CHAPTER 6

PROPERTY, PLANT AND EQUIPMENT

0601 GENERAL

060101. Purpose. This Chapter prescribes the accounting standards and policy for Department of Defense (DoD) property, plant and equipment (PP&E). The applicable general ledger accounts are listed in the government-wide Standard General Ledger (SGL) contained in Chapter 7, Volume 1, of this Regulation, and their use is illustrated in this Chapter. The PP&E accounting policy in this Chapter is applicable to all DoD Components including Defense Working Capital Fund (WCF) activities, except where noted.

060102. Overview. Four categories of PP&E have been defined for accounting and reporting purposes. Specific accounting guidance is contained in this Chapter for each category of PP&E. The categories are:

1. General PP&E,

2. National Defense PP&E,

3. Heritage Assets, and

4. Stewardship Land.

060103. Definitions. The four categories of PP&E are defined below. Within each definition, a section reference is provided where specific policy guidance is located within this Chapter.

A. General PP&E

1. General PP&E consists of tangible assets that meet all of the following criteria:

a. Have an estimated useful life of two years or more;

b. Are not intended for sale in the ordinary course of operations;

c. Are acquired or constructed with the intention of being used or being available for use by the entity; and

d. Have an initial acquisition cost, book value or, when applicable, an estimated fair market value (see paragraph 060202 for definitions of these terms) that equals, or exceeds, the DoD capitalization threshold. The current DoD capitalization threshold is $100,000 for both General and Working Capital Funds.

e. Prior to FY 1996, the capitalization threshold was less than $100,000 and varied according to the year the item was acquired. Such PP&E shall remain capitalized and subject to depreciation for WCF activities. However, for General Fund activities, all PP&E that was capitalized prior to FY 1996 costing less than $100,000 was written off as a prior period adjustment in FY 1998. Therefore, such amounts no longer shall be capitalized or depreciated.

f. Bulk purchases of General PP&E, that individually meet the capitalization threshold, shall be capitalized and recorded in a property accountability system that is capable of computing depreciation or interfaces with a system that is capable of computing depreciation. If the per item cost of a bulk purchase does not meet the capitalization threshold, such PP&E shall be expensed in the period acquired. Applying this policy, a bulk purchase totaling $800,000 could either be capitalized or expensed depending on the cost of the individual items purchased. If such purchase consisted of 8 items costing $100,000 each, each of the items would be capitalized. If the purchase consisted of 80 items valued at $10,000 each, the entire amount would be expensed. In both examples, all of the items would be recorded in the activity’s property accountability system. If a bulk purchase is made that has a material effect on a DoD Component’s financial statements, that Component may request, in writing, a waiver to this policy. Such a waiver shall be addressed to the Under Secretary of Defense (Comptroller).

2. General PP&E also includes:

a. Assets acquired through capital leases, including leasehold improvements (see paragraph 060207 of this Chapter);

b. Property owned by the reporting entity even though it may be in the possession of others (e.g., state and local governments, colleges and universities, or contractors);

c. Land, other than Stewardship Land (see paragraph D below) with an identifiable cost that was specifically acquired for, or in connection with, the construction of General PP&E;

d. Land rights, which are interests and privileges held by an entity in land owned by others, such as leaseholds, easements, water and power rights, diversion rights, submersion rights, rights-of-way, and other like interests in land.

3. General PP&E excludes items:

a. Held in anticipation of physical consumption such as operating materials and supplies (this includes material furnished to a contractor to use in the production of a weapons system);

b. That the Department has a reversionary interest in. For example, the Department sometimes retains an interest in PP&E acquired with grant money in the event that the recipient no longer uses the PP&E in the activity for which the grant was originally provided and the PP&E reverts to the Department;

c. Stewardship assets (as described in paragraphs B, C and D below) and

d. Stewardship investments (nonfederal physical property).

4. General PP&E is used in providing goods or services and typically has one or more of the following characteristics:

a. It could be used for alternative purposes (e.g., by other DoD or federal programs, state or local governments, or nongovernmental entities), but it is used to produce goods or services, or to support the mission of the entity, or

b. It is used in business-type activities, or

c. It is used by entities in activities whose costs can be compared to those of other entities performing similar activities (e.g., federal hospital services in comparison to commercial hospitals).

5. For all WCF activities, all PP&E used in the performance of their mission shall be categorized as General PP&E, whether or not the PP&E meets the definition of any other PP&E category. For stewardship assets coincidentally located on a WCF installation, those assets shall be reported on the General Fund stewardship report for the Military Department that owns that installation.

6. Further discussion of General PP&E accounting policy begins at paragraph 060104.

B. National Defense PP&E (ND PP&E). ND PP&E are the PP&E components of weapons systems and support PP&E used by Military Departments in the performance of military missions and vessels held in a preservation status by the Maritime Administration's National Defense Reserve Fleet. Further discussion of ND PP&E accounting policy begins at paragraph 060303.

C. Heritage Assets. Heritage Assets are PP&E that are unique for one or more of the following reasons: historical or natural significance; cultural, educational or artistic (e.g., aesthetic) importance; or significant architectural characteristics. Heritage Assets are generally expected to be preserved indefinitely. See paragraph 060304 for the accounting policy on Heritage Assets.

D. Stewardship Land. Land not acquired for, or in connection with, General PP&E is Stewardship Land. "Acquired for or in connection with" is defined as including land acquired with the intent to construct General PP&E and land acquired in combination with General PP&E, including not only land used as the foundation, but also adjacent land considered to be the common grounds to General PP&E. Without exception, all land provided to DoD from the public domain, or at no cost, shall be classified as Stewardship Land, regardless of its use. Therefore, public domain or no-cost land used in a General PP&E context shall be classified as Stewardship Land, not as General PP&E land. See paragraph 060305 for the accounting policy on Stewardship land.

060104. Acquisition of General PP&E

A. General. When acquiring a General PP&E asset, the acquisition cost and other costs necessary to bring the asset to an operable condition (see 060202.B) are capitalized if the total cost equals or exceeds the Department's capitalization threshold (see paragraph 060103.A.1.d of this Chapter), and the asset has an estimated useful life of two or more years. If the General PP&E acquisition costs, including other costs necessary to bring the asset to an operable condition, do not equal or exceed the DoD capitalization threshold, the costs are expensed in the period incurred. The costs of acquiring ND PP&E, Heritage Assets and Stewardship Land are expensed in the period incurred.

B. Supporting Documentation

1. When recording the acquisition of a General PP&E asset in a property accountability and/or accounting system, the asset shall be assigned a dollar value as detailed in this Chapter. The dollar value will be supported by appropriate documentation. A complete discussion of supporting documentation can be found at paragraph 060106 of this Chapter.

2. Cost Estimates. If documentation is not available (written or electronic), estimates of the cost of the PP&E asset shall be made, as well as estimates for any accumulated depreciation or amortization which would have been taken had the asset been recorded at the time it was acquired. The efforts undertaken, and the precision achieved, in making PP&E asset cost estimates shall be proportionate to the materiality and relative significance of the value of the asset involved. Estimates shall be based on:

a. The cost of similar assets at the time of acquisition, or

b. The current cost of similar assets discounted for inflation since the time of acquisition (e.g., deflating current costs to costs at the time of acquisition by a general price index).

060105. Recognition of General PP&E

A. General

1. All General PP&E assets acquired by the DoD must be recognized for accounting and reporting purposes. Recognition requires the proper accounting treatment (expense or capitalization and depreciation) and the reporting of capitalized amounts and accumulated depreciation on the appropriate DoD Component's financial statements. The DoD Component that procures a General PP&E asset, or the DoD Component in possession of a General PP&E asset, usually, but not always, will be the DoD Component that must account for and report the asset. The following guidance shall be used to determine which DoD Component is required to account for and report General PP&E assets.

2. In most instances, a General PP&E asset shall be recognized by the DoD Component acquiring the General PP&E asset. The exception to this requirement is based on the concept of the preponderant use and is explained in paragraph 060105.B.

a. Recognition shall occur when title passes to the acquiring DoD Component or when the asset is delivered to the DoD Component or to an agent of the DoD Component (whichever occurs first).

b. In the case of a constructed General PP&E asset (e.g., a building), the cost to construct the asset shall be recorded as construction-in-progress until the asset is completed and available for use, whether or not actually placed in use at that time.. In the case of a building, the available for use point is not necessarily the date that the building is occupied, commonly called the beneficial occupancy date. Furthermore, the available for use date is not dependent on whether the building has been officially transferred, or whether final payment has been made and the contract closed out. When the building is available for use, the balance in the construction-in-progress account shall be transferred to the appropriate General PP&E account. The balance transferred can be adjusted later, if necessary, once the final payment has been made and the contract closeout process has been completed.

c. For General PP&E assets acquired by a contractor on behalf of a DoD Component (e.g., the DoD Component that will ultimately hold title to the assets), the assets shall be recognized upon delivery or constructive delivery, whether to the contractor performing the service, or to the DoD Component. Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery.

3. WCF activities are required to recognize and depreciate General PP&E assets in accordance with the guidance in this Chapter without regard to whether such assets are procured through a WCF activity's Capital Purchase/ Investment Program budget or whether depreciation for such assets is included in rates charged to customers. Therefore, the recognition of General PP&E assets and the depreciation of such assets by WCF activities may

be different for financial statement reporting purposes than the depreciation amounts used for WCF rate development and budget presentation. All General PP&E depreciation of WCF activities shall be recognized as an expense on the annual Statement of Net Cost, reflected in the Statement of Changes in Net Position, included in accumulated depreciation amounts on the Balance Sheet, and reported in monthly AR 1307 reports. Defense WCF rates charged to customers are based on guidance in Volume 2B and Volume 11B of this Regulation.

4. To establish proper PP&E accountability, when acquiring General PP&E from another DoD Component or federal agency, the acquiring DoD Component shall request, from the losing DoD Component or other federal agency, the necessary source documents to establish the location, original acquisition cost, cost of improvements, the date the asset was purchased, constructed or acquired, the estimated useful life, the amount of accumulated depreciation, the condition if desired, etc. If this information is not available, estimates may be necessary and must be documented.

B. Treatment When the Preponderant User of an Asset Is Not the Owner or DoD Component that Financed the Asset. Legal ownership (i.e., having title to a General PP&E asset), usually, but not always, is the determinant factor when determining which DoD Component recognizes a particular General PP&E asset for accounting and reporting purposes in annual financial statements. Likewise, how a real property asset was financed does not in itself determine what entity accounts for and reports a real property asset. For example, buildings used by a WCF activity may not have been constructed or acquired with WCF funds. However, such buildings generally should be capitalized and depreciated by the WCF activity and reported on the WCF activity's annual financial statements. Such accounting and reporting is required by WCF activities regardless of whether title to such buildings is passed to the local installation when construction is completed. When determining which DoD Component must recognize a General PP&E asset for accounting and financial statement reporting purposes, all four of the following criteria must be met by the recognizing DoD Component:

1. The General PP&E asset must embody a probable future benefit that will contribute to the DoD Component's operations. In applying this criterion, the concept of benefit has traditionally been referred to as "service capacity" (e.g., the ability of an asset to directly assist the DoD Component in achieving its mission). Service capacity has value because it is consumable or exchangeable for other benefits. For example, a building on a military installation used by a Defense Agency provides space for its operations, allowing it to achieve its mission. The Defense Agency also pays for utilities, maintenance and upkeep of the building. The exchangeability part of the benefit criterion (the ability to sell, trade or donate the property) need not be present for an item to qualify as an asset in the federal sector, if use of the item provides benefit to the DoD Component. The inability of the DoD Component to exchange the benefit for other benefits does not preclude the asset from meeting this criterion.

2. The DoD Component that reports the General PP&E asset must be able to obtain the benefit and control access to the benefit inherent in the asset. This criterion, control over the benefit, refers to an entity's ability to direct who derives the benefit, the timing

of when the benefit is derived and under what conditions it is derived. Directing the use of the benefit has traditionally been based on possession or the ability to exert significant influence over the benefits; either of which is obtained through legal ownership or an agreement with the owner. In instances when an entity maintains possession of property through agreements that provide for possession for as long as needed, without a termination date, and without reimbursement, such arrangements are generally considered as providing sufficient influence over the use of the property to satisfy the control criterion. Once termination occurs, however, as in the case of a base closing where an entity conducts operations, control no longer exists; hence, the property will no longer meet the control criterion for the asset. For further policy regarding treating assets on military bases slated for closing, see paragraph 060211 of this Chapter.

3. The transaction or event giving a DoD Component the right to, and control over, the benefit of a General PP&E asset must have already occurred. This criterion is an agreement (express or implied) that allows a DoD Component to occupy and use the asset without reimbursement for as long as needed.

4. DoD Components shall only report predominately used General PP&E assets owned by other DoD Components when the cost of those assets, taken as a whole, are material to the predominant user Component's financial statements. This is in keeping with the concept that each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The recognition of full cost is limited to material items or amounts that are significant to the receiving entity and form an integral or necessary part of the receiving entity's output. Specific examples below illustrate how this policy should be implemented.

a. <u>Military Departments – General Fund</u>. Generally, a Military Department shall not recognize or report facilities occupied on another Military Department's installation. For example, if the Air Force is a tenant on an Army installation, and the Air Force is the predominant user of a building on that installation, the Army should report the building on the Army's financial statements--not the Air Force. This policy recognizes that the Military Departments routinely use each other's facilities in the normal course of carrying out their missions, and the net effect of this "cross use" of facilities is not material to the Military Departments' financial statements.

b. <u>Defense Agencies – General Fund</u>. The Defense Agencies that produce financial statements and/or are included in the DoD Consolidated Financial Statements generally must recognize and report the facilities used in their operations. The facilities are material to the performance of their mission. Most facilities used by the Defense Agencies are owned by, or titled to, the Military Departments. Generally, these facilities are significant to the operation of the agencies and form an integral or necessary part of their output. As such, these facilities are material to the Defense Agencies' financial statements and shall be reported on the annual financial statements of the Defense Agencies and excluded from the financial statements of the Military Departments. The Defense Agencies and Military

Departments shall coordinate with each other to ensure completeness and avoid duplicate reporting of General PP&E.

c. Working Capital Funds

(1) General. When a WCF activity is the preponderant user of a facility, that WCF activity shall report and depreciate that facility on its annual financial statements. This requirement exists without regard to whether the WCF activity belongs to a Military Department or a Defense Agency.

(2) Preponderant Use and Improvements. WCF activities funding capital improvements shall report and depreciate such improvements on their annual financial statements, whether or not the WCF activity is the preponderant user of the facility improved. For example, if the Defense Logistics Agency (DLA) occupies a facility with an Army activity and occupies less square footage in the facility than the Army, but makes a capital improvement to its portion of the facility, the improvement should be recorded in the applicable property records, and the DLA should report and depreciate the improvement on the DLA financial statements. The same accounting treatment and reporting requirement shall apply if in the above example DLA is the preponderant user of the facility improved.

d. Medical Facilities and Equipment. The preponderant use policy outlined above shall not apply to DoD medical activities. While most of the funding for medical activities is centralized through the Office of the Under Secretary of Defense (Health Affairs) (OUSD(HA)), the OUSD(HA) does not exercise command and control authority over medical activities. Hospitals, clinics and other medical facilities are typically located on a military installation or are otherwise under the command and control of one of the Military Departments. The essence of the medical mission of such facilities is to serve the personnel and families working at, or living near, military installations. Therefore, the military installation is the preponderant user of the medical facility, and all medical General PP&E equipment and facilities shall be reported on the annual general fund financial statements of the Military Department that owns the installation upon which a medical facility resides. This policy is applicable to General PP&E purchased with General Funds regardless of Department Fund Code (e.g., TI 17, 21, 57, or 97).

C. Facilities and Equipment Outside the Continental United States (OCONUS).

1. OCONUS facilities that are occupied, and equipment that is used, by the DoD Components shall be recognized as General PP&E of the occupying/using DoD Component for accounting and financial reporting purposes, if such occupation/use meets all of the following criteria. If any of the criteria are not met, the asset shall not be recognized by the DoD Component.

a. The facilities are occupied or equipment is used without reimbursement to the host nation,

b. The DoD Component controls access to or use of the facility or equipment,

c. Use of the facility or equipment is for an unspecified length of time, and

d. The DoD Component maintains and repairs the facility or equipment.

2. Such OCONUS facilities and equipment include facilities and equipment that were confiscated during military operations, facilities built or equipment procured with the funds of international organizations (e.g., the North Atlantic Treaty Organization) and facilities that were built or equipment procured with the funds of host countries. The fact that such facilities or equipment may be returned to the host country or international organization when the DoD Component permanently leaves such facilities or returns equipment is not a relevant factor for purposes of accounting and financial statement reporting. Due to the unique nature of this type of property, and the fact that it will eventually be returned, the reporting Component has some latitude in the reporting of such property. Specifically, if the property is recorded in the property accountability or accounting records without a historical acquisition cost or estimate, and the property would be substantially or fully depreciated, no effort shall be made to determine an estimated acquisition cost. However, the DoD Components must comply with all property accountability policies and requirements, as well as comply with appropriate accounting and reporting requirements when capital improvements are made to such property.

3. Such facilities and equipment are not to be considered assets under a capital lease, unless a specific agreement with the host country exists, and the agreement is the equivalent of an installment purchase and meets one of the criteria for a capital lease as specified in paragraph 060207 of this Chapter.

4. The quantity and/or value of such OCONUS facilities and equipment and the unique convertible nature of them shall be disclosed in the General PP&E narrative section (footnotes) of the DoD Component's annual financial statements.

D. <u>Recognition Uncertainty</u>

1. It is important that the overall accounting records of the Department of Defense and the federal government are not duplicative and that the DoD Component responsible for an asset maintains accountability for that asset. In situations where doubt exists as to which DoD Component should recognize an asset, the DoD Components

involved shall reach agreement with the other applicable DoD Components or federal agencies as to which entity will recognize the PP&E.

2. If an agreement cannot be reached, the matter shall be referred to the Office of the Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller), for resolution. Requests for resolution shall be accompanied by adequate supporting documentation to assist in resolution of the matter and be submitted through the Financial Management and Comptroller of the submitting Military Department or Defense Agency.

060106. Supporting Documentation. Entries to record financial transactions in accounting system general ledger accounts and/or the supporting subsidiary property accountability records and/or systems must:

A. Be supported by source documents that reflect all transactions affecting the Component's investment in the PP&E, including:

1. All acquisitions, whether by purchase, transfer from other agencies, donation, or other means, as of the date the DoD Component takes custody of the PP&E.

2. All disposals or retirements when the PP&E leaves the custody of the DoD Component.

3. Documents that support the acquisition of General PP&E assets shall be retained by the DoD Component in accordance with the requirements contained in Volume 1, Chapter 9 of this Regulation. Documentation (original documents and/or hard and electronic copies of original documentation) shall be maintained in a readily available location, during the applicable retention period, to permit the validation of information pertaining to the asset such as the acquisition cost, acquisition date, cost of improvements, etc. Supporting documentation may include, but is not limited to, purchase invoices, sales and procurement contracts, DD Form 1354 "Transfer and Acceptance of Military Real Property," ENG Form 3013 "Work Order/Completion Report," construction contracts, work orders, and other such documentation generated independently of the entity in possession of the property.

4. When an asset transfers to another activity, copies of the supporting documentation also shall be transferred to the other activity. When General PP&E assets are transferred, traded, sold, or disposed through salvage or demolition, a copy of the original acquisition documents and the disposal documents shall be retained in accordance with the requirements contained in Volume 1, Chapter 9 of this Regulation.

B. Include sufficient information indicating the physical quantity, location and unit cost of the PP&E. The property records shall be designed to be of maximum assistance in making procurement and utilization decisions, including decisions related to identifying potential excess PP&E that may be available for reuse, transfer to other DoD Components or made available for disposal in accordance with current DoD regulations and other regulatory requirements.

C. Enable periodic, independent verification of the accuracy of the accounting and accountability records through periodic physical counts/inventories of PP&E (existence and completeness--"book to floor and floor to book"). Such periodic inventories also shall include reconciling the subsidiary property accountability records and/or systems with the general ledger accounts and physical accounts.

D. Identify and classify PP&E that was capitalized, recorded in the property accountability or accounting system and reported in annual financial statements. DoD PP&E that does not meet the capitalization threshold (see paragraph 060103.A.1.d of this Chapter) shall be expensed for accounting and financial reporting purposes. However, such PP&E shall be recorded in property accountability records or systems for control purposes, if the cost of such PP&E equal or exceed the accountability threshold of $2,500. In addition, PP&E considered sensitive and/or subject to pilferage, regardless of cost, also shall be recorded in property accountability records or systems.

E. Be based on the same documents(s) to ensure that entries to the accounting and accountability records are the same. This will ensure that the property accountability records are integrated and subsidiary to the accounting system, and that accountability records can be reconciled with the accounting system.

F. Accumulate the costs of construction projects in either the construction-in-progress general ledger account or a subsidiary system for posting to the applicable PP&E accounts when construction is completed or to the appropriate expense accounts, if the construction project is terminated prior to completion.

G. Include all DoD-owned PP&E (to include property held by others) and PP&E of others held by the DoD through seizure, forfeiture, loss, or abandonment.

H. Provide information to identify and account for leased PP&E, regardless of whether the PP&E was acquired by a capital lease or operating lease or whether the value of the PP&E exceeds the DoD capitalization threshold.

I. Provide information to identify and account for capitalized additions and improvements to PP&E.

060107. Physical Inventories of PP&E. The DoD Components must perform periodic physical inventories of PP&E. General PP&E personal property and Heritage Assets shall be inventoried at least every 3 years. General PP&E real property and Stewardship Land shall be inventoried at least every 5 years. National Defense PP&E weapons and weapons systems shall be inventoried at a minimum once a year. National Defense PP&E principle support and mission support items must be inventoried at least every 3 years. Contractors in possession of government property are exempt from this inventory policy. Contractors are subject to Federal Acquisition Regulation property accountability requirements.

A. Physical inventories shall be taken to ensure, among other things, that DoD PP&E is:

1. At the location identified in the property accountability records or system, or if the PP&E is mobile, who (individual, organization, or both, as appropriate) the PP&E custodian is and where the PP&E custodian is located,

2. As described in the property records, and

3. In the condition described in the property records.

B. Results of the physical inventories shall be reconciled to the property accountability records and/or systems. Differences shall be researched and any adjustments shall be fully documented. Adjustments may be required for any unrecorded physical changes such as removals, additions, or modifications of the PP&E that were not previously or properly recorded.

C. PP&E assets not in use may be inventoried using statistical sampling, as discussed in Chapter 4 of this Volume. PP&E assets in use and all real property shall be subject to a 100 percent physical inventory. The physical inventories shall be scheduled so that all PP&E items are identified and pertinent information validated within the timeframes established in this subsection.

D. Care must be taken to consider PP&E due-in and in-transit to the organization before reaching any conclusions that the property accountability records are accurate (or inaccurate).

E. Adjustments to property accountability records, systems and financial records shall be made only for those PP&E items where the physical identification/count disclosed discrepancies. Such adjustments shall be supported by reports of survey prepared in accordance with Chapter 7, "Financial Liability for Government Property, Lost, Damaged, or Destroyed," of Volume 12 of this Regulation. Adjustments resulting from previously unrecorded modifications or alterations also shall be supported by documentation showing the costs of the changes.

F. Adjustments to the general ledger accounts to record PP&E found during the conduct of physical inventories shall be recorded under the appropriate Standard General Ledger (SGL) accounts for PP&E (1700 series), as detailed in Section 0602 of this Chapter, or for losses, under "Other Losses" (SGL Account 7290).

060108. Government Property in the Possession of Contractors

A. Government property in the possession of contractors, whether government-furnished, contractor-acquired or contractor-fabricated, consists of seven mutually exclusive categories, as reflected on DD Form 1662: Land, Other Real Property, Other Plant Equipment, Industrial Plant Equipment, Special Test Equipment, Special Tooling, and Military Property (Agency Peculiar). Material (contractor acquired or government furnished) also reported on the DD Form 1662 generally is not PP&E.

B. To maintain effective property accountability and control, and for financial reporting purposes, the DoD Components shall record in DoD property accountability systems detailed information on property provided to contractors, to include real property (Government-owned Contractor Operated facilities) and DoD property transferred from one contract to another contract. DoD property that was procured or fabricated by a contractor shall be accounted for and reported by, the contractor until the property is recorded in DoD property accountability records or systems.

060109. Deferred Maintenance. The DoD Components must disclose in annual financial statements material amounts of deferred maintenance on PP&E. The specific financial statement reporting requirements are contained in Volume 6B of this Regulation.

A. Definitions

1. Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed to a future period.

2. For purposes of this policy, maintenance is described as the act of keeping PP&E assets in an acceptable condition. Maintenance includes preventive maintenance, normal repairs, replacement of parts and structural components and other activities needed to preserve the asset so that it continues to provide acceptable service and achieves its expected life.

3. Maintenance excludes activities aimed at expanding the capacity or capability of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended.

B. Disclosure Requirements

1. Deferred maintenance amounts must be reported in annual financial statements for General PP&E real property that have a cost that equals or exceeds the DoD capitalization threshold (see paragraph 060103.A.1.d of this Chapter).

2. The DoD Components do not normally have material amounts of deferred maintenance on General PP&E personal property. Therefore, the DoD Components

generally shall not report General PP&E deferred maintenance in annual financial statements. However, if a DoD Component does incur a material amount of deferred maintenance on General PP&E personal property, then such amounts should be disclosed in the DoD Component's annual financial statements.

3. For annual financial statement reporting purposes, the DoD has neither maintenance nor deferred maintenance on land or Heritage Asset collection items.

4. Maintenance of National Defense PP&E is accomplished by two different, yet complementary components--depot-level maintenance activities and field-level maintenance activities. For the purposes of this policy, the term "field-level maintenance" includes all nondepot-level maintenance activities (e.g., organizational, intermediate and regional).

a. Depot-Level Maintenance. Depot-level maintenance includes: major repair, overhaul or complete rebuilding of weapons systems, end items, parts, assemblies, and subassemblies; manufacture of parts; technical assistance; and testing. Material amounts of depot-level deferred maintenance due to the unavailability of funding and/or capacity constraints have been historically reported through the Department's budget process by the Military Departments. Such amounts are provided annually to the Congress in the President's Budget submission and also satisfy the intent of the federal accounting standard definition. The same budget submission amounts shall be reported in the annual financial statements of the Military Departments.

b. Field-Level Maintenance

(1) Field-level maintenance comprises maintenance activities at lower organizational levels than depot-level. The Military Departments may or may not separate this level of maintenance into intermediate and organizational maintenance activities when describing the field-level maintenance structure and capability.

(a) Intermediate field-level maintenance includes limited repair of commodity-oriented components and end items; job-shop, bay and production line operations for special mission requirements; repair of printed circuit boards; software maintenance; and fabrication or manufacture of repair parts, assemblies and components. The intermediate maintenance mission is to sustain the combat readiness and mission capability of supported activities by providing quality and timely materiel support at the nearest location with the 1owest practical resource expenditure.

(b) Organizational field-level maintenance is normally performed by an operating unit on a day-to-day basis in support of its own operations. The organizational maintenance mission is to maintain assigned equipment by performing functions such as inspections, servicing, preventive maintenance, and corrective maintenance.

(2) Generally, any year-end amounts of field-level deferred maintenance on National Defense PP&E, whether at the intermediate field-level or organizational field level, have been determined to be immaterial in amount, when compared to depot-level amounts of deferred maintenance. Therefore, the Military Departments shall not report field-level deferred maintenance amounts.

C. Measurement of Deferred Maintenance. The method used to determine the estimated amounts of deferred maintenance must be disclosed in the narrative statement to the Required Supplementary Information Deferred Maintenance Report in DoD Component annual financial statements. The federal-wide accounting standard permits the use of:

1. Cost Assessment Surveys. If this method is used, the following information should be presented for each major class of PP&E:

a. Description of the requirement or standards for determining an acceptable operating condition,

b. Any changes in the condition requirements for acceptable operating condition,

c. Information on the condition of the assets, either in narrative form or through the use of descriptive statistics (e.g., percentage of assets above, at or below acceptable condition or averages of standardized condition rating codes), and

d. A range or point estimate of the dollar amount of maintenance needed to return the assets to an acceptable operating condition.

2. Life Cycle Cost Forecasts. If this method is used, the following information should be presented for each major class of PP&E:

a. The date of the maintenance forecast,

b. The prior year balance of the cumulative deferred maintenance amount,

c. The dollar amount of the maintenance requirement estimated for the reporting period,

d. The dollar amount of the maintenance actually performed during the period,

e. The difference between the forecast and actual maintenance,

f. Any adjustments to the scheduled amounts deemed necessary, and

g. The ending cumulative balance for the reporting period for each major class of asset experiencing deferred maintenance.

3. Other methods may be used to estimate the amount of deferred maintenance and should be accompanied by information that describes the method.

060110. Cleanup Costs.

A. The accounting policy for cleanup costs pertaining to PP&E is contained in Chapter 14 of this volume. Cleanup costs are the costs of removing, containing and/or disposing of:

1. Hazardous waste, which is a solid, liquid or gaseous waste, or combination of such wastes, and because of its quantity, concentration or physical, chemical or infectious characteristics may cause or significantly contribute to an increase in mortality or an increase in serious irreversible, or incapacitating reversible, illness or pose a substantial present or potential hazard to human health or the environment when improperly treated, stored, transported, disposed, or managed; or

2. Material and/or property that contains hazardous waste at the time of permanent or temporary closure or shutdown of the associated PP&E.

B. Cleanup may include, but is not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post closure costs.

0602 ACCOUNTING FOR GENERAL PP&E

060201. Definition. General PP&E are tangible assets used by the entity and have a useful life of at least two years and an initial acquisition cost that equals or exceeds the DoD capitalization threshold. Examples of General PP&E include land, buildings, facilities, equipment, machinery, computer systems, and software. A more detailed definition is provided in paragraph 060103.A of this Chapter.

060202. Asset Recognition.

A. General. The recorded cost of General PP&E assets is the basis for computing depreciation and may be different than the acquisition cost, book value or fair market value, since the recorded cost may include additional ancillary costs. See paragraph 060202.B for examples of ancillary costs. The following defines and prescribes the use of acquisition cost, book value and fair market value when recording the cost of newly acquired General PP&E assets.

1. Acquisition Cost. Acquisition cost is the original purchase, construction or development cost, net of (less) any purchase discounts. Purchase discounts lost and late payment interest expenses shall not be included as a cost of the asset; rather, such costs shall be recognized as operating expenses.

2. Book Value. Book value is the recorded cost of a General PP&E asset, less its accumulated depreciation.

3. Fair Market Value/Fair Value. Fair market value (also known as fair value) is an unbiased, equitable or just value based on the cost of a similar asset or the price that an impartial buyer would be willing to pay for the asset or a similar asset.

B. Recorded Cost. The recorded cost or value shall include the amount(s) paid to bring the property to its form and location suitable for its intended use and are identifiable and material to the value of the asset. In addition to the amount paid to the vendor, additional ancillary costs that are identifiable shall be included in the recorded cost. Examples include the following:

1. Amounts paid to vendors;

2. Transportation charges to the point of initial use;

3. Handling and storage costs;

4. Labor and other direct or indirect production costs (for assets produced or constructed);

5. Engineering, architectural and other outside services for designs, plans, specifications, and surveys;

6. Acquisition and preparation costs of buildings and other facilities;

7. An appropriate share of the cost of the equipment and facilities used in construction work;

8. Fixed equipment and related installation costs required for activities in a building or facility;

9. Direct costs of inspection, supervision and administration of construction contracts and construction work;

10. Legal and recording fees and damage claims;

11. Fair value of facilities and equipment donated to the Department; and

12. Interest paid (not including late payment interest penalties).

C. Method of Acquisition Determines Recorded Cost.

1. Purchased PP&E. The cost to be recorded for General PP&E acquired by purchase from a third party (private, commercial or government) shall be its acquisition cost plus applicable ancillary costs. For purposes of this guidance, purchase includes procurements of General PP&E by cash, check, installment or progress payments on contracts, or capital lease.

2. Constructed PP&E. The cost of General PP&E real property assets while under construction are recorded to the Standard General Ledger Construction-in-Progress account. These costs include the costs of project design and actual construction such as labor, materials and overhead costs. Upon completion or when it is available for use, these costs shall be transferred to the proper General PP&E asset account as the acquisition (recorded) cost of the asset. During the construction of General PP&E, if it is determined that the cost will not exceed the DoD capitalization threshold (see paragraph 060103.A.1.d of this Chapter), the costs of the construction project shall be expensed in the period the determination is made. Generally, the cost of demolition of a building is expensed; however, if an existing building is razed as part of site preparation for a new building, the cost of the demolition is included in the cost of the new building.

3. Donated PP&E. The cost to be recorded for General PP&E acquired through donation, execution of a will or judicial process, excluding forfeiture, shall be its estimated fair value at the time acquired by the Department.

4. Exchanged PP&E. The cost to be recorded for General PP&E acquired through exchange between the Department and a nonfederal entity shall be the fair value of the PP&E surrendered at the time of exchange. If the fair value of the PP&E acquired is more readily determinable than that of the PP&E surrendered, the cost shall be the fair market value of the PP&E acquired. If the fair value cannot be determined, the cost of the PP&E acquired shall be the cost recorded for the PP&E surrendered, net of any accumulated depreciation. Any difference between the net recorded amount of the PP&E surrendered and the cost of the PP&E acquired shall be recognized as a gain or loss. In the event that cash consideration is included in the exchange, the cost of General PP&E acquired shall be increased by the amount of cash consideration surrendered or decreased by the amount of cash consideration received. If the DoD Component enters into an exchange in which the fair value of the PP&E acquired is less than that of the PP&E surrendered, the PP&E acquired shall be recognized at its cost, as described previously and subsequently reduced to its fair value. A loss shall be recognized in an amount equal to the difference between the cost of the PP&E acquired and its fair value. This guidance on exchanges applies only to exchanges between a DoD

Component and a nonfederal entity. Exchanges between a DoD Component and another DoD Component or federal agency shall be accounted for as a transfer.

5. Capital Lease. The cost recorded for General PP&E acquired under a capital lease shall be equal to the amount recognized as a liability for the capital lease at its inception, plus any cash paid or other consideration given. Specific guidance on capital leases is provided at paragraph 060207 of this chapter.

6. Seized and Forfeited PP&E. The cost recorded for General PP&E acquired through seizure or forfeiture shall be its fair market value, less an allowance for any liens or claims from a third party.

7. Transferred PP&E. The cost recorded for General PP&E transferred from another DoD Component or federal agency shall be the cost recorded on the transferring entity's books for the PP&E, net of any accumulated depreciation. If the receiving DoD Component cannot reasonably ascertain those amounts, the cost of the asset shall be its fair value at the time of transfer.

8. PP&E Acquired by Trade-In. The cost to be recorded for a General PP&E asset acquired when trading in another General PP&E asset shall be equal to the sum of the book value of the asset traded plus any cash paid or liabilities assumed for the new asset.

060203. Real Property

A. Land and Land Rights (Account 1711)

1. The Land and Land Rights account is used to record the acquisition cost of DoD-controlled land. When the acquisition cost cannot be determined, the estimated fair market value shall be used. Land includes not only the land but also the rights to it, such as easements. Land is regarded for accounting purposes as a non-wasting asset. As such, land is not subject to depreciation. The acquisition cost of land includes the purchase price, broker's commission, fees for examining and recording the title and surveying, and any razing and removal costs (less salvage proceeds) of structures on the land. Periodic DoD payments for land rights are accounted for as a period operating expense.

2. Table 6-1 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES TO ACCOUNT 1711
LAND AND LAND RIGHTS

1. Dr 1711 Land and Land Rights
   Cr 2110 Accounts Payable
   To record the acquisition cost incurred by the DoD for land.

2. Dr 1711 Land and Land Rights
   Cr 5720 Financial Resources Transferred in Without Reimbursement
   To record either of the following:

   (a) The cost of land and/or land rights that were provided from other sources without reimbursement, or

   (b) The estimated fair market value or the specific amount established by authoritative sources for land when the acquisition cost cannot be determined.

3. Dr 1711 Land and Land Rights
   Cr 2110 Accounts Payable
   Cr 5720 Financial Sources Transferred in Without Reimbursement
   To record the cost of placing property, acquired without reimbursement, in the form needed for its use.

TABLE 6-1

3. Sources of entries to this account include invoices, payment vouchers, documented estimates indicating source of estimates, sales records, and documented transfers and losses, etc. See paragraph 060104.B, above for a more complete list.

B. Construction-in-Progress (Account 1720)

1. The Construction-in-Progress (CIP) account is used to accumulate the costs of real property construction projects. The cost of equipment that is installed as an integral part of the real property or that normally could not be removed without dismantling the property also is included in the CIP account. Examples of such equipment include heating and air conditioning systems and elevators. Costs included in the CIP account are accumulated regardless of the source of funding (Military Construction; Minor Construction; Operation and Maintenance; Research, Development, Test and Evaluation; etc.) and include direct labor, direct material and overhead.

2. Construction overhead costs include any cost of construction that benefits more than a single construction project. Overhead may include costs for supervision and other indirect labor, supplies and materials, transportation, depreciation, etc. Construction overhead may be collected in cost pools and allocated to specific construction projects in proportion to the benefits received.

3. Construction-in-Progress cost amounts are accumulated by the U.S. Army Corps of Engineers (USACE) or the Navy Facility Center (NAFAC), as applicable, when they are managing and responsible for the construction. The DoD Component that is to receive the constructed property shall report CIP amounts on their financial statements, regardless of what type of funds were used to fund the construction. Such CIP balances shall be provided annually by the USACE and NAFAC to the appropriate reporting DoD Component along with supporting documentation in sufficient detail to reconcile the CIP balances by project and funding source. In addition, USACE and NAFAC shall make any additional data available to the reporting DoD Component upon request.

4. CIP costs shall be captured and accumulated by real property asset or structure to facilitate determining whether the capitalization threshold has been met. Engineering and design costs also should be captured in the Construction-in-Progress account. Upon completion, if the accumulated costs equal or exceed the DoD capitalization threshold (see paragraph 060103.A.1.d of this Chapter), the accumulated costs shall be transferred to the proper PP&E asset account as the recorded cost of the real property. If the accumulated costs do not meet the DoD capitalization threshold, such costs shall be expensed in the year management determines that the capitalization threshold was not or will not be met. Costs related to in-house construction, contractor construction, and construction by other government agencies also shall be recorded in the CIP account.

5. Completed construction projects shall be capitalized and recorded in the appropriate SGL account and real property accountability or management system upon placing the property in service, regardless of whether a certificate of occupancy has been issued or regardless of close-out of the construction contract(s) and issuance of final payment to the contractor.

6. Subsidiary accounts, ledgers or systems shall be maintained for each construction project to facilitate the transfer of associated costs to the applicable real property or expense account.

7. Sources of entries to the CIP account include, but are not limited to, billings under contracts for materials, supplies and equipment; documented assignments of costs accumulated in cost pools; issue and transfer documents; receiving and shipping reports; invoices; payment vouchers; payroll records; reports of completed construction projects; construction acceptance documents; accounting records; reports of survey; and documented losses. Progress payments on contracts and other types of payments such as cost reimbursements also are included in the CIP account.

8. Table 6-2 illustrates the most common entries to the CIP account.

ACCOUNTING ENTRIES TO ACCOUNT 1720
CONSTRUCTION-IN-PROGRESS

1. Dr 1720 Construction-in-Progress
   Cr 6100 Operating Expenses/Program Costs
   To record the costs incurred by the DoD for construction-in-progress.

2. Dr 1720 Construction-in-Progress
   Cr 2110 Accounts Payable
   To record the allowable costs of construction-in-progress performed by contractors or another federal agency.

3. Dr 1730 Buildings, Improvements and Renovations
   Dr 1740 Other Structures and Facilities
   Cr 1720 Construction-in-Progress
   To transfer completed projects to the applicable real property accounts.

4. Dr 7290 Other Losses
   Cr 1720 Construction-in-Progress
   To record the nonreimbursable loss, damage or destruction of construction-in-progress.

TABLE 6-2

C. <u>Buildings, Improvements and Renovations (Account 1730)</u>

1. The Buildings, Improvements and Renovations account is used to record the acquisition cost of DoD-controlled buildings. When the acquisition cost cannot be determined, the estimated fair market value of buildings and the cost of placing such assets in the form intended for use shall be recorded less any accumulated depreciation or amortization which would have been taken had the asset been recorded at the time it was acquired. The account also is used to record capitalized improvements. See Table 6-3 for common accounting entries.

ACCOUNTING ENTRIES FOR ACCOUNT 1730
BUILDINGS, IMPROVEMENTS and RENOVATIONS

1. Dr 1730 Buildings, Improvements and Renovations
   Cr 2110 Accounts Payable
   Cr 2590 Other Debt
   To record the acquisition cost incurred for buildings.

2. Dr 1730 Buildings, Improvements and Renovations
   Cr 1720 Construction-in-Progress
   To record the value of completed buildings transferred from the CIP account.

3. Dr 1730 Buildings, Improvements and Renovations
   Cr 5720 Financial Resources Transferred in Without Reimbursement
   To record the transferor's acquisition cost of facilities received without reimbursement.

4. Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
   Cr 1730 Buildings, Improvements and Renovations
   To write off fully depreciated buildings, improvements and renovations.

5. Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
   Dr 5730 Financing Sources Transferred Out Without Reimbursement
   Cr 1730 Buildings, Improvements and Renovations
   To record the value of facilities transferred without reimbursement to another federal agency or DoD entity. This entry shall not be used to record disposals.

6. Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
   Dr 7210 Losses on Disposition of Assets
   Cr 1730 Buildings, Improvements and Renovations
   To record the nonreimbursable loss, damage or destruction of a building.

TABLE 6-3

D. <u>Other Structures and Facilities (Account 1740)</u>

1. The Other Structures and Facilities account is used to record the acquisition cost of DoD-controlled utilities and improvements to land and facilities not classified as buildings. Examples include, but are not limited to, fences, roads, bridges, utilities, rail lines, and fuel storage facilities. When the acquisition cost cannot be determined, the estimated fair market value and the cost of placing such assets in the form intended for use shall be recorded less any

accumulated depreciation or amortization which would have been taken had the asset been recorded at the time it was acquired. The account also is used to record capitalized improvements to other structures and facilities.

2. Table 6-4 illustrates common entries for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1740
OTHER STRUCTURES AND FACILITIES

1. Dr 1740 Other Structures and Facilities
Cr 2110 Accounts Payable
Cr 2590 Other Debt
To record the acquisition cost incurred for structures and facilities.

2. Dr 1740 Other Structures and Facilities
Cr 1720 Construction-in-Progress
To record the value of completed structures and facilities transferred from the Construction-in-Progress account.

3. Dr 1740 Other Structures and Facilities
Cr 5720 Financial Resources Transferred in Without Reimbursement
To record the transferor's net book value for facilities received without reimbursement.

4. Dr 1749 Accumulated Depreciation on Other Structures and Facilities
Cr 1740 Other Structures and Facilities
To write off fully depreciated structures and facilities.

5. Dr 1749 Accumulated Depreciation on Other Structures and Facilities
Dr 5730 Financial Resources Transferred Out Without Reimbursement
Cr 1740 Other Structures and Facilities
Cr 1711 Land and Land Rights
To record the value of structures and facilities transferred without reimbursement to another federal agency or DoD entity. This entry shall not be used to record disposals.

6. Dr 1749 Accumulated Depreciation on Other Structures and Facilities
Dr 7210 Losses on Disposition of Assets
Cr 1740 Other Structures and Facilities
To record the nonreimbursable loss, damage or destruction of a structure or facility.

TABLE 6-4

060204. Equipment (Account 1750). The Equipment account is used to record the capitalized cost of tangible equipment items of a durable nature and used by the DoD in providing goods and services. Equipment also is referred to as personal property. This account excludes computer software (SGL Account 1830), but includes Automated Data Processing (ADP) systems and hardware (computers and peripherals).

A. ADP Systems/Hardware

1. Definition. An ADP system for accounting and financial statement reporting purposes consists of dedicated equipment or components linked together and used in the performance of a service or function in support of a mission of a DoD Component, command or installation. This definition should not be confused with budgetary or property accountability policy and/or regulations which may be different. ADP systems for the purpose of this definition and the requisite accounting treatment are typically referred to as mainframe or mini computer systems, and generally, do not include personal computers linked to a central server and used in an office environment. ADP systems shall be capitalized and depreciated when the total cost of the system (considering the individual components as a whole system) equals or exceeds the DoD capitalization threshold (see paragraph 060103.A.1.d of this Chapter) and has an expected useful life of two or more years.

2. Personal Computers (PCs). PCs that are not organic to an ADP system (attached PCs and used solely for the operation of the ADP system) are excluded from the accounting and financial statement reporting definition of an ADP system. Therefore, the cost of such PCs is not included in the capitalized cost of an ADP system. Such nonorganic PCs are expensed in the year acquired, since the cost of the individual PCs does not equal or exceed the DoD capitalization threshold.

B. Accounting Entries. The Equipment account is used to record the cost of ADP hardware/systems (personal property) in use by DoD Components. Table 6-5 illustrates the most common entries for this account. The account also is used to record the cost of improvements to equipment/personal property that meet the DoD capitalization threshold. The policy for improvements is provided in paragraph 060205 of this Chapter.

ACCOUNTING ENTRIES TO ACCOUNT 1750
EQUIPMENT

1. Dr 1750 Equipment
Cr 2110 Accounts Payable
To record the cost incurred for equipment purchased.

2. Dr 1750 Equipment
Cr 7190 Other Gains
To record an increase in equipment that is discovered by physical inventory. The estimated fair market value of the discovered equipment shall be used when the actual cost cannot be determined.

3. Dr 1750 Equipment

Cr 2110 Accounts Payable
Cr 5720 Financial Resources Transferred In Without Reimbursement
To record the net book value recorded in the transferor's accounts for equipment received without reimbursement by the DoD from a non-DoD federal agency and the costs of placing the property in the form intended for its use.

4. Dr 1750 Equipment
Cr 5720 Financial Resources Transferred In Without Reimbursement
To record the transferor's net book value of equipment that is received without reimbursement from another DoD Component.

5. Dr 1759 Accumulated Depreciation on Equipment
Cr 1750 Equipment
To write off fully depreciated equipment.

6. Dr 1759 Accumulated Depreciation on Equipment
Dr 1890 Other General PP&E
Cr 1750 Equipment
To record the value of equipment removed from service as a result of Base Realignment and Closure.

7. Dr 1759 Accumulated Depreciation on Equipment
Dr 5730 Financial Resources Transferred Out Without Reimbursement
Cr 1750 Equipment
To record the value of equipment that is transferred without Reimbursement from the DoD to another federal agency. This entry shall not be used to record disposals.

8. Dr 1759 Accumulated Depreciation on Equipment
Dr 7290 Other Losses
Cr 1750 Equipment
To record (a) the nonreimbursable loss, damage or destruction of equipment or (b) the loss identified by physical inventory.

9. Dr 1759 Accumulated Depreciation on Equipment
Dr 1890 Other General PP&E
Cr 1750 Equipment
To record the value of equipment transferred to the Other General PP&E account as a result of Base Realignment and Closure.

TABLE 6-5

060205. Improvements to Existing General PP&E

A. Definition. The costs to improve a General PP&E asset shall be capitalized when the costs of the improvement increase the General PP&E asset's capacity, size, efficiency, or useful life. In addition, the cost of an improvement shall be capitalized only when the cost of the improvement equals or exceeds the DoD capitalization threshold (see paragraph 060103.A.1.d of this Chapter), regardless of funding source. Applicable improvements shall be capitalized and depreciated separately from the General PP&E asset improved. While the Statement of Federal Financial Accounting Standard No. 6 requires improvements to be capitalized and depreciated over the remaining useful life of the associated General PP&E asset, DoD policy recognizes that improvements also are made to assets that are substantially or fully depreciated. Therefore, improvements shall be depreciated over the standard recovery periods provided in Table 6-7 of this Chapter. Improvements that do not increase an asset's capacity, size, efficiency, or useful life, regardless of the cost of the improvement, shall be expensed. Improvement policy applicable to specific types of property follows:

1. Improvements to Real Property. Improvements to General PP&E real property (including multi-use Heritage Assets), that equal or exceed the DoD capitalization threshold (see paragraph 060103.A.1.d of this Chapter), shall be individually capitalized and recorded within real property accountability, management or accounting systems and depreciated over the applicable DoD standard recovery period, as indicated in Table 6-7 of this Chapter, "DoD Standard Recovery Periods for Depreciating General PP&E." Improvements to fences, roads, bridges, sewers, and utilities also shall be depreciated as provided for in the DoD Standard Recovery Period Table.

2. Improvements to Personal Property. Improvements to General PP&E personal property that increase an asset's capacity, size, efficiency, or useful life, when the cost of the improvement equals or exceeds the DoD capitalization threshold, shall be individually capitalized and recorded within personal property accountability, management or accounting systems and depreciated over the applicable DoD standard recovery period, as indicated in Table 6-7 of this Chapter, "DoD Standard Recovery Periods for Depreciating General PP&E Assets." An example of an improvement to personal property is a computerized printing press, costing more than the capitalization threshold, that is modified to make it more efficient, and the improvement costs exceed the DoD capitalization threshold. Improvements to personal property shall be depreciated over the period indicated in the DoD Standard Recovery Period Table.

B. Maintenance. Maintenance and repair costs are not considered capital improvements, regardless of whether the cost equals or exceeds the DoD capitalization threshold. Maintenance is the work required to preserve and maintain equipment or real property in such condition that it may be effectively used for its designated functional purpose. Maintenance costs associated with personal property (e.g., maintenance contracts for equipment and software) shall be expensed. Maintenance also includes cyclic work done to prevent damage that would be more costly to restore than to prevent (e.g., painting).

C. Repair. Generally, PP&E personal and real property repair costs shall be expensed. When repair is by replacement, the repair may be expensed, or it may be capitalized. When repairing a real property facility, the components of the facility may be repaired by replacement, and the replacement can involve upgrading to current building standards and codes. Such replacements (repairs) may or may not be an improvement for accounting purposes. Crucial to the determination of whether a replacement is a repair or an improvement is the intent behind the replacement. Repair by replacement that is expensed, occurs when a facility or facility component has failed, is in the incipient stages of failing or is no longer performing the functions for which it was designated. Replacements falling into this category shall be expensed. If the replacement was undertaken to improve or expand the efficiency of an asset that was in good working order, then the replacement is an improvement. A roof or a heating and air conditioning system that is replaced due to the failing of the existing asset shall be classified as a repair and shall be expensed, even if the replacement incorporated a better quality and longer life shingle or a more efficient heating and air conditioning unit. Repair by replacement does not include rebuilding entire structures within the same physical area (footprint).

D. Per Unit Costs. The cost of improvements to more than one General PP&E asset, when performed under a single contract or work order and that cannot be specifically identified by asset, shall be capitalized only if the allocated cost per General PP&E asset equals or exceeds the DoD capitalization threshold. When more than one improvement is made to a single building, and the improvements are part of one overall effort to increase the building's capacity, size or useful life, the sum of the costs of the improvements shall be capitalized, if the summed costs equal or exceed the DoD capitalization threshold. This is required even when the improvements are funded separately. Once a determination has been made that the aggregate costs of the improvements will be capitalized, each improvement should be capitalized and depreciation begun when the improvement is completed.

E. Table 6-6 shows common entries for improvements.

ACCOUNTING ENTRIES FOR ACCOUNT 1730
BUILDINGS, IMPROVEMENTS and RENOVATIONS

1. Dr 1730 Buildings, Improvements and Renovations
   Cr 2110 Accounts Payable
   Cr 2590 Other Debt
   To record the acquisition cost incurred for an improvement to buildings.

2. Dr 1730 Buildings, Improvements and Renovations
   Cr 1720 Construction-in-Progress
   To record the value of completed building improvements transferred from Construction-in-Progress accounts.

3. Dr 1730 Buildings, Improvements and Renovations
   Cr 5720 Financial Resources Transferred In Without Reimbursement

To record the transferor's net book value of facilities received without reimbursement.

4. Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
Cr 1730 Buildings, Improvements and Renovations
To write off fully depreciated improvements upon disposal.

TABLE 6-6

060206. Depreciation

A. General. DoD General PP&E assets are those assets that have an acquisition or recorded cost that equals or exceeds the DoD capitalization threshold and have a useful life or two or more years--often called "capital assets" or "fixed assets." DoD General PP&E includes all capital assets that are not ND PP&E, Heritage Assets or Stewardship Land. DoD General PP&E shall be capitalized and, with the exception of land and land rights of unlimited duration, shall be depreciated. Land rights that are for a specified period of time shall be amortized (depreciated) over that time period. Such capitalized amounts, as well as associated amounts of accumulated depreciation and depreciation expense, shall be reflected in DoD financial statements.

B. Method of Depreciation. Department of Defense policy permits the use only of the straight-line method of depreciation.

C. Recorded Cost. The recorded cost is the acquisition cost of an asset plus any ancillary costs required to bring the asset into an operating condition. Examples of costs required to bring an asset into an operating condition include freight fees, handling and storage costs, installation costs, and set-up costs. See paragraph 060202.B of this Chapter for a more comprehensive list of these ancillary costs.

D. Salvage Value. The salvage value, also known as the residual or scrap value, is the amount that would be expected to be obtained from selling the asset at the end of its useful life, but only when such proceeds (from recycle, resale, salvage, etc.) are permitted to be retained and used by the DoD Component. Typically, personal property (e.g., vehicles, ADP and equipment) will not have a salvage value. If the asset is to be traded in on a new asset, the salvage value is the expected trade-in value. For purposes of computing depreciation, real property assets (e.g., buildings, facilities and structures) do not have salvage values.

E. Depreciable Basis. The depreciable basis of a General PP&E asset is the recorded cost reduced by the asset's salvage value, if such salvage value exceeds 10 percent of the asset's cost. If the salvage value is 10 percent or less of the asset's cost, the salvage value is not considered material for purposes of calculating depreciation, and therefore, should not be considered when determining the depreciable basis. (In other words, if the salvage value is less than or equal to 10 percent of the asset's cost, the depreciable basis should be the same as the recorded cost.) Land is not subject to depreciation. Land rights that are for a specified period of time shall be amortized over the specified time period. When land and a building are purchased together, the depreciable basis for the building is the total purchase cost less the actual cost, or estimated value, of the land.

F. Useful Life. For purposes of computing depreciation on DoD General PP&E assets, specific recovery periods are prescribed. Table 6-7 reflects the recovery periods to be used for DoD General PP&E.

G. Commencement of Depreciation. The event that triggers the calculation of depreciation is the date of receipt shown on the asset receiving document or the date installed and ready for use (regardless of whether it is actually used). In the case of constructed PP&E, the costs of constructing the PP&E shall be recorded as construction-in-progress until it is available for use, at which time the balance (total construction costs) shall be transferred to General PP&E. In the case of constructed real property, depreciation shall commence when the building is available for use, regardless of whether the building is fully occupied. The actual commencement of depreciation shall be based on either of the following methods:

1. Month Available for Service Method. Under the Month Available for Service Method, the month the asset was available for use, regardless of whether it was actually used, is the month used to commence the calculation of depreciation expense for the first year.

2. Mid-Year Convention Method. Under the Mid-Year Convention Method, six months of depreciation is computed and expensed in the first and last year of an asset's useful life, regardless of the actual month the asset was placed in, or removed from, service.

H. Excess of Useful Life. If an asset remains in use longer than its estimated useful life, it shall be retained in the property accountability or management system, as well as the accounting records, and reflect both its recorded cost and accumulated depreciation until disposition of the asset.

I. Calculation of Depreciation. Depreciation expenses shall be calculated and accumulated using the straight-line method based on the recorded cost less salvage value, and divided equally among accounting periods during the asset's useful life based on recovery periods in Table 6-7 of this Chapter. Salvage value will be used in the calculation only if it exceeds 10 percent of the cost of the asset.

J. Recovery Periods. Table 6-7 prescribes the recovery periods (useful lives) that shall be used for depreciable General PP&E assets.

DoD RECOVERY PERIODS FOR DEPRECIABLE
GENERAL PP&E ASSETS
(Excludes National Defense PP&E and Heritage Assets)

Description of General PP&E Assets	Recovery Period
General Purpose Vehicles (Includes Heavy Duty Trucks and Buses); ADP Systems and Hardware (Computers and Peripherals); High Tech Medical Equipment; Equipment used in Research, Development, Test and Evaluation (RDT&E); Radio and Television Broadcasting Equipment; and Software Improvements to 5-Year Recovery Period Property (Personal Property)	5 Years*
All Other Equipment, Machinery and Software** Improvements to 20-Year Recovery Period Property	10 Years
Vessels, Tugs, Barges and Similar Water Transportation Equipment (Non-National Defense PP&E vessels/ships) Steam (12.5K pounds per hour or more) and Electric Generation Equipment (500 Kilowatt or more), Sewers and Other Utilities (including such things as fiber optic cable) Fences, Roads, Bridges, Towers, Ship and Railroad Wharves and Docks, Dry Docks, Fuel Storage Facilities and Other Real Property Structures. Improvements to 40-Year Recovery Period Property	20 Years
Buildings, Hangers, Warehouses, Fuel Storage Buildings, Air Traffic Control Towers, and Other Real Property Buildings	40 Years
Improvements to Leased Buildings and Other Real Property (Leasehold Improvements)	Remainder of Lease Period or 20 Years Whichever Is Less
Land Rights of Limited Duration	Over the Specified Duration
TABLE 6-7	

* A recovery period of less than 5 years is permitted when the acquiring DoD Component is certain that the useful life of an asset is at least 2 years but less than 5 years. In such circumstances, the recovery period shall be the known useful life (2-4 years, as appropriate).

** Depending on the nature of the software, it may be depreciated over a period of less than 5 years, 5 years or 10 years. The determining factor should be the actual estimated useful life of the software consistent with that used for planning the software's acquisition.

K. Recovery Period of Less Than Five Years. If a DoD Component determines that a newly acquired General PP&E asset costing more than the DoD capitalization threshold has a useful life of at least 2 years, but less than 5 years, the Component can elect to depreciate the asset over a recovery period that more accurately reflects its useful life (2-4 years, as appropriate). The DoD Component making this election must document the basis for that decision and cannot change the recovery period once depreciation has been started.

L. Disposal of Depreciable PP&E

1. General PP&E assets that have been identified for permanent removal from service shall no longer be depreciated once the asset no longer contributes to the operation of the entity. See paragraph 060211 of this Chapter for further guidance and appropriate accounting entries.

2. General PP&E assets that have been temporarily removed from service/use with the expectation that such assets eventually will be returned to service shall continue to be depreciated during periods of non-use. This policy is applicable to WCF activities and also applies to General PP&E sent to a depot for temporary storage.

3. See Chapter 7, paragraph 070206, of this Volume for additional guidance and accounting entries. Table 6-8 illustrates common entries for the depreciation of buildings and improvements. Table 6-9 illustrates common accounting entries for the depreciation of other structures and facilities. Table 6-10 illustrates common accounting entries for the depreciation of equipment.

ACCOUNTING ENTRIES FOR ACCOUNT 1739
ACCUMULATED DEPRECIATION ON BUILDINGS, IMPROVEMENTS AND RENOVATIONS

1. Dr 6710 Depreciation, Amortization and Depletion
Cr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations

To record the depreciation expense for the current accounting period.

2. Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
Dr 5730 Financing Sources Transferred Out Without Reimbursement
Cr 1730 Buildings, Improvements and Renovations
To record the value of facilities transferred without reimbursement to another federal agency or DoD Component. This entry shall not be used to record disposals.

3. Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations

Cr 1730 Buildings, Improvements and Renovations
To write off fully depreciated improvements upon disposal.

4. Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
Dr 7210 Losses on Disposition of Assets
Cr 1730 Buildings, Improvements and Renovations
To record the nonreimbursable loss, damage or destruction of a building or to record the loss on the disposal of a building.

TABLE 6-8

ACCOUNTING ENTRIES TO ACCOUNT 1749
ACCUMULATED DEPRECIATION ON OTHER STRUCTURES AND FACILITIES

1. Dr 6710 Depreciation, Amortization and Depletion
Cr 1749 Accumulated Depreciation on Other Structures and Facilities
To record depreciation expense for other structures and facilities.

2. Dr 1749 Accumulated Depreciation on Other Structures and Facilities
Dr 5730 Financing Sources Transferred Out Without Reimbursement
Cr 1740 Other Structures and Facilities
To record the value of facilities transferred without reimbursement to another federal agency or DoD Component. This entry shall not be used to record disposals.

3. Dr 1749 Accumulated Depreciation on Other Structures and Facilities
Cr 1740 Other Structures and Facilities
To write off fully depreciated structures and facilities upon disposal.

4 Dr 1749 Accumulated Depreciation on Other Structures and Facilities
Dr 7210 Losses on the Disposition of Assets
Cr 1740 Other Structures and Facilities
To record the nonreimbursable loss, damage or destruction of other structures and facilities or to record the loss on the disposal of structures and facilities.

TABLE 6-9

ACCOUNTING ENTRIES TO ACCOUNT 1759
ACCUMULATED DEPRECIATION ON EQUIPMENT

1. Dr 6710 Depreciation , Amortization and Depletion
   Cr 1759 Accumulated Depreciation on Equipment
   To record depreciation expense for equipment.

2. Dr 1759 Accumulated Depreciation on Equipment
   Cr 1750 Equipment
   To write off fully depreciated equipment upon disposal.

3. Dr 1759 Accumulated Depreciation on Equipment
   Dr 7210 Losses on Disposition of Assets
   Cr 1750 Equipment
   To record the nonreimbursable loss, damage or destruction of equipment or to record the loss on the disposal of equipment.

4. Dr 1759 Accumulated Depreciation on Equipment
   Dr 7290 Other Losses
   Cr 1750 Equipment
   To record a decrease in equipment discovered by physical inventory.

5. Dr 1759 Accumulated Depreciation on Equipment
   Dr 5730 Financing Sources Transferred Out Without Reimbursement
   Cr 1750 Equipment
   To record the value of equipment transferred without reimbursement to another federal agency or DoD Component. This entry shall not be used to record disposals.

TABLE 6-10

060207. Assets Under Capital Lease (Account 1810)

A. Definitions

1. Lease Term. For non-operating leases, the lease term is the fixed non-cancelable term of the lease plus all periods, if any, representing renewals or extensions of the lease that can reasonably be expected to be taken.

2. Non-Cancelable. Non-cancelable means the lease is cancelable only on the occurrence of a remote contingency. Funds not appropriated by the Congress in future years to cover the lease is considered a remote contingency.

3. Bargain Purchase Option. A lessee's option to purchase leased property for a price which is sufficiently lower than the expected fair value of the property at the date the option becomes exercisable that, at inception of the lease, makes the exercise of the option reasonably assured.

4. Estimated Economic Life. The estimated remaining period during which the property is expected to be economically usable by one or more users, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease, without limitation by the lease term.

5. Minimum Lease Payments. The payments that the lessee is obligated to make or can be required to make in connection with the leased property. (Contingent rentals are excluded from the minimum lease payments.)

6. Fair Value. The price for which the property could be sold in an arm's-length transaction between unrelated parties.

7. Interest Rate Implicit in the Lease. The discount rate that, when applied to the minimum lease payments (less executory costs and the unguaranteed residual value), causes the aggregate present value at the beginning of the lease term to be equal to the fair value of the leased property at the inception of the lease.

8. Renewal or Extension of a Lease. The continuation of a lease agreement beyond the original lease term, including a new lease under which a lessee continues to use the same property.

B. The Assets Under Capital Lease account is used to record the present value of the leased asset and other lease payments during the lease term, excluding that portion of the payments representing executory costs such as insurance, maintenance and taxes paid to the lessor under terms of the lease.

C. A lease conveys the use of an asset or part of an asset (such as part of a building) from one entity, the lessor, to another, the lessee, for a specified period of time in return for rent or other compensation. Lessees have capital or operating leases while lessors have sales-type, direct financing or operating leases. Capital, sales-type and direct financing leases transfer substantially all the benefits and risks of ownership from the lessor to the lessee.

D. When a lease is a capital lease, the lessee shall record the applicable asset and liability at lease inception. The amount to be recorded under a capital lease is the present value of the rental property and other lease payments during the lease term, excluding that portion of the payments representing executory costs such as insurance, maintenance and taxes paid to the lessor. However, if the present value amount exceeds the fair value of the leased property at the inception of the lease, the amount recorded shall be the fair value. If the executory costs portion of the minimum lease payments cannot be determined, the amount should be estimated. In such cases, the substance of the arrangement, rather than its legal form, shall determine the accounting treatment. All other leases should be accounted for as operating leases with no balance sheet recognition.

E. Lessees shall classify a lease as a capital lease if one of the following four criteria is met:

1. The lease transfers ownership of the property to the lessee by, or at, the end of the lease term.

2. The lease contains an option to purchase the leased property at a bargain price (see paragraph A.3, above).

3. The lease term (non-cancelable portion plus all periods, if any, representing renewals or extensions that can reasonably be expected to be taken) is equal to or greater than 75 percent of the estimated economic life of the leased property.

4. The present value of rental and other minimum lease payments, excluding that portion representing executory costs to be paid by the lessor, equals or exceeds 90 percent of the fair value of the leased property. The lessee shall compute the present value of the minimum lease payments using an interest rate for securities of similar maturity to the term of the lease or the Treasury Average Interest Rate for Marketable Interest-Bearing Debt unless:

a. It is practicable for the lessee to learn the interest rate implicit in the lease computed by the lessor, and

b. The implicit rate computed by the lessor is less than the Treasury Average Interest Rate for Marketable Interest-Bearing Debt.

F. The criteria cited in paragraph 060207 D.3. and D.4, above, do not apply if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property. (While leases with the GSA typically do not meet the capital lease criteria, if such a lease does meet the criteria it should be capitalized.)

G. If a lease does not meet one of the above four criteria, it should be classified as an operating lease. Operating leases of PP&E are leases in which the entity does not assume the risks of ownership of the PP&E. Multi-year service contracts and multi-year purchase contracts for expendable commodities are not capital leases.

H. A portion of each lease payment shall be allocated to interest expense, and the balance shall be applied to reduce the lease liability using the effective interest rate method. (Interest is calculated on the balance of the lease obligation for each period, and the remainder of the payment is applied as a reduction of the lease obligation.) The periodic payment amount allocated to interest expense shall be computed based on the interest rate used to compare the present value of minimum lease payments, unless the lease is recorded at fair value. For such leases, trial and error must be used to compute the interest rate for application to the balance of the lease obligation.

I. For leases with a residual guarantee by the lessee or a penalty for failure to renew the lease at the end of the lease term, following the amortization method in Volume 4, Chapter 7, paragraph 060207.F. generally should result in a liability balance that will equal the amount of the guarantee or penalty at the end of the lease term. If a renewal or other extension of the lease term or a new lease under which the lessee continues to lease the same property renders the guarantee or penalty inoperative, the asset and the liability under the lease shall be adjusted by an amount equal to the difference between the present value of the future minimum lease payments under the revised agreement and the present balance of the liability. The present value of future minimum lease payments under the revised lease agreement shall be computed using the rate of interest used to record the lease initially. Other renewals and extensions of lease terms shall be considered new agreements.

J. Sources for entries to these accounts include contracts, payment documents, amortization schedules, and journal vouchers.

K. Table 6-11 illustrates common entries for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1810
ASSETS UNDER CAPITAL LEASE

1.	Dr	1810 Assets Under Capital Lease	
		Cr	2940 Capital Lease Liability
	To record the present value of a capital lease.		
2.	Dr	1819 Accumulated Depreciation on Assets Under Capital Lease	
	Dr	2940 Capital Lease Liability	
	Dr	7210 Losses on Disposition of Assets	
		Cr	1810 Assets Under Capital Lease
	To record disposition of an asset held under a capital lease at a loss.		

TABLE 6-11

060208. Accumulated Depreciation on Assets Under Capital Lease (Account 1819)

A. The Accumulated Depreciation on Assets Under Capital Lease account accumulates the annual/periodic depreciation expense for assets under capital lease. The depreciation recovery period (useful life) to be used to depreciate personal or real property acquired by a capital lease is the recovery period designated for the type of property indicated in Table 6-7, unless the lease period is less than the recovery period in the table. For example, if a capital lease is used to acquire a fire truck (which has a 5-year recovery period), the fire truck would be depreciated over 5 years if the lease period is for at least 5 years. In the same example, if the lease period is only 4 years, the fire truck would be (fully) depreciated over 4 years.

B. This account shall be used by those activities that are authorized to enter into capital lease agreements.

C. Sources for entries to this account include journal vouchers showing the basis for the depreciation computation. Financial record retention requirements for such vouchers are contained in Chapter 9 of Volume 1 of this Regulation.

D. Table 6-12 illustrates common entries for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1819
ACCUMULATED DEPRECIATION ON ASSETS UNDER CAPITAL LEASE~~S~~

1. Dr 6710 Depreciation, Amortization and Depletion
   Cr 1819 Accumulated Depreciation on Assets Under Capital Lease~~s~~
   To record depreciation of an asset acquired by capital lease.

2. Dr 1819 Accumulated Depreciation on Assets Under Capital Lease
   Dr 2940 Capital Lease~~s~~ Liability
   Dr 7210 Losses on Disposition of Assets
   Cr 1810 Assets Under Capital Lease
   To record disposition of an asset acquired by capital lease at a loss.

TABLE 6-12

060209. Leasehold Improvements (Account 1820)

A. The Leasehold Improvement account is used to record the value of capitalized improvements to leased property. When leasehold improvements meet or exceed the DoD capitalization criteria (see paragraph 060103.A.1.d of this Chapter), such improvements shall be capitalized and amortized. If a leasehold improvement that meets the DoD capitalization threshold has been made to a capital lease, the improvement shall be amortized over the term of the lease. If a leasehold improvement that meets the DoD capitalization threshold has been made to an asset that has been procured by an operating lease, the leasehold improvement shall be amortized over 20 years or the expected duration of the lease, whichever is less. Sources for entries to this account include journal vouchers and documents transferring completed construction projects to this account. Table 6-13 illustrates common entries for the account.

B. Accumulated Amortization on Leasehold Improvements (Account 1829). The account, Accumulated Amortization on Leasehold Improvements, is used to accumulate the periodic amortization expense for leasehold improvements. Sources for entries to this account include journal vouchers with workpapers supporting the computation of the amounts to be amortized over the life of the lease. Table 6-13 illustrates common entries for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1820 LEASEHOLD IMPROVEMENTS AND ACCOUNT 1829 ACCUMULATED AMORTIZATION ON LEASEHOLD IMPROVEMENTS
1. Dr 1820 Leasehold Improvements Cr 1720 Construction-in-Progress To record the value of completed improvements to leased property.
2. Dr 6710 Depreciation, Amortization and Depletion Cr 1829 Accumulated Amortization on Leasehold Improvements To record the amortization expense for the accounting period.
3. Dr 1829 Accumulated Amortization on Leasehold Improvements Cr 1820 Leasehold Improvements To write off fully amortized leasehold improvements.
TABLE 6-13

060210. Information Technology Software/Internal Use Software (Account 1830)

A. Definition. Internal use software includes application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program that is owned for operational or other internal use. Normally, software is an integral part of an overall system(s) having interrelationships between software, hardware, personnel, procedures, controls, and data. Internal use software does not include software integrated in National Defense PP&E, nor does it include software used in Special Test Equipment. Internal use software is software that is:

1. Purchased from commercial off-the-shelf (COTS) vendors or ready for use with little or no changes,

2. Internally developed software that is developed by employees of the DoD, including new software and existing or purchased software that is modified with or without a contractor's assistance, or

3. Contractor-developed software that the DoD paid a contractor to design, program, install, and implement, including new software and the modification of existing or purchased software.

B. Recognition, Measurement and Disclosure. Internal use software is recognized and capitalized if it has a useful life of two years or more and the cost of the software equals or exceeds the DoD capitalization threshold.

1. COTS Software. The capitalized cost of COTS software shall be the actual purchase price, plus any material internal costs incurred for implementation.

2. Contractor Developed Software. The capitalized cost of contractor developed software shall include the amount paid to the contractor to design, program, install, and implement new software and the modification of existing or purchased software, plus any material internal costs incurred for implementation.

3. Internally Developed Software. The capitalized cost of internally developed software shall include the full cost (direct and indirect costs) incurred during the software development stage. Full cost includes the costs of new software (e.g., salaries of programmers, systems analysts, project managers, and administrative personnel; associated employee benefits; outside consultants' fees; rent; and supplies) and documentation manuals. Such costs should be limited to costs incurred after:

(a) Management authorizes and commits to a computer software project and believes that it is more likely than not that the project will be completed and the software will be used to perform the intended function with an estimated service life of 2 years or more, and

(b) The completion of the conceptual formulation, design and testing of possible software project alternatives (the preliminary design stage).

4. Software Developed by One Activity, Used by Others Without Reimbursement. Software that is developed by one activity and used by another activity or activities without cost shall be capitalized and depreciated by the developing activity (if it meets the capitalization criteria). For example, if the Tricare Management Activity (TMA), of the Defense Health Program, develops software (that meets the capitalization criteria) and installs the software at multiple DoD medical treatment facilities, the TMA shall capitalize and depreciate the software. The cost of the software shall not be allocated to the using activities.

C. Data Conversion Costs. All data conversion costs incurred for internally developed, contractor developed or COTS software shall be expensed as incurred, including the cost to develop or obtain software that allows for access or conversion of existing data to the new software. Such costs may include the purging or cleansing of existing data, reconciliation or balancing of data and the creation of new/or additional data.

D. Cutoff. Costs incurred after final acceptance testing has been successfully completed shall be expensed. When the software is to be installed at multiple sites, capitalization should cease at each site after testing is complete at that site.

E. Integrated Software. Computer software that is integrated into and necessary to operate General PP&E, rather than perform an application, shall be considered part of the PP&E of which it is an integral part and capitalized and depreciated accordingly (e.g., airport radar and computer-operated lathes). The aggregate cost of the hardware and software shall be used to determine whether to capitalize or expense the costs.

F. Bundled Products and Services. The DoD Components may purchase software as part of a package of products and services (e.g., training, maintenance, data conversion, reengineering, site licenses, and rights to future upgrades and enhancements). The DoD Components shall allocate the capitalizable and non-capitalizable costs of the package among individual elements on the basis of a reasonable estimate of their relative fair values. The costs that are not susceptible to allocation between maintenance and relatively minor enhancements shall be expensed.

G. Bulk Purchases of Software. Bulk purchases of software programs and modules or components of a total software system that individually meet the DoD capitalization threshold shall be capitalized and recorded. If the per item cost of a bulk purchase (e.g., numerous copies of spreadsheets and word-processing programs) does not meet the DoD capitalization threshold, the bulk purchase shall be expensed in the period acquired.

H. Enhancements

1. The acquisition cost of enhancements to existing internal use software (and modules thereof) shall be capitalized when such costs exceed the DoD capitalization threshold, and when it is more likely than not that such enhancements will result in significant additional capabilities. For example, if a DoD Component adds a capability or unction to existing software for making ad hoc queries, the cost would be capitalized if it exceeded the capitalization threshold. The cost of minor enhancements resulting from ongoing systems maintenance shall be expensed in the period incurred. Also, the purchase cost of enhanced versions of software for a nominal charge are properly expensed in the period incurred.

2. The cost incurred solely to repair a design flaw or to perform minor upgrades that may extend the useful life of the software without adding capabilities shall be expensed.

I. Impairment

1. Post Implementation/Operational Software

a. Impairment shall be recognized and measured when one of the following occurs and is related to post implementation/operational software and/or modules:

(1) The software is no longer expected to provide substantive service potential and will be removed from service, or

(2) A significant reduction occurs in the capabilities, functions or uses of the software (or a module thereof).

b. If the impaired software is to remain in use, the loss due to impairment shall be measured as the difference between the book value and either:

(1) The cost to acquire software that would perform similar remaining functions (e.g., the unimpaired functions) or, if that is not feasible,

(2) The portion of the book value attributable to the remaining functional elements of the software. The loss shall be recognized upon impairment, and the book value of the asset reduced accordingly. If neither (a) nor (b) above can be determined, the book value shall continue to be amortized over the remaining useful life of the software.

c. If the impaired software is to be removed from use, the loss due to impairment shall be measured as the difference between the book value and the net realizable value (NRV), if any. The loss shall be recognized upon impairment, and the book value of the asset reduced accordingly. The NRV, if any, shall be transferred to the Other General PP&E account (general ledger account 1890) until such time as the software is disposed of and the amount is realized.

2. Developmental Software. In instances where a DoD Component concludes that it is no longer more likely than not that developmental software (or a module thereof) will be completed and placed in service, the related book value accumulated for the software (or the balance in a work-in-process account, if applicable) should be reduced to reflect the expected NRV, if any, and the loss recognized.

J. Depreciation

1. Software that is capitalized in accordance with the requirements of this Chapter shall be depreciated as provided for in this Chapter. The DoD Standard Recovery Period used for depreciation should be consistent with that used for planning the software's acquisition. See Table 6-7 of this Chapter for the specific recovery periods (useful lives) for software.

2. For each module or component of a software project, depreciation should begin when that module or component has been successfully tested. If the use of a module is dependent on completion of another module(s), the depreciation of that module should begin when both that module and the other module(s) have successfully completed testing.

3. When a DoD Component replaces existing internal use software with new software, the undepreciated cost of the old software should be expensed when

the new software has successfully completed testing. No adjustments should be made to the previously recorded depreciation.

4. Software that is developed by one activity and used by another activity or activities without cost shall be capitalized and depreciated by the developing activity (if it meets the capitalization criteria). For example, if the Tricare Management Activity (TMA), of the Defense Health Program, develops software that meets the DoD capitalization criteria and installs the software at multiple DoD medical treatment facilities, the TMA shall capitalize and depreciate the software. The depreciation expense related to that software shall not be allocated to the using activities.

K. Disclosures. The annual financial statement disclosures required for internal use software are the same as that for other General PP&E. Thus, the following should be disclosed in the financial statements:

1. The cost, accumulated depreciation and net book value.

2. The estimated useful life.

3. The method of depreciation (straight-line).

L. Accounting Entries. The Information Technology Software account is used to record the cost of internal use software by the DoD. Table 6-14 illustrates common entries for the account.

ACCOUNTING ENTRIES TO ACCOUNT 1830
INFORMATION TECHNOLOGY SOFTWARE

1. Dr 1830 Information Technology Software
   Cr 2110 Accounts Payable
   To record the acquisition cost incurred by the DoD for purchased software.

2. Dr 1839 Accumulated Depreciation on Information Technology Software
   Dr 7210 Other Losses
   Cr 1830 Information Technology Software
   To write off unusable software.

3. Dr 6710 Depreciation, Amortization and Depletion
   Cr 1839 Accumulated Depreciation on Information Technology Software
   To record depreciation expense for the current accounting period.

4. Dr 1839 Accumulated Depreciation on Information Technology Software
   Cr 1830 Information Technology Software

To write off fully depreciated information technology software.

TABLE 6-14

060211. Other General PP&E (Account 1890)

A. When a General PP&E asset is identified for other than normal removal from service, such as would be the case for assets that are part of a Base Realignment and Closure, the asset shall be removed from the PP&E accounts, along with its associated accumulated depreciation and be recorded in the Other General PP&E account (1890) at its net realizable value (NRV). Oftentimes the NRV will be zero. Any difference between the book value of the PP&E asset and its expected NRV shall be recognized as a gain or loss in the period of adjustment. Normal disposal transactions shall not be processed through account 1890 and shall not be accounted for using account 5730, Financial Resources Transferred Out Without Reimbursement.

B. When assets are part of a Base Realignment and Closure, and the mission of that installation has been terminated or transferred (the flag has been lowered), such assets shall be removed from the PP&E accounts, along with the associated accumulated depreciation. Such assets will be recorded in the Other General PP&E account at the NRV.

C. The Other General PP&E account shall not be used to record assets that have been removed from service and sent to a depot for storage with the intent to use the assets again in the future or for other assets taken out of service on a temporary basis. Those assets shall remain recorded in the appropriate general ledger account and shall continue to be depreciated.

ACCOUNTING ENTRIES FOR ACCOUNT 1890
OTHER GENERAL PP&E

1. Dr 1890 Other General PP&E
Cr 1711 Land and Land Rights
To record the value of land identified for disposal as the result of a BRAC action and transferred to Other General PP&E.

2. Dr 1890 Other General PP&E
Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
Cr 1730 Buildings, Improvements and Renovations
Cr 7110 Gains on Disposition of Assets
To record the value of buildings, improvements and renovations identified for disposal because of BRAC and transferred to the Other General PP&E account when the expected NRV is greater than the book value of the assets transferred.

3. Dr 1890 Other General PP&E
   Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
   Dr 7210 Losses on Disposition of Assets
      Cr 1730 Buildings, Improvements and Renovations

To record the value of buildings, improvements and renovations identified for disposal as a result of BRAC and transferred to the Other General PP&E account when the expected NRV is less than the book value of the assets transferred.

4. Dr 1890 Other General PP&E
   Dr 1749 Accumulated Depreciation on Other Structures and Facilities
      Cr 1740 Other Structures and Facilities
      Cr 7110 Gains on Disposition of Assets

To record the value of other structures and facilities identified for Disposal as a result of BRAC and transferred to the Other General PP&E account when the expected NRV is greater than book value of the assets transferred.

5. Dr 1890 Other General PP&E
   Dr 1749 Accumulated Depreciation on Other Structures and Facilities
   Dr 7210 Losses on Disposition of Assets
      Cr 1740 Other Structures and Facilities

To record the value of other structures and facilities identified for Disposal as a result of BRAC and transferred to the Other General PP&E account when the expected NRV is less than book value of the assets transferred.

6. Dr 1890 Other General PP&E
   Dr 1759 Accumulated Depreciation on Equipment
      Cr 1750 Equipment
      Cr 7110 Gains on Disposition of Assets

To record the value of equipment identified for disposal as a result of BRAC and transferred to the Other General PP&E account when the expected NRV is greater than book value of the assets transferred.

7. Dr 1890 Other General PP&E
   Dr 1759 Accumulated Depreciation on Equipment
   Dr 7210 Losses on Disposition of Assets
      Cr 1750 Equipment

To record the value of equipment identified for disposal as a result of BRAC and transferred to the Other General PP&E account when the expected NRV is less than book value of the assets transferred.

TABLE 6-15

0603 ACCOUNTING FOR STEWARDSHIP PP&E

060301. General

A. Stewardship PP&E is property owned or controlled by the DoD that meets the definition of one of the following three categories:

1. National Defense PP&E consists of weapons systems, components of weapons systems and military support PP&E used by the Military Departments in the performance of military missions. National Defense PP&E also includes vessels held in preservation status by the Maritime Administration's National Defense Reserve Fleet.

2. Heritage Assets are PP&E of historical, natural, cultural, educational, or artistic significance.

3. Stewardship Land is land other than that acquired for or in connection with General PP&E or land acquired via the public domain or at no cost.

B. Stewardship PP&E consists of items whose physical properties resemble those of General PP&E and are traditionally capitalized in commercial-type financial statements. However, the nature of these items differ from General PP&E in that their values may be indeterminable or may have little financial meaning (e.g., museum collections, monuments, assets acquired in the formation of the nation), or that allocating the cost of such assets (e.g., military weapons systems) to accounting periods that benefit from the ownership of such assets is not meaningful.

060302. Recognition and Measurement

A. In general, Stewardship PP&E does not require the reporting of acquisition costs. Rather, quantities of the Stewardship PP&E are reported in annual financial statements. Specific reporting guidance is provided in Chapter 11 of Volume 6B of this Regulation.

B. Stewardship PP&E, including National Defense PP&E and Heritage Assets, may be transferred among federal entities. As a general principle, when a PP&E item is transferred, the receiving entity should use the book value of the item carried in the transferring entity's records as a basis for recognizing that item. The transferring and receiving entities should collaborate with each other to ensure that they make consistent accounting entries.

060303. National Defense PP&E

A. General. National Defense PP&E (ND PP&E) information is reported as supplementary stewardship information accompanying the annual DoD financial statements. The reporting requirements for ND PP&E are provided in Volume 6B of this Regulation.

B. Definition. ND PP&E are the PP&E components of weapons systems and support PP&E used by Military Departments in the performance of military missions and vessels held in a preservation status by the Maritime Administration's National Defense Reserve Fleet.

1. "Weapons systems" are a combination of one or more weapons (weapons are instruments of combat used to destroy, injure, defeat, or threaten an enemy) with all related property, plant, equipment, materials, services, personnel, and means of delivery and deployment required for self-sufficiency.

2. "Military missions" are defined as the functions performed by the Military Departments to prepare for the effective pursuit of war and military operations short of war; to conduct combat, peacekeeping, and humanitarian military operations and to support civilian authorities during civil emergencies.

3. ND PP&E components include: (a) Weapons Systems PP&E, (b) Weapons Systems Support Principal End Items, (c) Weapons Systems Support Real Property, and (d) Mission Support PP&E. These categories are intended to provide guidance in identifying assets to be identified as ND PP&E. The categories are defined below.

a. Weapons Systems PP&E. Weapons Systems PP&E is equipment that launches, releases, carries, or fires a particular piece of ordnance (defined as explosives, chemicals, pyrotechnics, and similar stores, e.g., bombs, guns and ammunition, flares, smoke, napalm) and/or carries weapons systems-related property, equipment, materials, or personnel. Examples of Weapons Systems PP&E include aircraft, ships, tracked combat vehicles, and missiles (e.g., missiles are unmanned, expendable, self-propelled flying vehicles with some form of guidance system that allows it to steer towards, rather than be aimed at, the target; included are surface-to-air, air-to-air, and air-to-surface missiles). Ammunition and other types of munitions (e.g., small and large caliber ammunition, rockets, grenades, mines, and other explosives) should be excluded from this category.

b. Weapons Systems Support Principal End Items. Weapons Systems Support Principal End Items are end items and replacement assemblies. An end item is a final combination of end products, component parts and/or materials that is ready for its intended use (e.g., on a ship, tank or aircraft). A replacement assembly is an item forming a portion of equipment that can be provisioned and replaced as an entity and which normally incorporates replaceable parts or groups of parts. These items are acquired to support weapons systems and may ultimately be incorporated in weapons systems. Examples of these items include aircraft engines, tank engines, aircraft radars, ship sonars, uninstalled missile motors, missile control panels, gun mounts, gun turrets, and guidance systems.

c. Weapons Systems Support Real Property.

(1) Weapons Systems Support Real Property are facilities and structures affixed to the land that are integral to a weapons system.

(2) Weapons Systems Support Real Property must be:

(a) Of a permanent/fixed nature,

(b) Essential to the effective operation of a weapons system, and

(c) Currently utilized to support an active weapons system.

(d) Examples of these items include missile silos in active use and ammunition bunkers.

(3) The land associated with Weapons Systems Support Real Property is not included in this category. Land shall either be classified as General PP&E or Stewardship Land and accounted for accordingly.

d. Mission Support PP&E. Mission Support PP&E is deployable (possessing the characteristic of being positioned and ready for use in battle) PP&E that:

(1) Is essential to the effective operation of a weapons system or is used by the Military Departments to effectively perform military missions;

(2) Has an indeterminate or unpredictable useful life (may be evidenced by the ability to retire the PP&E and later return it to service or to continually upgrade the PP&E to maintain its usefulness) due to the manner in which it is used, improved, retired, modified, or maintained; and

(3) Is at a very high risk of being destroyed during use or of premature obsolescence.

(4) Examples of mission support PP&E include: surveillance unmanned air vehicles, nontactical vehicles (e.g., fuel tanker, combat operations center, mess vehicles), field meteorological systems, crypto systems, and field security systems.

e. PP&E in the possession of contractors that otherwise meet the foregoing definitions of ND PP&E shall be accounted for as ND PP&E.

C. Accounting Policy

1. The periodic cost of acquiring, constructing, improving, reconstructing, or renovating ND PP&E shall be expensed and recognized as a cost in the

Statement of Net Cost for the period in which the cost is incurred. Other associated costs such as the costs incurred to bring the item to its current condition and location also shall be expensed.

2. If ND PP&E acquisition costs are incurred over a number of years, the portion of the costs incurred during the reporting period shall be expensed and recognized as a cost in the Statement of Net Cost for that period.

060304. Heritage Assets

A. General.

1. Heritage Assets shall be reported as part of the financial statements of the DoD Components responsible for such assets. The reporting requirements for Heritage Assets are provided in Chapter 11 of Volume 6B of this Regulation.

2. Heritage Assets may in some cases serve two purposes: (a) a heritage function and (b) a government operations function. In cases where a Heritage Asset serves two purposes, the Heritage Asset shall be considered, and classified as, a Multi-Use Heritage Asset. An example of a Heritage Asset is the Pentagon, which has been listed on the National Register of Historic Places and also is used as an office building. The full cost of acquisition, betterment or reconstruction of assets classified as Multi-Use Heritage Assets shall be capitalized as General PP&E and depreciated. If a Heritage Asset is not predominantly used in general government operations, it shall be referred to, or classified as, a Heritage Asset and shall not be capitalized as General PP&E. Additional guidance can be found in paragraph 060304.C., below.

B. Definition.

1. Heritage Assets are PP&E that are unique for one or more of the following reasons:

a. Historical or natural significance;

b. Cultural, educational or artistic (e.g., aesthetic) importance; or

c. Significant architectural characteristics.

2. Heritage Assets are generally expected to be preserved indefinitely.

3. The cost or value should not serve as a precursor when deciding if an item should be classified as a Heritage Asset. The DoD Components should refer to published registers, and their own judgment, when making this assessment. The DoD

Components should assess the importance of an item relative to the ideals of the nation and its citizens and institutions. Display equipment, defined as old or obsolete military equipment, which is not considered to warrant museum-level heritage significance, but is on outside display at military installations, is not a Heritage Asset. Historic significance may be determined if a property/asset meets at least one of the following criteria used by the National Register of Historic Places criteria:

a. Association with historic events or activities (e.g., battles, development of military technology, prehistoric cultural patterns);

b. Association with important persons (e.g., important military leaders, political leaders, inventors);

c. Distinctive design or physical characteristics (e.g., work of a master architect, landscape architect, planner, or engineer; work representative of a particular approach to military design or a particular type or style of architecture or engineering; a formative example of standardized planned military housing); or

d. Potential to provide important information about prehistory or history (e.g., an archeological site on a military installation).

4. The cost of acquiring, improving, reconstructing, or renovating Heritage Assets, other than Multi-Use Heritage Assets, shall be recognized as a cost on the Statement of Net Cost for the period in which the cost is incurred. The cost shall include all costs incurred to bring the asset to its current condition and location.

5. Except for assets classified as Multi-Use Heritage Assets, no amounts for Heritage Assets acquired through donation or devise (a will or clause of a will disposing of property) shall be recognized in the cost of Heritage Assets. The Heritage Asset's fair value, if known, and material, shall be disclosed in notes to the financial statements in the year acquired. If fair value is not known or reasonably estimable, information related to the type and quantity of assets acquired shall be disclosed.

C. Assets Classified as Multi-Use Heritage Assets

1. The costs of acquisition, betterment or reconstruction of assets classified as Multi-Use Heritage Assets shall be capitalized as General PP&E and depreciated if the costs equal or exceed the DoD capitalization threshold. Such Multi-Use Heritage Assets shall be depreciated over their useful life or the period of time they are expected to be used in government operations, whichever is shorter.

2. Assets classified as Multi-Use Heritage Assets and acquired through donation or devise shall be recognized as General PP&E at the fair value of the assets, and the amount also shall be recognized as non-exchange revenue on the Statement of Financing.

060305. Stewardship Land

A. General.

1. Land not acquired for, or in connection with, items of General PP&E is Stewardship Land. "Acquired for or in connection with" is defined as including land acquired with the intent to construct General PP&E and land acquired in combination with General PP&E, including not only land used as the foundation, but also adjacent land considered to be General PP&E common grounds. Land classified as Stewardship Land shall be reported as required supplementary stewardship information accompanying the annual financial statements of the DoD Component responsible for such land. Stewardship Land shall be reported in terms of physical units (acres) rather than cost or fair value. Without exception, all land provided to the DoD from the public domain, or at no cost, shall be classified as Stewardship Land, regardless of its use. Therefore, public domain or no-cost land used in a General PP&E context shall be reported as Stewardship Land and not reported as General PP&E.

B. Definition.

1. Land is defined as the solid part of the surface of the earth. Excluded from the definition are natural resources (e.g., depletable resources, such as mineral deposits and petroleum, renewable resources such as timber and the outer-continental shelf resources).

2. Land and land rights owned by the DoD, or a DoD Component, acquired for or in connection with items of General PP&E shall be accounted for and reported as General PP&E. Land rights are interests and privileges held by the DoD, or a DoD Component, in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, mineral rights, and other like interests in land.

3. Land and land rights owned by the DoD, or a DoD Component, but not acquired for or in connection with items of General PP&E shall be reported as Stewardship Land. Land that is standing idle and not used to fulfill mission responsibilities is Stewardship Land. Such land generally should be viewed as an independent, stand alone asset and not an integral part of operations.

ACCOUNT NO. 1711	
Land and Land Rights	
DESCRIPTION: The identifiable cost of land and land rights of unlimited duration acquired for or in connection with General PP&E. Stewardship land is excluded.	
DEBIT	CREDIT
1. To record the purchase of land and land rights. Contra: 2110	1. To record disposal of land. Contra: 5730
NORMAL BALANCE: Debit	
FIGURE 6-1	

ACCOUNT NO. 1712	
Improvements to Land	
DESCRIPTION: The cost of non-permanent, depreciable improvements to land used in general operations.	
DEBIT	CREDIT
1. To record the acquisition cost of improvements to Land. Contra: 2110, 1720	1. To write off fully depreciated improvements to Land. Contra: 1719
NORMAL BALANCE: Debit	
FIGURE 6-2	

ACCOUNT NO. 1719	
Accumulated Depreciation to Improvements to Land	
DESCRIPTION: Accumulates depreciation on improvements to land.	
DEBIT	CREDIT
1. Write off fully depreciated improvements to Land. Contra: 1712	1. Depreciation for the accounting period. Contra: 6710
NORMAL BALANCE: Credit	
FIGURE 6-3	

ACCOUNT NO. 1720	
Construction-in-Progress	
DESCRIPTION: Includes costs of direct labor, direct material and overhead incurred in the construction of PP&E. Upon completion, these costs will be transferred to the proper capital asset account as the acquisition cost of the item.	
DEBIT	CREDIT
1. To record the costs of construction still in progress. Contra: 2110, 6100	1. To transfer completed projects to property accounts. Contra: 1712, 1730, 1740
NORMAL BALANCE: Debit	
FIGURE 6-4	

ACCOUNT NO. 1730	
Buildings, Improvements and Renovations	
DESCRIPTION: The cost of government-owned buildings acquired for and used in providing general government services or goods.	
DEBIT	CREDIT
1. To record acquisition cost of buildings, improvements and renovations. Contra: 2110, 1720	1. To write off fully depreciated buildings, improvements and renovations. Contra: 1739
2. To record acquisition of buildings, improvements and renovations received without reimbursement. Contra: 1729, 5720	2. To record value of facilities transferred without reimbursement. Contra: 1739, 5730
NORMAL BALANCE: Debit	
FIGURE 6-5	

ACCOUNT NO. 1739	
Accumulated Depreciation on Buildings, Improvements and Renovations	
DESCRIPTION: Accumulates depreciation charged to expense for buildings, improvements and renovations.	
DEBIT	CREDIT
1. Write off fully depreciated buildings, improvements and renovations. Contra: 1730	1. Depreciation for the accounting period. Contra: 6710
NORMAL BALANCE: Credit	
FIGURE 6-6	

ACCOUNT NO. 1740	
Other Structures and Facilities	
DESCRIPTION: The cost of government-owned structures and facilities other than buildings that are under the control of a DoD Component.	
DEBIT	CREDIT
1. To record acquisition cost of other structures and facilities. Contra: 2110, 1720	1. To write off fully depreciated structures and facilities. Contra: 1749
2. To record transferor's acquisition cost of facilities received without reimbursement. Contra: 1749, 5720	2. To record the value of structures and facilities transferred out without reimbursement. Contra: 1749, 5730
NORMAL BALANCE: Debit	
FIGURE 6-7	

ACCOUNT NO. 1749	
Accumulated Depreciation on Other Structures and Facilities	
DESCRIPTION: Accumulates depreciation charged to expense for structures and facilities.	
DEBIT	CREDIT
1. Write off fully depreciated structures and facilities. Contra: 1740	1. Depreciation for the accounting period. Contra: 6710
NORMAL BALANCE: Credit	
FIGURE 6-8	

ACCOUNT NO. 1750	
Equipment	
DESCRIPTION: The capitalized cost of tangible equipment items of a durable nature used by a DoD Component in providing goods and services (excluding computer software).	
DEBIT	CREDIT
1. To record acquisition cost of equipment. Contra: 2110, 1720	1. To write off fully depreciated equipment. Contra: 1759
2. To record transferor's value of equipment that is received without reimbursement. Contra: 1759, 5720	2. To record value of equipment transferred to a not in use status, or transferred to disposal. Contra: 1759, 1890
NORMAL BALANCE: Debit	
FIGURE 6-9	

<table>
<tr><td colspan="2" align="center">ACCOUNT NO. 1759</td></tr>
<tr><td colspan="2" align="center">Accumulated Depreciation on Equipment</td></tr>
<tr><td colspan="2">DESCRIPTION: Accumulates depreciation charged to expense for equipment.</td></tr>
<tr><td align="center">DEBIT</td><td align="center">CREDIT</td></tr>
<tr><td>1. Write off fully depreciated Equipment.

Contra: 1750</td><td>1. Depreciation for the accounting period.

Contra: 6710</td></tr>
<tr><td colspan="2">NORMAL BALANCE: Credit</td></tr>
<tr><td colspan="2" align="center">FIGURE 6-10</td></tr>
</table>

<table>
<tr><td colspan="2" align="center">ACCOUNT NO. 1810</td></tr>
<tr><td colspan="2" align="center">Assets Under Capital Lease</td></tr>
<tr><td colspan="2">DESCRIPTION: The capitalized value of assets leased under terms that are essentially equivalent to an installment purchase.</td></tr>
<tr><td align="center">DEBIT</td><td align="center">CREDIT</td></tr>
<tr><td>1. Capital leases signed.

Contra: 2940</td><td>1. Disposition of an asset held under a capital lease.

Contra: 1819, 2940, and 7210</td></tr>
<tr><td colspan="2">NORMAL BALANCE: Debit</td></tr>
<tr><td colspan="2" align="center">FIGURE 6-11</td></tr>
</table>

ACCOUNT NO. 1819	
Accumulated Depreciation on Assets Under Capital Leases	
DESCRIPTION: Accumulates the depreciation charged to expense for assets under capital leases.	
DEBIT	CREDIT
1. Disposition of an asset held under capital leases. Contra: 1810	1. Depreciation for the accounting period. Contra: 6710
NORMAL BALANCE: Credit	
FIGURE 6-12	

ACCOUNT NO. 1820	
Leasehold Improvements	
DESCRIPTION: The capitalized value of improvements made to leased property, as well as easements and right-of-way.	
DEBIT	CREDIT
1. To record the value of completed improvements to leased property. Contra: 1720	1. Write off fully amortized improvements. Contra: 1829
NORMAL BALANCE: Debit	
FIGURE 6-13	

ACCOUNT NO. 1829	
Accumulated Depreciation on Leasehold Improvements	
DESCRIPTION: Accumulated depreciation charged to expense for leasehold improvements.	
DEBIT	CREDIT
1. Write off fully depreciated leasehold improvements. Contra: 1820	1. Depreciation expense for the accounting period. Contra: 6710
NORMAL BALANCE: Credit	
FIGURE 6-14	

ACCOUNT NO. 1830	
Information Technology Software	
DESCRIPTION: The capitalized value of software.	
DEBIT	CREDIT
1. Purchase or in-house developed software. Contra: 2110 and 1720	1. Write off unusable software. Contra: 1839 and 7210 2. To write off fully depreciated Information Technology Software. Contra: 1839
NORMAL BALANCE: Debit	
FIGURE 6-15	

ACCOUNT NO. 1839	
Accumulated Depreciation on Information Technology Software	
DESCRIPTION: Accumulates the depreciation charged to expense for Information Technology software.	
DEBIT	CREDIT
1. Write off fully depreciated software. Contra: 1830	1. Record the depreciation expense for the accounting period. Contra: 6710
NORMAL BALANCE: Credit	
FIGURE 6-16	

ACCOUNT NO. 1890	
Other General PP&E	
DESCRIPTION: The value of general PP&E not otherwise classified. Includes the value of General PP&E identified for disposal, retirement or permanent removal from service to include when an asset is part of a Base Realignment and Closure.	
DEBIT	CREDIT
1. To record the transfer of assets from other General PP&E accounts awaiting disposal. Contra: 1730, 1740, 1750, 7110	
NORMAL BALANCE: Debit	
FIGURE 6-17	

★THIS CHAPTER HAS BEEN COMPLETELY REVISED★