University of Missouri System
Accounting Policies and Procedures

Policy Number: APM-20.15

Policy Name: <u>Capital Assets - Depreciation</u>

General Policy and Procedure Overview:

Depreciation is an element of expense resulting from the use of long-lived assets. It is conventionally measured by allocating the expected net cost of using the asset (original cost less estimated salvage value) over its estimated useful life in a systematic and rational manner provided by the Government Accounting Standards Board (GASB) Codification 1400.114. In accordance with GASB No. 34, *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"* and GASB No. 35, *"Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities,"* the University of Missouri System began depreciating certain assets as of July 1, 2001.

Definition of Key Terms:

<u>Exhaustible</u>**:** An exhaustible asset is one that will be "used up" and needs to be depreciated to capture the cost of that "use."

<u>Inexhaustible</u>**:** Assets whose value is depleted so slowly that the estimated useful life is extraordinarily long.

<u>Composite Assets</u>**:** Grouping many assets so that their total cost is carried by and depreciated as one asset. This single asset is termed a composite asset, and associated assets are known as composite members.

<u>Half-Year Convention</u>**:** Under this convention, all property placed in service or disposed of during a tax year is treated as placed in service or disposed of at the midpoint of the year. This means that a one-half year of depreciation is allowed for the year the property is placed in service or disposed.

Detail Policy and Procedure:

Capital Assets are depreciated using a straight-line method. With exception of Exhaustible Library Materials, the depreciation for each asset will begin on the in-service date for the Capital Asset. Useful lives for all classes of assets have been established (link to Appendix). Exhaustible Library Materials are depreciated as composite assets utilizing the Half-Year Convention.

The PeopleSoft system calculates the depreciation on each individual asset. The entries generated are:

Transaction Description	Account	dr	Cr
End of FY, record adjustment to expense to bring Allowance in line with calculated estimate. A manual	XXXXXX Depreciation Expense	X	

journal entry is required.			
	174XXX Accumulated Depreciation		X

For the purpose of depreciation, the University has identified the following categories of Capital Assets that are depreciated.

- Buildings and Building Components (including Building Improvements)
- Infrastructure
- Equipment
- Exhaustible Library Materials
- Please refer to APM 20.16 for the Schedule of Depreciable Lives.

The following categories of Capital Assets are not depreciated:

- Land
- Construction in Progress
- Artwork
- Livestock
- Inexhaustible Library Collections
- Equipment in Progress

Tests for Reasonability:

Annually, the Controller's Office will prepare an analysis of depreciation expense for reasonability. The relationship between depreciation and depreciable assets is contrasted with prior years' experience. Any significant fluctuations are researched.

Responsibility:

Campus Accounting Offices and Inventory Control Department**:**

- Maintenance of the assets within the Asset Management system and for the integrity of the details upon which the depreciation calculations are based.

Controller's Office:

- Analysis of depreciation expense for reasonability.

Effective Date: July 1, 2006
Revised Date: May 1, 2007

Questions and Comments?

Questions regarding interpretation and implementation of the Accounting Policy should be directed to the Campus Accounting Office. Suggested edits or revisions to the policy should be directed to the Office of the Controller.