



Management Directive

Commonwealth of Pennsylvania

Governor's Office

Management Directive 310.14 Amended – Capital Asset Accounting and Reporting

Date: May 16, 2022
By Direction of: *Greg Thall*
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This directive establishes policy, responsibilities, and procedures pertaining to the accounting and financial reporting of Capital Assets in conformance with Generally Accepted Accounting Principles. Adherence to this directive is crucial to the proper reporting of Capital Asset information in the Commonwealth's Basic Financial Statements.

1. PURPOSE.

To establish policy, responsibilities, and procedures regarding accounting and financial reporting of the Commonwealth's Capital Assets, in conformity with Generally Accepted Accounting Principles (GAAP).

2. SCOPE.

- a. The accounting and financial reporting policies promulgated in this directive apply to all primary government funds and proprietary funds within the Commonwealth Financial Reporting Entity.
- b. This directive applies to all departments, offices, boards, commissions, and councils (hereinafter referred to as "agencies") under the Governor's jurisdiction. Legislative and judicial entities, and other executive and independent agencies included in the Commonwealth Financial Reporting Entity, are urged to adopt policies and institute the procedures required to prepare financial reports in conformity with GAAP. Data from non-SAP agencies will be added to the SAP Fixed Assets system for all-inclusive reporting.

3. OBJECTIVES.

- a. To develop Capital Asset accounting and financial reporting policies and procedures that, when properly applied, will result in the:
 - (1) Production of complete, accurate, and timely financial asset information for management reporting, control, and planning for all Capital Assets of the Commonwealth and for other Low Value Assets.
 - (2) Control of accounting for Capital Assets for which the Commonwealth is responsible. Control includes procedures to ensure that assets are used for authorized purposes, do not leave the custody of the Commonwealth except with proper authorization, are properly maintained, and are not transferred, written off, written down, or disposed of without proper authorization.
 - (3) Use of one enterprise-wide system for all Capital Assets that results in adequate documentation and proper authorization of financial transactions and the preservation of proper audit trails.
 - (4) Consistent and uniform application of financial policies and accounting principles, standards, and controls.
- b. To ensure that historical costs for Capital Assets are supported by purchase, construction, or other related documents and are readily traceable from the original document to SAP Asset Master Records and financial reports. Transactions must be recorded in a manner that do not result in materially inaccurate, false, or misleading information. Interfund transactions must be separately identified and recorded for proper presentation in financial reports.

4. DEFINITIONS.

- a. **Agency Fixed Assets Coordinator.** An individual appointed by an agency head who possesses substantial knowledge of the SAP asset accounting submodule and the SAP procurement and finance modules; has considerable experience and expertise regarding proper acquisition, use, and control of agency Capital Assets; regularly communicates with the Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management (BAFM); manages all aspects of Capital Asset reporting for the agency; and is the sole agency point of contact with BAFM and other agencies for Capital Asset accounting and reporting matters.
- b. **Amortization.** A process of expensing the acquisition cost, less the residual value, of an intangible asset, in a systematic manner, over the Useful Life of the intangible asset to reflect a decline in value as a result of use or the passage of time.
- c. **Asset Master Record.** Data established in the SAP fixed asset module that represents a Capital Asset or LVA and provides for appropriate financial and non-financial reporting where necessary. For example, an Asset Master Record includes data identifying the asset class, funding source, Useful Life and other data points needed for financial and non-financial reporting.

- d. Assets Under Construction (AUC).** Authorized construction projects that have incurred costs but have not been completed and may qualify for capitalization.
- e. Capital Assets (or Fixed Assets).** For GAAP reporting purposes for the Commonwealth, Capital Assets must meet all the following criteria and are required to be set up in SAP with Asset Master Records:
- (1)** Be tangible or intangible in nature;
 - (2)** Have an estimated Useful Life of more than one (1) year;
 - (3)** Be of significant value. The value test varies based on the appropriate asset class given to the asset and the funding source. These classifications, along with their respective values, are available for General and Proprietary Fund assets. Assets under these values may be recorded as LVA for tracking purposes only; and
 - (4)** Be of a nonfinancial nature. An asset with a nonfinancial nature is one that is not in a monetary form similar to cash and investment securities, and represents neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services.

Capital Assets are obtained through purchase, construction, Lease arrangement, Installment (financed) Purchase arrangements, donation, or confiscation. They are recorded at cost, estimated historical cost, or estimated fair market value for donations and confiscations. The cost of Capital Assets includes, in addition to acquisition or construction costs, ancillary charges to place the asset in its intended location and condition for use. These charges include freight and transportation, site preparation expenditures, and professional and legal fees directly attributable to asset acquisition. Trade-in allowances do not reduce the cost basis, i.e., the value of the trade-in must be added to other acquisition costs to arrive at the actual cost of the new asset.

NOTE: The two terms Capital Asset and Fixed Asset are used in practice interchangeably, although an internet search on these terms will produce conflicting results. There are two schools of thought on this subject:

- The terms may be used interchangeably to mean the same thing; or
- A more literal understanding of the terms: Capital Assets encompass both tangible and intangible assets; while Fixed Assets encompass assets that are "fixed" in nature (i.e., a building or land).

As such, the first bulleted approach is taken in practice and these terms are used interchangeably in this directive.

- f. **Commonwealth Financial Reporting Entity.** Includes all funds, agencies, and other entities for which elected Commonwealth officials are responsible (primary government) and legally separate organizations (established as independent agencies) for which the Commonwealth itself is financially accountable or for which exclusion would result in misleading financial statements.
- g. **Depreciation.** Each Capital Asset must be assigned a Useful Life over which its cost is expensed, for both full accrual accounting and for grant Depreciation. Under the modified accrual basis of accounting, the entire cost of an asset is reported as an expenditure at the time of acquisition. Under the full accrual basis of accounting, the asset's cost is expensed over its Useful Life. The Useful Life to be used is based on the asset class. General guidance is provided on the [Asset Reporting Website](#).

The agency may need to exercise some judgement in assigning a Useful Life. For example, asset class 1906XXX offers five Useful Life options to allow periodic Depreciation expense to be charged over the expected Useful Life of a given asset. Some assets, such as vehicles or computers, are typically not owned as long as off-road equipment assets. Depending on actual or expected usage, some vehicles have much shorter useful lives than others. One of the five options must be chosen based on how long the owning agency has historically owned and used similar assets or how long the owning agency expects to own and use the asset being acquired. The chosen Useful Life represents an accounting estimate that may have to change during ownership.

- h. **Generally Accepted Accounting Principles (GAAP).** All statements, interpretations, and technical bulletins issued by the Government Accounting Standards Board (GASB) establish and constitute GAAP applicable to all state and local governments in the United States. Such GASB pronouncements are issued after the completion of formal, public GASB due process procedures.
- i. **Installment Purchase.** A contract used to finance the acquisition of assets. This term is synonymous with financed purchase (GASB87), Lease-purchase [as used in the Code of Federal Regulations (CFR)], rent-to-own, etc.
- j. **Lease.** A contract that conveys control of the right to use another entity's nonfinancial assets (the underlying asset, known as the "Right To Use" (RTU) asset or leased asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.
- k. **Low Value Asset (LVA).** In SAP, LVAs are defined as those agency assets not meeting the criteria of Capital Assets but which the agency wants to track as assets in SAP (such as personal computers). The cost of LVA shall be determined in accordance with the guidelines for determining the cost of Capital Assets. LVA can be tracked in two categories which can be found on the [Asset Reporting Website](#).
- l. **Useful life.** An accounting estimate representing the period of time an asset is expected to remain in service. The acquisition cost of the asset will be recognized as an expense over this period through Depreciation under the full accrual basis of accounting.

5. POLICY.

- a. This directive is issued pursuant to *Section 701(d) of The Administrative Code of 1929, 71 P.S. § 241(d)*.
- b. *Executive Order 1984-03, Accounting and Financial Reporting*, delegates to the Secretary of the Budget the responsibility for developing and installing accounting and financial reporting systems in compliance with GAAP.
- c. Capital Assets must be identified upon initial purchase order entry into the SAP procurement system. The SAP system requires that an Asset Master Record be established prior to issuing a purchase order and the asset number must be identified in the procurement transaction.
- d. Agency heads shall appoint an Agency Fixed Assets Coordinator to be the single point of contact with the Office of the Budget on matters pertaining to Capital Assets for the Commonwealth.
- e. For Non-Purchase Orders, Asset Master Records must be properly established in the SAP system for each qualifying Capital Asset at the time the asset is placed in service. For an exception, see Section 5.c above.
- f. LVAs shall be recorded in the SAP Fixed Asset system of the SAP financial module at the discretion of each agency. If an agency desires to maintain these LVAs in SAP as Capital Assets, the Capital Asset must be established in SAP prior to the initial purchase order entry into the SAP procurement system. Administration of the utilization of SAP for this purpose is the responsibility of the agency's Fixed Assets Coordinator.
- g. Tangible Capital Assets that are depreciable must be depreciated over the expected Useful Life of the asset.
- h. Intangible Capital Assets that are amortizable must be amortized over the expected Useful Life of the asset.

6. RESPONSIBILITIES.

- a. **Chief Accounting Officer**, through the Director of BAFM, shall interpret and apply Capital Asset accounting and reporting policies.
- b. **Agencies involved in construction activity** shall:
 - (1) Establish newly authorized construction projects in the SAP project system module for accumulation of life-to-date costs. In SAP, project systems are fully integrated with the fixed assets module; therefore, as soon as a project has been established, an AUC with an Asset Class Code 1911010 will be automatically established in the SAP fixed assets module.
 - (2) Conduct a periodic review of AUC assets to determine when one or more permanent Capital Assets, created by the project, are placed in service by the agency. Refer to the Office of the Budget [Period Closing Procedures Manual](#) for further details regarding construction project responsibilities.

c. Director of BAFM shall:

- (1)** Provide staff support on matters relating to the SAP Fixed Asset accounting system.
- (2)** Develop, implement, and administer uniform central Capital Asset policies, procedures, reporting, and systems.
- (3)** Provide consulting assistance and training, when requested, to comptrollers and agencies for the SAP Fixed Asset system for Capital Assets.
- (4)** Develop and maintain operational and procedural directives and instructional memoranda relating to uniform Capital Asset policies, procedures, reporting, and systems.
- (5)** Include Capital Asset data in Commonwealth financial statements and reports.

d. Office of Comptroller Operations shall:

- (1)** Administer and apply Commonwealth Capital Asset accounting and reporting policies and standards for all Capital Asset transactions recorded in SAP.
- (2)** Provide assistance to agencies on decisions regarding the use of SAP to maintain LVAs.
- (3)** Review and audit agency Capital Asset and LVA inventories and records for adequate accounting, documentation, and controls.
- (4)** Provide assistance to and corroborate with agencies in the identification and recording of Leases and Installment Purchases.
- (5)** Monitor agency compliance with Commonwealth Capital Assets and agency LVAs accounting and reporting policies, guidelines, and standards.
- (6)** Review agency purchase orders for qualifying assets to verify the inclusion and assignment of an Asset Master Record number.

e. Agency heads shall

- (1)** Appoint an Agency Fixed Assets Coordinator to administer Commonwealth Capital Asset accounting and reporting policies, guidelines, and standards.
- (2)** Establish agency procedures and controls necessary to implement and monitor prescribed Fixed Asset accounting and reporting policies, guidelines, and standards.
- (3)** Ensure the timely, accurate, and complete processing and recording of all necessary transactions in conformance with prescribed Commonwealth Capital Asset and agency LVA accounting and reporting policies, guidelines, and standards.

- (4) Identify and provide Leases and Installment Purchases in accordance with Commonwealth policy and corroboration with BAFM.
- (5) Ensure proper maintenance of source documents and records pertaining to Capital Assets not available on the SAP system.
- (6) Establish adequate procedures and controls to safeguard and physically account for tangible Capital Assets.
- (7) Verify, on a quarterly basis, that Capital Asset transactions are properly reported on the Commonwealth's SAP Fixed Asset system.

f. Agency Procurement Personnel shall:

- (1) Identify agency requests for Capital Asset acquisitions based on criteria presented in this directive and in agency policy.
- (2) Contact the Agency Fixed Assets Coordinator to obtain an Asset Master Record number to insert in the SAP Purchase Order, thus ensuring that the procurement will be captured as a Capital Asset in SAP.

g. Agency Fixed Asset Coordinators shall:

- (1) Maintain the agency's Capital Asset data located in the SAP system. This includes any report generation, tag control, inventory reconciliation, and updating of Capital Asset records, including non-financial data that may assist the agency in identifying assets in the future. This further extends to the maintenance of unposted asset records that are no longer needed but were previously created.
- (2) Ensure that an Asset Master Record is properly established in the SAP system for each qualifying Capital Asset at the time the asset is placed in service. For an exception, see Section 5.c above.
- (3) Act as a central contact point for all agency personnel including purchasing and procurement staff who work with Capital Assets and those responsible for additions, retirements, and other changes to Asset Master Records.
- (4) Contact BAFM with unresolved issues and concerns and disseminate all information from BAFM to agency Capital Asset purchasers and users, as required.
- (5) Review all budgetary transactions, accounts, and reports used to purchase agency Capital Assets to ensure all Capital Assets have been properly reported in SAP with an Asset Master Record.
- (6) For agencies with construction activity, ensure that the agency complies with the requirements for reporting qualified construction project assets completed either internally by agency-authorized bureaus or externally by the Department of General Services, Deputy Secretary for Public Works.
- (7) Ensure that all agency employees who work with Capital Assets record keeping are properly trained in their respective responsibilities.

- (8) Verify all Capital Asset transactions have been properly recorded in the SAP Fixed Assets sub-module and submit the Fixed Asset quarterly reports, including Asset Acquisitions, Asset Retirements, Intercompany Transfers and Directory of Unposted Assets to BAFM.

7. PROCEDURES.

Specific SAP procedures and general guidance documents relating to the identification and accounting of Capital Assets can be found on the [Asset Reporting Website](#).

This directive replaces, in its entirety, Management Directive 310.14, *General Capital Asset and Other Fixed Asset Accounting and Reporting in SAP*, dated February 3, 2003.