

Reclamation Manual

Directives and Standards

Subject:	Depreciation and Amortization
Purpose:	Establishes the responsibilities and procedures for recording depreciation and amortization on the Bureau of Reclamation's assets. This Directive and Standard (D&S) also establishes internal controls over the update of an asset's useful life. The benefit of this D&S is the Reclamation-wide standardization of the depreciation and amortization process in compliance with generally accepted accounting principles.
Authority:	Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS 6 , <i>Accounting for Property, Plant, and Equipment</i> ; FASAB SFFAS 10 , <i>Accounting for Internal Use Software</i> ; Department of the Treasury, U.S. Standard General Ledger ; Department of the Interior, Acquisition, Assistance, and Asset Policy (DOI-AAAP) 0122, <i>Property, Plant, and Equipment – Capitalization Criteria</i> ; DOI-AAAP 0125, <i>Property, Plant, and Equipment Depreciation</i>
Approving Official:	Director, Mission Support Organization
Contact:	Business Analysis Division (BAD), Compliance and Audit Team FIN 07-23 pp 1-884-27410)

1. **Introduction.** The basic financial statements reflect the acquisition cost of general property, plant, and equipment (G-PP&E) as an asset. See Reclamation Manual (RM) D&S, *General Property, Plant, and Equipment (G-PP&E)* ([FIN 07-20](#)) for additional information. Except for land, which is a non-depreciable asset, Reclamation depreciates/amortizes the acquisition cost of G-PP&E through straight-line depreciation/amortization over the asset's useful life. The depreciation/amortization expense accumulates in contra asset accounts: accumulated depreciation or accumulated amortization.
2. **Applicability.** This D&S applies to all Reclamation personnel responsible for updating the property module or recording transactions related to property in the Financial and Business Management System (FBMS).
3. **Month-End Financial Posting.** Prior to executing the month-end processes for property, the regional property and finance offices must complete every required financial posting. These include any acquisition, disposal, retirement, or transfer transactions to assets and any postings of accruals to capital projects. This ensures that asset values are up to date prior to executing month-end depreciation.
4. **Recognition of Depreciation Expense.** Reclamation recognizes depreciation expense on all G-PP&E, except land and permanent land rights. Reclamation applies amortization to intangible assets in the same manner as it depreciates G-PP&E. Amortize land rights with a specific lifetime over that specific time. The FBMS depreciation program calculates depreciation/amortization monthly for Reclamation assets within the following standard

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general ledgers (GL) (see RM D&S, *Master Data and General Ledger (GL) Chart of Accounts* ([FIN 04-20](#)) [Appendix C](#) for GL account definitions):

- A. **1712.xxxxxx** – *Improvements to Land.*
 - B. **1730.xxxxxx** – *Capitalized Buildings, Improvements, and Renovations.*
 - C. **1740.xxxxxx** – *Capitalized Other Structures and Facilities.*
 - D. **1750.xxxxxx** – *Capitalized Equipment.*
 - E. **1810.xxxxxx** – *Capitalized Lease.*
 - F. **1820.xxxxxx** – *Capitalized Leasehold Improvements.*
 - G. **1830.xxxxxx** – *Capitalized Internal Use Software.*
 - H. **1890.xxxxxx** – *Capitalized Other G-PP&E.*
5. **FBMS Monthly Depreciation Program.** The Interior, Business Integration Office (BIO) establishes the schedule and controls the monthly depreciation program within FBMS.
- A. **Test Mode.** BIO executes the monthly depreciation program in Test Mode to simulate monthly depreciation. This simulation identifies any errors. BIO provides the error files to the Labor, Controlling Objects/Project Systems (CO/PS) and Property Accounting Team for correction of the individual asset records causing the error. The regional finance office and the Labor, CO/PS and Property Accounting Team are responsible for collaborating to clear errors identified from the Test Mode depreciation program. After the Labor, CO/PS and Property Accounting Team corrects the errors, BIO executes the Test Mode again to verify the error corrections. BIO repeats the process until the file is error free.
 - B. **Update Mode.** After BIO verifies the simulation, they execute the actual depreciation program (update mode). The depreciation program runs at the company code (Interior) level and calculates depreciation for each asset using the depreciation start date, the useful life, the acquisition cost, and accumulated depreciation to date. The monthly depreciation program run calculates depreciation for each individual asset record and creates financial accounting posting transactions on each asset record. Depreciation posts in the controlling module work breakdown structure assigned to each asset record. The posting documents save to the FBMS GL on the last day of the month. The generated accounting documents post to depreciation expense and accumulated depreciation.
 - (1) Depreciation and amortization expense posts to the following GLs:
 - (a) **6710.00000** – *Depreciation Expense Personal Property.*

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- (b) **6710.10000** – *Depreciation Expense Improvements to Land.*
 - (c) **6710.20000** – *Depreciation Expense Buildings, Improvements, and Renovations.*
 - (d) **6710.30000** – *Depreciation Expense Other Structures and Facilities.*
 - (e) **6710.40000** – *Amortization Expense Capital Lease.*
 - (f) **6710.50000** – *Amortization Expense Leasehold Improvements.*
 - (g) **6710.60000** – *Amortization Expense Internal Use Software.*
 - (h) **6710.70000** – *Depreciation Expense Other Assets.*
- (2) Accumulated depreciation posts to the following GLs:
- (a) **1719.xxxxx** – *Accumulated Depreciation on Improvements to Land.*
 - (b) **1739.xxxxx** – *Accumulated Depreciation on Buildings, Improvements, and Renovations.*
 - (c) **1749.xxxxx** – *Accumulated Depreciation on Other Structures & Facilities.*
 - (d) **1759.xxxxx** – *Accumulated Depreciation on Equipment.*
 - (e) **1819.xxxxx** – *Accumulated Depreciation on Capital Leases.*
 - (f) **1829.xxxxx** – *Accumulated Amortization on Leasehold Improvement.*
 - (g) **1839.xxxxx** – *Accumulated Amortization on Internal Use Software.*
 - (h) **1899.xxxxx** – *Accumulated Depreciation on Other General Property, Plant and Equipment.*
6. **Composite Service Life.** Reclamation used the composite service life for depreciation purposes for real property in the Federal Financial System. Reclamation populated the composite life in the useful life field for a majority of assets during the conversion to FBMS. Reclamation does not use composite service life when establishing new asset records after FBMS implementation (fiscal year 2014).
7. **Useful Life.** Based upon regional assignment of duties, the regional finance office and the regional property office are responsible for recording the proper useful life and depreciation start date in the asset record within FBMS. Typically, FBMS defaults the useful life from the asset class so the sub-assets would have the same useful life as the main asset. The regional finance office and the regional property office staff with the appropriate FBMS roles have the ability to update the useful life manually. FBMS calculates depreciation at

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the asset and sub-asset level. This allows each asset and sub-asset to have a unique useful life and depreciation start date. To properly depreciate each real property asset and sub-asset, the regional finance office or regional property office staff with the appropriate FBMS roles must manually validate the asset's and sub-asset's useful life populated from the selection of the asset class in the creation of the asset shell. If the asset class does not have a default useful life or if a different useful life is more appropriate, the regional finance office or regional property office staff updates the useful life as determined below. The region must retain documentation to support the determination of the useful life of an asset.

A. Sources to Determine Useful Life.

- (1) **Federal Replacements – Units, Service Lives, Factors (Replacements Book).** The [Replacements Book](#) is the primary source for the determination of useful life. The Western Area Power Administration, Reclamation, Bonneville Power Administration, and the U.S. Army Corps of Engineers update the Replacements Book approximately every 10 years.
- (2) **Other Possible Sources.**
 - (a) Request assistance from the project manager and/or project engineer to determine the useful life. The project manager and/or project engineer can extrapolate a service life based upon the manufacturer's recommendation, from experiences with similar technology/equipment, historical data, etc.
 - (b) Any other reasonable and reliable source such as an industry standard.

B. Determination of Useful Life. Occasionally, a capitalized addition, replacement, or betterment directly extends the useful life of the existing/underlying asset by 2 years or more. On those rare occasions, Reclamation adjusts the remaining useful life of the existing/underlying asset. Useful life adjustments are made prospectively. The regional finance office or regional property office staff with the appropriate FBMS roles manually updates the useful life in accordance with the following:

- (1) **Additions.** Establish a new asset or sub-asset record, and use the Replacements Book useful life or determination from other reliable sources.
- (2) **Replacements.** See [FIN 07-20](#) for information regarding the capitalization and disposals pertaining to replacements. If the replacement is capitalized, retire the original asset, create a new asset/sub-asset record, and use the Replacements Book useful life or determination from other reliable sources.
- (3) **Betterments of Existing Assets.** Establish a sub-asset record.
 - (a) Occasionally, the betterment directly extends the useful life of the existing/underlying asset. If so, adjust the remaining life of the existing/underlying asset. For the sub-asset record, use the lesser of the

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adjusted remaining useful life of the existing/underlying asset or the useful life of the betterment based on the Replacements Book or other reliable sources.

(b) If the existing/underlying asset is fully depreciated, use the useful life of the betterment based on the Replacements Book or other reliable sources.

- (4) **Residual Costs.** Residual cost does not include additions, replacements, or betterments. They are added to the cost of the asset/sub-asset created during the initial transfer from assets under construction (AUC) to the completed asset account. Examples of residual costs include those Reclamation incurs to close out contracts and projects, “punch list” items, etc. See RM D&S, *Assets Under Construction (AUC)* ([FIN 07-24](#)) for required approvals to transfer residual costs that occur more than 3 years after the original AUC to completed asset account transfer.
8. **Other Assets – GL 1990.A0000.** Reclamation must manually compute depreciation expenses at least quarterly for the GL 1990.A0000 – *Other Assets*. The regional finance office is responsible for calculating the depreciation expense using the start date, the useful life, the acquisition cost, and the accumulated depreciation. The regional finance office then prepares and submits a journal voucher (SB document) to the BAD Reporting and Accounting Team (RAT) to post the depreciation expense. RAT posts the depreciation expense to GL 6710.70000 – *Depreciation Expense Other Assets* and GL 1990.A00000 – *Other Assets*.
9. **Removal of Asset From Service.** Depreciation/amortization ends upon removal of an asset from G-PP&E in anticipation of disposal, retirement, or removal from service. See [FIN 07-20](#) for additional information.
10. **Internal Controls on Useful Life.**
- A. The Labor, CO/PS and Property Accounting Team generates a quarterly report reflecting a 10 percent sample of the additions (new assets added) and all changes to the useful life by comparing the current quarter’s useful life to the prior quarter’s useful life for each asset. They forward the report to the regional finance officers in each region with a due date for certification and monitor the receipt of the certifications.
- B. The regional finance officers submit a quarterly certification to Labor, CO/PS and Property Accounting Team by the specified due date either agreeing with the useful life reflected on the report or providing actions the region took to adjust the invalid useful life. The regional finance office maintains sufficient documentation to support the determination of the useful life.

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11. Definitions.

- A. **Accumulated Depreciation.** The total amount of depreciation for an asset charged to expense, from asset acquisition and availability for use to date.
- B. **Additions.** New, separate, physical assets or sub-assets that increase the capacity or operating efficiency of an existing asset.
- C. **Amortization.** The systematic and rational allocation of the acquisition cost of intangible assets (software and land/water rights), less salvage value, over a specific period of time on the basis of the asset's useful life.
- D. **Betterment.** An improvement or upgrade of an existing asset that increases the size, capacity, or operating efficiency. A betterment may also extend the useful life of an asset.
- E. **Composite Service Life.** The estimated useful life of a project based on the weighted average straight-line depreciation for the combined assets that comprise the construction/G-PP&E account.
- F. **Depreciation.** The systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life.
- G. **Replacement.** The construction or installation of G-PP&E to replace an existing asset. Reclamation also uses the term to describe the replacement of components of a capitalized asset in the operation and maintenance process. See [FIN 07-20](#) for additional information.
- H. **Residual Cost.** Any costs Reclamation processes to complete the construction of an asset after the initial transfer of the asset from AUC to the appropriate completed asset account.

12. **Review Period.** The originating office will review this release every 3 years.

RECLAMATION MANUAL TRANSMITTAL SHEET

Effective Date: _____

Release No. _____

Ensure all employees needing this information are provided a copy of this release.

Reclamation Manual Release Number and Subject

Summary of Changes

NOTE: This Reclamation Manual release applies to all Reclamation employees. When an exclusive bargaining unit exists, changes to this release may be subject to the provisions of collective bargaining agreements.

Filing instructions

Remove Sheets

Insert Sheets

All Reclamation Manual releases are available at <http://www.usbr.gov/recman/>

Filed by: _____

Date: _____