



State of Arizona Accounting Manual

Topic 25 Long-lived Resources

Issued 07/01/15

Section 30 Computation of

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Depreciation, Amortization and Salvage Value

INTRODUCTION

Depreciation and amortization are methods of recovering the acquisition cost of capital assets over their useful or economic lives.

The term depreciation is generally applied to this process when applied to tangible assets whose useful lives are determined, or at least estimated, with reference to their deterioration, obsolescence or presumed reduction in value over time. Certain tangible assets, such as land or art collections, are not depreciated because they do not wear out or predictably lose value over time. Other capital assets, such as infrastructure, that qualify for and use different methods (the modified approach, in the case of infrastructure) to recover their acquisition costs over time are not depreciated.

The term amortization is applied to intangible assets, such as software, or to both tangible and intangible assets, such as leasehold improvements or copyrights, whose economic life is determined by legal agreement rather than by deterioration or obsolescence.

Salvage value is the anticipated fair market value, i.e., the estimated amount that will be recovered from a sale of the asset, at the time it is expected to be disposed of.

POLICY & PROCEDURES

1. Unless specifically excepted, all capital assets are to be, as applicable, depreciated or amortized. Specific exceptions exist for:
 - 1.1. Infrastructure that qualifies for the modified approach.
 - 1.2. Collections and works of art.
 - 1.3. Non-depreciable assets, such as land.
2. A capital asset is to be depreciated or amortized over its useful life, as set forth in the Capitalization, Depreciation, Amortization and Posting Tables published in SAAM 2590.
3. Depreciation or amortization is to commence when the capital asset is placed into service.

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4. Depreciation and amortization are to be recorded in object 7912.
 5. The straight line method of depreciation or amortization is to be used for all capital assets.
 6. The salvage value automatically employed by FAM and to be used for:
 - 6.1. Vehicles is ten percent (10%) of the asset's original cost.
 - 6.2. All other assets is be zero (0).
 7. In the absence of an alternative, established, consistently applied method for determining salvage value, the salvage value to be used for:
 - 7.1. All assets held by proprietary funds should be ten percent (10%) of the asset's original cost.
 - 7.2. Vehicles of any sort held by governmental funds should be ten percent (10%) of the vehicle's original cost.
 - 7.3. All assets other than vehicles held by governmental funds should be zero (0).
 8. The amount of depreciation to be computed in any given month is the asset's cost less its salvage value divided by the number of months of its useful life. AFIS will automatically calculate depreciation or amortization for any correctly entered capital asset. The number of months used in computing an asset's depreciation or amortization is to be the useful life associated with its asset type in the Capitalization, Depreciation, Amortization and Posting Tables. The monthly depreciation or amortization expense is computed by applying the following formula:
$$\frac{\text{Cost of Asset} - \text{Salvage Value}}{\text{Number of Months of Useful Life}} = \text{Monthly Depreciation/Amortization Expense}$$
 9. As applicable, depreciation and amortization expenses can be included with other expenses for Federal Grant recovery purposes. Agencies receiving Federal assistance should refer to the Federal Grant provisions for the proper recovery period and method or contact the General Accounting Office for guidance. If either the recovery period or method differs from that contained in SAAM, an agency should communicate this to the GAO.
 10. Agencies that occupy buildings financed by COPs should contact the GAO for the proper procedures for billing depreciation expense to federally funded programs. Agencies occupying buildings purchased by COPs receive a letter to that effect from the GAO each fiscal year.