



# State of Arizona Accounting Manual

Topic 25 Long-lived Resources  
Section 62 Trade-ins, Warranty Replacements and  
Cannibalization of Fixed Assets

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## INTRODUCTION

Over time, fixed assets may be traded-in to acquire newer models. Sometimes, under the terms of a warranty, a poorly functioning fixed asset is replaced by the merchant or manufacture. This section of SAAM sets forth the accounting and administrative procedures in to properly deal with such situations.

## POLICY & PROCEDURES

1. Before capital assets or stewardship resources are disposed of by trade-in to a vendor towards credit on a purchase, both the SPMO and the SPO must approve this method of disposal.
  - 1.1. The SPRM, found at <https://doa.az.gov/state-surplus-property-reference-manual>, contains detailed procedures to be followed when trading-in capital assets.
  - 1.2. Trade-ins or warranty replacements of IT resources should be coordinated with ASET.
2. After approval has been obtained, the capital asset, IT resource or stewardship resource that was traded-in must be removed from FAM and any applicable internal listing.
3. The cost of a capital asset, acquired by trade-in is equal to the cash paid for the new fixed asset, plus the original cost of the item surrendered as a trade-in, less the accumulated depreciation related to the surrendered asset.
4. The useful life of the capital asset acquired by trade-in is the same as it would have been had no trade-in been involved.
5. In the event an asset is acquired as a replacement for some other asset under a warranty or guarantee arrangement, the new asset is, generally, to be assigned the cost and accumulated depreciation of the asset it replaces; any additional ancillary costs, however, must be added to the new asset's cost and a new monthly depreciation amount must be calculated reflecting the updated cost. The useful life of the new asset is equal to the remaining useful life of the asset it replaces.
6. Governmental funds and proprietary funds have different ways of measuring the attainment of their financial goals. One of the byproducts of this is that they handle certain accounting transactions—among them trade-ins of capital assets—

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differently. Because of the complexity involved, agencies should contact the GAO at [cafr@azdoa.gov](mailto:cafr@azdoa.gov) for assistance in preparing the appropriate accounting transactions to reflect trade-ins and warranty replacements.

7. Agencies must obtain approval from the SPMO prior to cannibalizing any capital assets or stewardship resources, such as computer equipment. Refer to the SPRM for the procedures regarding the cannibalization of surplus property.