,000
614 (3) Building	275,000	
Investment in General Fixed Assets		275,000
618 (4) Equipment (B)	6,000	
Investment in General Fixed Assets		6,000

As a result of the normal depreciation job submitted by DOA, *system generated transaction* to record accumulated depreciation for Equipment (B) original acquisition date, December 20XX, depreciation calculated by month December 20XX—June 20XX = 7 months.

$$\begin{array}{rcl}
 \text{Annual} & & \text{Prior Year's} \\
 \text{\% of} & & \text{Unrecognized} \\
 \text{Depreciation} & \text{Year} & \text{Depreciation} \\
 \hline
 \frac{\$6000 - 600}{5} & \times \frac{7}{12} & = \quad \$630
 \end{array}$$

<b>Transaction Code</b>	<b>DEBIT</b>	<b>CREDIT</b>
646 (4) Investment in General Fixed Assets	630	
Accumulated depreciation - Equipment		
Adjustment for prior year		630
616 (5) Improvements Other than Buildings	10,000	
Investment in General Fixed Assets		10,000

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**Procedures, Continued**

FAACS will automatically calculate the monthly depreciation expense for the above assets (except land). Depreciation begins with the month of acquisition (e.g., assets purchased on the 20th of the month will be charged with a complete month of depreciation).

The following amounts will be charged to each asset's accumulated depreciation account for the month of July. Depreciation is calculated by subtracting the salvage value from acquisition cost and dividing by the useful life in months.

(e.g., Equipment (A) acquisition cost	\$5,000
Less: Salvage value	<u>0</u>
Depreciable cost	5,000
Divided by Useful life (in months)	<u>÷ 60</u>
	<u>\$83.33</u>

**Accumulated Depreciation for July**

Equipment (A)	\$ 83.33
Building (A)	500.00
Equipment (B)	90.00
Improvements	<u>104.17</u>
	<u>\$777.50</u>

<b>Date</b>	<b>Step</b>	<b>Action</b>
August 10, 20XX	6	A capital project begins for constructing a new building with an estimated cost of \$175,000, and estimated at 15 months to complete.
August 15, 20XX	7	Equipment (C) is purchased for \$3,000, and incurs an additional \$200 start-up cost, useful life 3 years, salvage value \$100.
August 17, 20XX	8	Equipment (D) is purchased for \$750 useful life 3 years, no salvage value.
August 20, 20XX	9	Acquisition value of Equipment (B) (transaction 4) should have been \$13,000. The agency must change the acquisition amount by using the appropriate on-line screen for a change (see Topic No. 70325— <i>Data Entry</i> ) which will result in reversing the original entry and reestablishing a new acquisition value.
August 21, 20XX	10	Agency enters into an installment purchase agreement to acquire a new piece of machinery (E) at a cost of \$8,000 which is financed at 6% over three years or three annual payments of \$2,993. Machinery has a useful life of 8 years and no salvage value.

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**Procedures, Continued**

Agency inputs (August) transactions submitted into FAACS

<b>Transaction Code</b>	<b>DR</b>	<b>CR</b>
N/A (6) No entry is required to the FAACS system until year-end. Then the agency should either submit FORM 04— Summary Maintenance of all costs associated with the project.		
618 (7) Equipment (C) Investment in General Fixed Assets	3,200	3,200
618 (8) Equipment (D) Investment in General Fixed Assets	750	750
N/A (9) The agency will key the correct acquisition amount on the appropriate on-line screen. The system will generate the following transactions:		
618R (9) Investment in General Fixed Assets Equipment (B) Reverse old asset value	6,000	6,000
646R (9) Accumulated Depreciation - Equipment (B) Investment in General Fixed Assets Reverse prior year depreciation	630	630
640R (9) Accumulated Depreciation -Equipment (B) Investment in General Fixed Assets Reverse current year depreciation (July 20XX) No depreciation calculated for month asset deleted or disposed (August 20XX)	90	90
618 (9) Equipment (B) Investment in General Fixed Assets Record Equipment at new acquisition value	13,000	13,000
646 (9) Investment in General Fixed Assets Accumulated Depreciation – Equipment Record Accumulated Depreciation for prior year	1,446.67	1,446.67

$$\begin{array}{rcl}
 \text{Annual} & & \text{Prior Year's} \\
 \text{\% of} & & \text{Unrecognized} \\
 \text{Depreciation} & & \text{Depreciation} \\
 \hline
 \$13,000 - 600 & \times & \frac{7}{12} = \\
 5 & & \\
 \hline
 & & \$1,446.67
 \end{array}$$

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## Procedures, Continued

The current year depreciation expense is calculated for Equipment (B) for each month based on the new acquisition value:

Current Year Accumulated Depreciation:

July	206.67
August	<u>206.67</u>
Total	413.34

Depreciation for all the assets will be generated for August and totaled in the accumulated depreciation account.

	DEBIT	CREDIT
618 (10) Equipment (E)	8,000	
Investment in General Fixed Assets		8,000

To record purchase price of equipment (E), financed over 3 years. (Note: Since title passes on most installment purchases at time of receipt, full purchase price is entered immediately.) Subsequent payments are appropriately entered in Cardinal with no entries necessary in FAACS.

	August	July	Prior Years	Total Accumulated Depreciation
Equipment (A)	83.33	83.33	-	166.66
Building (A)	500.00	500.00	-	1,000.00
Equipment (B)	206.67	40.00	280.00	1,860.01
	206.67		1,445.67	
	(630.00)			
	(90.00)			
Equipment (C)	0.00	-	-	0.00
Equipment (D)	0.00	-	-	0.00
Equipment (E)	83.33	-	-	83.33
Improvements	<u>104.17</u>	<u>104.17</u>	-	<u>208.34</u>
Total	<u>464.17</u>	<u>727.50</u>	<u>1,726.67</u>	<u>3,318.34</u>

Note: Equipment C and D are controlled assets and do not depreciate.

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**Procedures, Continued**

<b>Date</b>	<b>Step</b>	<b>Action</b>
September 5, 20XX	11	The agency disposes of equipment A to a private company for \$4,850.
September 10, 20XX	12	The agency enters into a contract with the federal government. The agency purchases a piece of equipment (F) with 100% federal funds and the agency retains title to the asset. Equipment cost \$6,000; useful life, 3 years; no salvage value.
September 12, 20XX	13	Also another piece of equipment is purchased with State and federal funds, 60% State, 40% Federal. Cost of Equipment (G) \$10,000; salvage value, \$1,000; 6 years useful life.
September 15, 20XX	14	A parcel of land (B) is donated to the agency. The agency hires external appraisers and the appraiser values the land at \$12,000.
September 18, 20XX	15	The agency decides it no longer needs Equipment (D) and sells the piece of equipment to another State agency for \$575.

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**Procedures, Continued**

Agency inputs (September) transaction submitted into FAACS

<b>Transaction Code</b>	<b>DEBIT</b>	<b>CREDIT</b>
(11) The agency enters the proper action and disposal code on FAACS Master File Maintenance— Edit an existing asset on Masterfile. The system will generate the following transactions.		
619 (11) Investment in General Fixed Assets Equipment (A)	5,000	5,000
625 (11) Accumulated Depreciation -Equipment (A) Investment in General Fixed Assets	166.66	166.66
N/A (12) Equipment (F) should be entered in FAACS as a capitalized asset since it meets the capitalization criteria. Since depreciation is not allowed to be recovered on assets fully funded with federal funds, an ownership status of “G” should be used.		
618 (12) Equipment (F) Investment in General Fixed Assets	6,000	6,000
618 (13) Equipment (G) Investment in General Fixed Assets	10,000	10,000

During indirect cost calculation the system will determine and flag for exclusion the percent of acquisition cost associated with federal funds.

612 (14) Land Investment in General Fixed Assets	12,000	12,000	
N/A (15) The selling agency would fill in the disposal information to remove the asset from its active inventory reports. The system would generate the following entries:			
619 (15) Investment in General Fixed Assets Equipment (D)	750	750	

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## Procedures, Continued

Depreciation for the assets will be generated for September and totaled in the accumulated depreciation account.

	<b>Current Month</b>	<b>Current Year</b>	<b>Prior Years</b>	<b>Total</b>
Equipment (A)				
(Disposed of)	(166.66)	166.66	-	-
Building (A)	500.00	1,000.00	-	1,500.00
Equipment (B)	206.67	133.34	1,726.67	2,066.68
Improvements	104.17	208.34	-	312.51
Equipment (C)	0.00	0.00	-	0.00
Equipment (D)				
(Disposed of)	(0.00)	0.00	-	-
Equipment (E)	83.33	83.33	-	166.66
Equipment (F)	166.67 <sup>(1)</sup>	-	-	166.67
Equipment (G)	75.00 <sup>(2)</sup>	-	-	75.00
<b>Total</b>	<u>969.18</u>	<u>1,591.67</u>	<u>1,726.67</u>	<u>4,287.52</u>

<sup>(1)</sup> Since this asset was coded with an ownership code of **G** this depreciation will not be included for indirect cost recovery. It will however, be included for financial reporting purposes.

<sup>(2)</sup>  $\frac{10,000 - 1,000}{72 \text{ months}} = \frac{9000}{72} = \$125/\text{month} \times 60\% \text{ State} = \$75.00$

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## Internal Control

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### General

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

- All changes to capital assets are reviewed for reasonableness.
  - All reporting requirements set in the Comptroller's annual financial statement directive are met.
  - All federal reporting requirements are met.
  - Procedures exist to ensure depreciation on federally funded assets is excluded for indirect cost recovery.
  - All amounts reported on financial statements are fully reconciled to FAACS and Cardinal.
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## Records Retention

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### 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.

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## DOA Contact

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**Contact** Assistant Director, Financial Reporting  
 ☎ (804) 225-2257  
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## Subject Cross References

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**References** CAPP – Cardinal Topic No. 20605, *Federal Grants Management*  
 CAPP – Cardinal Topic No. 30310, *Asset Categorization*  
 CAPP – Cardinal Topic No. 70325, *Data Entry*  
 CAPP – Cardinal Topic No. 70345, *Table Inquiry/Maintenance*

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**Suggested Job Aid** The following can be found on the Cardinal Website, under Statewide Toolbox – Job Aids:

**SW GL332 Crosswalk from FAACS Transaction Codes to Cardinal Accounts**

Additional job aids and training materials may be available on the Cardinal website.

Please note: The Cardinal job aids, training materials and forms on the Cardinal website are not policy of the Department of Accounts and are not part of the Commonwealth Accounting Policies and Procedures Manual (CAPP).

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