



Volume No. 1—Policies and Procedures	TOPIC NO	30605—Cardinal
Section No. 30600—Asset Depreciation	TOPIC	Useful Life
	DATE	January 2020

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Overview

Introduction The purpose of this topic is to provide guidance in establishing the useful life of acquired assets. Using the proper useful life is important for depreciation calculations, which are based upon an asset's useful life. Depreciation is important to federally funded agencies recovering indirect costs of which depreciation is a component. Proprietary-funded agencies must also have calculated depreciation for inclusion in their financial statements/directive templates. Proper depreciation rates also assist agencies in determining an asset's net book value, which helps in establishing resale values and in evaluating the need for asset replacement.

Land and intangible assets determined to have an indefinite useful life are not depreciated. See CAPP Topic No. 30325, *Software and Other Intangible Assets*.

Policy

General All assets classified as capital, which require depreciation in accordance with generally accepted accounting principles (GAAP) and/or federal indirect cost recovery, must use reasonably accurate useful lives. The useful lives prescribed in this topic, and those associated with the Fixed Asset Accounting and Control System (FAACS) nomenclature codes (see CAPP Topic 30315, *Nomenclature Codes*), are generally in conformity with those established by the Internal Revenue Service (IRS) and are considered to provide guidance. GAAP requires accumulated depreciation and depreciation expense to be presented in the Comprehensive Annual Financial Report (CAFR), accordingly, all agencies are required to assign reasonable useful lives to capital assets recorded in FAACS.

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Procedures

Realistic Useful Lives

In the private sector, tax considerations play an important role in determining useful lives. These lives have been established with the overall consideration of allowing companies to recover their asset investments through tax deductions over a reasonable period. In the public sector, such tax considerations are not applicable. To fairly reflect costs of services, agencies and institutions must depreciate capital assets over their realistically estimated useful lives.


Agencies should develop and periodically update a methodology for assigning asset useful lives. Useful lives contained in the nomenclature code table are based on IRS estimates. Governmental organizations often use capital assets longer than private sector for profit businesses. Agencies should consider actual use patterns for different types of assets and take into account the actual length of time the agency has used different assets over time in the past. This focus should be incorporated into agencies’ useful life estimate methodology.

In developing a methodology for assigning useful lives to assets, agencies should consider the mission of the agency and identify the kinds of assets needed and used to accomplish the agency’s mission. Many of the assets used by the agency probably have use patterns that are within the available nomenclature code structure.

The agency should identify assets that have use patterns that differ from the norm so these can be included in agency procedures. One technique the agency can use is to identify fully depreciated assets that are still in use, and many of these may be buildings. Use patterns of major state buildings should be reviewed periodically.

For equipment assets, the agency should focus on the kinds of assets that are most likely to have useful lives that differ from IRS guidelines and/or those that are available in the existing nomenclature code structure. Again, a determination of the types of (equipment) assets that are fully depreciated is a good starting point. Particular attention should be paid to unusual and/or material or high dollar value assets, such as an airplane. Once these assets have been identified, compare actual use patterns to the useful lives assigned.

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Procedures, Continued

Realistic Useful Lives, continued

Actual agency experience in regards to different types of assets should be included in the procedures. For example, an agency may use motor vehicles longer than would be considered the norm. Even though some information technology equipment may have a short useful life due to obsolescence, the agency may continue to use it longer because it continues to do the job and the agency lacks funding to replace it. The FAACS master file download is a good tool for analyzing equipment use patterns.

Agencies should perform a periodic review and update the asset useful lives to ensure that the useful life closely mirrors the actual life of the asset.


Agencies should review the use patterns of material assets. If it appears that the useful life initially assigned to the asset is not appropriate, a new useful life should be estimated. A change transaction to the asset should be posted. The nomenclature code and useful life fields should be changed. This must occur before the asset has been fully depreciated.

Buildings are the major category of assets that will last longer than their original estimated useful lives. This is because a major building will usually be usable for its intended purpose as long as it is properly maintained.

The methodology for assigning or revisiting useful life for buildings would involve first reviewing building records and determining the status of those on the FAACS master file. Then, on an asset by asset basis, consider both the remaining useful life the likelihood that the asset will be usable for a longer period. If this evaluation indicates the asset will be used longer, the next step is to extend the useful life. If a major renovation will be necessary to extend the useful life of the facility, then the record established for the renovation can become the primary record for the building that is being depreciated. Most agencies have a limited number of building records so this methodology is feasible.

If a major renovation is the result of an asset impairment or an agency believes it has experienced an asset impairment, please see CAPP Topic No. 30210, *Acquisition Valuation* for guidance.

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Procedures, Continued

Realistic Useful Lives, continued

Major renovations that have been set up as separate records may still be subject to depreciation even though the original building has been fully depreciated. Once a building or other asset has become fully depreciated, changing its useful life will not change the accumulated depreciation balance.

If an asset has not yet become fully depreciated, changing its useful life (which usually requires a nomenclature code change) will impact the future monthly depreciation expense.

The useful life assigned to major improvements of buildings should be reviewed periodically if these records have not yet become fully depreciated to determine if the asset useful life needs to be increased.

A useful life that is within 20% of that specified by the relevant nomenclature code may be entered in an asset's master file record without a nomenclature change.

Useful life ranges to calculate depreciation are provided on the following pages for broad categories of capital assets. The Nomenclature Code Table contained within FAACS provides much greater detail on specific assets and their related useful life. When entering an asset in FAACS (see CAPP Topic 70325, *Data Entry*) a nomenclature code is required. The useful life field will default to the value in the nomenclature table.


Agency methodology for estimating and assigning reasonable useful lives should include requesting new nomenclature codes from DOA if appropriate codes are not contained in the nomenclature code table.

If an appropriate nomenclature code does not exist, or the agency determines that an asset requires a different useful life than the one assigned in the table, they should request that DOA create a new nomenclature code. This may be accomplished by:

- sending a memo or Email to faccs@doa.virginia.gov; or,
- submitting a *Nomenclature Table Specification Form* (FAACS Form 83) to DOA.

See CAPP Topic No. 30315, *Nomenclature Codes*, for a copy of the FAACS Form 83. The forms are reviewed by the DOA personnel to verify reasonableness and assignment, if appropriate, of a new nomenclature code.

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Procedures, Continued

Realistic Useful Lives, continued The purpose of the following broad useful life ranges is to provide general guidance as to the asset's life and not to be a detail source of information.

Commonwealth of Virginia Estimated Life		
Asset	Useful Life Range	
	Minimum	Maximum
Buildings:		
Residential	20 years	30 years
Warehouse, Storage, Facilities, Machine Shops, Garage, etc.	20 years	40 years
Office Buildings	To be Determined Individually	
State Police Barracks	30 years	50 years
Schools and Libraries	To be Determined Individually	
"Temporary" Structures	15 years	N/A
Hospitals	<i>To be Determined Individually</i>	
Prisons, Recreation Buildings, and Other Special Purpose Buildings	To be Determined Individually	
Equipment:		
Automobiles	3 years	8 years
Buses	10 years	N/A
Light General Purpose Trucks and Vans: Unloaded with less than 13,000 pounds	5 years	8 years
Heavy General Purpose Trucks	8 years	10 years
Firefighting Trucks and Equipment	10 years	20 years
Tractor Units for Use Over-the-Road	8 years	10 years
Trailers and Trailer Mounted Containers	8 years	10 years
Office Furniture, Fixtures and Equipment: includes furniture and fixtures which are not structural components of a building	5 years	15 years

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Procedures, Continued

Realistic Useful Lives, continued

Commonwealth of Virginia Estimated Life (continued)		
Asset	Useful Life Range	
	Minimum	Maximum
Examples:		
Furnishings (e.g., carpet, draperies, etc.)	5 years	10 years
Office Equipment and Furniture (e.g., desks, chairs, bookcases, typewriters, calculators, accounting machines, etc.)	10 years	15 years
Computers, Peripheral Equipment and Data Handling Equipment (includes copiers, word processing equipment, etc.)	5 years	10 years
Planes and Helicopters	3 years	8 years
Hospital Equipment	To be Determined Based on Nature of Equipment	
Improvements Other Than Buildings:		
Recreation: Assets used in the provision of entertainment services, not the building which house the assets	5 years	10 years
Park Benches, Swings, Slides, etc.	5 years	N/A
Assets for the Storage of Petroleum Products	10 years	20 years
Assets Used in the Manufacture of Fabricated Metal Products	5 years	15 years
Assets Used in the Manufacture and Repair of Furniture	5 years	15 years
Assets Used in Printing Activities	5 years	15 years
Nurseries, Greenhouse and Related Equipment	10 years	N/A

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Procedures, Continued

Realistic Useful Lives, continued If abnormal wear reduces the estimated useful life of an asset (or remaining estimated useful life of an asset already in service), the useful life should be shortened appropriately. The revised useful life for the underdepreciated asset would be recorded in FAACS through agency submission to DOA of the Nomenclature Table Specification Form. Once approved, a new nomenclature code with the revised estimate of the asset's remaining useful life will be created. The asset must be removed from the original nomenclature code and placed in the new one using appropriate FAACS on-line screens. See CAPP Topic No. 70325, *Data Entry*.

Internal Control

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

- A realistic useful life is assigned to all depreciable assets.
- Depreciation is being appropriately calculated for all capitalized assets.
- Major assets are periodically examined for major occurrences, which may increase or decrease the existing useful life.
- Assets are properly revalued (see CAPP Topic No. 30405, *Additions, Renovations, and Repairs*) and updated on a timely basis so that proper costs exist for depreciation calculation.

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Records Retention

General


Records should be maintained for a period of at least three years or longer, if necessary, to be in compliance with policies established by the Records Management Section, The Library of Virginia. The retention period generally starts at the close of the fiscal period.

For pending, ongoing or unresolved litigation, audits or claims, retain documentation until completion, resolution or negotiation of settlements and retain according to standard schedules. Provide for the periodic destruction of records not subject to permanent deposit in accordance with policies and procedures established by the Records Management Section, Virginia State Library and Archives.

DOA Contact

Contact

Financial Reporting Project Lead

 (804) 225-2257

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 faacs@doa.virginia.gov

Subject Cross References

References

CAPP Topic No. 30315, *Nomenclature Codes*

CAPP Topic No. 30325, *Software and Other Intangible Assets*

CAPP Topic No. 30405, *Additions, Renovations, and Repairs*

CAPP Topic No. 60303, *Error Messages*

CAPP Topic No. 70325, *Data Entry*
