Table of Contents

Overview ........................................................................................................................................................2
  Introduction ................................................................................................................................................2
Policy ..........................................................................................................................................................2
  General .......................................................................................................................................................2
Procedures ......................................................................................................................................................3
  Depreciation Method .................................................................................................................................3
  Depreciation Calculation ...........................................................................................................................4
Internal Control ..............................................................................................................................................6
  General .......................................................................................................................................................6
Records Retention ..........................................................................................................................................6
  General .......................................................................................................................................................6
DOA Contact .................................................................................................................................................6
  Contact .......................................................................................................................................................6
Subject Cross References ...............................................................................................................................7
  References ..................................................................................................................................................7
Overview

Introduction
The purpose of this topic is to provide guidance in understanding the method employed by the Fixed Asset Accounting and Control System (FAACS) in calculating depreciation expense and related accumulated depreciation. These calculations are necessary for indirect cost recovery and proper presentation in certain agency financial statement templates. Depreciation also assists with internal program performance evaluations and repair versus replacement decisions.

Policy

General
All depreciation will be calculated by FAACS on a straight-line method basis for Statewide reporting purposes and for certain agency financial statement templates submitted to the Department of Accounts (DOA). Federally funded agencies and institutions may use a different generally acceptable method of depreciation if considered advantageous by management in the recovery of indirect costs. Any method different than straight-line used by a central FAACS user agency will be accounted for on the agencies' system only and is fully reconciled to depreciation reported on the official records of FAACS and Cardinal.

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

Depreciation Method

Although a number of different depreciation methods exist, there are four (4) which are primarily recognized and meet the standards of being "systematic and rational." The four are the units of production method, straight-line method, sum-of-the-years-digits method, and double-declining balance method. The units of production method is a variable charge based on the assets productivity. Straight-line accumulates depreciation uniformly over the asset's life. Sum-of-the-years-digits and double-declining balance (often referred to as accelerated methods) provide for higher depreciation in the earlier years and lower charges in the later periods.

Only the straight-line method is used to calculate depreciation in FAACS, and is the official method for Statewide reporting in both agency and institution financial statement templates submitted to DOA and the Annual Comprehensive Financial Report (ACFR). This is due primarily to its simplicity, its apparent relationship to what actually happens to many kinds of capital assets, and the absence of applicable tax considerations.

For agencies and institutions operating with Federal grant monies, indirect costs are recovered based on applying an approved percentage to total overhead costs. Since depreciation is an overhead cost, it may be considered advantageous by agency management to use a method of depreciation other than straight-line which would result in higher recoveries in earlier time periods. Any of the other methods may be used so long as they are consistently applied to similar asset groups (e.g., computer equipment, heavy duty construction equipment, etc.) and are in compliance with all Federal regulations (e.g., Federal Codification and Uniform Guidance).

If a method other than straight-line is used by a Central FAACS user agency for Federal reporting and indirect cost recovery, such records and documentation must be maintained at the agency level on agency-based systems. These systems must be fully reconcilable to the straight-line depreciation amounts recorded in FAACS and reported through Cardinal, the Commonwealth's official general ledger system.

Continued on next page
Procedures, Continued

Depreciation Calculation

Based on the asset's acquisition date, useful life estimate and acquisition cost, FAACS calculates and reports depreciation expense on a straight-line basis for each asset and summarizes costs at functional and organizational levels. Accumulated depreciation data is also reported.

Estimated salvage value, if any, must be determined for capitalized assets. FAACS reduces total acquisition cost of each asset by the estimated salvage value before calculating depreciation. Depreciation is not calculated on controlled items.

Depreciation on additions, renovations, and repairs to capital assets, which increase the economic benefits, is normally calculated by creating a separate record with its own nomenclature code (which specifies its useful life) to account for the item. The addition, renovation, or repair would be referenced to the original asset and depreciation calculated based on the date of the occurrence. It would be given a nomenclature code with a useful life not to exceed the remaining life of the capital asset to which it belongs. In cases where the useful life of the original asset is increased, its nomenclature code must also be changed to one that increases its useful life accordingly. See CAPP Topic No. 30405, Additions, Renovations, and Repairs, for further detail.

Some transactions that require input to FAACS will not represent an expenditure transaction in Cardinal. These include, for example, donations, certain transfers, loans, and retirements. These transactions must be recorded in FAACS even though no voucher will have been processed through Cardinal or a local general ledger for this transaction, so it will not be included on the Cardinal or local general ledger monthly transaction listings. Agency operating personnel must identify these transactions and report them to the property management function, who, in turn, will enter them in FAACS using the appropriate FAACS on-line screen. See CAPP Topic No. 70325, Data Entry. Capital assets of this sort will be depreciated over the estimated remaining useful life as of the date of donation, transfer, etc.

Depreciation is not calculated for assets classified under Construction-in-Progress.

Continued on next page
The following example displays the major steps FAACS performs in calculating depreciation:

**Step 1 - Calculate Depreciable Base**
The depreciable base is the acquisition cost minus the salvage value. For this example the salvage value is zero; therefore, the depreciable base is the acquisition cost:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Acquisition Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Desk</td>
<td>$800</td>
</tr>
<tr>
<td>Computer</td>
<td>$900</td>
</tr>
<tr>
<td>Microscope</td>
<td>$1,600</td>
</tr>
</tbody>
</table>

**Step 2 - Determine Useful Life**
Each nomenclature code in a FAACS record is detailed in the Nomenclature Code Table. The table contains the code, its associated description, and a three-digit useful life value for the asset class defined by that code. These useful life values are used to calculate the depreciation expense. For the examples, the values from the sample table are:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Useful Life (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Desk</td>
<td>020</td>
</tr>
<tr>
<td>Computer</td>
<td>010</td>
</tr>
<tr>
<td>Microscope</td>
<td>010</td>
</tr>
</tbody>
</table>

**Step 3 - Calculate Depreciation**
Depreciation is calculated periodically for each State-owned capital asset in the equipment, buildings, and improvements other than buildings (now Infrastructure) categories. Monthly depreciation can be calculated by determining the number of months of useful life and dividing that amount into the asset's net cost. For the examples, the annual depreciation is as follows:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Net Cost</th>
<th>Divided by Useful Life (Years)</th>
<th>Equals Annual Depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Desk</td>
<td>$800</td>
<td>20</td>
<td>$40</td>
</tr>
<tr>
<td>Computer</td>
<td>$900</td>
<td>10</td>
<td>$90</td>
</tr>
<tr>
<td>Microscope</td>
<td>$1,600</td>
<td>10</td>
<td>$160</td>
</tr>
</tbody>
</table>
Internal Control

General

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

- Asset acquisition cost, acquisition date, and useful life are properly recorded so that accurate depreciation is calculated.

- Reconciliations are performed in a timely manner between FAACS straight-line depreciation and any other depreciation method used by the agency.

- Depreciation is reviewed for accuracy for inclusion in financial statements.

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
FAX (804) 225-2430
✉ faacs@doa.virginia.gov
### Subject Cross References

<table>
<thead>
<tr>
<th>References</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAPP Topic No. 30325, <em>Software and Other Intangible Assets</em></td>
</tr>
<tr>
<td>CAPP Topic No. 30405, <em>Additions, Renovations, and Repairs</em></td>
</tr>
<tr>
<td>CAPP Topic No. 31105, <em>Federal Requirements</em></td>
</tr>
<tr>
<td>CAPP Topic No. 70325, <em>Data Entry</em></td>
</tr>
</tbody>
</table>