Designation: E2378 – 13

Standard Practice for the Recognition of Impaired or Retired Personal Property[1]

1. Scope

1.1 This practice covers guidance as to the proper treatment for accounting and accountability purposes when items are still retained, but need to be recognized as impaired or retired to administrative control. This practice is intended to be used in conjunction with Practice E2279, which provides various principles to improve the effectiveness and efficiency of the property management functions. These include the concepts of materiality, best value, reasonable detail, and reasonable assurance and proper reporting. During the life cycle of property management, appropriate action must be taken at the appropriate time to be in conformance with these principles. The objective, on behalf of the owner, is to maintain property accounting records that adequately represent the actual value of property and for accountability purposes apply the appropriate management and oversight.

1.2 This practice covers the recognition of depreciation of personal property that is critical to a fair representation of the entity's property and financial records. For instances when items for accounting or property management purposes may no longer serve the purpose that was originally intended, it may be more appropriate to recognize impairments or retire these items for record keeping purposes.

1.3 Generally, entities formally record, account, and inventory personal property that meet certain criteria, as defined by the entity, based upon acquisition cost thresholds, expendability, or useful life policies. Accordingly, entities should establish recurring depreciation cycles so that the property eligible for depreciation is fairly and consistently recorded in the entity's records in accordance with generally accepted accounting principles.

1.4 The percentage and frequency of depreciation is dependent on such factors as the nature of owned property, its useful life, and the frequency of property use in support of business-type activities of the entity.

1.5 This practice covers accepted practice of proper record keeping actions when items are fully depreciated for accounting purposes and should be retired from the accounting as well as property management purposes when the asset no longer serves the purpose that was intended but still remains on the entities premises or continues to be under some form of control.

1.6 Entities have a responsibility under their internal controls to operate effectively, efficiently, and in a reasonable and responsible manner to provide stakeholders best value as provided in public law, regulations and generally accepted accounting practices.

1.7 *This standard is limited to property management functions. This standard does not purport to address tax concerns, if any, associated with its use. It is the responsibility of the user of this standard to establish appropriate internal tax guidelines and to determine the applicability of regulatory or statutory requirements prior to use.*

2. Referenced Documents

2.1 *ASTM Standards:*[2]

E2135 Terminology for Property and Asset Management

E2279 Practice for Establishing the Guiding Principles of Property Management

2.2 *GAO Document:*[3]

GAO Government Auditing Standards (The Yellow Book) 2011

3. Terminology

3.1 *Definitions:* For definitions relating to Property and Asset Management, refer to Terminology E2135.

3.2 *Definitions of Terms Specific to This Standard:*

3.2.1 *abuse, n*—Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those

[1] This practice is under the jurisdiction of ASTM Committee E53 on Asset Management and is the direct responsibility of Subcommittee E53.03 on Financial Management.

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[2] For referenced ASTM standards, visit the ASTM website, www.astm.org, or contact ASTM Customer Service at service@astm.org. For *Annual Book of ASTM Standards* volume information, refer to the standard's Document Summary page on the ASTM website.

[3] Available from the U. S. Government Accountability Office (GAO), 441 G St., NW, Washington, DC 20548, http://www.gao.gov.

of an immediate or close family member or business associate. Abuse does not necessarily involve fraud or noncompliance with provisions of laws, regulations, contracts or grant agreements. (From the GAO Yellow Book, 2011.)

3.2.2 *administratively controlled items, n*—items not requiring formal property control and accountability by property management and accounting functions.

3.2.3 *accountability, n*—the concept of accountability of resources and authority is fundamental to an entity's governing and management processes. Management and officials entrusted with public and private resources are responsible for carrying out public and private functions and providing service to the public and owners effectively, efficiently, economically, ethically, and equitably within the context of their given situation—as reflected in applicable laws, regulations, agreements, standards, and internal policy and direction. Management and officials are responsible for providing reliable, useful, and timely information as needed. (Adapted from the GAO Yellow Book, 2011.)

3.2.3.1 *Discussion*—Effective, efficient and economical efforts include assessments of cost and benefits of requirements and actions.

3.2.4 *internal control, n*—an organization's system of internal controls that are designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting and compliance with applicable laws and regulations. (Adapted from the GAO Yellow Book, 2011.)

4. Summary of Practice

4.1 Entities should implement property management systems in accordance with Practice E2279.

4.2 Property recorded in the entity's formal property system should be depreciated based upon internal or external standards.

4.3 The net book value of items should be fairly represented and this includes the recognition of impairments as they occur. Property management personnel have a vital role in the process of recognition of impairments.

4.4 Because the actual drop in value of each asset may be difficult and time-consuming to compute, a standardized depreciation process may be used by entities to approximate depreciations. For example, one process assumes that an asset depreciates by an equal percentage of its original acquisition value for each year that it is used resulting in the same deduction amount every year. Another process may assume that an asset depreciates at a larger rate in the first years and a much smaller depreciation in later years.

4.5 Irrespective of the depreciation method used, depreciation at some time stops. At this point, unless the item is identified as a sensitive item or perpetual control is necessary for other reasons, the status of the item may change from an accountable to an administratively controlled item. If no accountability threshold is used by the organization, depreciation and accountability may continue as appropriate and at the discretion of the organization. This is especially appropriate when there has been a change in accounting or property management thresholds, the item no longer serves the purpose as originally intended (it is retained for purposes or causes such as salvage, standby, incidental use, unreasonable removal cost, and so forth) or operating costs (record keeping, insurance cost, inventory cost, and maintenance cost, and so forth) exceed the probable future benefits provided by the item. Identification tags may or may not be required to be removed from administratively controlled items, as determined by management.

4.6 Asset management and other personnel with operating knowledge of assets shall assist owners, management, and accounting functions in the identification of impaired items per entity policies.

5. Significance and Use

5.1 Improves property accountability including avoiding abuse. Systematic depreciation of property generally serves to provide a fair presentation of an entity's property and financial records for decision makers. Keeping fully depreciated items on the asset records and property management records when they no longer are used as originally intended may be misleading to decision makers and may result in excessive operating cost. Retiring items to administrative control when appropriate improves the efficiency, lowers operating cost without significantly reducing internal controls.

6. Recognition of Impaired or Retired Personal Property

6.1 An entity has the discretion to set appropriate administrative, accountability or capitalization thresholds or all three based on factors unique to the entity.

6.2 Acquired property that is valued above an entity's accountability threshold and, if applicable, sensitive property, should be recorded to the organization's formal property accountability system. At the time of recordation, the recorded value of procured property is usually based on its original acquisition value (OAV). The OAV, although useful data that should be retained in the formal property records through the life of the asset, it should not be used as the sole value for accounting, reporting, and reconciling inventory results. Property acquired via means other than procurement is usually recorded at a value based on its fair market value. Most property assets will lose value over time because of wear and tear, or other factors. Periodic depreciation takes into account all of these factors.

6.3 Generally, property recorded in a formal property accountability system is controlled and inventoried for as long as the property remains in the entity's property system. Property is periodically dropped from an entity's formal records as a result of such actions as transfers, losses, consumption, disassembly, and for the purposes of this practice, depreciation.

6.4 Entities should only expend time and resources to control and inventory property that supports the mission of the organization or for other factors important to the owning entity. To accomplish this, a procedure should be established to assess each property item or groups of items recorded on a formal property system periodically to ensure that values are adjusted based on such factors as depreciation and, if warranted (and is an allowable accounting practice), appreciation.

6.5 The percentage and frequency of property depreciation is at the discretion of an entity and based primarily on the importance of the property item to the mission of the organization.

6.6 The process of depreciation will eventually result in most accountable property items falling below the entity's prescribed accountability threshold. At this point, property managers may transition the status of the property from accountable to administratively controlled thus saving time and resources that would otherwise be expended if the property remained accountable.

7. Summary

7.1 The objective of this practice is to ensure that the value recorded in an entity's property and financial records fairly reflect the value of each recorded property item.

7.2 Review of records is necessary to avoid unintentional and excessive operating cost in that the presence of records in of themselves drives cost.

8. Keywords

8.1 abuse; accountability; depreciation; fair market value; internal controls; property; thresholds; valuations