



Accounting for Capital Assets

Session #1 – The Basics



Training provided by:

Local Government Services Bureau

State Financial Services Division

Department of Administration

State of Montana

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<http://sfsd.mt.gov/LGSB>



Session #1 - Capital Asset Basics

Capital assets are assets that:

1. Are used in operations
2. Have an initial useful life in excess of one year



- Assets that are acquired for the purpose of sale or investment do not qualify as capital assets, regardless of their form, because they aren't used in operations
 - There are exceptions – please contact the LGSB Accountant for your area if you think a capital asset may qualify
- Immaterial items aren't capitalized if they don't meet a predetermined capitalization threshold.
 - The Government Finance Officers Association (GFOA) suggests a minimum capitalization threshold of \$5,000 or more
 - In most cases the threshold is for individual items rather than a group of items

Capital Assets can be:

Tangible

- Land
- Buildings
- Improvements other than Buildings
- Machinery & Equipment
- Infrastructure
- Construction In Progress

Intangible

- Easement
- Patents
- Water Rights
- Software

Fixed Vehicles Tangible Intangible
Capital Plant
Owned Stocks
Balance sheet Trade names
Real estate
Inventories
Owner's equity
Prepaid expenses
Cash Property
Value Current
Long-term investments
Short-term investments
Receivable
Ownership
Royalties
Utilities
Licenses
Franchises
Buildings
Inventory
Goodwill
Patents
Copyrights
Trademarks
Equipment
Accounts receivable
Computer programs
Precious metals





Capital Assets - Major Classes:

Individual major asset classes:

- Land
- Buildings
- Improvements other than buildings
- Machinery & Equipment
- Infrastructure – (includes Utility Plant)
- Construction in progress
- Other capital assets – not properly included in one of the other classes
 - it may include both depreciable and non-depreciable items – divide into separate major class for each

BARS Chart of Accounts for Capital Assets:

- Account numbers for capital assets should be assigned per the BARS Chart of Accounts
- Chart of Accounts is located on the LGSB website:
<http://sfsd.mt.gov/LGSB>
 - Click on Accounting & Financial Reporting Forms & Documents
 - Click on BARS Chart of Accounts:
 - Click on Balance Sheet Accounts – then Capital Assets:



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accountability, and effective management of public
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STATE FINANCIAL SERVICES DIVISION

HOME BUREAU WEBSITES WHAT WE DO CONTACT US RESOURCES

BARS CHART OF ACCOUNTS

- [01 Introduction](#)
- [02 Fund Classification \(Revised 05/21/2015\)](#)
- [03 Balance Sheet Accounts \(Revised 9/2015\)](#)
- [04 Revenue Accounts \(Revised 9/2015\)](#)
- [05 Expenditure Accounts](#)
- [06 Object Expenditure Classification \(Revised 9/2015\)](#)

BUDGETARY ACCOUNTING AND REPORTING SYSTEM (BARS) FOR MONTANA CITIES, TOWNS AND COUNTIES

PROCEDURES MANUAL BALANCE SHEET / STATEMENT OF NET POSITION ACCOUNTS

ASSETS AND OTHER DEBITS

100000	Cash /Investments
110000	Taxes/Special Assessments Receivable
120000	Other Receivables
130000	Due From and Advance to/Grants, Entitlements, Donations Paid in Advance
140000	Prepaid Expenses
150000	Inventories
160000	Restricted Assets
170000	Other Debits
180000	Capital Assets

BARS Chart of Accounts for Capital Assets:

- Capital Assets Account numbers start with 18xxxx
- Account numbers are assigned by Major Class – land, buildings, etc.
 - Capital Assets have a debit balance
- A Contra-Asset Account for Allowance for Depreciation corresponds to each Capital Asset Account Number
 - Except those not depreciated or amortized
- The Allowance for Depreciation Accounts have a Normal Credit balance

*BUDGETARY ACCOUNTING AND REPORTING SYSTEM
(BARS)
FOR MONTANA CITIES, TOWNS AND COUNTIES*

180000 CAPITAL ASSETS - cont.

186000 **Machinery and Equipment** - Tangible property of more or less permanent nature, other than land, buildings, or improvements, which is useful in carrying on operations. Examples are: machinery, tools, trucks, cars, furniture and furnishings.

186100 **Allowance for Depreciation - Machinery and Equipment (Credit)** See definition for Allowance for Depreciation - Buildings.

187000 **Infrastructure** - Tangible property that is normally both stationary in nature and can be preserved for a significantly greater number of years than other types of tangible property (e.g. roads, bridges, drainage systems, lighting systems, curbs, gutters, etc.)

187100 **Allowance for Depreciation - Infrastructure (Credit)** See definition for Allowance for Depreciation - Buildings

188000 **Construction Work in Progress** - The cost of construction works undertaken but not yet completed. (To be closed to the asset accounts when completed.)

189000 **Utility Plant**

189100 **Source of Supply** - A capital asset account that reflects the acquisition value of property used to supply the water and sewer system of a governmental unit. Example of these capital assets includes wells, springs, reservoirs, and supply mains.

189110 **Allowance for Depreciation - Source of Supply (Credit)**

BARS Chart of Accounts for Capital Assets:

181000 - Land



182000 - Buildings

- 182100 – Allowance for Depreciation - Building



183000 - Intangibles

- 183100 – Allowance for Amortization - Intangibles



184000 – Improvements Other than Buildings

- 184100 – Allowance for Depreciation - Improvements



186000 – Machinery & Equipment

- 186100 – Allowance for Depreciation – Machinery & Equipment



187000 – Infrastructure

- 187100 – Allowance for Depreciation - Infrastructure



188000 – Construction in Progress



BARS Chart of Accounts for Capital Assets – cont.:

189XXX – UTILITY PLANT:

189100 – Source of Supply

- 189110 – Allowance for Depreciation – Source of Supply



189200 – Pumping Plant

- 189210 – Allowance for Depreciation – Pumping Plant



189300 – Treatment Plant

- 189310 – Allowance for Depreciation - Treatment Plant



189400 – Transmission & Distribution

- 189410 – Allowance for Depreciation - Transmission & Distribution



189500 – General Plant

- 189510 – Allowance for Depreciation – General Plant



Costs to Capitalize:

- **Capitalize the cost of the asset plus ancillary charges** necessary to place the asset into its intended location and condition for use (*GASB34 P18*)
 - Acquisition Costs
 - Legal and title fees
 - Closing costs
 - Appraisal negotiation fees
 - Surveying fees
 - Land preparation costs
 - Demolition costs
 - Audit & accounting fees
 - Transportation charges
 - Interest incurred during acquisition
 - **Costs not capitalized include:**
 - Preliminary study or engineering costs
 - Training employees to use the capital asset
 - General or administrative costs aren't capitalized



Capital Asset Threshold Policy:

- Recommendations from GFOA when establishing a Capital Asset Threshold Policy:
 - Useful life of at least two years
 - Apply the capitalization threshold to individual items rather than to groups of similar items unless the effect of doing so would be to eliminate a significant portion of total capital assets (ex: books at a library)
 - The threshold should not be less than \$5,000 for any individual item
 - Can establish a threshold for all capital assets or different capitalization thresholds for different classes of capital assets



Capital Asset Reporting on the Annual Financial Report:

- Items to include in the Annual Financial Report Capital Asset Note Disclosures that pertain to your local government:
 - Capitalization threshold(s)
 - Methodology for estimating historical cost (if estimates are used)
 - Methodology for calculating depreciation (straight-line method)
 - Estimated useful lives used for depreciating or amortizing capital assets
- Please Note: The Note Disclosures within the blank Annual Report are a template only
 - You should update the notes for your information



Example of the Capital Asset Threshold Policy:

1.	<u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont.</u>	
	D. <u>Assets, liabilities, and net position or equity - cont.</u>	
	5. Capital assets	
	Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, curbs, etc), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the Local Government as assets with an initial cost of more than \$ _____ and an estimated useful life in excess of _____ years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.	
	The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.	
	Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:	
	<u>Assets</u>	<u>Years</u>
	Buildings	_____
	Building improvements	_____
	Public domain infrastructure	_____
	System infrastructure	_____
	Vehicles	_____
	Equipment other than vehicles	_____
	Office equipment	_____
	Computer equipment	_____

Notes to the Financial Statements:

C. Capital assets				
Capital asset activity for the fiscal year ended June 30, 2015 was as follows:				
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated				
Land	0.00	0.00	0.00	0.00
Construction in progress	0.00	0.00	0.00	0.00
Total capital assets not being depreciated	0.00	0.00	0.00	0.00
Capital assets being depreciated				
Buildings	0.00	0.00	0.00	0.00
Intangibles/works of art	0.00	0.00	0.00	0.00
Improvements other than buildings	0.00	0.00	0.00	0.00
Machinery and equipment	0.00	0.00	0.00	0.00
Infrastructure	0.00	0.00	0.00	0.00
Total capital assets being depreciated	0.00	0.00	0.00	0.00
Less accumulated depreciation for:				
Buildings	0.00	0.00	0.00	0.00
Intangibles/works of art	0.00	0.00	0.00	0.00
Improvements other than buildings	0.00	0.00	0.00	0.00
Machinery and equipment	0.00	0.00	0.00	0.00
Infrastructure	0.00	0.00	0.00	0.00
Total accumulated depreciation	0.00	0.00	0.00	0.00
Total capital assets being depreciated	0.00	0.00	0.00	0.00
Governmental activities capital assets net	0.00	0.00	0.00	0.00
Business-type activities:				
Capital assets not being depreciated				0.00
Land				0.00
Construction in progress				0.00
Total capital assets not being depreciated	0.00	0.00	0.00	0.00
Capital assets being depreciated				
Buildings and system				0.00
Intangibles/works of art				0.00
Improvements other than buildings				0.00
Machinery and equipment				0.00
Source of supply				0.00
Pumping plant				0.00
Treatment plant				0.00
Transmission and distribution				0.00
General plant				0.00
Total capital assets being depreciated	0.00	0.00	0.00	0.00
Less accumulated depreciation for:				
Buildings and system				0.00
Intangibles/works of art				0.00
Improvements other than buildings				0.00
Machinery and equipment				0.00
Source of supply				0.00
Pumping plant				0.00
Treatment plant				0.00
Transmission and distribution				0.00
General plant				0.00
Total accumulated depreciation	0.00	0.00	0.00	0.00
Total capital assets being depreciated	0.00	0.00	0.00	0.00
Business-type activities capital assets net	0.00	0.00	0.00	0.00
				0.00

Balance check with page 18:

Example of the Capital Asset Listing by Fund Type.

The Governmental Capital Asset information feeds by formula from the GCAAG page of AFR (Governmental Capital Assets Account Group – formerly the GFAAG)

The Business-Type Activity must be completed manually and should reconcile in total to the Statement of Net Position for Business-Type Funds

Notes to the Financial Statements:

Depreciation Expense

C. Capital assets - cont.		
Depreciation expense was charged to functions/programs of the primary government as follows:		
Governmental activities:		
General government		0.00
Public safety		0.00
Public works		0.00
Public health		0.00
Social and economic services		0.00
Culture and recreation		0.00
Housing and community development		0.00
Conservation of natural resources		0.00
Uncatagorized		0.00
Total depreciation expense - governmental activities		0.00
Business-type activities:		
Water utilities		
Sewer utilities		
Solid Waste services		
Ambulance services		
Total depreciation expense - business-type activities		0.00

Example of the Note Disclosure for the Current Allowance for Depreciation Expense:

Reported by Major Function for Governmental Funds (feeds from the GCAAG)

Reported by the Individual Business-Type Funds – (requires the manual input for the current year's allowance for depreciation expense)



Capital Assets – the next step

- This session served as an overview of the basic information pertaining to capital assets
- The next step in the capital asset process will be to determine any additions and/or deletions of capital assets that occurred throughout the year
- Session 2 will review the accounting entries for additions and deletions of capital assets as well as assigning a true cost and useful life as well as capital asset deletions, retirements, sales and trade-in allowances
- Session 3 in this series has examples of depreciation schedules and the annual closing adjustments necessary for capital assets and depreciation expense.