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Standard Terminology for Property and Asset Management¹

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1. Scope

1.1 This terminology covers traditional property management definitions and some of the terms introduced in additional asset management standards that are used most often and considered most important. As new standards are developed, new terms will be added to this terminology in future revisions.

2. Terminology

2.1 Terms and Definitions:

abandoned property—property of any type over which the rightful owner has relinquished possession and any claim of an ownership interest, without assertion of an adverse right to possession and control by the federal government. This would include property left at a government facility and unclaimed by the rightful owner following notice of intent to dispose. This property is a type of seized property.

abandonment—voluntary surrender of property, owned or leased, without naming a successor as owner or tenant. The property will generally revert to a person holding a prior interest or, in cases where no owner is apparent, to the state.

abatement—a reduction or cancellation of an assessed tax.

ABC method—inventory management method that categorizes items in terms of importance. Thus, more emphasis is placed on higher dollar value items (“A”s) than on lesser dollar value items (“B”s), while the least important items (“C”s) receive the least time and attention. Inventory should be analyzed frequently when using the ABC method. The procedure for ABC analysis follows: (1) Separate finished goods into types (chairs of different models, and so on); separate raw materials into types (screws, nuts, and so on). (2) Calculate the annual dollar usage for each type of inventory (multiply the unit cost by the expected future annual usage). (3) Rank each inventory type from highest to lowest, based on annual dollar usage. (4) Classify the inventory as A—the top 20 %; B—the next 30 %; and C—the last 50 % of dollars usage, respectively. (5) Tag the

inventory with its appropriate ABC classification and record those classifications in the item inventory master records.

abnormal spoilage—for government accounting under the FAR, abnormal spoilage may or may not be allowable cost. If the cost is deemed allowable, the cost would normally be charged consistently with normal spoilage.

accelerated cost recovery system (ACRS)—system of depreciation for tax purposes mandated by the Economic Recovery Act (ERA) of 1981 and modified by the Tax Reform Act of 1986. The type of property determines its class. Instead of providing statutory tables, prescribed methods of depreciation are assigned to each class of property. For 3, 5, 7, and 10 year classed, the relevant depreciation method is the 200 % declining balance method. For 15 and 20 year property, the appropriate method is the 150 % declining balance method switching to the straight-line method when it will yield a larger allowance. For residential rental property (27.5 years) and nonresidential real property (31.5 years), the applicable method is the straight-line method. A taxpayer may make an irrevocable election to treat all property in one of the classes under the straight-line method. Property is statutorily placed in one of the classes. The purpose of ACRS is to encourage more capital investment by businesses. It permits a faster recovery of the asset’s cost and thus provides larger tax benefits in the earlier years. See also *modified accelerated cost recovery systems (MACRS)*.

accelerated depreciation—any method of calculating depreciation charges where the charges become progressively smaller each period. Examples are double-declining-balance and sum-of-the-years’-digits methods.

accelerated depreciation—method recognizing higher amounts of depreciation in the earlier years and lower amounts in the later years of a fixed asset’s life. Some machines, for example, are more efficient early on and generate greater service potential; matching dictates higher depreciation expense in those years. Over time, depreciation expense moves in downward direction and maintenance costs tend to become higher; thus the effect of accelerated depreciation is fairly even charges to income. Greatest tax benefits from depreciation are enjoyed in the earlier years. (Examples include double declining balance and sum-of-the-years’-digits method.)

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accessory item—an item that facilitates or enhances the operation of equipment but is not essential for its basic operation.

accountability—individual or departmental responsibility to perform a certain function. Accountability may be dictated or implied by law, regulation, or agreement. For example, an auditor will be held accountable to financial statement users relying on the audited financial statements for failure to uncover corporate fraud because of negligence in applying generally accepted auditing standards (GAAS).

accounting change—change in: (1) accounting principles (such as a new depreciation method); (2) accounting estimates (such as a revised projection of doubtful accounts receivable); or (3) the reporting entity (such as a merger of companies). When an accounting change is made, appropriate footnote disclosure is required to explain its justification and financial effect, thereby enabling readers to make appropriate investment and credit judgments. Proper justification for a change in accounting principles may be the issuance of a new FASB pronouncement, SEC Accounting Series Release (ASR), or IRS regulation. Changes in estimates are justified by changing circumstances such as a greater degree of wear and tear of a fixed asset than originally anticipated. Generally, the consistent use of accounting principles and procedures is essential in appraising and entity's activities and in the projection of future results; however, changes in the reporting entity have to be retroactively reflected for comparative purposes.

accretion—increase in economic worth through physical change, usually said of a natural resource such as an orchard, caused by natural growth. Contrast with *appreciation*.

accumulated depreciation—sum of depreciation charges taken to date on a fixed asset. Accumulated depreciation is a contra account to the fixed asset to arrive at book value. For example, on 1/1/2000 an auto is bought costing \$10,000, with a salvage value of \$1000 and a life of 10 years. Using straight-line depreciation the accumulated depreciation on 12/31/2003 would be \$3600 ($\$900 \times 4$).

acquisition—(1) the act of acquiring. (2) Acquiring hardware, supplies or services through purchase, lease, or other means, including transfer or fabrication, whether the supplies or services are already in existence or must be created, developed, demonstrated, and evaluated.

acquisition—the acquiring by contract with appropriated funds of supplies or services (including construction) by and for the use of the federal government through purchase or lease, whether the supplies or services are already in existence or must be created, developed, demonstrated, and evaluated. Acquisition begins at the point when agency needs are established and includes the description of requirements to satisfy agency needs, solicitation and selection of sources, award of contracts, contract financing, contract performance, contract administration, and those technical and management functions directly related to the process of fulfilling agency needs by contract.

activity-based depreciation—production method of depreciation.

actual cash value—the cost of replacing damaged property with other property of like kind and quality in the physical condition of the property immediately before the damage.

actual cost—an amount determined on the basis of cost incurred including standard cost properly adjusted for applicable variance.

adjusted basis—the basis used to compute gain or loss on disposition of an asset for tax purposes. Also, see *book value*.

ad valorem tax—levy imposed on the value of property. The most common ad valorem tax is that imposed by states, counties, and cities on real estate. Ad valorem taxes can, however, be imposed on personal property.

agency-peculiar property—as used in DoD, means military property and includes end items and integral components of military weapons systems, along with the related peculiar support equipment which is not readily available as a commercial item.

allocate—to assign an item of cost, or a group of items of cost, to one or more cost objectives. This term includes both direct assignment of cost and the reassignment of a share from an indirect cost pool.

amortization—gradual reduction of an amount over time. Examples are amortized expenses on intangible assets and deferred charges. Assets with limited life have to be written down over the period benefited. For example, all intangible assets must be amortized using the straight-line method not exceeding 40 years; the amortization entry in that case is to debit amortization expense and credit the intangible asset.

amortization—the gradual extinguishment of any amount over a period of time through a systematic allocation of the amount over a number of consecutive accounting periods such as the retirement of a debt by serial payments to a sinking fund.

amortization—normally applies to intangibles whereas depreciation applies to tangible assets.

amortize—to write off a regular portion of an asset's cost over a fixed period of time. Examples are amortization expense on an intangible asset and depletion expense on a natural resource. See also *sales return*.

appraisal—(1) estimate of the value of an asset. An asset may be a piece of property, a collectible, or a precious metal. In the case of property, for example, an appraisal is made for the purposes of: (a) allocating the purchase price to the assets acquired (for example, land, building, equipment); (b) determining the amount of hazard insurance to carry; (c) determining the value of death for estate tax purposes; and (d) determining a reasonable asking price in a sale. (2) Activities such as inspection and testing of materials, in-process items, finished goods, and packaging.

appraisal—the process of obtaining a valuation for an asset or liability that involves expert opinion rather than explicit market transaction.

appraisal method of depreciation—the periodic depreciation charge is the difference between the beginning and end-of-period appraised value of the asset if that difference is positive. If negative, there is no charge. Not generally accepted.



appreciation—increase in the value of an asset. The asset may be real estate or a security. For example, an individual sold 100 shares of XYZ company's stock for \$105 per share that he bought 10 years ago for \$25 per share. The amount of appreciation was \$8000 = $(\$105 - \$25) \times 100$ shares.

assembly—a number of parts or subassemblies joined together.

assessed valuation—a dollar amount for real estate or other property used by a government as a basis for levying taxes. The amount may or may not bear some relation to market value.

assessed value—value established by a government for real estate or other property as a basis for levying taxes. For example, an individual receives a statement that, in the judgment of the local tax assessor, the individual's property is worth \$50,000. If by law, properties in this jurisdiction are assessed at 80 % of market value, the individual's assessed value then is \$40,000 (80 % of \$50,000) and property taxes will be based on this assessed value.

asset—(1) anything owned having monetary value; (2) tangible or intangible items owned by an entity that have probable economic benefits that can be obtained or controlled by the entity.

asset—economic resource that is expected to provide benefits to a business. An asset has three vital characteristics: (1) future probable economic benefit; (2) control by the entity; and (3) results from a prior event or transaction. Assets are expressed in money or are convertible into money. They can be recognized and measured in conformity with generally accepted accounting principles (GAAP). Examples of ownership rights or service potentials are cash, automobiles, and land. An asset may be tangible or intangible. The former has physical substance such as a building. The latter lacks physical substance or results from a right granted by the government or another company such as goodwill and a patent. An asset may be current or noncurrent. A current asset has a life of one year or less (for example, inventory) while a noncurrent asset has a life in excess of one year (for example, machinery).

asset accountability unit—a tangible capital asset which is a component of plant and equipment that is capitalized when acquired or whose replacement is capitalized when the unit is removed, transferred, sold, abandoned, demolished, or otherwise disposed of.

average age of inventory—number of days an average inventory item takes to sell: For example, assume that average inventory is \$47,500 and cost of goods sold is \$500,000. The average age of inventory is $(\$47,500/\$500,000) \times 365$ days = 34.7 days. See also *days to sell inventory*. Average Inventory divided by Average Age of Inventory = Cost of Goods Sold $\times$ 365 days.

average inventory—amount equaling about half maximum inventory when demand is relatively constant. For example, if the maximum inventory is 500 units and depletion occurs at a fairly constant rate, the average inventory equals 250 units (500/2).

average life—estimated useful-life expectancy of a depreciable group of assets. See also *depreciation*; *economic life*; *useful life*.

bailment—contractual transfer of dollars or personal property for a specified objective. An example is the consignment of goods from the consignor to consignee. Another example is a bank holding an asset of a borrower as collateral. In a bailment, the deliverer is called the bailor and the receiver is termed the bailee.

bargain purchase—asset or goods acquired for materially less than fair market value. For example, a buyer may be able to get a bargain price on furniture from a seller in a liquidation situation.

bargain purchase option—a provision allowing the lessee the option of purchasing the leased property for an amount, exclusive of lease payments, which is sufficiently lower than the expected fair value of the property at the date the option become exercisable. Exercise of the option must appear reasonably assured at the inception of the lease. GAAP does not offer additional guidance defining "sufficiently lower," in which many factors such as time value of money, usage, and technological changes influence whether the option fulfills the criteria for a bargain.

bargain renewal option—a provision allowing the lessee the option to renew the lease agreement for a rental payment sufficiently lower than the expected fair rental of the property at the date the option becomes exercisable. Exercise of the option must appear reasonably assured at the inception of the lease.

basic research—research directed toward increasing knowledge in science. The primary aim of basic research is a fuller knowledge or understanding of the subject under study, rather than any practical application of that knowledge.

basis—acquisition cost, or some substitute therefor of an asset used in computing gain or loss on disposition or retirement.

beginning inventory—balance at the start of the accounting period. The three types of inventory are raw materials inventory, work-in-process (WIP), and finished goods inventory. They are shown in the income statement in the analysis of cost of goods sold. See also *ending inventory*.

beginning inventory—for government property reporting beginning inventory is equivalent to the ending inventory of the previous reporting period.

bench stock—low cost, high usage, non-sensitive consumable material issued to work areas. Quantities of such stock do not normally exceed an amount that would normally be consumed within a 30-day period or as established in the property control system.

best value—the expected outcome of an acquisition that, in the government's estimation, provide the greatest overall benefit in response to the requirement.

betterment—an expenditure having the effect of extending the useful life of an existing asset, increasing its normal rate of output, lowering its operating cost, increasing rather than merely maintaining its efficiency or otherwise adding to the worth of benefits it can yield. A betterment is distinguished