

OREGON ACCOUNTING MANUAL	
SUBJECT: Accounting and Financial Reporting	Number: 15.60.20.PR
DIVISION: State Controller's Division	Effective Date: June 1, 2009
Chapter: Accounting and Financial Reporting	
Part: Capital Assets	
Section: Depreciation and Amortization	
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Recording Depreciation and Amortization

- .101 The purpose of recording depreciation is to allocate the cost of the asset over the useful life in a systematic manner. Depreciation expense is reported each year to expense a portion of the capitalized cost of the asset as it is used, unless the asset is considered inexhaustible. Land is not depreciated. If the useful life of certain works of art and historical treasures are not diminished by use, they are considered inexhaustible and are not depreciated.
- .102 Depreciation expense is an important element of the income determination process. Thus, depreciation expense is recorded and reported in **proprietary funds, fiduciary funds** and in the **government-wide reporting fund** where expenses, net income, and/or the cost of capital maintenance are measured.
- .103 Depreciation of capital assets accounted for in a proprietary fund or fiduciary fund are recorded in the accounts of that fund.
- .104 Depreciation of general capital assets is not recorded in the accounts of governmental funds. General capital assets are those associated with governmental activities and have been purchased by or donated to governmental funds. Depreciation of general capital assets is recorded in the government-wide reporting fund.
- .105 Since **leasehold** improvements revert to the owner of the property on termination of the lease, they are to be amortized by the lessee (agency) over the economic life of the improvement or the life of the lease, whichever is shorter. In determining the amortization period, the likelihood that renewal options will be exercised should be considered.
- .106 Under the straight-line method, the cost (less salvage value) of a capital asset is allocated evenly over its estimated useful life. Straight-line depreciation is calculated simply by deducting the estimated salvage value from the cost of the asset and then dividing the remaining depreciable cost by the estimated years of useful life. Estimated salvage value is the expected residual value of an asset at the end of its useful life. Salvage value is difficult to predict; therefore, it may be ignored in depreciation computations if estimated at less than ten percent of the asset cost. Normally, a salvage value of ten to twenty percent of the asset cost is appropriate; however, agencies are responsible for determining the estimated salvage value of their assets (if applicable)

and should use their professional judgment in doing so. Depreciation computations must be retained for the life of the asset.

- .107 Standard useful life ranges recommended for each asset classification are listed below. These ranges are provided as guidance. However, agencies should use professional judgment to select the most appropriate useful life for their assets, which may be different than the useful life ranges listed. In assigning a useful life, agencies should consider an asset's present condition and how long it can meet service demands. When capital assets receive additions or improvements, the remaining useful life may need to be evaluated. Similarly, depreciation calculations need to be reevaluated following an adjustment to capital asset value resulting from impairment (see **OAM 15.60.25.PR** for accounting guidance related to capital asset impairments).

<u>Asset Classification</u>	<u>Useful Life Range</u>
Works of Art and Historical Treasures (<i>depreciable</i>)	10 to 30 years
Equipment and Machinery	3 to 50 years
Motor Vehicles	3 to 30 years
Data Processing Software	3 to 10 years
Data Processing Hardware	3 to 10 years
Buildings and Building Improvements	10 to 75 years
Land Improvements	10 to 75 years
Leasehold Improvements	*Length of lease
Capital Leased Property	**Length of lease
State Highways	20 to 35 years
Other Roads	15 to 50 years
Tunnels and Bridges	20 to 75 years
Airports	20 to 75 years
Utility Systems	5 to 50 years
Docks, Dikes and Dams	30 to 50 years

** Or life of asset, whichever is shorter*

*** Life of asset, for lease-purchase contracts payable*

- .108 In selecting a method of depreciation for infrastructure, agencies must ensure the chosen method is applied consistently from year to year. In addition, the selected depreciation method should allow agencies to meet requirements of the federal government or other organizations related to rate determination or cost recovery.
- .109 Assets may be depreciated on an individual asset basis or on a group basis. At a minimum, depreciation must be calculated and recorded at the general ledger account level in R*STARS. Thus, assets of the same general class may be grouped together even though their individual estimated useful lives are different. A single composite life, generally a weighted-average of the lives of the individual assets in the group, must be applied to the entire group. For example, composite depreciation may be applied to all assets in the asset class Equipment and Machinery. An average useful life would be assigned for all assets in this class rather than assigning useful lives to individual assets. Initially, a depreciation rate for the composite is determined. Annually, the determined rate is multiplied by the cost of the group of assets to calculate depreciation expense.
- .110 Agencies may elect to depreciate at a level more detailed than asset class in their subsidiary property ledger. For example, each piece of equipment could be assigned a useful life to calculate depreciation at the individual asset level.

- .111 Agencies should establish, as part of their internal capital asset procedures, how partial year depreciation is computed. As a guideline, agencies could take a half-year depreciation in the year of acquisition and a half-year depreciation in the last year of its estimated useful life (or year of disposition, if disposed of before fully depreciated). Agencies should adopt a consistent policy for all depreciable capital assets.
- .112 If a capital asset becomes fully depreciated but remains in use, the asset and related accumulated depreciation accounts must, as a matter of control, continue to be carried in the agency's accounting records. Capital asset useful lives need to be reevaluated over time.

Straight-line Depreciation Computation Example – Building (depreciated at the *individual asset* level)

- .113 Depreciation is computed on each individual building using the straight-line method.
 - a. Obtain a list of buildings from the subsidiary property ledger to provide costs and dates placed in service. Additions or improvements made to buildings after initial purchase or construction are included in the cost. Be sure land costs are not included in building costs.
 - b. Assign an estimated salvage value to the building. Assign an estimated life to each building, taking into consideration the type of construction, the building's present condition, and how long it is expected to meet service demands. Buildings normally have lives between 15 and 50 years.
 - c. Deduct the salvage value from the cost of the asset and then divide the remaining depreciable cost by the estimated years of useful life to determine the current year's depreciation on each building. As long as applied consistently, a full year's depreciation, part of a year, or none at all may be taken in the first year of acquisition.
 - d. Record the current year's depreciation expense. If the asset is owned by a proprietary or fiduciary fund, the depreciation is recorded in that fund. If the building is a general capital asset (purchased by or donated to governmental fund), the depreciation is recorded in the government-wide reporting fund.
 - e. Retain depreciation calculations for the life of the asset to support computations.

Straight-line Depreciation Computation Example – Equipment (depreciated at the *asset class* level)

- .114 Depreciation is computed at the composite level based on the class of assets in general ledger account Equipment and Machinery using the straight-line method.
 - a. Obtain a list of equipment from the subsidiary property ledger to provide costs and dates placed in service.
 - b. Assume no salvage value. Assign an estimated average life for the asset class, taking into consideration the types of equipment and machinery, their present condition, and how long they are expected to meet service demands. The useful life of most equipment is between 3 and 20 years.

- c. Divide the total cost of the asset group (Equipment and Machinery) by the estimated average useful life of the class to determine the current year's depreciation expense for the composite.
- d. Record the current year's depreciation expense. If the assets are owned by a proprietary or fiduciary fund, the depreciation is recorded in that fund. If the assets are general capital assets (purchased by or donated to governmental fund), the depreciation is recorded in the government-wide reporting fund.
- e. Retain depreciation calculations for the life of the asset to support computations.

Accounting Transactions

- .115 Depreciation or amortization may be recorded using one of the following comptroller objects:
 - 7475 Amortization of leasehold improvements
 - 7476 Depreciation expense
 - 7477 Amortization of leased property
 - 7478 Amortization of software
- .116 Using the straight-line method, below is an example of calculating and recording depreciation expense. This entry, recorded in the government-wide reporting fund, reduces invested in capital assets and establishes accumulated depreciation.
 - a. Assume a building with a useful life of 50 years and a salvage value of \$525,000 was purchased on July 1 for \$5,250,000 with special revenue fund resources.
 - b. The calculated amount of depreciation expense for the first fiscal year would be $(5,250,000 - 525,000)/50 = 94,500$.
 - c. Depreciation expense would be recorded with transaction code 542 using comptroller object 7476:

DR 3600	GAAP Expenditure Offset (C/O 7476)	94,500	
DR 3018	Invested in Capital Assets	94,500	
	CR 0875	Accumulated Depreciation – Buildings	94,500
	CR 3074	Change in Capital Assets	94,500

Financial Statement Reporting

- .117 In proprietary funds, depreciation or amortization expense is reported in the statement of revenues, expenses and changes in fund net assets as a separate line item within operating expenses. Accumulated depreciation is reported as a contra account to capital assets on the proprietary fund statement of net assets.
- .118 Depreciation or amortization expense in the government-wide reporting fund is reported in the statement of activities in the applicable function for governmental or business-type activities. Accumulated depreciation for general capital assets is reported as a contra account to capital assets on the government-wide statement of net assets.