MOM-SFSD-POL-SAB 335-Capital Assets

 Revised by Jennifer Thompson •  9mo ago9 months ago •  310 Views • (\*)(\*) (\*) (\*) ( )

**Category:** Accounting

**Effective Date:** 07-01-2009

**Last Revised:** 06-28-2024

**Issuing Authority:** State Financial Services Division

I. Purpose

This policy provides guidance related to the financial transactions and reporting the purchase of capital assets, as well as the use of the Asset Management Module (AM) including but not limited to inventory, disposition of property and asset impairment. For payable leases refer to [MOM-SFSD-POL-SAB 336-Accounting for Leases as a Lessee](https://montana.servicenowservices.com/sp?id=kb_article_view&sys_kb_id=ed5c61631ba3ad50f5fa0f21f54bcb27) (MOM Policy 336) and for receivable leases refer to [MOM-SFSD-POL-SAB 337-Accounting for Leases as a Lessor](https://montana.servicenowservices.com/sp?id=kb_article_view&sys_kb_id=1f6f87d21b936194838287fbe54bcb5d) (MOM Policy 337).

II. Scope

This policy applies to all state agencies and component units, excluding community colleges.

III. Policy Outline

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IV. Policy Overview

A. Define Capital Assets

A capital asset is a type of asset that is not easily sold in the regular course of operations for cash and is generally owned for its role in contributing to the entities ability to generate profit. Furthermore, it is expected that the benefits gained from the asset will extend beyond a time span of one year. On a balance sheet, capital assets are represented by the property, plant and equipment figure. Examples include land, buildings, machinery, etc. Generally, these are assets that cannot be quickly liquidated. For all intents and purposes, the term asset for this policy will refer to capital assets.

1. Assets by fund type

Governmental capital assets are assets purchased by any governmental fund such as, the General Fund, state or federal special revenue, debt service, capital projects or permanent funds. Governmental capital asset activity is recorded in the Entitywide Ledger of General Ledger (GL). Proprietary capital assets are assets purchased by any proprietary fund such as enterprise or internal service funds, or by a non-agency fiduciary fund. Proprietary capital asset activity is recorded in the Actuals Ledger of GL. Custodial funds (07XXX) are used to report resources held by the State of Montana in a purely custodial capacity. Therefore, no capital assets should be reported in custodial funds.

2. Capital asset balance sheet accounts

The balance sheet accounts used for capital assets are found in the 17XX and 18XX ranges. All activity in these accounts should be created though AM-generated entries (rather than direct entries into the GL).

B. Definitions Table

|  |  |
| --- | --- |
| Alternative Livestock | Alternative livestock, as defined in Section 87-4-406, MCA, is defined as privately owned caribou, deer, elk, antelope, mountain sheep/goat, reindeer, or any other cloven-hoofed ungulate. |
| Buildin/leasehold Improvements | Significant alterations or structural changes that increase the usefulness, efficiency, or asset life of existing buildings or leases. Since these are not buildings in their own right they must be capitalized as building/lease improvements. |
| Capital/Fixed Assets | Assets of a relatively permanent nature with a useful life of more than one year whose identity does not change with use. The unit must be identifiable and accounted for separately. |
| Capital Livestock | Capital livestock is defined as livestock purchased for the addition to the flock or herd maintained for instruction or perpetuation/improvement. Such livestock are capitalized at fair market value if the aggregate value of the livestock exceeds the capitalization threshold. The value is only changed if livestock are purchased or sold, or if there is some other reason for a significant change in the number of animals. Resulting gains or losses are based on the established market value per head or animal. These livestock are classified as noncurrent assets and are not subject to depreciation. |
| Expensed Livestock | Animals not purchased for the addition to, or perpetuation/improvement of, the flock or herd and not intended for resale shall be classified as a current expense. |
| Infrastructure | Long-lived assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples  include roads, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems. |
| Intangible Assets | Long-lived, nonfinancial, legal rights that lack physical substance. |
| Land Improvements | Betterments that ready land for its intended use. Examples include site improvements (such as excavation, filling, grading, and utility installation); removal, relocation or  reconstruction of items, such as railroad and telephone and power lines; and the addition of items such as retaining walls, parking lots, fencing, and landscaping. |
| Land Use Rights–Amortized | A legal right to use conservation easements and right-of-ways, as well as minerals, timber, and water, where the right is limited by legal, contractual, regulatory,  technological, or other factors. |
| Land Use Rights–Permanent | A legal right to use conservation easements and right-of-ways, as well as minerals, timber, and water indefinitely. An indefinite useful life exists when use is not limited by  legal, contractual, regulatory, technological, or other factors. |
| Livestock | As defined in Section 81-9-217, MCA, the definition of "Livestock" includes cattle, buffalo, sheep, swine, goats, rabbits, horses, mules or other equines, and alternative  livestock. |

C. Capital Asset Thresholds

State agencies are required to capitalize tangible and intangible assets when an item's unit cost meets or exceeds the capitalization threshold. Items costing less than the capitalization threshold must be expensed in the year of purchase. For accountability purposes, agencies are encouraged to utilize AM to keep records detailing expensed property, especially items that are sensitive to theft. Distinguishable collections or land assets may consist of multiple items with separable totals less than the capitalization limit; however, if the cumulative total of the collection exceeds the capitalization limit, an aggregate balance can be used to capitalize the asset. Relatively, software license purchases should be capitalized if the aggregate purchase price is greater than the capitalization threshold. The State of Montana’s capitalization thresholds are as follows:

|  |  |
| --- | --- |
| **Asset Type** | **Threshold** |
| Equipment | 10,000 |
| Land | 10,000 |
| Library Materials | 10,000 |
| Museum & Art | 10,000 |
| Museum & Library Collections | 10,000 |
| Other Assets | 10,000 |
| Land Improvements | 100,000 |
| Buildings | 100,000 |
| Building Improvements | 100,000 |
| Leasehold Improvements | 100,000 |
| Land Use Rights–Amortized | 100,000 |
| Land Use Rights–Permanent | 100,000 |
| Other Intangibles | 100,000 |
| Software–Purchased | 1,000,000 |
| Infrastructure | 1,000,000 |
| Software–Internally Generated | 1,000,000 |

In 2010, the capitalization thresholds increased from $5,000 to $100,000 for purchased software, and from $5,000 to $500,000 for internally generated software. Effective July 1, 2025, most capitalization thresholds increased as well. Assets capitalized under the previous capitalization threshold (that do not meet the current threshold) should remain capital assets and should be amortized over the assets’ remaining useful lives.

D. Responsibilities

1. Department of Administration (DOA)

Section 17-1-102(2), MCA, provides that DOA “shall prescribe and install a uniform accounting and reporting system for all state agencies and institutions, reporting the receipt, use, and disposition of all public money and property in accordance with generally accepted accounting principles.”

1. Statewide administration of AM is divided within DOA between the Statewide Accounting Bureau (SAB), the Statewide Accounting, Budgeting and Human Resources System (SABHRS) Financial Services Technology Bureau (FSTB) and the Surplus Property program of the General Services Division (Surplus Property).
2. Responsibilities of SAB
   1. Issue related accounting policy and development of procedures;
   2. Work with agencies and FSTB to ensure AM complies with GAAP;
   3. Provide primary Help Desk support;
   4. Assist with report and query development; and
   5. Assist with the correction of system deficiencies.
3. Responsibilities of the FSTB
   1. Maintain AM;
   2. Correct system deficiencies (with the support of SAB and People Soft);
   3. Run monthly AM processes; and
   4. Develop reports and public queries.
4. Responsibilities of Surplus Property
   1. Coordinate agency disposal of surplus property;
   2. Dispose of surplus property; and
   3. Notify agencies of surplus process completion.

2. Agency property coordinator

Agencies must designate an agency property coordinator to serve as the liaison with SAB in carrying out duties relative to property management, and to assure the timely exchange of administrative information between SAB and the agency. Agencies must communicate the designated individual to SAB. Duties of the agency property coordinator include:

1. Timely and accurate entry of capital asset information into AM and GL, preferably, as they are created or purchased (at a minimum, capital assets should be entered monthly);
2. Analysis of asset balances and information with correction of data as needed;
3. Assign responsibility for property matters to agency property officers;
4. Assign responsibility for the physical inventory of property to agency personnel;
5. Assign responsibility for the coordination of surplus equipment; and
6. Control and distribution of property tags.

3. Property officers

The number of property officers within each agency will be designated by the agency property coordinator, with the approval of the agency director, considering factors such as the size and organizational structure of the agency, geographical locations, and number of property items. In general, the property officer should be the individual with direct supervision over the persons using the property (e.g., the foreman in a carpenter shop, the accounting supervisor in an accounting office, etc.). Duties of property officer should include:

1. Ensure the proper use and maintenance of property.
2. Prompt reporting of any property loss, misuse of property, any condition requiring repair, or situation that creates a hazardous working condition.
3. Assignment of property within their area of responsibility.

4. Tagging of property within their area of responsibility

Each capital asset item is assigned a property number (Asset ID) and a corresponding property tag is affixed thereto, as appropriate. The Inventory section (discussed later) includes procedures for taking physical periodic inventories.

E. AM Module in Relation to SABHRS

AM is an integrated module of SABHRS used to manage and account for all capital assets: property, plant, and equipment, including intangible capital assets, that meet the capitalization threshold. Sensitive assets (assets prone to theft) that do not meet the capitalization threshold can also be added to SABHRS for tracking purposes only. All agencies are required to use AM, except the Montana University System (MUS), unless prior approval has been granted by SAB. The capital asset balances for MUS are posted to the GL module of SABHRS through an interface process. As a subsystem of SABHRS, AM contains subsidiary detail and generates the accounting entries that become part of the GL module. AM also provides information to conduct regular asset inventories and to prepare depreciation/amortization schedules for all funds. It is permissible for agencies with the ability to print barcode labels to do so in place of asset tags. Other agencies can acquire tags through an outside vendor, or by printing internally.

Capital assets are generally recorded in the fund(s) that purchased them. When reconciling assets, the related reports or queries must be run using the correct fund and ledger combination. It is important to reconcile both the governmental and proprietary fund asset information in the AM module to the GL module account balances. All capital assets are included in the State of Montana’s general-purpose financial statements and should be in the scope of the independent auditor’s audit process, as further discussed in the accounting methods section.

1. Asset class

In AM, a five-digit class number has been assigned to the various classes of property. The first two digits correspond to the asset’s profile ID and the last three digits represent the type of property within the classification. Asset profiles are three-digit figures that begin with G (for governmental funds) or P (for proprietary funds) followed by two numeric characters. For example, profile IDs G85 or P85 correspond to asset classes in the 85XXX range. Agencies may include class types when assets are entered into AM; class types are not defaulted as part of the profile.

2. Assets not recorded in SABHRS

Agencies must receive DOA approval prior to using systems other than AM to maintain their capital asset detail. Agencies maintaining a more detailed capital asset system must enter summary totals into AM at fiscal year-end. These summary entries must include total increases and total decreases for the year (i.e., not a net increase or net decrease) by fund. The MUS has chosen to maintain the fund structure and accounting methods used prior to GASB 34. The funds and accounts used for these transactions in the BANNER systems are posted in total to SABHRS GL; the related accounting entries are not presented in this policy. However, MUS is required to follow the general accounting guidance contained in this policy.

V. General Property Management

A. Identification of Property

AM automatically assigns the next sequential number available for a business unit unless the user assigns a different number when the asset is added. In the case of property for which a tag is required, AM will automatically assign the asset identification number as the tag number unless an agency assigns a different tag or asset ID number to the asset. Agency-assigned tag numbers can include alpha characters. Individual asset identification numbers are assigned to each asset added to AM within the agency beginning with 00000000001 and continuing (sequentially) to 9999999999. A specific asset identification number may not be used more than once within a particular business unit.

1. Property tags

Some capital assets (e.g., land, buildings, etc.) may not actually be physically tagged or identified, although individual asset identification numbers for each item will be assigned by AM. Because of the physical nature of some equipment, it may not be feasible to affix one of the standard tags. However, whenever possible, the tag number will still be identified on the item by some means such as etching, decal, indelible ink, etc. Where possible, property tags should conform to the following specifications:

1. Tags shall contain "State of Montana" and list the responsible agency.
2. Tags can be numbered from 00000000001 to 99999999999.

Non-numbered tags can be ordered to replace missing numbered tags (the tag number is typed directly on the tag). Barcode labels used in place of metal tags must contain the same information noted above. Departments with established identifying and tagging procedures that meet or exceed the above specifications are allowed to retain their property tags.

2. Ordering tags

As mentioned in the AM Module in Relation to SABHRS section, it is permissible for agencies with the ability to print asset tags to do so. Other agencies can acquire tags through an outside vendor.

3. Affixing tags

All major equipment (equipment meeting the capitalization threshold) should be identified in the manner that promotes easy identification. At the agency’s discretion, minor equipment should have a property tag attached. Property tags should be placed in plain sight on the equipment, but in such a manner so as not to interfere with the operation of the equipment or be easily removed during the use of the equipment. Any manufacturer's mark and/or serial number should remain exposed and intact in order to expedite repair and facilitate the maintenance of service records.

4. Control of unmissed tags

Proper control must be exercised over the issuance of property tags.

5. Sensitive equipment

Agencies must track and inventory sensitive items with a cost under the capitalization limit. Examples of sensitive items include, mobile phones, laptops, cameras, spotting scopes, firearms, etc. When possible, these items should be tagged in the same manner as capital equipment. It is recommended that sensitive equipment be added to AM as expensed assets to assist with the tracking requirement.

6. Expendable supplies

Expendable supplies, to the extent considered necessary, will be identified and marked in an appropriate manner that will identify them as belonging to a specific state agency. Examples: (1) wood handled tools can be marked by branding, stamping with a dye or by distinctive paint marks; (2) cloth items (such as sheets, blankets, and mattresses) can be stenciled.

B. Capital Asset Characteristics

1. Useful life and/or salvage value

The useful life and salvage value of an asset is defined based on the Profile ID as designated on AM. The useful life and/or the salvage value of an asset can be changed. Reasons to adjust the useful life and/or salvage value of an asset could include experience with similar assets or a need to meet federal depreciation/amortization allowance guidelines. Supporting documentation for determining the estimated useful lives of fixed assets are engineering studies, actual experience documented in the records of similar assets, etc. Agencies may also be required to follow the useful lives identified by third party regulators such as those specified by the American Hospital Association Depreciation Guide. Any change of the useful life and/or salvage value of an asset should be documented and maintained by each agency. The useful life of an asset is expressed in periods (months) in AM.

C. Objectives and Benefits of Property Accounting

In addition to protective custody of the State's property, a system of property accounting permits the assignment of responsibility for custody and proper use of specific property with individual public officials. Also, accounting of property is a prerequisite to the preparation of satisfactory and complete financial reports. Instructions for real and personal property capital asset accounting on a uniform statewide basis are detailed in the following sections. Adherence to the guidelines contained in this policy will provide:

1. A basis for adequate insurance coverage on insurable assets
2. The ability to identify worn-out or obsolete equipment on a concurrent basis
3. Information necessary to perform regular inventories to determine physical condition, theft, or unauthorized transfers
4. Reliable information concerning owned assets is necessary to projecting future requirements
5. Centralized property management minimizes equipment excess/shortages
6. Comprehensive asset records should be utilized for accuracy in depreciation and amortization schedules

VI. Accounting Overview

A. Accounting for Capital Assets

Capital assets are recorded in either the Entitywide or the Actuals Ledger, based on the fund type responsible for the asset. Capital assets are always reported on the full accrual basis of accounting.

1. Assets to be recorded in the Entitywide Ledger

All capital assets acquired by governmental funds are recorded in the Entitywide Ledger. Governmental funds are the General, special revenue, debt service, capital project, and permanent funds (funds in ranges 01100 – 05XXX, 080XX – 08499, 090XX – 09499). In AM, these assets are referred to as governmental, designated with a “G” profile category, and found in the “Government” Book.

2. Assets to be recorded in the Actuals Ledger

All capital assets acquired by nongovernmental funds will be recorded in the Actuals Ledger. Nongovernmental funds are the enterprise, internal service, private purpose trust, pension, and higher education funds (funds in ranges 06XXX, 086XX, 095XX, 2XXXX–8XXXX). In AM, these assets are referred to as proprietary, designated with a “P” profile category, and found in the “State” Book.

3. Expensed assets

No accounting entries will be generated by AM for assets designated with “Expensed” as the profile ID. The purchase of expensed assets is generally recorded with an accounts payable (AP) voucher that uses an expenditure account in the 62XXX range. If an agency cannot dispose of an expensed assets, contact SABHRS for guidance.

B. Capital Outlay

Asset expenditures that do not meet the capitalization thresholds should be considered an expenditure that benefits the current period. Repair and maintenance costs are to be expensed in the year incurred using a 62XXX account. Asset expenditures that meet the capitalization threshold are treated as expenses related to capital assets or capital projects, which are normally recorded in budgeted 63XXX/64XXX level expense accounts. When capital assets (except for CWIP and donated art) are added to AM, a system-generated journal is created that debits the asset (17XX) and credits a non-budgeted 63XXX/64XXX expense account. For governmental funds only, the entry is made in the Entitywide Ledger. That allows the modified accrual statements and blue book reports to present “Capital Outlay”/“Equipment & Intangible Assets.” This accounting treatment reflects a budgeted expense in the year the money was spent, yet for full accrual financial statement reporting, the outlay is capitalized and the asset is depreciated over its useful life.

All 63XXX/64XXX accounts must net to zero when the Actuals and Entitywide Ledgers are combined. When assets are capitalized in AM, but the underlying expenditures were appropriately not expended at the 63XXX/64XXX level, or when assets are not capitalized in AM when the underlying expenditures were appropriately expended at the 63XXX/64XXX level, additional entries are needed to achieve appropriate GAAP reporting. Examples of these entries are illustrated in subsequent text. A list of non-budgeted accounts used to offset budgeted expenses for GAAP reporting can be found by going to Set Up Financials/Supply Chain > Common Definitions > Design ChartFields > Define Values > ChartField Values – Account and searching for “Account Type” of *N*, which denotes a non-budgeted account

1. Capital assets with non-capital outlay expenditures

Some costs related to capital assets may not fall within the capital outlay expense level (63XXX/64XXX). These expenses must be aligned to allow for accurate GAAP financial statement presentation.

Example of internally developed software costs: In the following example, state employees worked on an internally generated software project that will be capitalized. A 61XXX level expense account is debited to reflect their salary (and related) expenses, as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Pay payroll costs.  Actuals Ledger | | | |
| Debit | 61XXX | Budgeted personal service expense | 500,000 |
| Credit | 1104 | Cash in bank | 500,000 |

When the asset is capitalized in AM, a non-budgeted 63XXX/64XXX expense account is credited, as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| AM entry to capitalize the asset.  Actuals or Entitywide Ledger | | | |
| Debit | 1809 | Intangible Assets | 500,000 |
| Credit | 63XXX | Non-budgeted intangible asset expense | 500,000 |

2. Result for GAAP financial statements

With only the two entries illustrated above, an improper classification of personal service expense and capital outlay expense would result for GAAP financial statement presentation. Accordingly, an adjusting entry is required.

3. Agency adjusting entry

To correct this classification difference, an additional entry is needed to debit the appropriate non-budgeted 63XXX/64XXX level expense account and to credit the appropriate non-budgeted account in the same expense level the expenditures were made from. The entry is made in the Actuals Ledger for all fund types. The adjusting entry in this example is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| To reconcile GAAP costs with budgeted costs.  Actuals Ledger | | | |
| Debit | 63XXX | Non-budgeted intangible asset expense | 500,000 |
| Credit | 61XXX | Non-budgeted personal service expense relating to capitalizable costs | 500,000 |

The final entry allows the expense to remain budgeted at the personal service expense level, while permitting proper GAAP accounting treatment.

4. Budgeted capital outlay for non-capitalized assets

Another example of GAAP and budgeting differences occurs when an agency expends funds for an asset that will not be recorded in the expending fund; for example, an asset that the federal government will take possession of.

Example of building construction costs: When costs are incurred relating to this asset, a budgeted 63XXX/64XXX expense account is debited.

|  |  |  |  |
| --- | --- | --- | --- |
| Record construction expenditures.  Actuals Ledger | | | |
| Debit | 64XXX | Budgeted capital outlay | 100,000 |
| Credit | 1104 | Cash in Bank | 100,000 |

Since the State will not take possession of the asset, the asset will not be added to AM; therefore, no accounting entry will be generated to offset the debit to the 63XXX/64XXX expense account.

5. Result for GAAP financial statements

Without an additional entry, an improper classification of capital outlay expense results.

6. Agency adjusting entry

To correct this classification difference, an additional entry is needed to debit the appropriate non-budgeted account (based on the type of activity) and to credit the appropriate non-budgeted 63XXX/64XXX expense account. The entry is made in the Actuals Ledger for all fund types. The adjusting entry in this example is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| To reconcile GAAP costs with budgeted costs.  Actuals Ledger | | | |
| Debit | 66XXX | Non-budgeted grant expense relating to capitalizable costs | 100,000 |
| Credit | 64XXX | Non-budgeted capital outlay expense | 100,000 |

The adjusting entry allows the expense to remain budgeted at the capital outlay expense level, and for proper accounting treatments for GAAP financial statement purposes.

C. Reported Cost

Capital assets should be recorded in AM at their historical cost (after any cash discounts). In the absence of historical cost information, the asset’s estimated historical cost may be used. When capital assets are moved from one fund to another, the recipient fund should continue to report those assets at their historical cost as of the date they were acquired by the primary government.

1. Calculation of historical cost

he historical cost of a capital asset should include all of the following:

1. Ancillary charges necessary to place the asset in its intended location (for example, freight charges)
2. Ancillary charges necessary to place the asset in its intended condition for use (for example, installation and site preparation charges)

The historical cost of a capital asst does not include interest expense incurred before the end of a construction period which is to be recognized as an expense or an expenditure in the period in which the cost is incurred. The historical cost of a capital asset should include the cost of any subsequent additions or improvements and exclude the cost of repairs. An addition or improvement, unlike a repair, either enhances a capital asset’s functionality (effectiveness or efficiency), or it extends a capital asset’s expected useful life. See estimation procedures later in this section. If additional costs need to be added to a capital asset’s historical cost, they should be added as a separate asset in AM and linked to the original asset using the parent/child functionality.

2. Historical cost estimation procedures

If the historical cost of capital assets is no longer available, the estimated historical cost can be calculated by using either the standard costing method or the price level index method (as discussed in further detail below). For either method, the estimated historical cost of the capital asset must be reduced by an appropriate amount of accumulated depreciation/amortization. This is accomplished when the asset is added to AM; the transaction date must be changed to the date the asset was placed in service.

3. Standard costing method

Standard costing involves using historical sources, such as sales catalogs or advertisements, to establish the average cost of obtaining the same or similar assets. The standard costing method may use a quote from a manufacturer as to the cost at the time of purchase.

4. Price level index method

The price level index method deflates the current cost of the same or similar asset using an appropriate price index.

5. Price level indicators

Annual price levels are measured in terms of the Gross Domestic Product (GDP) Implicit Price Deflators for government purchases of goods/services deflators can be found in the NIPA table on the [Bureau of Economic Analysis website](https://apps.bea.gov/iTable/index_nipa.cfm).

6. Estimation procedures

The following steps are used in converting the current cost of purchasing an asset at today's prices into the estimated historical cost of a capital asset:

1. Calculate the conversion factor by determining the deflator prevailing when the capital asset was acquired and dividing it by the current year Gross National Product (GNP) Deflator.
2. Calculate the estimated historical cost by multiplying capital asset cost times the conversion factor determined in step 1.

Documentation of the source of the capital asset's current cost and the actual or estimated year the asset was acquired, should be maintained by the agency for future reference and audit purposes. Example - historical cost estimation

|  |  |
| --- | --- |
| Current cost of comparable equipment | $22,000 |
| Acquisition year of equipment | 2008 |
| Acquisition year GNP Deflator (2008) | 94.97 |
| Current year GNP Deflator (2018) | 110.61 |
| Step I conversion factor | 2008 Deflator/2018 Deflator = 94.97/110.61 = .859 |
| Step II estimated historical cost | $22,000 X .859 = $18,898 |

7. Exception to historical cost

1. GASB Statement No. 52–*Land and Other Real Estate Held as Investments by Endowments,*GASB 52, requires land and other real estate held as investments by endowments to be reported at fair value at the reporting date. Changes in fair value during the period should be reported as investment income. This statement amends paragraph 2 of GASB Statement No. 31–*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*(GASB 31). GASB 52 does not affect lands granted by the Federal Government in connection with a state being admitted to the United States. Also, it does not apply to quasi-endowments.
2. Assets donated by discretely presented component units or by parties outside the financial reporting entity should be reported at acquisition value on the date the donation is made. Prospective treatment of assets per GASB Statement No. 72–*Fair Value Measurement & Application*(GASB 72), defines the acquisition value (entry price) as “the price that would be paid to acquire an asset with equipment service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date.”

8. Calculation and reporting of fair value

An agency may use any reasonable method to calculate fair value; no specific valuation method is required.

9. Disclosures for those funds affected by GASB 52

Estate held in the first period that this statement is applied, the entity should disclose the nature of the restatement and its effect. Additionally, GASB 52 requires entities to comply with applicable disclosures in GASB 31 (par. 15), to their land and other real estate as investments. Entities must disclose the methods and significant assumptions used to estimate the fair value of these investments if that fair value is based on other than quoted market prices.

D. Depreciation/Amortization

1. Accounting for depreciation and amortization (related to capital assets only)

The default deprecation method is straight-line for all asset profiles (other than *Expensed*) and should not be changed. Depreciation is the accounting process that allocates the cost of a capital asset over its useful life to the periods that benefit from its use. Accumulated depreciation is recorded in one of the accumulated depreciation accounts (17XX). There are no accumulated amortization accounts regarding intangible assets; instead, the asset account is reduced by the monthly amortization expense. For assets added with a transaction date prior to the current month, AM will calculate prior period depreciation for all periods (months) prior to the current period. The current month depreciation is recorded on DPR journals; the prior period depreciation is recorded on PDP journals. AM generates a full month of current depreciation regardless of the day the asset is added to AM.

2. Depreciable versus non-depreciable assets

Land, CWIP, museum and art collections, library collections, and easements are not depreciable. Per GASB 34, capitalized museum and art collections (or individual items) are not depreciable if all the following conditions are met regarding the collections or individual items:

1. Held for public exhibition, education, or research in furtherance of public service, rather than financial gain
2. Protected, kept unencumbered, cared for, and preserved
3. Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections
4. Infrastructure depreciation method

Infrastructure is required to be capitalized at its historical cost and depreciated over its useful life.

E. Other Information

1. Additions, betterments, preservation versus maintenance and repair costs

Identifying additions, betterments, and preservations of an asset can assist with determining whether to capitalize. The table below summarizes the similarities and distinctions for additions, betterments, preservation costs, and repairs and maintenance.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Additions** | **Betterments** | **Preservation Costs** | **Ordinary Repairs and Maintenance** |
| Cost capitalized | Yes | Yes | Yes | No |
| Increases the physical size of a facility | Yes | No | No | No |
| Extends useful life | Yes | Yes | Yes | No |
| Benefits a future period | Yes | Yes | Yes | No |
| May involve replacement | No | Yes | Yes | Yes |
| May involve substitution | No | Yes | Maybe | No |
| Makes facility better than when it was acquired | Yes | Yes | Maybe | No |

VII. SABHRS AM General Overview

This policy does not provide detailed instructions regarding the use of AM. The following discussion is focused on items to remember when using AM, the accounting entries generated by AM, and capital asset related policy. Detailed instructions regarding the use and functionality of AM can be found on the [SABHRS Documentation](https://mine.mt.gov/documentation/sabhrs/financials/default.mcpx)webpage, Financials, in both the [AM Manual](https://mine.mt.gov/documentation/sabhrs/financials/default.mcpx#nav8)in Training Manuals section and the [Asset Management](https://mine.mt.gov/documentation/sabhrs/financials/default.mcpx#ug3)in User Guides section.

A. General AM Reminders

The “asset profile” carries the default asset accounting characteristics for the following fields: category, book, salvage percentage, useful life, and depreciation/amortization conventions. A list of asset profiles and related categories can be found in SABHRS with query MTAM\_Profiles\_Categories. Many of the errors that occur when adding assets to AM can be avoided if agencies use the default profile correctly.

The “asset category” points to the accounting entry templates. These templates define the accounts used for all the system-generated entries AM produces. A list of AM categories (that detail the accounting entry templates) can be found in SABHRS: Set Up Financials/Supply Chain > Product Related > Asset Management > Accounting > Accounting Entry Templates.

The asset “Book” tracks accounting information and determines the ledger capital asset entries will be posted in. Proprietary fund activity is reported in the Actuals Ledger and uses the *State*book. Governmental fund activity is reported in the Entitywide Ledger and uses the *Government*book. Any GL entries (clean-up entries, etc.) related to capital assets must be made to the corresponding ledger (as indicated previously) unless otherwise specified.

1. Reminders – when adding assets to AM, it is critical to:

1. Use the “Express Add” function: Asset Management > Asset Transactions > Owned Assets > Express Add.
2. Select the correct profile. The profiles and categories for governmental and proprietary fund assets begin with a “G” and “P”, respectively. The profile chosen must correspond to the fund in which the asset is recorded in.
3. Use the default profile function. The correct asset book and category will be selected.
4. Review the default salvage value and useful life. Change these defaults if agency experience indicates that the defaults should be different.
5. Input the asset class.
6. Enter the correct transactions date, from which the in-service and acquisition dates will be defaulted. These dates are used to develop the related depreciation/amortization entries.
7. Let the accounting date default to the current date, unless adding an asset for the current fiscal year during the fiscal year-end cut-off period, in which it is necessary to use the June 30, 20XX date (or Dec. 31, 20XX date for Montana State Fund).
8. Complete all other fields relative to an asset.
9. Review all information prior to the initial save. It is much easier to add the asset correctly the first time than to correct any errors later.
10. If an agency needs to delete an asset, please contact SAB prior to the end of the period in which the asset was initiated.

2. AM generated journals (for capitalized assets only)

AM transactions are not reflected in the GL until the month-end processes are completed. AM-generated journals begin:

| **Journal Type** | **Description** |
| --- | --- |
| ADD | Assets added to AM |
| DPR | Depreciation/Amortization expense as calculated for the current month |
| PDP | Depreciation/Amortization expense as calculated for prior periods based on the in-service date of the asset |
| ADJ | Assets on which cost adjustments have been made, and should only be used in limited cases |
| RET | Assets that have been retired |
| REI | Retired assets that have been reinstated |
| TRF | Only to be used to transfer asset from one org to another |

3. Changing the useful life or salvage value of asset

The useful life and salvage value fields are defined based on the “Profile ID” selected in AM but can be changed for non-intangible capital assets (which should always have a $0 salvage value). Some of the reasons to adjust the useful life and/or salvage value of a capital asset include experience with similar assets or a need to meet federal depreciation/amortization allowance guidelines. Documentation of justification for any changes from the profile defaults should be maintained by each agency. Capital assets added with incorrect financial data must be retired and re-added with the correct information, as indicated in the following section.

B. Add/Retire Capital Assets

1. Recording purchase of capital assets

The purchase of capital assets (or components) are generally recorded in SABHRS with an Accounts Payable (AP) voucher that uses an expenditure account in the 63XXX/64XXX range. A typical capital asset purchase entry is:

|  |  |  |
| --- | --- | --- |
| To purchase capital asset from external party (accounts payable entry).  Actuals Ledger | | |
| Debit | 63XXX/64XXX | Expenditure account as required |
| Credit | 1104 | Cash |

2. Adding capital assets to AM

Assets are added to AM using the *Express Add*function as detailed in the [AM user guides](https://mine.mt.gov/documentation/sabhrs/financials/default.mcpx#ug3). AM-generated entries never use budgeted expenditure and revenue accounts; therefore, the sub-class and program fields are not required, and should not be populated by agency personnel. For full-accrual GAAP reporting purposes, capital assets are depreciated or amortized over their useful lives. For budget purposes, all assets are expensed in the year purchased. Thus, debit entries for increases in capital assets are usually offset with non-budgeted capital expenditures (e.g. account 63198 – NB Full Accrual Equip Offset) in the AM-generated ADD entries. The AM-generated depreciation/amortization entries are created every month of the asset’s useful life. In this manner, both the budgetary and GAAP accounting requirements are met.

3. Capital asset addition entries

For assets added to AM the same month placed in service, AM generates the following accounting entry:

|  |  |  |
| --- | --- | --- |
| Typical asset addition entries generated by AM.  Actuals or Entitywide Ledger depending on fund type | | |
| ADD journal: | | |
| Debit | 17XX | Asset account as required |
| Credit | 63XXX/64XXX | NB full accrual expenditure offset account |
| DPR journal: | | |
| Debit | 62805 | NB Depreciation Expense |
| Credit | 17XX | Accumulated depreciation account as required |

For assets added to AM subsequent to the month placed in service, AM generates the following entry:

|  |  |  |
| --- | --- | --- |
| Asset addition entries when asset is added to AM two or more months after the month placed in service.  Actuals Entitywide Ledger depending on fund type | | |
| ADD journal: | | |
| Debit | 17XX | Asset account as required |
| Credit | 63XXX/64XXX | NB full accrual expenditure offset account |
| DPR Journal: | | |
| Debit | 62805 | NB Depreciation Expense |
| Credit | 17XX | Accumulated depreciation account as required |
| PDP Journal: | | |
| Debit | 62805 | NB Depreciation Expense |
| Credit | 17XX | Accumulated depreciation account as required |

4. Adjustments regarding an asset purchased in a prior fiscal year

For assets added to AM subsequent to the year placed in service, a GL entry is needed to correct the offset entries created by the ADD and PDP entries generated by AM.

|  |  |  |  |
| --- | --- | --- | --- |
| System-generated entries when asset is added to AM.  Actuals or Entitywide Ledger depending on fund type | | | |
| ADD journal: | | | |
| Debit | 1704 | Equipment | 6,000 |
| Credit | 63198 | NB Full Accr Equip Offset | 6,000 |
| DPR journal: | | | |
| Debit | 62805 | NB Depreciation Expense: $6,000/60 mo. | 100 |
| Credit | 1709 | Accumulated Depr – Equipment | 100 |
| PDP journal: | | | |
| Debit | 62805 | NB Depreciation Expense ($6,000/60) \* 22 months | 2,200 |
| Credit | 1709 | Accumulated Depr – Equipment | 2,200 |

This journal should be created in the same ledger used when the AM transactions were generated.

|  |  |  |
| --- | --- | --- |
| GL Adjustment for assets purchased in a prior fiscal year.  Actuals or Entitywide Ledger depending on fund type | | |
| Related to ADD journal: | | |
| Debit | 63XXX/ 64XXX | NB full accrual expenditure offset |
| Credit  Or | 63XXXP/64XXXP  4XXX | NB full accrual expenditure offset account (Prior Year)  Fund Balance/Net Position (Prior Prior Year) |
| Related to PDP Journal: | | |
| Debit  Or  Debit | 62805P    4XXX | NB Net Depreciation Expense PY (Prior Year)  Fund Balance/Net Position PPY (Prior Prior Year) |
| Credit | 62805 | NB Depreciation Expense |

A list of the asset accounts used for recording prior year adjustments can be found by going to Set Up Financials/Supply Chain > Common Definitions > Design ChartFields > Define Values > ChartField Values – Account and searching for accounts that being with “6%P” or “5%P.”

5. Entries/adjustments for asset purchased in two or more prior fiscal years

Entries related to full accrual funds (proprietary funds) are recorded in the Actuals Ledger, and entries related to modified accrual funds (governmental funds) are recorded in the Entitywide Ledger. Example: Equipment with a capitalized cost of $6,000 was placed in service on May 15, 2017. The equipment was added to AM during March 2019 with no salvage value and a useful life of 60 months. The AM generated entries for March 2019 would be as follows below.

Depreciation expense related to the 2017 fiscal year is $200: ($6,000/60) \* 2 mo. Depreciation expense related to the 2018 fiscal year is $1,200: ($6,000/60) \* 12 mo. Depreciation expense related to the 2019 fiscal year is $900: ($6,000/60) \* 9 mo., of which $800 was included in the PDP journal generated for March 2019:

|  |  |  |  |
| --- | --- | --- | --- |
| System-generated entries when asset is added to AM.  Actuals or Entitywide Ledger depending on fund type | | | |
| ADD journal: | | | |
| Debit | 1704 | Equipment | 6,000 |
| Credit | 63198 | NB Full Accr Equip Offset | 6,000 |
| DPR journal: | | | |
| Debit | 62805 | NB Depreciation Expense: $6,000/60 mo. | 100 |
| Credit | 1709 | Accumulated Depr – Equipment | 100 |
| PDP journal: | | | |
| Debit | 62805 | NB Depreciation Expense ($6,000/60) \* 22 months | 2,200 |
| Credit | 1709 | Accumulated Depr – Equipment | 2,200 |

The GL journal needed to adjust for amounts related to 2017 and 2018 is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Prior year adjustment for asset that should have been added in two or more prior fiscal years.  Actuals or Entitywide Ledger depending on fund type | | | |
| Related to the PDP journal: | | | |
| Debit | 62805P | NB Depreciation Expense PY (related to 2018) | 1,200 |
| Debit | 41XX | Fund Balance/Net position (related to 2017) | 200 |
| Credit | 62805 | NB Depreciation Expense | 1,400 |
| Related to the ADD journal: | | | |
| Debit | 63198 | NB Full Accr Equip Offset | 6,000 |
| Credit | 41XX | Fund Balance/Net Position (this entry would have been to 63198P if the asset was placed in service in 2018) | 6,000 |

C. Capital Asset Corrections

If assets are added with errors, contact SAB within the same period for deletion. In many cases the best way to correct errors in AM is to retire the asset and then re-add it. It is critical that the user add the asset with the correct transaction date (from which the in-service date is defaulted), historical cost, profile ID, useful life, and salvage value. Asset additions must be denoted as such by selecting *Reentry*from the “Entry Type” drop-down box in the *Cost Asset Information*tab. The asset ID of replaced asset must also be entered as applicable. A GL entry is needed to properly reverse all AM-generated balances related to the retired asset (that are not reversed with the retired entry): capitalized asset expense, depreciation/amortization expense, and the gain/loss calculated on disposal. An additional entry may be needed to correct the ADD entry created by AM when the asset is re-added, as detailed in the following.

For example: an asset was added with a cost of $100,000, a useful life of 10 years, and no salvage value. Later it was determined that the asset should have been added with a $15,000 cost. The accumulated depreciation at the time the error was discovered was $30,000. The asset should be retired in AM, then re-added with the correct information. AM will properly create all entries necessary for the new asset. However, if the error is not discovered until two or more fiscal years after the asset was placed in service, then the 63XXX/64XXX offset created in the ADD entry must be corrected to the appropriate fund balance/net position account. Below is an illustration of the AM-generated RET entry and the GL clean-up entry required. The following entries would be generated based on the retirement of the asset with the incorrect historical cost and the re-add of the asset with the correct historical cost:

|  |  |  |  |
| --- | --- | --- | --- |
| Retirement entry generated by AM for asset with incorrect historical cost.  Actuals or Entitywide Ledger depending on fund type | | | |
| Debit | 17XX | Accumulated depreciation | 30,000 |
| Debit | 62808 | NB Loss on Sale Expense | 70,000 |
| Credit | 17XX | Capital asset | 100,000 |

The following GL account balances exist, based on all the AM generated entries:

|  |  |  |  |
| --- | --- | --- | --- |
| Balances Associated with Incorrect Asset (after R Retirement) |  | Debit Balance | Credit Balance |
| 17XX | Capital Asset | 0 |  |
| 17XX | Accumulated Depr. | 0 |  |
| 63XXX/64XXX closing to 4XXX | Capitalized Asset Offset |  | 100,000 |
| 62805 closing to 4XXX | Depreciation Expense: $100,000/10 years \* 3 years | 30,000 |  |
| 62808 | Loss on Sale | 70,000 |  |

The following GL journal entry needs to be completed:

|  |  |  |  |
| --- | --- | --- | --- |
| GL clean-up entry.  Actuals or Entitywide Ledger depending on fund type | | | |
| Debit | 4XXX *1* | Capitalized Asset Offset | 100,000 |
| Credit | 62805 | NB Depreciation expense – For depr. expense related to the current fiscal years | 10,000 |
| Credit | 62805P | For depreciation expense related to one prior fiscal year | 10,000 |
| Credit | 41XX | For depreciation expense related to 2+ prior fiscal years | 10,000 |
| Credit | 62808 | NB loss on sale expense | 70,000 |
| *1A 63XXX/64XXX account would be used for an error discovered in the year added; 63XXXP/64XXXP account would be used for one prior year; a 4XXX account would be used for two prior years.* | | | |

D. Gifts/Donated Capital Assets

A capital asset acquired by gift or donation (from a party external to the State) is recorded in AM at its acquisition value (see the Reported Cost section, previously) on the date the gift is received or the asset is donated. Asset transfers between state agencies is addressed in the Transfer of Capital Assets section. When gifted assets are recorded in AM, the transaction date must be changed to the date of donation and the acquisition code must be changed to Donated.

Gifted/donated asset accounting entries:

|  |  |  |
| --- | --- | --- |
| AM-generated entry to record the asset addition.  Actuals or Entitywide Ledger depending on fund type | | |
| Debit | 17XX | Capital asset account as required |
| Credit | 63XXX/  64XXX | NB full accrual expenditure offset account (549003  for donated museum and art – non-depreciable, categories GMADN/PMADN) |

An additional entry is required in the general ledger to reverse the NB expense offset and record a capital contribution (in the same ledger that the AM entries were recorded in). No additional entry needed for donated museum and art–non-depreciable, categories GMADN/PMADN, as 549003 is credited in the AM generated entry.

|  |  |  |
| --- | --- | --- |
| Reverse the NB Equipment offset and record the capital contribution (GL Entry).  Actuals or Entitywide Ledger depending on fund type | | |
| Debit | 63XXX/  64XXX | NB full accrual expenditure offset account |
| Credit | 549XXX *1* | Capital contribution account as required |

*1Accounts 549001/549005 should NOT be used, as those transfer accounts should only be used to offset 628A3.*

E. Purchase of Split Funded Capital Assets

The purchase of a capital asset may be funded by different funds, as authorized budgetarily. As noted in MOM-SFSD-POL-SAB 302 and GASB Codification 1200.110, if a conflict between legal provisions and GAAP exists, the accounting system may be maintained on a legal compliance basis. The SABHRS system must be compliant with the state budget, so the accounting treatment for the purchase of split-funded capital assets is dependent upon where the budget for capital outlay is authorized, the fund category (governmental or proprietary), and where the capital asset is recorded.

1. Assets within one fund category

A capital asset is purchased from multiple funds within one fund category (Governmental or Proprietary Funds), and the budget is set up from all those funds. As can be seen below, the asset is entered based on where it is purchased. The process is outlined in the [AM Enter Split Funded Asset](https://mine.mt.gov/content/documentation/sabhrs/financials/AM_Enter_Split_Funded_Asset)user guide, available on the [SABHRS Documentation](https://mine.mt.gov/documentation/sabhrs/financials/default.mcpx)webpage.

|  |  |  |  |
| --- | --- | --- | --- |
| **Purchase from the governmental funds where the budget authority is established** | | | |
| Capital outlay expenditure in the ACTUALS ledger | | | |
| Fund Type | Account | Debit Balance | Credit Balance |
| 02xxx | 63/64xxx | 500,000 |  |
| 03xxx | 63/64xxx | 300,000 |  |
| 02xxx | 2107 or 1104 |  | 500,000 |
| 03xxx | 2107 or 1104 |  | 300,000 |
| AM-generated entry to record the asset addition in the ENTITYWIDE ledger | | | |
| 02xxx | 17xx | 500,000 |  |
| 03xxx | 17xx | 300,000 |  |
| 02xxx | 63/64xxx |  | 500,000 |
| 03xxx | 63/64xxx |  | 300,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Purchase from the proprietary funds where the budget authority is established** | | | |
| Capital outlay expense in the ACTUALS ledger | | | |
| Fund Type | Account | Debit Balance | Credit Balance |
| 065xx | 63/64xxx | 400,000 |  |
| 060xx | 63/64xxx | 200,000 |  |
| 065xx | 2107 or 1104 |  | 400,000 |
| 060xx | 2107 or 1104 |  | 200,000 |
| AM-generated entry to record the asset addition in the ACTUALS ledger | | | |
| 065xx | 17xx | 400,000 |  |
| 060xx | 17xx | 200,000 |  |
| 065xx | 63/64xxx |  | 400,000 |
| 060xx | 63/64xxx |  | 200,000 |

2. Assets funded by both governmental and proprietary funds using operating transfers

A capital asset is purchased from multiple funds, including governmental and proprietary fund categories. The following example shows a purchase planned/budgeted for in a governmental fund, and that fund is expected to maintain the asset into the future (and will record the asset in AM). Other funds will subsidize the purchase through an operating transfer.

|  |  |  |  |
| --- | --- | --- | --- |
| Capital outlay expenditure in the ACTUALS ledger | | | |
| Fund Type | Account | Debit Balance | Credit Balance |
| 02xxx | 63/64xxx | 800,000 |  |
| 02xxx | 2107 or 1104 |  | 800,000 |
| Contributing funds provide operating transfers to the fund where the purchase is authorized budgetarily, ACTUALS ledger | | | |
| 065xx | 681xx | 120,000 |  |
| 03xxx | 681xx | 100,000 |  |
| 065xx | 1104 |  | 120,000 |
| 03xxx | 1104 |  | 100,000 |
| 02xxx | 1104 | 220,000 |  |
| 02xxx | 5828xx |  | 220,000 |
| The asset is added to AM for the total capitalized amount ($800,000) using a “G” profile category.  AM-generated entry to record the asset addition in the ENTITYWIDE ledger | | | |
| 02xxx | 17xx | 800,000 |  |
| 02xxx | 63/64xxx |  | 800,000 |

Assume instead that the purchase is planned/budgeted for in a proprietary fund and that fund is expected to maintain the asset into the future (and will record the asset in AM). The General Fund is expected to subsidize the purchase through an operating transfer.

|  |  |  |  |
| --- | --- | --- | --- |
| Capital outlay expense in the ACTUALS ledger | | | |
| Fund Type | Account | Debit Balance | Credit Balance |
| 065xx | 63/64xxx | 600,000 |  |
| 065xx | 2107 or 1104 |  | 600,000 |
| Contributing fund provides operating transfer to the fund where the purchase is authorized budgetarily, ACTUALS ledger | | | |
| 01100 | 681xx | 400,000 |  |
| 01100 | 1104 |  | 400,000 |
| 065xx | 1104 | 400,000 |  |
| 065xx | 5828xx |  | 400,000 |
| The asset is added to AM for the total capitalized amount ($600,000) using a “P” profile category.  AM-generated entry to record the asset addition in the ACTUALS ledger | | | |
| 065xx | 17xx | 600,000 |  |
| 065xx | 63/64xxx |  | 600,000 |

1. When assets purchased and recorded in separate funds result in capital contributions

A capital asset is purchased from multiple funds (or business units) from both governmental and proprietary fund categories, and the budgetary authority is set up for both. The capital asset can only be recorded in one of the fund categories due to accounting profiles in SABHRS, record the asset in the fund that is ultimately going to be responsible for the upkeep of the asset. Capital outlay paid from a contributing fund category will need to be transferred to the fund category where the asset is capitalized.

Note: 628A3 and 549001 are system-maintained accounts, so agencies will need to request SAB to post these entries using a Service Now Case. Agencies must provide all associated journal entries together for SAB to post.

In the following example, all fund categories have budgetary authority, but the asset will reside with the General Fund.

|  |  |  |  |
| --- | --- | --- | --- |
| Capital outlay expenditure/expense in the ACTUALS ledger | | | |
| Fund Type | Account | Debit Balance | Credit Balance |
| 01100 | 63/64xxx | 500,000 |  |
| 02xxx | 63/64xxx | 300,000 |  |
| 065xx | 63/64xxx | 400,000 |  |
| 065xx | 63/64xxx | 200,000 |  |
| 01100 | 2107 or 1104 |  | 500,000 |
| 02xxx | 2107 or 1104 |  | 300,000 |
| 065xx | 2107 or 1104 |  | 400,000 |
| 065xx | 2107 or 1104 |  | 200,000 |
| AM-generated entry to record the asset addition in governmental funds in the ENTITYWIDE ledger | | | |
| 01100 | 17xx | 1,400,000 |  |
| 01100 | 63/64xxx |  | 1,400,000 |
| GL capital contribution-in entry for governmental fund in the ENTITYWIDE ledger | | | |
| 01100 | 63/64xxx | 900,000 |  |
| 01100 | 549001 |  | 900,000 |
| GL capital contribution-out entry for governmental fund in the ENTITYWIDE ledger | | | |
| 02xxx | 628A3 | 300,000 |  |
| 02xxx | 63/64xxx |  | 300,000 |
| GL capital contribution-out entry for proprietary fund in the ACTUALS ledger | | | |
| 065xx | 628A3 | 400,000 |  |
| 065xx | 628A3 | 200,000 |  |
| 065xx | 63/64xxx |  | 400,000 |
| 065xx | 63/64xxx |  | 200,000 |

For ACFR purposes, 628A3 and 549001 are both grouped with the transfers reporting line, thus netting to $0 for government-wide reporting purposes. For proprietary funds, 628A3 is grouped to the non-operating expense – capital contribution reporting line, consistent with GASB Codification P80.711-4.

In the following example, all fund categories have budgetary authority, but the asset will reside with the Proprietary Fund.

|  |  |  |  |
| --- | --- | --- | --- |
| Capital outlay expenditure/expense in the ACTUALS ledger | | | |
| Fund Type | Account | Debit Balance | Credit Balance |
| 01100 | 63/64xxx | 500,000 |  |
| 03xxx | 63/64xxx | 300,000 |  |
| 060xx | 63/64xxx | 400,000 |  |
| 01100 | 2107 or 1104 |  | 500,000 |
| 03xxx | 2107 or 1104 |  | 300,000 |
| 060xx | 2107 or 1104 |  | 400,000 |
| AM-generated entry to record the asset addition in proprietary funds in the ACTUALS ledger | | | |
| 060xx | 17xx | 1,200,000 |  |
| 060xx | 63/64xxx |  | 1,200,000 |
| GL capital contribution-in entry for proprietary fund in the ACTUALS ledger | | | |
| 060xx | 63/64xxx | 800,000 |  |
| 060xx | 549001 |  | 800,000 |
| GL capital contribution-out entry for governmental fund in the ENTITYWIDE ledger | | | |
| 01100 | 628A3 | 500,000 |  |
| 03xxx | 628A3 | 300,000 |  |
| 01100 | 63/64xxx |  | 500,000 |
| 03xxx | 63/64xxx |  | 300,000 |

For ACFR purposes, 628A3 and 549001 are both grouped with the transfers reporting line, thus netting to $0 for government-wide reporting purposes. For proprietary funds, 549001 is grouped in the capital contribution reporting line, consistent with GASB Codification P80.711-4.



VIII. Transfer of Capital Assets

The transfer functionality in AM is to be used for transferring assets between orgs only (within the same business unit and fund). To change the fund or business unit of an asset added in error, the asset must be retired and re-added in AM (as discussed previously in the *Corrections*section). The following section discusses the accounting treatment for assets transferred between business units or funds.

1. The entries required for transfers of assets between agencies or funds vary based on the fund classification (governmental or proprietary), the net book value of the asset, and whether monetary compensation is received in the transaction.
2. When property is transferred from one fund to another, the asset must be retired in the fund that owned the asset initially and added to the receiving fund. The asset’s historical purchase date and cost should be used for the addition to AM. Reentry from Entry Type must be chosen when adding the asset for receiving fund.
3. All entries for proprietary funds should be completed in the Actuals Ledger. For governmental funds, all entries involving capital asset or capital contribution accounts should be completed in the Entitywide Ledger. All entries involving cash should be completed in the Actuals Ledger-regardless of fund classification.
4. Asset transferred has $0 book value (fully depreciated without a salvage value). If the asset is fully depreciated and the salvage value was zero, AM will generate all of the required accounting entries for the transferor fund upon the asset’s retirement in AM.

Transferor fund AM entry:

|  |  |  |
| --- | --- | --- |
| Retirement entry generated by AM for fully depreciated asset with no salvage value.  Actuals or Entitywide Ledger depending on fund type | | |
| Debit | 17XX | Accumulated depreciation account as required |
| Credit | 17XX | Asset account as required |

The asset should then be added by the receiving fund using the asset’s original acquisition date, cost, and profile number. Assets crossing fund classification will use different profiles (P v. G), but the following numbers should be identical (P65 to G65, for example). The default salvage value and useful life may need modifications to ensure agreement with the asset’s original attributes.

Receiving fund AM entries:

|  |  |  |
| --- | --- | --- |
| AM Generated-Addition and depreciation entries.  Actuals or Entitywide Ledger depending on fund type | | |
| ADD journal: | | |
| Debit | 17XX | Asset account as required |
| Credit | 63XXX/ 64XXX | NB full accrual asset offset |
| DPR journal: |  |  |
| Debit | 62805 | NB Depreciation Expense |
| Credit | 17XX | Accumulated depreciation as required |

The receiving fund must make a GL entry to reverse the expense lines generated (previously) when the asset was added to AM, as the expense was already reported by the transferor fund.

Example reversal:

|  |  |  |
| --- | --- | --- |
| Expense reversal  Actuals or Entitywide Ledger depending on fund type | | |
| Debit | 63XXX/ 64XXX | NB full accrual asset offset |
| Credit | 62805 | NB Depreciation Expense |

A. Asset with a Book Value

If the asset is fully depreciated and a salvage value exists, or if the asset is not fully depreciated, both the transferring and the receiving fund must make adjusting GL entries. These entries include a capital contribution transfer, which must net to $0 between the two funds. Those accounts are system maintained and require SAB approval, with the exception of University transactions. Requests for system-maintained account approval should be sent via a [Case – SAB](https://montana.servicenowservices.com/sp?id=sc_cat_item&sys_id=2c6c2adfdb56c4509ecc362f7c961937&sysparm_category=ece7df88db4af3009ecc362f7c9619ea) in ServiceNow.

Transferor fund AM entries:

|  |  |  |
| --- | --- | --- |
| Retirement entry generated by AM for assets with remaining book value.  Actuals or Entitywide Ledger depending on fund type | | |
| Debit | 17XX | Accumulated depreciation account as required |
| Debit | 62808 | NB Loss on Sale Expense |
| Credit | 17XX | Asset account as required |

The transferor fund must make a GL entry to reverse the loss generated by the retirement entry (above) and record a capital contribution transfer:

|  |  |  |
| --- | --- | --- |
| Adjustment to reverse the loss on transfer and record a capital contribution.  Actuals or Entitywide Ledger depending on fund type | | |
| Debit | 628A3 | NB Fixed Asset Capital Contr |
| Credit | 62808 | NB Loss on Sale Expense |

The asset should then be added by the receiving fund using the asset’s original acquisition date, cost, and profile number. Assets crossing fund classification will use different profiles (P v. G), but the following numbers should be identical (P65 to G65, for example). The default salvage value and useful life may need modifications to ensure agreement with the asset’s original attributes.

Receiving fund AM entries:

|  |  |  |
| --- | --- | --- |
| Addition and depreciation entries generated by AM.  Actuals or Entitywide Ledger depending on fund type | | |
| Debit | 17XX | Asset account as required |
| Credit | 63X9X/ 64X9X | NB full accrual asset offset |
| Debit | 62805 | NB Depreciation Expense |
| Credit | 17XX | Accumulated depreciation as required |

The receiving fund must make a GL entry to reverse the expense lines generated (previously) when the asset was added to AM, as the expense was already recorded by the transferor fund, and to record a capital contribution transfer:

|  |  |  |
| --- | --- | --- |
| Adjustment to reverse expenses and record a capital contribution.  Actuals or Entitywide Ledger depending on fund type | | |
| Debit | 63XXX/ 64XXX | NB full accrual asset offset |
| Credit | 62805 | NB Depreciation Expense (only PDP depreciation expense is reversed, as current month depreciation is a valid expense for this fund) |
| Credit | 549001 | Capital Contributions |

B. Asset Transferred with Monetary Compensation

When monetary compensation is provided to the transferor fund, an additional entry is required that must be booked as an Inter-Unit Journal (IUJ). The entry is always booked in the Actuals Ledger regardless of the fund classifications involved. If the same fund classification is used to reverse the loss/expenses, these need to be in an IUJ. The transferor fund must enter this amount as proceeds on sale of capital asset in the AM retirement panel.The paying and receiving entity would input the following entry:

|  |  |  |
| --- | --- | --- |
| Transferor fund-To record receipt of cash.  Actuals Ledger | | |
| Debit | 1104 | Cash in Bank |
| Credit | 5XXXXX | Appropriate capital asset proceeds account |

|  |  |  |
| --- | --- | --- |
| Receiving fund-To record the cash payment.  Actuals Ledger | | |
| Debit | 6XXXX | Capital asset expense account or minor asset expense account as appropriate |
| Credit | 1104 | Cash in Bank |

Transfer of equipment that has a remaining book value (either remaining depreciation or salvage value):

|  |  |
| --- | --- |
| Asset’s historical cost | $900,000 |
| Less: Accumulated depreciation | 500,000 |
| Net book value remaining | 400,000 |

Transferor fund entries:

|  |  |  |  |
| --- | --- | --- | --- |
| Retirement entry generated by AM. | | | |
| Debit | 1709 | Accum Depr–Equipment | 500,000 |
| Debit | 62808 | NB Loss on Sale Expense | 400,000 |
| Credit | 1704 | Equipment | 900,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| Adjustment to reverse the loss and record a capital contribution.  Actuals or Entitywide Ledger depending on fund type | | | |
| Debit | 628A3 | NB Fixed Asset Capital Contribution | 400,000 |
| Credit | 62808 | NB Loss on Sale Expense | 400,000 |

Receiving fund entries:

|  |  |  |  |
| --- | --- | --- | --- |
| System-generated entry when asset is added to AM.  Actuals or Entitywide Ledger depending on fund type | | | |
| Debit | 1704 | Equipment | 900,000 |
| Credit | 63198 | NB Full Accrual Equip Offset | 900,000 |
| Debit | 62805 | NB Depreciation Expense | 500,000 |
| Credit | 1709 | Accum Depr–Equipment | 500,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| Adjustment to reverse expenses and record a capital contribution.  Actuals or Entitywide Ledger depending on fund type | | | |
| Debit | 63198 | NB Full Accrual Equipment Offset | 900,000 |
| Credit | 62805 | NB Depreciation Expense | 500,000 |
| Credit | 549001 | Capital Contribution | 400,000 |

If monetary compensation is provided, one additional entry is required. In this example, $100,000 was provided in consideration of the transfer.

|  |  |  |  |
| --- | --- | --- | --- |
| Interunit journal to transfer payment from the receiving fund to the transferring fund.  Actuals Ledger | | | |
| Transferring fund | | | |
| Debit | 1104 | Cash in Bank | 100,000 |
| Credit | 549001 | Capital Contribution | 100,000 |
| Receiving fund | | | |
| Debit | 628A3 | NB–Fixed Asset Capital Contr | 100,000 |
| Credit | 1104 | Cash in Bank | 100,000 |

IX. Intangible Assets

An intangible asset is defined as a legal right that lacks physical substance, is non-financial in nature, and has a useful life of more than one year. Examples of intangible assets that could be capitalized are patents, copyrights, and software. Intangible assets that are identifiable, and that meet the capitalization threshold, should be capitalized using historical cost. Goodwill assets, acquired for income generating purposes, are excluded. Like other capital assets, intangible assets can be acquired through purchase/license to use, through non-exchange transactions or they can be internally generated. Intangible assets are to be treated as capital assets, thus GASB Statement No. 51–Accounting and Financial Reporting for Intangible Assets (GASB 51), should be applied in addition to (rather than instead of) existing authoritative guidance for capital assets. Intangible assets that are considered intangible right-to-use (ROU) assets created by a lease should refer to MOM Policy 336.

A. Recording Intangible Assets Not Completed at Year-end

If an intangible asset project has not been completed at year-end, any capitalizable costs should be added to AM as CWIP.

1. Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives should not be amortized, unless the useful life is subsequently determined no longer to be indefinite. An indefinite useful life exists when there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset, such as a permanent right-of-way easement. To report the historical cost of an intangible asset, the asset must be identifiable, which is defined as either (1) separable, or capable of being separated from the entity for sale or transfer, or (2) arising from contractual or other legal rights (regardless of whether those rights are separable or transferable from the entity).

2. Adding Intangible assets to AM

The asset profile selected in AM sets a default useful life; however, it can be changed to the actual useful life of the intangible asset. Amortizable intangible assets always have a salvage value of $0. Other intangible assets are not amortized. Easements determined to have an indefinite useful life should be added to AM using the respective easement profile, so the asset will not be amortized.

3. Easements and other land use rights

An easement is a right to use, or an interest in, land that is owned by another entity or individual. Examples of easements include conservation easements (which prohibit certain types of development) and right of way easements (which allow for the use of land in some manner). Examples of other land use rights include mineral, timber and water rights. Easements that are part of other capital assets should be capitalized, provided the capitalization criteria are met. If the value of the land use right and the value of the land cannot be separated, then the combined value may be capitalized as land. Some easements meet the definition of a lease, while other easements do not. A lease is for a *period of time* in an *exchange or exchange-like transaction*(refer to MOM Policy 336). Permanent easements, which last indefinitely without cancellation options, do not meet the period-of-time criterion and should be evaluated using financed purchase criterion. Land use rights associated with property already owned and reported should not be reported as a separate intangible asset.

4. Recording purchase of intangible assets

The purchase and recording of intangibles follows the general process as previously outlined in the *Add/Retire Capital Assets*section. Software capital asset costs billable to federal programs must be accumulated and documented in accordance with the provisions of OMB Circular A-87, also known as 2 CFR 225. The cost principles specified in OMB Circular A-87 should also be used for guidance in determining the supporting state-funded software capital asset costs.

B. Capitalizable Software

When purchasing computer equipment, the price may include both the cost of hardware and software. If possible, these two costs should be separated into hardware (tangible) and software (intangible) and accounted for accordingly. If this is not possible, the entire purchase price should be capitalized as equipment.

1. When multi-agency software development projects are undertaken that cross federal programs, the affected agencies should contact the respective cognizant federal agencies to determine how such costs can be charged to the federal programs. Agencies may be required to modify their departmental indirect cost allocation plans or federal billing methodologies to claim the pro rata share of annual amortization costs under federal programs.
2. Software/license purchases are capitalized as an intangible asset regardless of whether the software was modified, or the State obtains the rights to modify it (such as the SABHRS system). For example, multi-year license purchases that meet the capitalization threshold are capitalized, regardless of the amount/frequency of incremental payments and amortized over the payment period. A liability should be recorded for the total cost in the year purchased. The liability should be reduced with each incremental payment.
3. Upgrades, enhancements, or modifications to software should be capitalized only if they increase the functionality, efficiency, or useful life of the existing software; otherwise such costs should be considered maintenance and expensed as incurred. Each upgrade, enhancement, or modification should be treated as a separate asset subject to the respective capitalization requirements.
4. All centralized, statewide projects where software costs may be allocated or billed to federal programs (direct or indirect costs) must have a planned accounting and billing allocation methodology. The plan must be submitted to the respective cognizant federal agency and then to Office of Budget and Program Planning (OBPP). Once approved, the plan must be provided to SAB.

C. Internally Generated Intangible Assets

Internally generated intangible assets are those that are: (1) created or produced by either the government or an entity contracted by the government, or (2) acquired from a third party requiring more than minimal incremental effort (from the government) to achieve expected service capacity. Internally generated intangible assets should be capitalized only upon occurrence of: (1) determination of the specific project objective and the nature of the service capacity that is expected to be provided, (2) demonstration of the technical feasibility for completion, and (3) demonstration of the current intention, ability and effort to complete or continue development.

1. There are generally three stages of developing and installing internally generated computer software: Preliminary Project Stage, Application Development Stage, and Post-Implementation/ Operational Stage. Costs related to both the first and final stages should be expensed as incurred. The costs related to the Application Development Stage should be capitalized once the activities in the Preliminary Project Stage are complete and management has authorized and committed to funding the software development. Commercially available software that has been modified to the point that it is considered internally generated, could be considered to have met the above referenced criteria so long as the commitment to purchase or license the computer software has occurred.
2. Costs associated with the Preliminary Project Stage include the conceptual formulation, the evaluation of alternatives, the determination of existence of needed technology, and the final selection of alternatives.
3. The Application Development stage costs for internally generated software include external direct costs of materials and services consumed in developing or obtaining internal-use software and payroll, along with payroll-related costs devoted directly to the project. Examples of such costs include design (including the software configuration and the software interfaces), coding, installation to hardware, testing (including the parallel processing phase), and the data conversion necessary to make software operational. The capitalization of costs related to internally generated software should cease once the software is substantially complete and operational.
4. The Post Implementation/Operational Stage costs include application training, software maintenance, and additional data conversion not necessary to make software operational.

X. Construction Work-in-progress (CWIP)

Construction projects consist of projects subject to capitalization that are either tangible or intangible in nature. When a capital asset project is completed within one fiscal year, the related capital asset is added directly to AM upon completion. If a project is not completed within one fiscal year, the portion which is capitalizable should be recorded as CWIP at fiscal year-end. Once the capital asset is placed in service, the project is retired from CWIP and added as a new capital asset to AM (this is not a retire/re-add, as discussed in Section VII, Part C–Capital Asset Corrections). Repair and maintenance projects and interest incurred before the end of a construction period are not subject to capitalization; these costs are expensed as incurred with no entry to AM.

A. Purchase of Land, Buildings, and Construction Work-in-progress in Helena

DOA is responsible for recording land, buildings, and construction work-in-progress within a 10-mile radius of Helena, unless it has delegated that authority to another agency. Agencies are responsible for recording land, buildings, and construction work-in-progress outside of the Helena area or that it has title to.

B. Items Purchased as Integral Parts of the Structure

Items attached to a building but not an essential part of the structure (e.g., dishwashers, washing machines, etc.) are classified as equipment, provided they do not lose their identity upon removal from a building. The costs of integral parts of a structure are considered to be part of the cost of the building, and may include the following:

1. Distribution systems (electrical, heating, ventilation, water) within a building
2. Distribution systems outside a building are accounted for as separate improvements
3. Fixtures (electrical, lighting, plumbing)
4. Appliances and other essential structures built into the building:
   1. Ovens
   2. Scales
   3. Speaker systems
   4. Vaults
   5. Other essential parts of a building

If integral parts of a structure are replaced at a later date they are recorded as building improvement costs, provided the capitalization threshold has been met. Costs are recorded in AM as separate capital assets linked to the building through the parent/child functionality.

C. Capital Projects Managed by DOA

1. For capital projects managed by DOA – Architecture & Engineering Division (A&E), Org/Project Detail Reports (MTGL0106) are provided by A&E each month for agencies to record the related CWIP. The reports provided by A&E should be used to ensure the correct time range has been gathered. The amount to be added as CWIP is the Total Part-B Budget Expense Account Summary for the Expended column, less any 63xxx expenditures noted in the Part-B Budget Expense Account Summary section (the Encumbered column is not used in this calculation). This amount represents total spending for the current fiscal year. To determine a project’s total cost, all prior year’s spending must also be considered.
2. Construction projects may be internally constructed or constructed by A&E on behalf of the agency. For A&E constructed projects, the funds can either be appropriated to the agency or to A&E.

D. Internally Constructed Capital Assets

Whenever capital asset items are to be constructed within an agency, appropriate management personnel should first authorize the project. It is the responsibility of construction personnel to furnish their agency personnel an itemized list of labor (actual hours and rates) and materials (at cost) used. Items to be included are (1) job number, (2) date authorized, (3) brief description of the project, (4) estimated total cost, and (5) signature of officer authorizing work to be done.

E. A&E Projects

1. 64XXX accounts are used for all building related expenditures. For all equipment expenditures, a 63XXX account is used. This detail can be found in the Org/Project Detail Reports provided by A&E. An appropriation may be for the construction of several structures. The Org/Project reports provided by A&E do not include sufficient detail to determine which projects are complete and should be capitalized as a building; however, such detail can be provided by A&E upon request through A&E’s Project Recap Reports.
2. For projects funded with proprietary and governmental fund types, a capital contribution entry is required as discussed in the Transfer of Capital Assets section, previously. For any such projects, except for State Building Energy Conservation Program (SBECP) and Risk Management and Tort Defense (RMTD) -funded projects, A&E and the agency must determine which party will record the entry. A&E will record the capital contribution entries for all SBECP and RMTD-funded projects.
3. A&E provides a draft Project Completion Report upon final acceptance (the conclusion of construction). This report is a one-page synopsis of the project that is used to record the completed project and retire the related CWIP in AM. Once the warranty period (1-2 years) has expired, A&E will send the agency a final Project Completion Report. This report should be compared to the draft report and the related capital asset as recorded in AM. If any changes in the project’s cost have occurred, the asset must be retired and re-added at the correct cost.

F. Accounting Entries to Add CWIP

For projects not completed at fiscal year-end, the total capitalizable construction expenditures incurred that year must be added to CWIP.

|  |  |  |  |
| --- | --- | --- | --- |
| AM-generated entry to record the addition of, or increase to, CWIP.  Actuals or Entitywide Ledger depending on fund type | | | |
| Debit | 1706 | Construction Work in Progress | 500,000 |
| Credit | 1811 | Fixed Asset Clearing | 500,000 |

The credit to 1811 must be offset with a GL journal that credits the appropriate non-budgeted 63XXX/64XXX account(s) that mirror the account(s) used to record the capital outlay.

|  |  |  |  |
| --- | --- | --- | --- |
| To clear the 1811 created by the addition of CWIP for the project.  Actuals or Entitywide Ledger depending on fund type | | | |
| Debit | 1811 | Fixed Asset Clearing | 500,000 |
| Credit | 64298 | NB Full Accr Build Offset | 325,000 |
| Credit | 64397 | NB Full Accr Land Impr Offset | 175,000 |

An additional GL journal must be made for capital outlay paid from non-capital outlay (63XXX or 64XXX) expenditure accounts.

|  |  |  |  |
| --- | --- | --- | --- |
| To reconcile GAAP costs with budgeted costs.  Actuals Ledger only regardless of fund type | | | |
|  |
| Debit | 63198 | NB Full Accrual Equip Offset | 500,000 |  |
| Credit | 61170 | Capitalizable Salary – NB | 325,000 |  |
| Credit | 62475 | Capitalizable Travel – NB | 175,000 |  |

For example, internally generated software expenditures are primarily in the 61XXX range. An example is illustrated below for a capital asset that was created through wage and lodging expense.

G. Accounting Entries to Add Completed Capital Asset

Once the project is complete, the related CWIP assets should be retired and the new asset should be added in AM. The CWIP retire entry generated by AM will create a debit balance in the Fixed Asset Clearing account (1811) and properly reverse the CWIP asset balance. The capital asset add entry generated by AM will establish the capital asset and create a credit balance in a 63XXX/64XXX account. A GL entry is required to offset the 1811 balance against the 63XXX/64XXX balance. An example follows below.

|  |  |  |  |
| --- | --- | --- | --- |
| AM generated entry to retire CWIP.  Actuals or Entitywide Ledger depending on fund type | | | |
| Debit | 1811 | Fixed Asset Clearing | 500,000 |
| Credit | 1706 | Construction Work in Progress | 500,000 |

|  |
| --- |
|  |
| Debit | 1702 | Buildings | 500,000 |
| Credit | 64298 | NB Full Accr Build Offset | 500,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| General ledger entry to clear the non-budgeted capital asset offset and fixed asset clearing account balances.  Actuals or Entitywide Ledger depending on fund type | | | |
| Debit | 64298 | NB Full Accr Build Offset | 500,000 |
| Credit | 1811 | Fixed Asset Clearing | 500,000 |

XI. Financed Purchases

*For leases, see MOM 336.*

A. Determine if contract contains a Financed Purchase of an Underlying Asset

A financed purchase is a contract that transfers ownership of an underlying asset to the lessee by the end of the contract and does not contain termination options. Provisions that end a contract for the following reasons are not considered termination options:

1. Payment of all sums due.
2. Default on payments.
3. A fiscal funding or cancellation clause that is not reasonably certain of being exercised.

If the contract does contain a termination option, it should be considered a lease and account for in accordance with the guidance found in MOM 336. A contract may contain provisions for items not related to the purchase of an asset such as maintenance charges. If the costs for such provisions can be identified, they should be accounted for separately and expensed as they occur. For each asset contained in a contract that meets the definition of a financed purchase:

1. Download the [Financed Purchases Amortization Table](https://montana.servicenowservices.com/sys_attachment.do?sys_id=001790511ba53d9039d81179bc4bcb12).
2. The payments should be discounted using the stated interest rate in the contract, if identified and reasonable. If the interest rate is not identified in the contract, or if it is not reasonable, the fair market value of the asset should be used as the present value. If the fair market value of the asset cannot be determined, the rate for the Montana Board of Investments INTERCAP loan program that is in effect on July 1 of the fiscal year the agreement commences should be used.
3. Determine the present value of all assets contained in the contract. Determine if the assets meet the capitalization thresholds contained in the Capital Assets Thresholds Section of this policy. Assets of the same type with the same useful life, on the same contract, should be treated as a single asset for threshold evaluation, however, they may be recorded as separate assets. If the present value of the asset is less than the capitalization threshold, payments should be expensed as they occur, and no additional entries are necessary. If the present value of the asset is greater than or equal to the capitalization threshold, the following steps should be applied.

B. Recording a Financed Purchase

1. Record the Asset in asset management as a using the present value of the payments as the purchase price (In addition to any prepayments or ancillary costs to place the asset into service. The useful life should be the useful life of the asset.
2. Manual accounting entries are necessary, in addition to entries created by AM, to record and adjust the financed purchase obligation. The following examples demonstrate the journal entries that will be posted by AM and Manual entries that are required for governmental and proprietary funds.

Governmental Funds (modified accrual funds recorded in either the Actuals or Entitywide Ledgers, as indicated below)

Record purchase inception:

|  |  |  |  |
| --- | --- | --- | --- |
| This manual entry is required in a governmental fund for the obligation amount.  Actuals Ledger | | | |
| Debit | 63XXX | Expenditure Account—Non Budgeted | 12,612 |
| Credit | 583300 | Inception of Lease—Non Budgeted | 12,612 |
| Entitywide Ledger | | | |
| Debit | 583300 | Inception of Lease—Non Budgeted | 12,612 |
| Credit | 63XXX | Expenditure Account—Non Budgeted | 12,612 |

To record the addition of the asset and the obligation:

|  |  |  |  |
| --- | --- | --- | --- |
| AM will automatically generate the following entry in the Entitywide ledger when the asset is added to AM. | | | |
| Debit | 17XX | Applicable Fixed Asset account | 12,612 |
| Credit | 63XXX/ 64XXX | Capital Expenditure Full Accrual Offset | 12,612 |
| Agencies will need to record the following GL entry to reflect that the asset has been financed.  (To be recorded in the Entitywide Ledger) | | | |
| Debit | 63XXX | Capital Expenditure Full Accrual Offset | 12,612 |
| Credit | 2104 | Financed Purchases Obligation | 12,612 |

AM-generated depreciation expense entry:

|  |  |  |  |
| --- | --- | --- | --- |
| AM will calculate all prior month’s depreciation for an asset added after the month of inception.  Entitywide Ledger | | | |
| Debit | 628XX | Depreciation expense | 210 |
| Credit | 17XX | Applicable accum depr acct | 210 |

Record payments-(voucher lines or manual GL entries) use the principal and interest figures calculated in the amortization schedule (previously):

|  |  |  |  |
| --- | --- | --- | --- |
| Debit | 69401 | Installment Purch-Principal (69403 for IT) | 250 |
| Debit | 69402 | Installment Purch-Interest (69404 for IT) | 0 |
| Debit | 627XX | Maintenance | 50 |
| Credit | 1104 | Cash in Bank | 300 |
| Reduce second payment of lease term.  Actuals Ledger | | | |
| Debit | 69401 | Installment Purch-Principal (69403 for IT) | 175 |
| Debit | 69402 | Installment Purch-Interest (69404 for IT) | 75 |
| Debit | 627XX | Maintenance | 50 |
| Credit | 1104 | Cash in Bank | 300 |

Reduce the finance purchases obligation for the principal portion of contract payments made. Manual entries can be made monthly or all at fiscal year-end:

|  |  |  |  |
| --- | --- | --- | --- |
| Entitywide Ledger | | | |
| Debit | 2104 | Lease Obligation | 1,135 |
| Credit | 69401A | Principal-Lease Non Budgeted (Use for IT and Non-IT) | 1,135 |

Principal reclassification at fiscal year-end:

|  |  |  |  |
| --- | --- | --- | --- |
| Adjustment needed at fiscal year-end to reclassify the principal that will be paid during the next fiscal year (manual entry).  Entitywide Ledger | | | |
| Debit | 2104 | Financed Purchases Obligation | 2,236 |
| Credit | 2124 | Fin Purch Payable–Due 1 Yr | 2,236 |
| This entry should be reversed after fiscal year-end. | | | |

Contact SAB for guidance to record substantial accrued interest amounts. For example, contract payments that are required monthly likely will not accrue substantial interest, however, if payments are required less often, such as annually or quarterly, a substantial amount may accrue and should be recorded as a liability.

Proprietary Funds (full accrual, all entries in the Actuals Ledger)

To record the addition of the asset and the obligation:

|  |  |  |  |
| --- | --- | --- | --- |
| Entries recorded by AM.  AM-generated entry to record the asset only | | | |
| Debit | 17XX | Applicable fixed asset account | 12,612 |
| Credit | 63XXX/ 64XXX | Capital expenditure full accrual offset | 12,612 |
| Manual GL entry required | | | |
| Debit | 63XXX/ 64XXX | Capital expenditure full accrual offset | 12,612 |
| Credit | 2104 | Financed Purchases Obligation | 12,612 |

AM-generated depreciation expense entry:

|  |  |  |  |
| --- | --- | --- | --- |
| AM will calculate all prior month’s depreciation for an asset added after the month of inception. | | | |
| Debit | 628XX | Depreciation expense | 210 |
| Credit | 17XX | Applicable accum depr account | 210 |

Record payments-(voucher lines or manual GL entries) use the principal and interest figures calculated in the amortization schedule (previously):

|  |  |  |  |
| --- | --- | --- | --- |
| Record first payment of the contract term. | | | |
| Debit | 69401 | Installment Purch - Principal (69403 for IT) | 250 |
| Debit | 69402 | Installment Purch - Interest (69404 for IT) | 0 |
| Debit | 627XX | Maintenance | 50 |
| Credit | 1104 | Cash in Bank | 300 |
| Record second payment of the contract term. | | | |
| Debit | 69401 | Installment Purch - Principal (69403 for IT) | 175 |
| Debit | 69402 | Installment Purch - Interst (69404 for IT) | 75 |
| Debit | 627XX | Maintenance | 50 |
| Credit | 1104 | Cash in Bank | 300 |

Reduce the financed purchases obligation for the principal portion of contract payments made. Manual entries can be made monthly or all at fiscal year-end:

|  |  |  |  |
| --- | --- | --- | --- |
| Debit | 2104 | Financed Purchases Obligation | 1,135 |
| Credit | 69401A | Install Purch-Principal - NB (Use for IT and Non-IT) | 1,135 |

Principal reclassification at fiscal year-end:

|  |  |  |  |
| --- | --- | --- | --- |
| Adjustment needed at fiscal year-end to reclassify the principal that will be paid during the next fiscal year-end (manual entry). | | | |
| Debit | 2104 | Financed Purchases Obligation | 2,236 |
| Credit | 2124 | Fin Purch Payable – Due 1 Yr | 2,236 |
| This entry should be reversed after fiscal year-end. | | | |

Contact SAB for guidance to record substantial accrued interest amounts. For example, contract payments that are required monthly likely will not accrue substantial interest, however, if payments are required less often, such as annually or quarterly, a substantial amount may accrue and should be recorded as a liability.

C. Related Party Transactions

Financed purchase transactions between the primary government and discretely presented component units (or between component units) should be treated in the same manner as any other such agreement of a state or local government. These agreements should be considered long-term contracts for accounting and reporting purposes.

D. Contract Modifications

The present value of contract modifications that make adjustments to the future payments should be recorded as adjustments to the liability and asset value with a gain and a loss should be recognized to any excess reduction once the asset net book value has been reduced to zero. If the modification changes the nature of the agreement to the point where it no longer qualifies as a financed purchase then, as of the date of the modification, the asset should be retired and the liability should be reversed with a gain or loss recognized for the difference between the asset net book value and the liability balance. If the revised agreement meets the definition of a lease under MOM 336, then that statement should be applied to the remaining lease payments as of the date of the modification.

E. Bank Qualified

Agencies may finance the purchase of various equipment using a lease-finance arrangement. As part of the lease-finance arrangement, the agency may be asked if there is a bank qualification (BQ), which is a tax-exempt bond qualification under IRC 255 with more favorable lease terms. Unless SAB advises otherwise, agencies entering into lease-finance agreements should represent that the tax-exempt obligations of the State are not bank qualified.

XII. Capital Asset Impairment

Paragraph 5 of GASB Statement No. 42–Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries (GASB 42), defines asset impairment as “a significant, unexpected decline in the service utility of a capital asset.” Such decline is based on events or changes in circumstances that were not anticipated when the asset was placed in service. GASB 42 defines service utility as the usable capacity that, at acquisition, was expected to be used to provide service; the level of utilization is the portion of the usable capacity currently being used. The determination of whether a capital asset is impaired is a two-step process of identifying potential impairments and testing for the impairment. Only assets that are significant to a fund should be tested for potential impairment. Professional judgment should be used by agencies to determine significance. Impairment losses recognized in accordance with this policy should not be reversed in a future year, even if events or circumstances that caused the impairment have changed.

A. Identifying Potential Impairments

Common indicators of impairment include, but are not limited to:

1. Evidence of physical damage, such as for a building damaged by fire or flood, when the level of damage is such that restoration efforts are needed to restore service utility.
2. Enactment or approval of laws or regulations or other changes in environmental factors, such as new water quality standards that a water treatment plant does not meet and cannot be modified to meet.
3. Technological development or evidence of obsolescence, such as that related to a major piece of diagnostic or research equipment, for example, a magnetic resonance imaging machine or a scanning electron microscope, that is rarely used because newer equipment provides better service.
4. A change in the manner or expected duration of use of a capital asset, such as closure of a school prior to the end of its useful life.
5. Stoppage of construction of a building due to lack of funding.
6. Stoppage of development of computer software due to change in the priorities of management.

B. Testing for Impairment

If a potential impairment is indicated by one of the factors above, or by some other means, then the asset should be tested for impairment. GASB 42 (par. 11), provides testing guidelines for determining whether both of the following factors are present:

1. The magnitude of the decline in service utility is significant. A significant decline is indicated if the continued operating expenses related to the use of the impaired asset or the costs to restore the asset are significant in relationship to the service utility of the asset.
2. The decline in service utility is unexpected. The restoration costs or other impairment circumstances are not part of the normal life cycle of the capital asset, and if they were contemplated because of an event or change, that development would suggest an unexpected decline in service utility. Normal maintenance costs or preservation costs do not suggest capital asset impairment.

See [Appendix A: Asset Impairment Decision Process](https://montana.servicenowservices.com/sp#AppendixA)for a flowchart to assist in determining if an asset is impaired.

C. Measuring the Impairment of Capital Assets

1. Asset is no longer used and construction/development stoppage

Per GASB 42 (par. 16), impaired capital assets, that will no longer be used, and those impaired by construction/development stoppage, should be written down to the lower of carrying value or fair value. If the fair value exceeds the carrying value, it is not appropriate to recognize a gain until the asset is sold or disposed (and retired in AM). If the carrying value exceeds the fair value, it is appropriate to recognize a loss when the impairment event or change in circumstance occurs.

2. Asset will continue to be used

Per GASB 42 (par. 12), for impaired capital assets that will continue to be used, the amount of the impairment loss should be determined using the below listed measurement approach that most appropriately reflects the decline in service utility.

1. Restoration cost approach: generally used to measure impairment losses from physical damage such as from fire, wind, and the like.
2. Service units approach: generally used to measure impairment losses from environmental factors, technological changes, obsolescence, or the change in the manner or duration of use.
3. Deflated depreciated replacement cost approach: generally used to measure impairment losses from the change in the manner or duration of use.

The method used to measure impairment losses should be applied consistently to impairments with similar characteristics. See[Appendix B: Measurement of Asset Impairment](https://montana.servicenowservices.com/sp#AppendixB2), for a flowchart that will assist in determining which impairment method should be used.

Restoration cost approach

Under this approach, the write-down is based on the cost to restore the utility of the capital asset. The current restoration cost is converted to historical cost by using an appropriate cost index, or by applying a ratio of estimated restoration cost over estimated replacement cost to the carrying value of the capital asset. To determine the ratio of estimated restoration costs over estimated replacement cost perform the following:

1. Determine the restoration cost in current dollars. This amount should be based on the amount of the impairment caused by the change or event and should exclude costs related to demolition, cleanup, additions, and improvements.
2. Determine the replacement cost in current dollars for the capital asset.
3. Determine the carrying value of the impaired capital asset before adjustment (historical cost less accumulated depreciation).
4. Determine the relationship between the restoration cost in current dollars and the replacement cost in current dollars for the capital asset. This should be expressed as a percentage (restoration cost/replacement cost).
5. Determine the impairment loss by multiplying the carrying value of the asset by the restoration cost ratio (computed in the previous step).

As an example of the restoration cost approach, assume that a building has a historical cost of $1,000,000, with an estimated useful life of 25 years. It was 60% depreciated when it was discovered that walls were structurally deficient. The estimated cost to restore the walls is $200,000, the estimated current cost to replace the building is $1,500,000, and the building is still going to be used. The computation of the write-down is as follows:

|  |  |
| --- | --- |
| **Component of restoration cost approach** | **Amount** |
| Historical cost of building | $1,000,000 |
| Accumulated depreciation of the asset | $(600,000) |
| Carrying value of impaired asset | $400,000 |
| Restoration cost ratio: restoration cost ($200,000) ÷ replacement cost  ($1,500,000) | 13.33% |
| Impairment loss: carrying value ($400,000) × the restoration cost ratio  (13.33%) | $53,320 |

Service units approach

The write-down under the service units approach is based on the proportion of the capital asset, as expressed in service units that has been lost due to an event or change in circumstances that created the impairment. The total service units can be based on either the maximum estimated service units or total estimated service units throughout the life of the capital asset. Service units can be measured in years of service, number of units produced, number of citizens benefited, etc. As an example of service units approach, assume that equipment has a historical cost of $500,000 and originally had an estimated useful life of 30 years. After 3 years of use, new regulations are enacted that will make the equipment obsolete in 3 years. The amount of service units lost, expressed in years, is 24, which is 80% of service life (24 years ÷ 30 years). The amount of the impairment loss is $400,000 ($500,000 × 80%).

Deflated depreciated replacement cost approach

This approach is based on estimating the current cost of an asset needed to replace the current level of service. The estimated cost is depreciated to reflect the asset is not new, is deflated to the historical cost basis for when the original asset was acquired. As an example of deflated depreciated replacement cost approach, assume a building has an original cost of $4,000,000 and was 40% depreciated. The building was to be used originally as an airplane hangar, but management has decided that it will now be used as a storage facility. The cost of a comparable storage facility is $500,000, and the replacement cost of the airplane hangar is $5,000,000.

|  |  |
| --- | --- |
| **Component of deflated depreciated replacement cost approach** | **Amount** |
| Deflator factor: $5,000,000 replacement cost ÷ $4,000,000 historical cost | 1.25 |
| Assumed carrying amount of a new storage facility: $500,000 (total cost) ×  60% (undepreciated proportion) | $300,000 |
| Carrying amount of old building: $4,000,000 (historical cost) × 60%  (undepreciated proportion) | $2,400,000 |
| Estimated deflated carrying value of a new warehouse: $300,000 (carrying value of new asset ÷ 1.25 (deflator factor) | $240,000 |
| Impairment loss: $2,400,000 (book value of asset) - $240,000 (estimated deflated carrying value) | $2,160,000 |

D. Insurance Recoveries

An insurance recovery should be recorded in the fiscal year in which it is realized or realizable. For example, an insurance recovery is realizable if an insurer has admitted or acknowledged coverage. The insurance recovery generally is not realizable if the insurer has denied coverage. Costs related to the restoration or replacement of an impaired capital asset should be reported as a separate transaction from any associated insurance recovery. These costs should be recorded in the Actuals Ledger generally as capital outlay.

1. Insurance recoveries in governmental funds (modified accrual)

Insurance recoveries should be recorded in a 58580X insurance proceeds account; the specific account depends upon the year the recovery is realized or realizable.

2. Insurance recoveries in proprietary funds (full accrual)

Insurance recoveries should be recorded in account 550401 – Impairment Gain Non-Gov - NB if the recovery is realized or realizable in the same year as the impairment loss. For financial statement reporting, insurance recoveries recorded in account 550401 are netted with the impairment loss and a net gain or loss is reported. Insurance recoveries realized or realizable in a year subsequent to the recognition of the impairment loss should be recorded in account 585804 Insurance Pro Subsequent Yr. Insurance recoveries recorded in account 585804 are reported in the financial statements of full accrual funds as a non-operating revenue.

**3. Policies**

Also see MOM-SFSD-POL-SAB 365-Risk Financing and Related Insurance Issues (MOM Policy 365) XI. Accounting for Insurance Proceeds

E. Recording Impairment Write-down in a Modified Accrual Fund

The “Asset Status” should be changed to *Impaired Asset*in the AM basic information screen (AM > Asset Transactions > Owned Assets > Basic Add). The accumulated depreciation must be adjusted in AM by the amount of the impairment loss. See SABHRS documentation related to adjusting accumulated depreciation in the AM system. Once the month-end processes are run, AM will generate an entry to record the impairment as an increase to depreciation expense and accumulated depreciation. The depreciation expense is offset against 62808A – NB Loss on Asset Impairment.

An impairment loss entered of $1,000,000 would create the following AM-generated entry:

|  |  |  |  |
| --- | --- | --- | --- |
| AM-generated entry to write down impaired asset.  Entitywide Ledger | | | |
| Debit | 62805 | NB Depreciation Expense | 1,000,000 |
| Credit | 17XX | Accum depr | 1,000,000 |

Insurance proceeds realized or realizable in the same year the impairment write-down is recorded. If a cash payment related to the insurance proceeds will be received and realized or realizable in the same fiscal year as the impairment, the following entry is recorded in the Actuals Ledger.

The following example assumes the proceeds realized were $900,000:

|  |  |  |  |
| --- | --- | --- | --- |
| To record insurance proceeds realized in year of impairment.  Actuals Ledger | | | |
| Debit | 1104 or 12XX | Cash in Bank (or a receivable account if insurance company acknowledged coverage, but cash is not yet received) | 900,000 |
| Credit | 585803 | Insurance Proceeds Current Yr | 900,000 |

If the insurer agrees to cover the loss in the same fiscal year that the impairment occurs but elects to pay for the repair or replacement costs directly (i.e., the insurer will not send a cash payment to the state agency), the following entry is recorded in the Actuals Ledger.

The following examples assume the costs covered by the insurer are $900,000:

|  |  |  |  |
| --- | --- | --- | --- |
| To record insurance proceeds when the insurer will pay the repair or replacement costs directly.  Actuals Ledger | | | |
| Debit | 63XXX/ 64XXX or  12XX | Capital outlay expenditure (or a receivable account if insurance company acknowledged coverage, but repair or replacement costs have not yet been paid) | 900,000 |
| Credit | 585803 | Insurance Proceeds Current Yr | 900,000 |

If a receivable was recognized in this scenario, an entry is required to debit the proper 63xxx or 64xxx expense account and credit the receivable when the asset has been repaired or replaced. For full accrual reporting purposes, any insurance proceeds realized or realizable in the same fiscal year as the loss must be netted against the impairment loss and a net gain or loss must be recorded.

|  |  |  |  |
| --- | --- | --- | --- |
| To record net impairment gain or loss.  Entitywide Ledger | | | |
| Debit | 62808A | NB Loss on Asset Impairment *1* | 100,000 |
| Debit | 585803 | Insurance Proceeds Current Yr | 900,000 |
| Credit | 62805 | NB Depreciation Expense | 1,000,000 |

*1If the insurance proceeds had exceeded the impairment loss this line would be a credit to account 583204 Gov Fund Impairment Gain. If the insurance proceeds are equal to the impairment loss, this line on the entry is not required*.

1. Insurance proceeds realized or realizable in a year subsequent to the impairment write-down

1. When insurance proceeds are not realized or realizable until a year subsequent to the impairment loss, the proceeds are recorded as revenue in the year realized or realizable. However, the impairment is immediately recorded in AM (as discussed previously).
2. In the Entitywide Ledger, the following entry is required to reverse the depreciation expense (recorded by the AM-generated entry created when the asset impairment is booked in AM) and to recognize the impairment loss.

This entry must be recorded in the year the impairment occurs:

|  |  |  |  |
| --- | --- | --- | --- |
| To reverse depreciation expense recorded in AM and reflect impairment loss.  Entitywide Ledger | | | |
| Debit | 62808A | NB Loss on Asset Impairment | 1,000,000 |
| Credit | 62805 | NB Depreciation Expense | 1,000,000 |

A cash payment related to the insurance proceeds will be received and the proceeds are realized or realizable in a fiscal year subsequent to the impairment, the following entry is recorded in the Actuals Ledger.

The following example assumes the proceeds realized were $900,000:

|  |  |  |  |
| --- | --- | --- | --- |
| To record insurance proceeds realized subsequent to impairment year.  Actuals Ledger | | | |
| Debit | 1104 or 12XX | Cash in Bank (or a receivable account if insurance company acknowledged coverage, but cash is not yet received) | 900,000 |
| Credit | 585804 | Insurance Pro Subsequent Yr | 900,000 |

If the insurer agrees to cover the loss in a fiscal year subsequent to the impairment and elects to pay for the repair or replacement costs directly (i.e., the insurer will not send a cash payment to the state agency), the following entry is recorded in the Actuals Ledger.

The following example assumes the costs covered by the insurer are $900,000:

|  |  |  |  |
| --- | --- | --- | --- |
| To record insurance proceeds (recognized in a year subsequent to the year of impairment) when the insurer will pay the repair or replacement costs directly.  Actuals Ledger | | | |
| Debit | 63XXX/ 64XXX or  12XX | Capital outlay expenditure (or a receivable account if insurance company acknowledged coverage, but repair or replacement costs have not yet been paid) | 900,000 |
| Credit | 585804 | Insurance Pro Subsequent Yr | 900,000 |

If a receivable was recognized in this scenario, an entry is required to debit the proper 63XXX/64XXX expense account and credit the receivable when the asset has been repaired or replaced.

F. Recording Impairment Write-down in a Full Accrual Fund

All entries are recorded in the Actuals Ledger. The “Asset Status” should be changed to *Impaired Asset*in the AM basic information screen (AM > Asset Transactions > Owned Assets > Basic Add). The accumulated depreciation must be adjusted in AM by the amount of the impairment loss. See [SABHRS documentation](https://mine.mt.gov/documentation/sabhrs/default.mcpx) on adjusting accumulated depreciation in the AM system. Once the month-end processes are run, AM will generate an entry to record the impairment as an increase to depreciation expense and accumulated depreciation. The depreciation expense is later offset (by a GL entry) against 62808A – NB Loss on Asset Impairment.

An impairment loss entered in the amount of $50,000 would create the following entry:

|  |  |  |  |
| --- | --- | --- | --- |
| AM entry to write down impaired asset. | | | |
| Debit | 62805 | NB Depreciation Expense | 500,000 |
| Credit | 17XX | Accum depreciation | 500,000 |

Insurance proceeds realized or realizable in the same year the impairment write-down is recorded

If a cash payment related to the insurance proceeds will be received and they are realized or realizable in the same fiscal year as the impairment, the following entry is reported.

The following example assumes the proceeds realized were $700,000:

|  |  |  |  |
| --- | --- | --- | --- |
| To record insurance proceeds received as a cash payment. | | | |
| Debit | 1104 or 12XX | Cash in Bank (or a receivable if realized but not  received) | 700,000 |
| Credit | 550401 | Impairment Gain Non-Gov - NB | 700,000 |

If the insurer agrees to cover the loss in the same fiscal year that the impairment occurs but elects to pay for the repair or replacement costs directly (i.e., the insurer will not send a cash payment to the state agency), the following entry is recorded.

The following entry assumes the costs covered by the insurer will be $700,000:

|  |  |  |  |
| --- | --- | --- | --- |
| To record insurance proceeds when the insurer will pay the repair or replacement costs directly. | | | |
| Debit | 63XXX/ 64XXX or  12XX | Capital asset expense (or receivable if insurance company acknowledged coverage, but replacement expenses have not yet been incurred) | 700,000 |
| Credit | 550401 | Impairment Gain Non-Gov - NB | 700,000 |

If a receivable was recognized in this scenario, an entry is required to debit the proper 63XXX/64XXX expense account and credit the receivable when the asset has been repaired or replaced.

Any insurance proceeds realized or realizable in the same fiscal year as the impairment must be netted against the impairment loss and a net gain or loss recorded.

|  |  |  |  |
| --- | --- | --- | --- |
| To record net impairment, gain or loss. | | | |
| Debit | 550401 | Impairment Gain Non-Gov NB (to reverse proceeds recorded in the gain account) | 700,000 |
| Credit | 550401 | Impairment Gain Non-Gov NB (difference between the proceeds received and depreciation expense generated from the AM entry above)*1* | 200,000 |
| Credit | 62805 | NB Depreciation Expense | 500,000 |

*1If the insurance proceeds were less than the impairment loss, this line would be a debit to account 62808A – NB Loss on Asset Impairment. If the insurance proceeds are equal to the impairment loss, no gain/loss is reported.*

Insurance proceeds realized or realizable in a year subsequent to the impairment write-down

When insurance proceeds are not realized or realizable until a year subsequent to the impairment loss, the proceeds are recorded as revenue in the year realized or realizable. However, the impairment is immediately recorded in AM.

The following entry is required to reverse the depreciation expense recorded by the AM-generated entry created when the impairment was booked in AM. This entry must be recorded in the year the impairment occurs:

|  |  |  |  |
| --- | --- | --- | --- |
| To reverse depreciation expense recorded by AM and reflect impairment loss. | | | |
| Debit | 62808A | NB Loss on Asset Impairment | 500,000 |
| Credit | 62805 | NB Depreciation Expense | 500,000 |

If a cash payment related to the insurance proceeds will be received and the proceeds are realized or realizable in a fiscal year subsequent to the impairment, the following entry is recorded.

The following example assumes the proceeds realized were $700,000:

|  |  |  |  |
| --- | --- | --- | --- |
| To record insurance proceeds realized subsequent to impairment year. | | | |
| Debit | 1104 or 12XX | Cash in Bank (or a receivable account if realized, but not received) | 700,000 |
| Credit | 585804 | Insurance Pro Subsequent Yr | 700,000 |

If the insurer agrees to cover the loss in a fiscal year subsequent to the impairment and elects to pay for the repair or replacement costs directly (i.e., the insurer will not send a cash payment to the state agency), the following entry is recorded.

The following example assumes the costs covered by the insurer are $700,000:

|  |  |  |  |
| --- | --- | --- | --- |
| To record insurance proceeds recognized in a year subsequent to the year of impairment when the insurer will pay the repair or replacement costs directly. | | | |
| Debit | 63XXX/ 64XXX or  12XX | Capital outlay expenditure (or a receivable account if insurance company acknowledged coverage, but repair or replacement costs have not yet been paid) | 700,000 |
| Credit | 585804 | Insurance Pro Subsequent Yr | 700,000 |

If a receivable was recognized in this scenario, an entry is required to debit the proper 63XXX/64XXX expense account and credit the receivable once the asset has been repaired or replaced.

G. Replacement or Repair Costs of the Impaired Asset

If an impaired asset is being repaired, the repairs should be added as an improvement or as a new asset. If a new asset is being added to replace the old asset, the new asset should be added to AM and the old asset retired. The new asset should be added in the same year the replacement costs are incurred and the old asset should be retired in the year it is disposed of.

H. Other Asset Impairment Topics

1. Temporary impairments

If the impairment is temporary, the historical cost of the capital asset should not be written down. If management is required to take action to reverse the impairment, the impairment is considered permanent. Thus, if physical damage causes impairment to a capital asset, the impairment is considered permanent.

2. Disclosure of asset impairment

Impairment losses must be communicated to DOA State Accounting Bureau. The amount of the loss and a brief description of the cause of the impairment should be provided. Also, the carrying value of any impaired capital assets that are idle at year-end should be disclosed, regardless of whether the impairment is permanent or temporary.

XIII. Disposition of Property

Pursuant to Section 18-6-101, MCA, DOA has exclusive power (subject to the approval of the governor) to sell, or otherwise dispose of, or to authorize the sale or other disposition of, all materials and supplies, service equipment, or other personal property of every kind owned by the State of Montana, but not needed or used by any state institution or by any department of state government. The Surplus Property Program of General Services Division (GSD) should be contacted for proper procedures and instructions prior to disposition of any state property. The property is to remain on agency books until notification is received from the Property and Supply Bureau that the asset was sold.

A. Sale of Property (capital assets only)GASB 104 requires assets that are “held for sale” to be separately disclosed.Held for sale is defined as an asset that will be sold, and it is likely that the sale will occur within one year of the financial statement date. While there is no accounting entry required when an asset is identified as held for sale, agencies must review all assets no less than annually to determine if they should be classified as “held for sale.” Please refer to the AM manual for the steps to mark an asset “held for sale.”

The property tag number for the item sold will be removed and destroyed. When property is sold to a third party, the proceeds are recorded either as proceeds of governmental fixed asset disposition (for governmental funds), or as fixed asset AR clearing (for proprietary funds). For both governmental and proprietary funds, the proceeds are entered in AM when the asset is retired.

Governmental Funds

|  |  |  |  |
| --- | --- | --- | --- |
| To record receipt of cash for sale of a capital asset sold at a loss.  Actuals Ledger | | | |
| Debit | 1104 | Cash in Bank | 75,000 |
| Credit | 5832XX | Gov fixed asset proceeds account | 75,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| AM-generated retirement entry.  Entitywide Ledger | | | |
| Debit | 1709 | Accum Depr – Equipment | 250,000 |
| Debit | 583201 | Gov FA Disp Proceeds | 75,000 |
| Debit | 62808 | NB Loss on Sale Expense | 50,000 |
| Credit | 1704 | Equipment | 375,000 |

Proprietary Funds

|  |  |  |  |
| --- | --- | --- | --- |
| To record receipt of cash for sale of capital asset sold at a gain.  Actuals Ledger | | | |
| Debit | 1104 | Cash in Bank | 150,000 |
| Credit | 1812 | Fixed Asset AR Clearing | 150,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| AM-generated retirement entry.  Actuals Ledger | | | |
| Debit | 1709 | Accum Depr - Equip | 250,000 |
| Debit | 1812 | Fixed Asset AR Clearing | 150,000 |
| Credit | 1704 | Equipment | 375,000 |
| Credit | 550400 | Gain Sale Non-Gov Fix Asset – NB | 25,000 |

B. Trade-in of Property (capital assets only)

Agencies must receive GSD Surplus Property Program approval before trading-in state equipment. Once approved, the asset can be retired on AM. The trade-in amount must be entered in AM as part of the retirement process. An asset acquired through trade-in can only be added to AM after the SABHRS month-end processes have been run. SAB can be contacted to request a partial month-end process to be run. If this request is not made (or not approved), the asset cannot be added until the next month. For approved requests, notification will be provided once the SABHRS process has been run; at that point, the related trade-in transaction can be selected to add the asset to AM. The AM-generated add transaction credits account 1811, which will offset the 1811 balance generated on the retirement.

1. Gain/Loss Recognition

A loss is recognized when the value of the asset received is less than the book value of the asset relinquished. Gains are recognized only when cash or another monetary asset is received, and the total value of assets received or the trade-in allowance exceeds the book value of the asset relinquished. In these situations, the gain to be recognized is calculated as the cash received, divided by the fair value of the asset relinquished, multiplied by the book gain (asset’s fair value less its book value). The recognized gain must be included in the asset’s retirement In AM. Similar to property sales, any cash proceeds received in a trade-in are recorded as proceeds of governmental fixed asset disposition (governmental funds) or as fixed asset AR clearing (for proprietary funds); this entry is always made in the Actuals Ledger. The 5832XX /1812 balance credited must be offset against the 63XXX/64XXX account balance created when the new asset was added to AM. Detailed information regarding trade-ins can be found in the [AM manual](https://mine.mt.gov/content/documentation/sabhrs/financials/AM_Manual), which can be found on the [SABHRS Documentation](https://mine.mt.gov/documentation/sabhrs/financials/default.mcpx)website.

Trade-in with a loss

Assume the following variables:

|  |  |
| --- | --- |
| Old asset historical cost | 10,000 |
| Accumulated depreciation | 6,000 |
| Book value | 4,000 |
| Amount allowed for trade-in | 2,500 |
| Loss (book value less trade-in) | 1,500 |
| New asset cost | 15,000 |
| Cash needed (cost less trade-in) | 12,500 |

A voucher is created in the Actuals Ledger to pay for the new asset:

|  |  |  |  |
| --- | --- | --- | --- |
| Voucher to pay for equipment (AP Module).  Actuals Ledger | | | |
| Debit | 63XXX/  64XXX | Budgeted fixed asset expense | 12,500 |
| Credit | 1104 | Cash in Bank | 12,500 |

The old asset must be retired using the Traded in for another Asset as the “Retire As” option. The trade-in allowance must be entered in the “Proceeds” box.

The following entry is created by AM:

|  |  |  |  |
| --- | --- | --- | --- |
| AM-generated Trade-In retirement entry.  Entitywide or Actuals Ledger depending on fund type | | | |
| Debit | 17XX | Accum Depr | 6,000 |
| Debit | 1811 | Fixed Asset Clearing (trade-in allowance) | 2,500 |
| Debit | 62808 | NB Loss on Sale Expense | 1,500 |
| Credit | 17XX | Capital asset | 10,000 |

After the SABHRS processes have been run, the new asset should be added to AM using Trade In as the “Acquisition Code.”

The following entry is created by AM:

|  |  |  |  |
| --- | --- | --- | --- |
| AM-generated entry to record new asset.  Entitywide or Actuals Ledger depending on fund type | | | |
| Debit | 17XX | Capital asset | 15,000 |
| Credit  Credit | 1811  63XXX/64XXX | Fixed Asset Clearing (trade-in allowance)  NB Fixed Asset Expense Offset | 2,500  12,500 |

Trade-in of asset when fair market value is greater than the book value of the exchanged asset (boot received)

|  |  |
| --- | --- |
| Old asset historical cost: | 700,000 |
| Accumulated depreciation | 230,000 |
| Book value | 470,000 |
| Fair value | 500,000 |
| Gain (fair value less book value of asset traded-in) | 30,000 |
| New item cost | 450,000 |
| Cash received (Amount allowed for trade-in less new item cost) | 50,000 |

A journal is created in the Actuals Ledger to receipt the proceeds from the exchange.

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts receivable document to record cash received (boot).  Actuals Ledger | | | |
| Debit | 1104 | Cash in Bank | 50,000 |
| Credit | 5832XX/1812*\** | Proceeds from sale of fixed asset/Fixed Asset AR Clearing | 50,000 |

*\*Modified accrual funds use 5832XX and full accrual funds use 1812.*

When capital assets are exchanged in a nonmonetary transaction and boot is received, a partial gain should be recognized. The recognized gain is calculated as the cash received, divided by the fair value of the exchange. That proportion is then multiplied by the total gain. In this example the recognized gain is $3,000:

*Cash $50,000*

*Fair Value $500,000*

*Proportion 10% (Cash ÷ Fair Value)*

*Total Gain $30,000*

*Recognized Gain $3,000 (Proportion × Total Gain)*

The old asset must be retired using the Trade In for another Asset as the “Retire As” option. The trade-in allowance must be entered in the “Proceeds” box. The proceeds entered should equal the book value of the asset being retired (including salvage value if applicable) plus the recognized gain calculated above.

The following entry is created by AM:

|  |  |  |  |
| --- | --- | --- | --- |
| AM-generated Trade-In retirement entry.  Entitywide or Actuals Ledger depending on fund type | | | |
| Debit | 17XX | Accum Depr | 230,000 |
| Debit | 1811 | Fixed Asset Clearing (proceeds as calculated) | 473,000 |
| Credit | 583202/50400 | Gov FA Disp Full Acc Gain/  Gain Sale Non-Gov Fix Asset-NB | 3,000 |
| Credit | 17XX | Capital asset | 700,000 |

After the SABHRS process has been run, the new asset should then be added to AM using Trade In as the “Acquisition Code. The value of the new asset added to AM should equal the book value of the old asset plus the recognized gain less the boot received:

*Book Value $470,000*

*Recognized Gain $3,000*

*Boot $(50,000)*

*New Asset $423,000*

The procedures for the trade-in of a capital asset, as shown in the [AM Manual](https://mine.mt.gov/content/documentation/sabhrs/financials/AM_Manual), must be followed. The cash received must be entered as a negative number into the cost field. AM will automatically add the trade-in value to the cost once the old asset ID has been selected.

In this example, AM would create the following entry:

|  |  |  |  |
| --- | --- | --- | --- |
| AM-generated entry to record new asset.  Entitywide or Actuals Ledger depending on fund type | | | |
| Debit | 17XX | Capital asset | 423,000 |
| Debit | 63XXX/64XXX | Non-budgeted fixed asset expense offset | 50,000 |
| Credit | 1811 | Fixed Asset Clearing (proceeds entered on old asset) | 473,000 |

A general ledger entry is needed to reconcile the gross proceeds amount received with the non-budgeted fixed asset expense (Entitywide Ledger for modified accrual funds/Actuals Ledger for full accrual funds).

|  |  |  |  |
| --- | --- | --- | --- |
| Reconcile fixed asset expense with proceeds amount.  Entitywide or Actuals Ledger depending on fund type | | | |
| Debit | 5832XX/1812*\** | Proceeds from sale of fixed asset/  Fixed Asset AR Clearing | 50,000 |
| Credit | 63XXX/64XXX | NB fixed asset expense offset | 50,000 |

*\* Modified accrual funds use 5832XX; full accrual funds use 1812.*

C. Asset Exchanges

Per GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (GASB 62) (par. 272-281), exchanges of similar productive assets (assets that are held for or used in the production of goods or services), that are not held for sale in the ordinary course of operations, are accounted for based on the recorded amount rather than the fair value of the asset relinquished. Below is an example of the entries for a transaction where assets of equal fair value are exchanged without monetary consideration (proprietary and fiduciary activity is recorded in the Actuals Ledger and governmental activity is recorded in the Entitywide Ledger).

|  |  |  |  |
| --- | --- | --- | --- |
| System generated entry when the relinquished asset is retired in AM. | | | |
| Debit | 1707 | Accum Depr–Buildings | 750,000 |
| Debit | 62808 | NB Loss on Sale Expense | 250,000 |
| Credit | 1702 | Buildings | 1,000,000 |
| System generated entry when the new asset is added to AM*1*. | | | |
| Debit | 1702 | Buildings | 250,000 |
| Credit | 64298 | NB Full Accr Build Offset | 250,000 |
| *1The amount the new asset is recorded equals the book value of the retired asset: cost less accumulated depreciation ($1,000,000-$750,000).* | | | |
| GL clean-up entry required to offset the 64XXX balance and remove the loss. | | | |
| Debit | 64298 | NB Full Accr Build Offset | 250,000 |
| Credit | 62808 | NB Loss on Sale Expense | 250,000 |

D. Scrapped Property

When capital assets are scrapped, *Scrapped Assets*should be selected as the “Retire As” option. AM will generate all necessary entries to account for the retirement.

E. Lost, Stolen, or Destroyed Property

Per MCA 5-13-309(3), misappropriations, actual or suspected, involving State of Montana property must be reported immediately in writing to the Attorney General and the Legislative Auditor. For lost, stolen, or destroyed assets, the agency property coordinator must prepare an Asset Management Report of Property Survey form (available on the [Statewide Accounting Bureau webpage](http://sfsd.mt.gov/SAB)under forms), or prepare a letter that contains the following items:

1. Agency and division name;
2. Agency’s property coordinator;
3. Effective date;
4. Asset’s cost, SABHRS ID and description;
5. Type of dispossession (lost, stolen, destroyed or other);
6. Law enforcement agencies notified, if any; and
7. Precautions taken to prevent recurrence.

The form or letter must be signed by an authorized agency individual certifying that the information provided is accurate and true. The agency must retain the form/letter and submit copies to the Legislative Audit Division and the Attorney General’s Office. Agencies receiving moneys from insurance payments for property lost, stolen, or destroyed should deposit the proceeds in the appropriate fund. Such capital assets should be retired in AM using the appropriate “Retire As” option (*Disposal Due to Theft*, etc.).

F. Receipting Insurance Proceeds for Damaged or Destroyed Capital Assets not Repaired

Assets destroyed and not repaired must be retired in AM using Casualty Loss from the “Retire As” menu. The amount of insurance proceeds recorded is limited to the book value of the asset at the time of the retirement to ensure that a gain on sale of asset is not recorded. Instead, the full amount of proceeds is recorded in 585803 – Insurance Proceeds Current Yr, and then reduced by the book value of the asset as illustrated in the following. Once the asset is retired in AM, a GL entry is required to offset the 1812 balance (created by the RET journal) against account 585803. Two example scenarios follow.

Assume that insurance proceeds of $10,000 were received for a wrecked vehicle with a book value of $8,000 (historical cost of $20,000 and accumulated depreciation of $12,000):

|  |  |  |  |
| --- | --- | --- | --- |
| AM generated- To record the original receipt of cash.  Actuals Ledger | | | |
| Debit | 1104 | Cash in Bank | 10,000 |
| Credit | 585803 | Insurance Proceeds Current Yr | 10,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| AM-generated RET journal produced with a Casualty Loss retirement type and proceeds of $8,000.  Entitywide or Actuals Ledger depending on fund type | | | |
| Debit | 1709 | Accm Depr – Equip | 12,000 |
| Debit | 1812 | Fixed Asset AR Clearing | 8,000 |
| Credit | 1704 | Equipment | 20,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| GL entry required to offset the clearing account balance and reduce insurance proceeds revenue by  the book value of the asset.  Entitywide or Actuals Ledger depending on fund type | | | |
| Debit | 585803 | Insurance Proceeds Current Yr | 8,000 |
| Credit | 1812 | Fixed Asset AR Clearing | 8,000 |

Assume instead that the insurance proceeds were only $7,000.

|  |  |  |  |
| --- | --- | --- | --- |
| Record original receipt of cash.  Actuals Ledger | | | |
| Debit | 1104 | Cash in Bank | 7,000 |
| Credit | 585803 | Insurance Proceeds Current Yr | 7,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| AM-generated RET journal produced with a Casualty Loss retirement type and proceeds of $7,000.  Actuals or Entitywide Ledger depending on fund type | | | |
| Debit | 1709 | Accm Depr – Equipment | 12,000 |
| Debit | 1812 | Fixed Asset AR Clearing | 7,000 |
| Debit | 62808 | NB Loss on Sale Expense | 1,000 |
| Credit | 1704 | Equipment | 20,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| GL entry required to offset the clearing account balance and reduce insurance proceeds revenue by the book value of the asset.  Actuals or Entitywide Ledger depending on fund type (same as AM retirement entry) | | | |
| Debit | 585803 | Insurance Proceeds Current Yr | 7,000 |
| Credit | 1812 | Fixed Asset AR Clearing | 7,000 |

XIV. Inventory

An agency must take a complete physical inventory of all capital assets, tagged minor equipment, and sensitive equipment using the inventory listing available from either an asset management system or an automated barcode scanner process. At a minimum, this inventory must be taken every two years.

A. General Information

Inventories are assets (e.g., supplies, merchandise, etc.) that may be held for use in general operations (account 1804 – Supplies Inventory) or for resale to other state agencies and/or to outside parties (account 1802 – Merchandise Inventory). The cost of inventories still in production should be recorded in account 1807 – Work-in-Process Inventory. The FIFO (first-in, first-out) method of valuing inventory should be used for most operations. Under the FIFO valuation method, goods remaining in inventory at fiscal year-end are reflected at the most recent unit cost amount paid for the item(s). Inventories should be valued at the lower of cost or market, except for account 1805 – Livestock Inventory. Livestock held for resale is considered inventory and should be recorded at fair market value at fiscal year-end. Livestock not held for resale and that has a historical unit cost less than the capitalization threshold is to be expensed. All purchases of inventory throughout the year should be recorded as expenditures/expenses at the time of purchase. A physical inventory should be taken each year as of June 30 or December 31 for Montana State Fund (MSF).

B. Agency Inventory Plan

The property coordinator will work with management to obtain personnel who are to take the inventory. The custodian of the property records, or the person to whom the capital assets have been assigned, should not exclusively control the inventory. Property records should be utilized whenever possible to assist in locating capital asset items. Inventories should be taken progressively from one small area to another (e.g., a building, one floor at a time, room by room). All capital assets, tagged minor equipment, and sensitive equipment, should be included in the inventory. Personnel conducting the physical inventory should record all data possible on the inventory by location report used to update the asset management system for individual capital asset items. Upon completion of the inventory, the asset management system should be updated and accounting entries should be recorded in AM or GL as necessary. Inventory records must be retained in the agency files. Additional documents related to individual property items should be filed with the inventory records.

The frequency of physical inspection and inventory of all capital assets will be determined by each agency's inventory system. Perpetual capital asset inventory systems, in which records are updated every time a capital asset is purchased/disposed, a physical inventory is required biennially. Non-perpetual inventory systems require a physical inventory be performed annually near June 30 or December 31 for MSF. The annual inventory will ensure that the capital assets recorded in AM at fiscal year-end are correctly stated. While taking inventories, it may be desirable to prepare separate listings of minor or expendable equipment for which tagging or other identification is considered necessary.

1. Missing tags or untagged items

While the physical inventory of capital assets is conducted, attention should be directed to any capital assets without tags. Sufficient information should be noted so that research of property records can determine if the item needs to be tagged (item was not tagged when placed into service) or retagged (original tag is missing). If the untagged item is on the inventory list correctly and a new tag number is assigned to that asset, then adding the tag number is the only adjustment needed in AM.

2. Inspection of equipment

Equipment should be inspected during the inventory process to determine its condition and the appropriate condition code entered on the inventory listing. If the personnel conducting the inventory suspect that replacement or extensive repairs may be necessary, it should be reported to the custodian of the asset and the agency property coordinator. Potential asset impairments as discussed in later sections should be considered.

3. Reconciliation and adjustments

Capital assets disclosed by the physical inventory should agree with the items as listed on the inventory list. Discrepancies must be thoroughly investigated and reported to the agency property coordinator. Any necessary write-offs because of missing capital assets should be documented and submitted to the Legislative Audit Division and the Attorney General. The Report of Property Survey form may be used for this; it is available on the Statewide Accounting Bureau webpage. Upon completion of the physical inventory, all necessary adjustments should be made to the asset management system to accurately reflect capital asset totals. If the item was found not to have been included on the asset management inventory list, then the asset must be added to AM using the accurate transaction date (date property was placed in service), as it can reasonably be determined. The inventories discussed in this section are recorded in SABHRS GL not AM due to inventory not meeting the definition of a capital asset.

C. Accounting Entries for Recording Inventories

Increases or decreases in inventory values (as compared to SABHRS balances) should be recorded in the GL module each fiscal year-end. Both governmental and proprietary funds record the inventory entries in the Actuals Ledger, as shown below.

1. Governmental fund entries

Inventory on hand at fiscal year-end should be recorded as an asset with reservation to fund balance (account 4121 – Fund Balance – Inventory) for the total amount.

|  |  |  |
| --- | --- | --- |
| To record increase in inventory for governmental fund.  Actuals Ledger | | |
| Debit | 18XX | Inventory account as required |
| Credit | 4121 | Fund Balance – Inventory |

|  |  |  |
| --- | --- | --- |
| To record decrease in inventory for governmental fund.  Actuals Ledger | | |
| Debit | 4121 | Fund Balance – Inventory |
| Credit | 18XX | Inventory account as required |

2. Proprietary fund entries

Proprietary funds do not record a reservation to fund balance for inventory. Instead, the increase or decrease in inventory is generally offset against current year expenditures using a non-budgeted expense account. The following examples (separately detailed below) are applicable to all proprietary funds, except for the DOA Surplus Property & Recycling Program and the prison ranch program, part of Montana Correctional Enterprises within the Department of Corrections, which is discussed in the following sections:

|  |  |  |
| --- | --- | --- |
| To record increase in inventory for proprietary fund.  Actuals Ledger | | |
| Debit | 18XX | Inventory account as required |
| Credit | 62855 | Inventory Adjustment-Nonbudget |

|  |  |  |
| --- | --- | --- |
| To record decrease in inventory for proprietary fund.  Actuals Ledger | | |
| Debit | 62855 | Inventory Adjustment-Nonbudget |
| Credit | 18XX | Inventory account as required |

3. Surplus Property Fund inventory entries

Surplus Property should record the following entries, as applicable, at the end of each month:

|  |  |  |
| --- | --- | --- |
| To record increase in inventory for Surplus Property Fund.  Actuals Ledger | | |
| Debit | 1802 | Merchandise Inventory |
| Credit | 549002 | Inventory Contributions |

|  |  |  |
| --- | --- | --- |
| To record decrease in inventory for Surplus Property Fund.  Actuals Ledger | | |
| Debit | 62855 | Inventory Adjustment-Non Budget |
| Credit | 1802 | Merchandise Inventory |

XV. Livestock Accounting Policy

A. Livestock Defined

For purposes of this section, livestock refers to:

1. Animals kept or raised on farms or ranches, such as cattle, horses, pigs, or sheep, except for poultry; and
2. Livestock is the term used to refer (singularly or plural) to a domesticated animal intentionally reared in an agricultural setting to produce things such as food or fiber, or to provide labor.

B. General Overview

The State of Montana maintains livestock primarily at Montana State University (MSU) and Montana Correctional Enterprises (MCE). MSU livestock is primarily comprised of beef cattle, sheep, and horse held for research and educational purposes. Breeding cattle are routinely replaced in the herds by their offspring. Additions and deductions in this manner do not require adjustment to the asset value. The asset value is modified only for material changes in the number of heads the herd is comprised of (new cattle purchases, or selloffs greater than what has been replaced by heifers). Depending on research protocol and objectives, animals are often kept in the herd for up to ten years.

MCE primarily maintains horses and cattle (beef and dairy) as part of its proprietary ranching operation. The herds include horses utilized for ranching operations, animals kept for production and breeding purposes, and animals intended for sale. Animals kept for production purposes can remain in the herd for up to eight years. The only livestock purchases made by MCE are for horses and bulls (both beef and dairy). The purchase price is utilized for the value of the animal(s) the year of the purchase and per head market value thereafter.

The value of the breeding and production livestock is per head market value. All livestock values are determined by using livestock auction company data, along with newspapers and the internet for current market values (by geographical area). The value of beef cattle inventory held for sale is estimated using the following formula: animal weight x current market price per pound = unit value x number on hand = current market value. The value of dairy cattle inventory held for sale is estimated at a per head market value. Donated livestock are recorded at acquisition value (see the Capital Asset Reported Cost section, previously) at time of donation.

C. Policy and Procedure

1. Accounting for capital livestock

Departments are responsible for keeping detailed records of livestock, conducting annual physical inventories and using information to make any necessary adjustments in AM. All additions to the capital livestock herd, including purchase and gifts, that have a useful life of greater than one year are capitalized as a part of the herd. Changes to capital livestock shall be made annually. The valuation of livestock at fiscal year-end will include the purchased livestock throughout the year and the livestock that have been held for over one year. The total of these two categories will be combined for the year-end flock or herd value.

|  |  |  |  |
| --- | --- | --- | --- |
| To record capital livestock: donations. | | | |
| Debit | 1711 | Livestock |  |
| Credit | 549003 | Capital Contributions Non State |  |

|  |  |  |  |
| --- | --- | --- | --- |
| To record capital livestock: purchases. | | | |
| Debit | 63299 | Livestock - General |  |
| Credit | 1104 | Cash in Bank |  |

|  |  |  |  |
| --- | --- | --- | --- |
| To record capital asset: AM-generated entry when an asset is added to AM. | | | |
| Debit | 1711 | Livestock |  |
| Credit | 63298 | NB Full Accr Livestock Offset |  |

|  |  |  |  |
| --- | --- | --- | --- |
| To record capital livestock increases. | | | |
| Debit | 1711 | Livestock |  |
| Credit | 583202 | Gov FA Disp Full Acc Gain |  |

|  |  |  |  |
| --- | --- | --- | --- |
| To record capital livestock reductions. | | | |
| Debit | 62808 | NB Loss on Sale Expense |  |
| Credit | 1711 | Livestock |  |

|  |  |  |  |
| --- | --- | --- | --- |
| To record capital livestock sale. | | | |
| Debit | 1104 | Cash in Bank |  |
| Debit | 62808 | NB Loss on Sale Expense |  |
| Credit | 550400 | Gain Sale Non-Gov Fix Asset-NB |  |
| Credit | 1711 | Livestock |  |

2. Accounting for non-capital livestock (livestock inventory)

A physical inventory, performed by the department that manages the livestock, is required on an annual basis. This inventory is a summary of all livestock (bred, purchased or gifted), and must include the fair market value per head (based on the most likely market for that particular department), the number of heads, and the total fair market value of all livestock.The results of the inventory should be used to record all purchases, gifts or sales of livestock not recorded during the year, as well as any needed valuations adjustments. Examples of these entries are detailed below.

|  |  |  |  |
| --- | --- | --- | --- |
| To record livestock received as a gift. | | | |
| Debit | 1805 | Livestock Inventory |  |
| Credit | 581400 | Donations |  |

|  |  |  |  |
| --- | --- | --- | --- |
| To record purchased livestock inventory. | | | |
| Debit | 62XXX | Operating Expense |  |
| Credit | 1104 | Cash in Bank |  |

|  |  |  |  |
| --- | --- | --- | --- |
| To record the sale of livestock inventory for Universities. | | | |
| Debit | 1104 | Cash in Bank |  |
| Credit | 550100 | Educ Activity Sales & Service |  |

|  |  |  |  |
| --- | --- | --- | --- |
| To record the sale of livestock inventory for MCE. | | | |
| Debit | 1104 | Cash in Bank |  |
| Credit | 553000 | Prison Merchandise Sold |  |

|  |  |  |  |
| --- | --- | --- | --- |
| To record annual inventory increases. | | | |
| Debit | 1805 | Livestock Inventory |  |
| Credit | 62884 | Pris Ranch Livestock Inventory |  |

|  |  |  |  |
| --- | --- | --- | --- |
| To record annual inventory decreases. | | | |
| Debit | 62884 | Pris Ranch Livestock Inventory |  |
| Credit | 1805 | Livestock Inventory |  |

XVI. Leasehold Improvements

Leasehold improvements are additions, improvements, or alterations made by the lessee to leased property that cannot be removed upon termination of the lease because they are attached to or form part of the leased premises. Leasehold improvements should not include maintenance and repairs done in the normal course of business. The cost of a leasehold improvement should be depreciated over the shorter of (1) the remaining lease term, or (2) the estimated useful life of the improvement. If the lease contains an option to renew and the likelihood of renewal is uncertain, only the original lease term should be considered. Leasehold improvements do not have a residual value. Improvements made in lieu of rent should be expensed in the period incurred. The Capital Asset Reported Cost section can be referred to for assistance in value determination.

Appendix A: Asset Impairment Decision Process

Appendix B