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**University of California
GASB 35 Depreciation Reporting**

**Addendum A to
Issues Resolution Memo No. 4**

Procedures for Recording Gains and Losses on Disposal of Assets

This addendum outlines the additional entries that are necessary to ensure the correct year-end reporting of gains and losses on the disposal of capital assets. It includes the procedures to record the additional write-off of accumulated depreciation associated with disposals that occur between January 1 and June 30.

Year-End Adjustment for the Half-Year Convention

During this year’s fiscal close, including the restatement of FY 2000-2001 financial data, it became evident that gains and losses on the disposal of capital assets would not be accurately reflected in the financial statements. Due to the implementation of the half-year convention, the accumulated depreciation write-off of disposed capital assets for FY 2000-2001 was understated. As a result, the loss on disposal of capital assets was overstated and the ending fund balance and the book value of capitalized assets were understated.

Impact on (Gain) or Loss on Disposal of Capital Assets

	FYE 6/30/01	FYE 6/30/02
Proceeds from Disposal	\$ (2,036,000)	\$ (12,847,000)
Original Cost Write-off	259,401,000	282,925,000
Accumulated Depreciation Write-off	(91,561,000)	(227,173,000)
<u>Trade-in Allowance</u>	<u>(642,000)</u>	<u>(759,000)</u>
Net Loss on Disposal	\$165,162,000	\$ 42,146,000

Due to the half-year convention, the write-off of accumulated depreciation on disposed capital assets will always be “behind” by six months, and may affect the annual accumulated depreciation write-off amount and the gain and loss on the disposal of capital assets if there are material fluctuations in the disposals from year to year. Exhibit 1 provides an illustration of the issue using FY 2001 and 2002 data. In addition, the Exhibit demonstrates how the supplemental adjustment will correct the reporting of gains and losses.

Recommended Approach

- Record additional write-off of accumulated depreciation at year-end to recognize the write-off associated with disposals made from January 1 through June 30 each year. This entry will not increase or decrease the depreciation expense for the year, but will affect the calculation of the gain or loss on the disposal of capital assets. The amount of the write-off will be determined by UCOP and provided to campuses using information from the Corporate Asset Depreciation system (DPR) and CFS as follows:

a.	DPR system identified accumulated depreciation for disposals (Jan-Dec)	÷	DPR system identified original cost of disposals (Jan-Dec)	=	Average percent of depreciated value of disposed items (Jan-Dec)
	▼				
b.	Average percent of depreciated value of disposed items	x	Actual disposals in fiscal year (per CFS transaction codes)	=	Estimated total accumulated depreciation for disposals for fiscal year
	▼				
c.	Estimated accumulated for disposals for fiscal year	-	Accumulated depreciation write-off from DPR (Jan-Dec) net of reversal of the additional accumulated depreciation from the previous year (Jan-Jun)	=	Additional accumulated depreciation write-off to be booked as reversing entry at year-end

- The following depreciated asset types will require adjusting entries each year (by campus and medical center):
 - Infrastructure
 - Building & Improvements
 - General Improvements
 - Equipment
 - Intangibles Assets

Software and library materials and collections will not require adjusting year-end entries.

- For the sake of simplifying this adjustment, the entry will not attempt to differentiate funding sources (Federally-Sponsored, Non-Federally Sponsored, or Other), but will be made entirely to the funding source "Other."

- UCOP will provide campuses with the following year-end entry during the annual fiscal close. Campuses will record the entry on a reversing journal (i.e., 14 journal).

Debit Accumulated Depreciation by Asset Type by Location (Campus or Medical Center), Fund Source-Other

Credit Fund Balance by Asset Type by Location (using transaction codes for the disposal of capital assets—accumulated depreciation)

Next Steps—Required Actions

Responsibility (C, OP)	Required Completion Date	Action Item/Task
OP	1-Nov-02	Provide Reversing Entry —Provide campuses with the reversal of the FY 2002 additional write-off of accumulated depreciation of assets disposed between January 1, 2002 and June 30, 2002.
OP	31-Mar-03	Modify Closing Schedule —Modify the annual closing schedule to incorporate the steps to calculate the additional write-off of accumulated depreciation of assets disposed between January 1 and June 30.
OP	1-Aug-03	Provide Journal Entries —Provide campuses with the journal entries to write-off the accumulated depreciation associated with capital assets disposed between January 1 and June 30.
C	1-Aug-03	Record Journal Entries —Record on a reversing journal the entries provided by UCOP to write-off the accumulated depreciation associated with capital assets disposed between January 1 and June 30.

