

VIII. Accounting for Fixed Assets and Capital Projects

A. Overview:

Property Control, a unit within the Controller's Office, is responsible for ensuring that the University's property standards are adhered to and for maintaining RIT's asset recordkeeping system which includes capital equipment, land, buildings, and building and site improvements.

Objectives:

In this chapter you will learn about:

- what capital equipment is
- purchasing and recording capital equipment purchased on a purchase order, from Campus Connections, and gifts-in-kind
- special requirements regarding equipment purchased with federal funds
- how capital equipment purchases are funded
- recording changes and retirements of equipment inventory
- what information is retained in the Oracle Asset recordkeeping system
- physical inventory procedures
- procedures for handling surplus equipment
- Oracle Assets' inquiry and reporting features
- what capital construction/improvement projects are
- how expenses on capital projects are tracked and funded

B. Property Standards

1. The federal Office of Management and Budget (OMB) provides property standards for institutions of higher education that receive federal funding. OMB Circular A-110 states that:
 - a. The property control system must ensure adequate safeguards to prevent loss, damage or theft of equipment.
 - b. All capital equipment must be insured.
 - c. Physical inventories must be conducted periodically.
2. RIT Property Control develops and administers specific policies and procedures regarding acquisition and disposal of capital equipment.

C. Definition of Capital Equipment

1. Capital equipment is defined as tangible personal property (moveable) with a per unit cost of at least \$1,500, including acquisition costs of delivery and installation, and a useful life of more than one year.

2. Software (intangible personal property) having a value of at least \$100,000 is also considered to be capital equipment.
3. All capital equipment is included in Oracle Assets, RIT's recordkeeping (inventory) system.

D. Depreciation

1. When capital equipment \geq \$1,500 is purchased, it is recorded as an asset on RIT's balance sheet and then expensed (depreciated) for financial statement purposes over its estimated useful life.
2. Depreciation is the process of allocating the cost of a fixed asset in equal amounts to each period (month) expected to benefit from its use. For example, a computer is expected to have a useful life of 5 years. Therefore, a computer that was purchased for \$2,000 in May of 2008 would be depreciated (expensed) over 60 periods beginning in June, 2008. The depreciation expense would be \$33.33 per month.
 - a. Total depreciation expense for equipment in fiscal year 2008 was approximately \$9.4 million. Depreciation for building and improvements was \$16.5 million.
3. Depreciation expense is not charged directly to the department that purchased the equipment; it is charged to a Central Institute department account.
4. Equipment $<$ \$1,500 is reflected as an expense on the RIT financial statements during the month it is paid for.

Refer questions regarding capital equipment to Property Control at
ext. 5-4933.

E. Procurement

1. Capital equipment may be acquired through purchases, loans or donations from external organizations and individuals. Donations of equipment are called gifts-in-kind.
 - a. Authorized individuals may make capital equipment purchases through the RIT Purchasing Department by creating an on-line requisition in the Oracle Purchasing application.
 - Requisitions must be approved in Oracle by an authorized departmental approver or Principal Investigator (for equipment purchased with grant/contract funds).

Refer to Lesson 1: Create a Requisition in the Requisition Section of the Oracle Training Manual:
<http://finweb.rit.edu/purchasing/oracle/training.html>.

- b. Purchase all capital equipment from your department capital equipment account (the project segment of the account number = 84200). Use object code 16200 (equipment ≥ \$1,500) in the 24-digit general ledger account number.
- c. Here's an example of a capital equipment project account in the College of Engineering (note that the FEC is 00 in the account combination since this item will be recorded as an asset):

01 . 63100 . 16200 . 00 . 84200 . 00000

- d. Request the *RIT-Capital Equipment Statement* each month to reconcile your department's capital equipment purchases. The Capital Equipment Statement reflects fiscal year beginning balances, current open encumbrances, current month expenditures, fiscal year to date expenditures, and the project to date available balance or deficit.

The capital equipment project statement is available in the Oracle General Ledger application. Refer to Chapter XI for a list of commonly used FSG reports.

- e. Charge equipment valued at < \$1,500 to object code 84000 (equipment < \$1,500). You may charge equipment < \$1,500 to your department operating account or to your department capital equipment account.
- f. Here's an example of the account number to use when purchasing equipment < \$1,500 from your department operating account (note that there is FEC in the account combination, since this item is an expense):

01 . 63100 . 84000 . 10 . 00000 . 00000

Here's an example of the account number to use when purchasing equipment <\$1,500 purchased from your department capital equipment account:

01 . 63100 . 84000 . 10 . 84200 . 00000

- g. Equipment purchased by NTID departments is charged to department 41000, using NTID's current fiscal year's project account (0200X).

- h. If you are purchasing capital equipment on a grant or contract project, it must be separately budgeted and approved in advance by the sponsor.
 - Charge the equipment purchase directly to capital equipment line on the specific grant or contract.

Here's an example of the account number to use when purchasing capital equipment on a federal grant:

01 . 63100 . 16200 . 00 . 30000 . 00000

- Note: capital equipment purchases are exempt from Facilities and Administrative Cost rate calculations.
- i. You may also purchase capital equipment from designated funds, special projects or gift accounts, as long as the purchase meets any restrictions placed on the account, and there are sufficient funds available to cover the purchase.
- j. If you have questions about purchasing capital equipment on a grant or contract or a restricted account, contact your SPA representative for specific information before proceeding.

Refer to the [Controller's Office](http://finweb.rit.edu/controller/sponsored/assignments.html) web page: <http://finweb.rit.edu/controller/sponsored/assignments.html>, to determine who the [SPA](#) representative is for your department.

- k. Because the required information to record capital equipment in the fixed assets application is not available from JP Morgan Chase PaymentNet system, the RIT procurement card cannot be used to purchase capital equipment
 - If there is a situation where use of a procurement card could result in large savings to RIT, obtain approval from the Director of Purchasing and Property Control prior to making the purchase.
 - Upon approval by Purchasing and Property Control, the Procurement Card Administrator will temporarily change the limit on your procurement card to allow the transaction to be processed.

Call the Procurement Card Administrator at ext. 5-4491 to obtain more details about purchasing capital equipment on your procurement card.

- 2. A Bookstore Charge Authorization Form may be used to purchase computers and general equipment from Digital Den.
 - a. Complete an Authorization Form. Purchases made by a department from the Digital Den will be charged to a general ledger chargeback account. The chargeback object code for Capital Equipment > \$1,500 is 90101.

- b. On the Authorization Form indicate the 24-digit general ledger account number that the equipment should be charged to, (using object code 90101), obtain the appropriate departmental approvals, and take it to the Digital Den.
 - c. Once the sale is complete, the Digital Den will process a journal entry to charge your department for the purchase.
3. Gifts-in-kind include tangible personal property and/or software donated to RIT by external organizations and individuals. Those gifts with a value of at least \$1,500 (\$100,000 for software) are included in the fixed asset system.
- a. Notify RIT's Development Office about all gifts received by your department so that they can update the Advance system and send the donor an acknowledgement.

To obtain more information about Gift-in-Kind, refer to the Controller's Office web page: <http://finweb.rit.edu/controller/accounting/gifts.html>.

- b. For financial statement purposes, Accounting staff prepare a journal entry to credit the department's capital equipment account for the value of the gift (e.g., gift-in-kind income) and debit the gift-in-kind capital equipment object code. This entry does not impact the department's bottom line since the debit + credit = 0.

Here's an example of the accounts used to record a capital equipment gift-in-kind of \$2,000 for the College of Engineering:

Gift-in-Kind Capital Equipment Expenditure
 DR 01 . 63100 . 87150 . 10 . 84200 . 00000 \$2,000

Gift-in-Kind Capital Equipment Income
 CR 01. 63100 . 54300 . 00 . 84200 . 00000 \$2,000

- c. Development provides Property Control with an RIT Development Record of Gift Form that includes the value, donor, donee, date and any written correspondence associated with the gift.
 - d. Property Control manually updates the fixed asset system with the gift-in-kind information. Gift-in-kind equipment is recorded as an asset and depreciated over its estimated useful life. The equipment will appear in the department's inventory records.
4. Government Furnished Equipment (GFE) – GFE refers to equipment that is loaned to RIT for a specific purpose and duration of time, typically detailed in an agreement between the “bailor” (the agency of the federal

government that owns the equipment) and the “bailee” (RIT). Since there may be special reporting and insurance requirements, notify Property Control if you are in receipt of government furnished equipment.

5. Fabricated Equipment – Occasionally, RIT departments may fabricate a piece of capital equipment from component parts.
 - a. Requests to fabricate capital equipment must be approved in advance by the Property Control Office. Complete a Fabrication request Form located on the Controller’s Office web page and send to Property Control.
 - b. Charge all component parts to object code 16250.
 - c. When complete, the fabricated equipment must meet the RIT standard for the definition of capital equipment. The total combined costs of the component cost must be \geq \$1,500.
 - d. Property Control manually updates the fixed asset system with the fabricated equipment information. It is recorded as an asset and depreciated over its estimated useful life. The equipment will appear in the department’s inventory records.

To obtain more information, refer to the [Fabricated Equipment Policy](#) on the [Controller’s Office](#) web page (Property Control section) at <http://finweb.rit.edu/Controller/forms/RITCapitalEquipmentFabricationPolicy.pdf>.

F. Funding Capital Equipment Purchases < \$20,000

1. Colleges/Divisions may receive a capital budget allocation through the annual budget process. The amount of the allocation appears as a line item budget in the department’s operating account.
2. Each month during the fiscal year, the Budget Office processes a standard monthly journal entry to debit the department’s operating account (object code 63184) for 1/12th of the annual budget allocation and credit the department’s capital equipment account.
3. Departments may allocate funds among their capital equipment projects throughout the year by requesting the Budget Office to process a funds transfer.
4. Departments may fund miscellaneous capital equipment purchases charged to their capital equipment project 84200 from their operating account or their designated fund account by requesting the Budget Office to process a funds transfer.
 - a. The journal entry will charge (debit) your operating or discretionary account (the funding source) and credit your capital equipment account using the appropriate transfer object codes.

Example: the College of Engineering purchased a computer for \$2,100 from their capital equipment account. Here are the account numbers used in the journal entry to transfer funds from their operating account to their capital equipment account to fund the purchase:

Operating Account line:

DR 01 . 63100 . 63184 . 00 . 00000 . 00000 \$2,100

Capital Project line:

CR 01 . 63100 . 63101 . 00 . 84200 . 00000 \$2,100

5. The Budget Office monitors capital equipment projects throughout the year and will contact departments to resolve deficits should they occur.

To obtain more information about transfers, refer to the Accounting Practices, Procedures and Protocol Manual on the Controller's Office web page: Chapter VI When to Use Transfer Journal Entries
<http://finweb.rit.edu/controller/content/accountingworkshops.html>

G. Funding Capital Equipment Purchases > \$ 20,000

1. Departments may receive funding allocations from the Central Institute through the annual budget process for capital equipment purchases greater than \$20,000. Note: the Budget Committee of the Board of Trustees must approve purchases of \$20,000 or more, regardless of the funding source.
2. As purchases are made throughout the year, departments submit payment information to the Budget Office for reimbursement (e.g., Oracle Report – Account Analysis with Subledger Detail). The Budget Office will process a transfer from the Central Institute to the department's capital equipment project to fund the purchases.

H. Inventory Record Keeping

1. Property Control is responsible for maintaining RIT's fixed asset inventory records including additions of new fixed assets, changes to existing fixed asset records and removing assets from the records that are retired or disposed of.
2. Each month, Property Control obtains information from the Oracle Accounts Payable system (i.e., purchased through the Oracle Purchasing application) regarding capital equipment purchases during the prior period. Property Control edits all invoice lines and adds other information required by Oracle Assets (see # 3 below).

3. When capital equipment is added to Oracle Assets, specific information is required and other information is optional.
 - a. Required Information:
 - Location (building/room)
 - Category and Acquisition code
 - Units – RIT keeps its inventory in units of one
 - Acquisition Cost – amount paid for the equipment including delivery and installation charges
 - Equipment Description – note: it's helpful to enter a meaningful description on the purchase requisition since this information is transferred to Oracle Assets.
 - Depreciation expense account – depreciation expense is charged to the General Institute. The department of the owner is included for information purposes only.
 - Date-in-Service (the vendor invoice date; not the general ledger pay date) – this date is important for calculating depreciation expense

Refer to the [Controller's Office Property Control](#) section for a list of Fixed Asset Categories: <http://finweb.rit.edu/controller/property/>.

- b. Optional Information:
 - Clearing expense account – offsets the charge (debit) to inventory on the Oracle created inventory addition journal entry
 - Invoice #, Supplier #, PO #
 - Asset Key (department/project/program) – used in Oracle Asset Standard reports when sorting by department
 - Tag #, Serial #
 - Manufacturer, Model
4. Once Property Control has obtained all necessary information regarding the new assets, the information is posted to Oracle Assets where it becomes part of RIT's capital equipment inventory. During this process each asset is assigned an asset number.
5. Property Control forwards asset tags to the department to affix to the new equipment. In addition, Property Control provides information regarding new assets and requests missing information such as building and room number. Note: certain departments are responsible for tagging their own capital equipment. They send asset number information to Property Control.
6. Property Control manually enters capital equipment purchased from loans, Campus Connections, fabricated equipment and received as a gift-in-kind into the Oracle Fixed Asset application.

7. Advise Property Control when you change the location of an asset or transfer an asset to another department. Property Control will record these changes in Oracle Assets as soon as the information is received from the department.
8. It is important to notify Property Control when assets are retired (removed) from the inventory so that the fixed assets records may be adjusted. Assets may be retired for the following reasons:
 - a. Surplus Equipment – See section J below for information about surplus equipment.
 - b. Donated – Department heads may decide to donate equipment that is no longer needed to students, employees or not-for-profit organizations. Prior to removing an asset from RIT, notify Property Control.
 - c. Sold – Notify Property Control prior to removing the asset from RIT. If equipment is sold to students, employees, or parties external to RIT, the department must deposit proceeds from the sale at the Cashier's Office. Complete a deposit ID Form and indicate the following general ledger account number: 01.01000.18100.00.00000.00000. Through an accounting process, the department will receive credit for the amount of the sale.
 - d. Stolen – Notify Campus Safety and Property Control if equipment is stolen from your department.
 - e. Loaned – Occasionally, capital equipment may be loaned to an employee for use off-campus. Prior to removing the asset from RIT, notify Property Control.
 - f. Equipment Acquired with Federal Funds – Special regulations may apply to disposal of equipment acquired with Federal funds (e.g. grants and contracts). Contact your Sponsored Programs Accounting representative to obtain specific sponsor regulations that may apply to your grant or contract. Records for real property and equipment acquired with Federal funds are retained for three years after final disposition.

A [Property Control Removal Form](#) is available on the [Controller's Office](#) web page at: <http://finweb.rit.edu/controller/forms.shtml>.

The [RIT Property Control Additions / Deletions / Changes Form](#) on the [Controller's Office](#) web page: <http://finweb.rit.edu/controller/> is used to communicate inventory information.

I. Physical Inventory

1. To ensure the accuracy of RIT's financial statements, the University is required to perform a complete physical inventory annually.
2. During any one calendar month chosen at their discretion, departments must complete an annual physical inventory of all capital equipment.
3. Property Control provides each department with an RIT Asset Inventory Report listing information regarding each asset assigned to the department. Departments use this report to compare the equipment that physically exists to the information in the Oracle Fixed Asset system.
4. When the department returns the inventory information, Property Control adjusts the records in the fixed asset system to agree with the physical inventory.
5. To ensure that the University's assets are correctly stated in their financial statements, journal entries are prepared to adjust the assets recorded on the balance sheet. If an asset is disposed of before it was fully depreciated, a gain / loss adjustment is processed.
6. Due to the impact on the financial statements, Property Control works with departments to research large discrepancies and review policies, procedures and protocol for propriety and adherence.
7. At the conclusion of the inventory process, Property Control provides a revised Departmental Asset Inventory Report RIT to the department.
 - a. Department representatives should check this report for accuracy and reasonableness since it reflects the information in official fixed asset records of the Institute.

A sample Departmental Asset Inventory Report RIT is available in Chapter XVI, Section G.

J. Surplus Equipment

1. Surplus equipment is equipment that is no longer needed by the department who made the initial purchase.
 - a. Disposition of RIT's surplus property is the responsibility of the Purchasing Department through the administration of the Surplus Property procedure.
 - b. See section H above for information regarding the disposal of equipment acquired with Federal funds.

The RIT Surplus Property Policy is available on the [Purchasing Department's](http://finweb.rit.edu/purchasing) web page at: <http://finweb.rit.edu/purchasing>.

K. Oracle Assets Inquiry and Reporting

1. Departmental inventory representatives may perform inquiries and request capital equipment reports from the RIT Fixed Assets application.
 - a. Submit an RIT Assets Application Security Request Form to obtain access to the Oracle Fixed Asset system.

An [Assets Application Security Request](http://finweb.rit.edu/controller/forms.shtml) Form is available on the [Controller's Office](http://finweb.rit.edu/controller/forms.shtml) web page at:
<http://finweb.rit.edu/controller/forms.shtml>.

L. New Capital Construction/Improvement Projects

1. RIT defines a capital project as planning, design, construction, modification and restoration/renovation of campus buildings and surroundings with a total cost of \$5,000 or more.
 - a. Capital projects are recorded as assets on RIT's balance sheet and expensed (depreciated) for financial statement purposes over the estimated useful life of the asset.
 - b. Many projects such as painting and maintenance cost more than \$5,000, but they are not considered to be a capital improvement (i.e., a capital improvement extends the useful life of the asset). Maintenance projects are expensed at the time they occur. Non-capital improvements are typically charged to the department's capital equipment project account (e.g., 84200) but may also be charged to the operating account.
2. Prior to beginning a capital project, FMS obtains the appropriate authorization from the department.
 - a. All planned construction or building improvement projects greater than \$20,000 must be approved by the Budget Committee through the annual budget process, regardless of the funding source.
 - b. Construction or building improvement projects of \$500,000 or more must be approved by the Finance Committee of the Board of Trustees.
3. The Facilities Management Service (FMS) department manages all campus construction projects and building and site improvement projects. Typically an FMS engineer is assigned to manage a project.
4. To accurately track costs and funding, each capital improvement / construction project is assigned a unique Oracle project number. When a project is approved and ready to begin, FMS submits a project set-up request to the Controller's Office which includes all pertinent information including: project description and location, funding account, and estimated total cost.

5. The Controller's Office sets up the plant fund number (81XXX – 82999 and 88XXX for projects funded by external gifts) in the general ledger along with the appropriate account combinations. This project is used to track all revenues, transfers and expenses associated with the project. (Note: FMS also tracks project financial information in their "project tracker" system.)

Here's an example of a capital improvement project in the College of Engineering. Note: all capital construction/improvement projects are assigned to FMS department 18000.

Object code 80450 – Building & Site Capital Expenditure
01 . 18000 . 80450 . 00 . 81162 . 00000

6. The Controller's Office then prepares a journal entry to transfer funds for the approved amount from the funding source (e.g., department operating account, department capital equipment account, Central Institute, etc.) to the plant construction project account.

Capital Equipment Project:

DR 01 . 63100 . 63183 . 00 . 84200 . 00000

Plant Project:

CR 01 . 18000 . 63188 . 00 . 81162 . 00000

7. Typically projects are approved with 10% contingency spending. One half of the contingency amount may be spent without prior approval. The remaining amount must be approved by the Vice President of F&A prior to being spent. The Controller's Office prepares a transfer entry for the 10% contingency at the time the initial funding transfer is processed:

Capital Equipment Project:

DR 01 . 63100 . 63183 . 00 . 84200 . 00000

Plant Project Contingency (note: the department number is the funding department):

CR 01 . 63100 . 63188 . 00 . 81162 . 00000

8. When a department purchases furniture or equipment as part of a renovation or construction project, it is usually charged to the same project number as the FMS project, but in combination with their department number (see below):

Furniture > \$1,500:

01 . 63100 . 16200 . 00 . 81162 . 00000

Furniture < \$1,500:

01 . 63100 . 84000 . 10 . 81162 . 00000

M. Tracking Project Expenses

1. FMS is responsible for approving all charges to plant projects (except as noted in Section 1 8 above). Transactions are recorded in the plant project account on the ledger as they occur either through accounts payable transactions or journal entries.
 - a. The majority of charges on plant projects are to the following object codes: 80450 – Building & Site Capital Expenditure for payments to outside contractors; 90171 – FMS Capitalized Chargeback; 90375 – Telecommunications Workorder Chargeback. Note: when one of these object codes is used in the account combination, the FEC is always 00.
 - b. When capital equipment is purchased on a plant project it is charged to object code 16200.
 - c. Occasionally, non-capitalized expenditures such as travel or supplies are charged to a capital project. When this occurs, the FEC of the department funding and benefiting from the capital project is used in the accounting combination.

Here's an example of a hospitality travel expense charged to the non-capital expenditure in the College of Engineering's capital project 81162 which is a renovation of a classroom (e.g., FEC 10 – Instruction).

01 . 18000 . 78050 . 10 . 81162 . 00000

2. Project summary reports are available from Oracle by project number that include current period expenses, revenues and transfers as well as YTD and PJTD information..
 - a. The most commonly used report for tracking capital construction improvement projects is the *RIT Plant Fund Capital Project Statement*.

N. Project Close-Out

1. Each month, FMS provides Controller's Office with information regarding all projects that were completed (i.e., entered into service) during the month.
2. If the project has a surplus balance remaining after all invoices have been paid and all chargebacks are processed (i.e., funding exceeded expenses), the Controller's Office will process a transfer journal entry to return the funds to the funding source.

3. If the project has a deficit balance (i.e., expenses exceeded funding), Controller's Office will process a transfer journal entry from the contingency account that was established when the project was approved (see section L 7 above).
4. Once the project account balance is zero, Controller's Office closes the project on the general ledger so that no further transactions may be processed.
5. When the project is entered into service the total cost (i.e., total project expenditures less non-capital expenses), the Controller's Office enters the information into Oracle Assets and depreciation expenses on the new asset begins the following month. A journal entry is processed to record the new asset on the balance sheet.