## CAPITAL OUTLAY (Continued)

In the Capital Assets Account Group, at year-end, a journal entry is prepared debiting Account #136 - Buildings and crediting Account #399 - Investment in Capital Assets in the amount charged to Activity #900.

Such a building is subject to depreciation. However, no depreciation is recorded in the County Road Fund, in this case. Depreciation is recorded in the Capital Assets Account Group only, as follows:

**Debit** - Account #399 - Investment in Capital Assets
**Credit** - Account #137 - Accumulated Depreciation-Buildings

### New Equipment

The cost of all new equipment, which is recorded in the Equipment Expense Summary Ledger, must include all costs as explained under Activity #900 - Capital Outlay.

The disbursement of funds for any complete rebuilding of a piece of equipment should be considered as a capital expenditure ONLY if it substantially increases the expected life of the equipment; otherwise, it will be considered as a Direct Repair charge to the piece of equipment. Where the useful life is substantially increased, it will be necessary to add the total factory rebuilding cost to the undepreciated balance. It is then permissible to start the depreciation the same as new equipment on the present five (5) year or eight (8) year depreciation schedule, whichever applies to the code number of the equipment rebuilt. However, it is preferable to estimate the actual remaining life and to depreciate the equipment accordingly using the sum-of-the-years' digits method.

The restoration of equipment damaged by accident will be considered as a direct repair charge.

Insurance payments, or other reimbursements for accidental damage to equipment will be treated as expenditure credits as an offset to the direct repair charges.

### Used Equipment

The purchase price and reconditioning costs of used equipment will be considered as a capital expenditure. Depreciation will be computed in the same manner as for any other piece of new equipment as the established depreciation rate (refer to Equipment Rental Rates – Schedule C).

## <u>CAPITAL OUTLAY</u> (Continued)

### Minimum Cost for Capitalization

Assets which have an original cost of less than $200 shall not be capitalized on the books of account, except in those cases in which the equipment item is assigned an equipment rental rate by the Michigan Department of Transportation (Schedule ‘C’); in these cases the equipment costs will be classified as capital outlay regardless of the cost.

### Fire Loss and Insurance Recovery - Building

Assuming a road commission garage with an original cost of $100,000 and a present book value of $64,000 is destroyed by fire, the road commission receives an insurance payment of $113,000 and replaced the garage at a cost of $267,000.

The following entries are necessary for buildings only:

| Activity/ Account # | Account Name/Explanation | Debit | Credit |
|---|---|---|---|
| County Road Fund | | | |
| 001 | Cash | $113,000 | |
| 689.02 | Capital Asset Retirement | | $ 64,000 |
| 693.02 | Gain/Loss on Disposal of Capital Assets | | $ 49,000 |
| | (To record receipt of insurance payment for garage.) | | |
| 900/975 | Capital Outlay/Buildings | $267,000 | |
| 001 | Cash | | $267,000 |
| | (To record the cost of rebuilding garage.) | | |
| Capital Assets Account Group | | | |
| 137 | Accumulated Depreciation – Buildings, Additions, and Improvements | $ 36,000 | |
| 399 | Investment in Capital Assets | $ 64,000 | |
| 136 | Buildings, Building Addition, and Improvements | | $100,000 |
| | (To write off garage destroyed by fire.) | | |

## CAPITAL OUTLAY (Continued)

| Activity/ Account # | Account Name/Explanation | Debit | Credit |
|---|---|---|---|
| 136 | Buildings, Building Addition, and Improvements | $267,000 | |
| 399 | Investment in Capital Assets | | $267,000 |
| | (To record capital outlay expenditure for new garage.) | | |

### Fire Loss and Insurance Recovery - Equipment

Assuming a road commission has a motor grader with an original cost of $124,000 with a present book value of $50,000 is destroyed by fire or accident, the road commission receives an insurance payment of $126,000 (based on appreciated value) and replaced the motor grader at a cost of $130,000.

The following entries are necessary for road equipment (this would also be similar to the treatment of other equipment):

| Activity/ Account | Account Name/Explanation | Debit | Credit |
|---|---|---|---|
| County Road Fund | | | |
| 001 | Cash | $126,000 | |
| 689.01 | Road Equipment Retirement | | $ 50,000 |
| 693.01 | Gain/Loss on Disposal of Road Equipment | | $ 76,000 |
| | (To record receipt of insurance payment for motor grader.) | | |
| 900/976 | Capital Outlay/Road Equipment | $130,000 | |
| 001 | Cash | | $130,000 |
| | (To record the cost of replacing the motor grader.) | | |
| Capital Assets Account Group | | | |
| 137 | Accumulated Depreciation - road Equipment | $ 74,000 | |
| 399 | Investment in Capital Assets | $ 50,000 | |
| 138 | Equipment - Road | | $124,000 |
| | (To write off road equipment destroyed by fire/accident.) | | |

## CAPITAL OUTLAY (Continued)

| Activity/ Account # | Account Name/Explanation | Debit | Credit |
|---|---|---|---|
| 136 | Equipment - Road | $130,000 | |
| 399 | Investment in Capital Assets | | $130,000 |
| | (To record capital outlay expenditures for new equipment.) | | |

### Insurance Reimbursement on an Incident - Road Equipment

Assuming a road commission has the same piece of equipment as described above that was involved in an incident where it was damaged, but not destroyed. The total cost for repair is $15,000 and the road commission receives an insurance payment of $14,500.

The following entry is necessary for road equipment (this would also be similar to the treatment of other equipment):

| Activity/ Account # | Account Name/Explanation | Debit | Credit |
|---|---|---|---|
| County Road Fund | | | |
| 001 | Cash | $ 14,500 | |
| 510.XXX | Equipment Expense - Direct | | $ 14,500 |
| | (To record receipt of insurance payment for motor grader.) | | |

NOTE: All expenditures relating to the repair of the equipment will be debited to the related 510.XXX activity as well as any applicable deductions.

### Depreciation

Depreciation should be computed on the sum-of-the-years-digits method for road equipment and vehicles using the depreciation tables in Schedule C - Equipment Rental Rates issued by the Michigan Department of Transportation. Depreciation should be computed on the straight-line method for all other fixed assets.

Depreciation must be computed in all instances for the year or the portion of the year that the piece of equipment was owned by the county road commission. Depreciation should begin on the first of the month of delivery.

## CAPITAL OUTLAY (Continued)

### Depreciation Expense

At the close of the year, depreciation of fixed assets is determined from the individual equipment and building records. A journal entry is made debiting expenditure Account #968 – Depreciation and Depletion Expense, and/or the applicable depreciation expense sub account(s) within the proper activity, and crediting revenue Account #690 – Depreciation and Depletion Credits.

Depreciation expenses should be debited to the various activities as follows:

Depreciation of buildings should be posted to Activity #511 – Equipment Expense – Indirect (excluding administrative if the administrative office is connected to the garage or shop) as additional shop and storage expense; depreciation of road equipment to Activity #510 – Equipment Expense – Direct, and furniture to Activity #511 – Equipment Expense – Indirect, Activity #514 – Distributive Expense – Other or #515 - Administrative Expense; depreciation of shop equipment to Activity #511 – Equipment Expense – Indirect; and depreciation of engineering equipment to activity #516 – Engineering, if used. (If Activity #516 is not used, depreciation of engineering equipment should be charged to either Activity #514 – Distributive Expense – Other). Depreciation of storage silos, buildings, and tanks that store road materials should be charged to Activity #514 – Distributive Expense – Other.

It is recommended that the necessary entries in the County Road Fund and the Capital Assets Account Group for equipment which is disposed of during the year be made at the time of disposition. Other depreciation expense entries must be made at least annually.

### Depreciation

The following depreciation percentage rates are recommended for the capital asset items (other than road equipment and infrastructure which can be found on pages 176, 178, and 179).

| | |
|---|---|
| Shop Equipment | 10% per year or 10 years |
| Stockroom Fixtures | 10% per year or 10 years |
| Land Improvements | 10% per year or 10 years |

All Buildings

| | |
|---|---|
| Masonry Construction | 2% per year or 50 years |
| Sheet Metal Construction | 3% per year or 33.3 years |
| Wood Frame Construction | 4% per year or 25 years |

Yard and Storage Equipment

| | |
|---|---|
| Chemicals Storage Silo (Masonry) | 5% per year or 20 years |
| Liquid Chemicals Storage Tank (Metal) | 10% per year or 10 years |
| Asphalt Storage Tank (Metal) | 5% per year or 20 years |
| Chemical Hopper Bin (Metal) | 10% per year or 10 years |
| Chemical Storage Bin (Masonry) | 5% per year or 20 years |

## CAPITAL OUTLAY (Continued)

Office, Engineering, Computer Equipment

| | |
|---|---|
| Office Equipment and Furniture | 10% per year or 10 years |
| Engineering Equipment | 10% per year or 10 years |
| Computers, Data Processing Equipment | 25% per year or 4 years |

### Depletion

Depletable Assets or wasting assets are defined as assets which diminish in value by the removal of their contents such as the purchase cost of gravel pits, sand pits, clay pits, brine wells, quarries, etc.

## **CAPITAL OUTLAY (Continued)**

When depletable assets are acquired, the cost or appraised value of the assets acquired should be charged to Activity #900 - Capital Outlay, Account #987 - Depletable Assets in the County Road Fund. Monthly or annually the amount charged to Account #987 should be recorded by journal entry in the Capital Assets Account Group by debiting Account #134 - Depletable Assets and crediting Account #399 - Investment in Capital Assets. To effectively control depletable assets, the unit cost (yard, ton, gallon, etc.) must be determined by dividing the purchase cost by the actual or estimated quantity acquired.

## **DEPLETABLE ASSETS**

When depletable assets are removed and:

### Stockpiled

The cost of the material removed should be debited to Account #109 - Inventory-Road Materials with an offsetting credit to Account #690 - Depreciation and Depletion Credits in the County Road Fund.

### Used for Construction, Preservation, or Routine and Preventive Maintenance on the County Road System

The cost should be debited to expenditure Account #968 - Depreciation and Depletion within the applicable construction/capacity improvements, preservation-structural improvement or routine and preventive maintenance activity with an offsetting credit to Account #690 - Depreciation and Depletion Credits in the County Road Fund.

### Sold

The cost of material sold should be debited to an asset account, such as Cash or Accounts Receivable with an offsetting credit to Account #690 - Depreciation and Depletion Credits in the County Road Fund.

Monthly or annually, the amount of depletion credited to Account #690 should be recorded in the Capital Assets Account Group by crediting Account #135 - Accumulated Depletion-Depletable Assets and debiting Account #399 - Investment in Capital Assets.

At such time as the actual or estimated quantity is completely depleted, the depletion accounts in the Capital Assets Account Group are closed by debiting Account #135 - Accumulated Depletion and crediting Account #134 - Depletable Assets. Subsidiary accounts by asset name and location should be maintained for Account #134 and Account #135.