Equipment Capitalization

Introduction
The University has established an equipment capitalization policy in order to identify those items goods which will be treated as an expense in the University’s financial statements, and those items treated as an asset and depreciated over their useful lives. This policy exists to satisfy generally accepted accounting principles (GAAP), and the Federal Cost Principles for Educational Institutions (OMB Circular A-21), used in the management of federal grants and costs awarded to the University.

Policy Statement
This policy is used to define the accounting treatment for capital equipment in the University’s financial statements. It also serves as the threshold for equipment and equipment inventory requirements of OMB Circulars A-21 and A-110, as well as for the application of the University’s Facilities & Administrative (F&A) rate on federal grants and contracts.

Definitions
Capital Equipment: furnishings and equipment purchased or donated with a unit cost of $5,000 or more, and a useful life of greater than one year. Refer to the Property Management Manual for additional information.

Acquisition Cost: The net invoice unit price of the property including the cost of installation, modification, attachments, accessories or auxiliary apparatus necessary to make the property usable for its intended purpose. Ancillary charges, such as taxes, duty, protective in-transit insurance, freight, and installation will be included in the overall costs if these charges are listed on the same invoice. Service contract costs, unless included in the purchase price of the equipment, should not be included.

Equipment fabrication or the aggregate of component parts are also subject to this threshold for purpose of equipment capitalization.

Responsibilities
This policy applies to all university faculty and staff in the proper recording of items purchased or received by University, Government and Private Sponsor funds. Originating departments are responsible for the proper coding of equipment purchases. The Property Accounting Specialist maintains an inventory of all items identified as capital equipment. The Controller’s Office is responsible for managing compliance with the definition above.

Procedures
Acquisition:
The proper equipment designation must be made at the procurement requisition stage, by the originating department. The use of the proper spend category in the Workday system will capture this information. Upon receipt of the item(s), capitalized equipment needs to be identified in the University’s equipment inventory, and must include the physical location (building, room) in which the equipment is located.

Depreciation:
For Financial Statement purposes, all depreciation and amortization calculations will use the "straight line" method unless specific approval for alternate method is granted by the Controller’s Office. Depreciation for an item purchased during the fiscal year, will be recorded as if the asset had been in service for an entire year (full-year convention). In the event of a disposal of an asset, depreciation on that asset will be recorded for the fiscal year of the asset’s disposal as if the asset were in service for
the entire fiscal year. The calculation of any gain or loss on disposal will include the effect of the depreciation for the year of disposal.

Forms/Instructions [Movable Equipment Manual]

Frequently Asked Questions

A faculty member in my department is constructing a piece of equipment that will ultimately have a cost of greater than $5,000. While the individual pieces are less than that amount, should this be considered capital equipment?

Yes, if an individual item is a component of a larger item, which is not functional until completed, the item is considered capital equipment if total exceeds $5,000.

We are purchasing office furniture which consists of 6 desk chairs at a unit cost of $500/each, and a conference table at a cost of $3,000. The total cost is $6,000. Is this capital equipment under the policy?

No, since the individual units are less than $5,000, and can be used independently (not a component of a larger item), this purchase would all be classified as supplies.

Policy Owner Approved by University Controller

Contact(s)
Charlene Sweeney
University Controller
Charlene_Sweeney@brown.edu

Revision Date: Tue, 2017-08-08 08:40

Source URL (retrieved on 2018-May 20):
https://www.brown.edu/about/administration/policies/node/266