



State of Arizona Accounting Manual

Topic 25 Long-lived Resources
Section 20 Determination of Cost

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INTRODUCTION

When dealing with long-lived resources a number of decisions involving capitalization, depreciation and amortization are based upon the cost of the underlying resource and which expenditures comprise that cost as well as what may be the effect of improvements upon that cost. This section of SAAM deals with principles of cost determination that apply to most resources; other sections of SAAM deal with cost determinations related to specific types of resources.

POLICY & PROCEDURES

1. General.

1.1. Most resources should be initially recorded at historical cost; assets acquired by donation or escheat are recorded at fair market value at the date of acquisition. Cost is generally defined as "Consideration given or consideration received, whichever is more clearly determinable." Cost includes all normal and necessary expenses incurred to make the asset ready for its intended use. These ancillary costs include, but are not limited to:

1.1.1. Title search fees, recording fees and other closing costs.

1.1.2. Grading, filling and clearing of land.

1.1.3. Assumption of liens, mortgages or other debts.

1.1.4. Attorneys' and architects' fees.

1.1.5. Building permit fees.

1.1.6. Freight charges.

1.1.7. Taxes and the assumption of delinquent taxes.

1.1.8. Installation, assembly and testing charges.

1.1.9. Construction loan interest and the costs of interim financing if and only if an enterprise fund or fiduciary fund will retire the related debt. Otherwise, construction loan interest and the costs of interim financing should be treated as current period expenditures.

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2. Long-lived resources acquired through donation, escheat, confiscation, court award, discovery (i.e., the resource was simply found) or other non-purchase means should be recorded at fair market value at the date of acquisition; related ancillary costs should be treated as betterments.
3. The cost of a long-lived resource acquired by means of capital lease is the present value of future lease payments, less the present value of imputed interest. The present values are computed as of the date of the lease's inception. Additional, detailed information on recognized and recording capital leases is contained in another section of SAAM.
4. Determining the cost of a betterment is covered in SAAM 2525.
5. Determining the cost of a long-lived resource acquired by trade-in or warranty replacement is covered in SAAM 2562.
6. Determining the cost of a long-lived resource transferred between agencies is covered in SAAM 2555.
7. Determining the costs associated with construction and development in progress is covered in SAAM 2526.