State of Arizona Accounting Manual

INTRODUCTION

Betterments increase the useful life, value or efficiency of a tangible or intangible capital asset to which they are added.

POLICY & PROCEDURES

1. To be considered a betterment, the expenditure must increase the useful life or the functionality of the capital asset to which it is added.

2. To be considered a betterment, the related expenditure must also be:

2.1. Made to a long-lived resource that has been capitalized, in other words to be considered a betterment, the expenditure must be made with respect to the long-lived resource that has previously been determined to be a capital asset.

2.2. Outside of or in addition to normal maintenance activities or required repairs.

2.3. Related to some item or article <u>other</u> than carpeting, floor covering or paint. While these expenditures may increase the value of the underlying asset, they do not increase its useful life or its functionality. These types of expenditures, depending on their cost or nature, may be treated as an expense in the period in which their related expenditure is made or, as applicable, depreciated or amortized over the course of their remaining useful or legal lives.

3. If a betterment increases the useful life of the underlying tangible or intangible asset, or increases the useful life in addition to increasing the value, functionality or efficiency of the underlying asset, then the useful life should be adjusted in FAM and the newly estimated remaining useful life should be used to compute the depreciation of both the underlying asset and the betterment.

> Example: A $120,000 high-speed storage device is added to a two-year-old mainframe computer that cost $3,000,000 and originally had a five year useful life. The storage device will increase the speed and value of the computer and will extend its useful life by a year. At the time the storage device is added, the computer's net book value was $1,800,000 ($3,000,000 – ($3,000,000 / 60 x 24)). Monthly depreciation expense for the remainder of the computer's useful life is $40,000 (($1,800,000 + $120,000) / (60 – 24 + 12)).

4. If a betterment increases the value or functionality or efficiency of the underlying tangible or intangible asset, but does not increase its estimated remaining useful life, then the betterment should be depreciated over the remaining useful life of the underlying capital asset.

    Example: An agency purchased four high-speed fiber channels at a total cost of $65,000 for its three-year-old $2,000,000 mainframe computer. While these channels will significantly enhance the computer's throughput, they will not extend its useful life.

    When the channels were added, the computer's net book value was $800,000 ($2,000,000 – ($2,000,000 / 60 x 36)). Monthly depreciation expense for the first three years of the computer's life had been $33,333.33 ($2,000,000 / 60). Monthly depreciation expense for the remainder of the computers life will be $36,041.67 (($800,000 + 65,000) / 24).

5. A betterment should be recorded using the object of the previously recorded capital asset to which it is added. A betterment should also use the property number of the capital asset to which it is added. The use of a component number added to the original fixed asset number will properly identify the new acquisition as a betterment of the asset originally identified by the property number.

6. The addition of a betterment to a long-lived resource that has not been capitalized does not change the character of the underlying resource. It is important, however, not to confuse a betterment, i.e., an improvement made to a capital asset that has previously been in service, with another phase in construction or development in progress. In the latter case, additional expenditures may, for example, result in meeting the resource's capitalization threshold.