

PLANT ACCOUNTING: CAPITALIZATION OF
EXPENDITURES MADE FROM CURRENT FUNDSContents

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MADE FROM CURRENT FUNDS

"In every affair consider what precedes
and what follows, and then undertake
it."

Epictetus (Circa A.D. 60)

I. INTRODUCTION

Current Funds expenditures are defined as those expenditures incurred for goods and services that are noncapital in nature; however, under certain circumstances, as determined by the accounting officer, some such expenditures are truly capital asset expenditures and, accordingly, must be capitalized. For example, some of the funds included in the State Budget as Current Funds for deferred maintenance expenditures are true capital asset expenditures.

The purpose of this chapter is to establish policies and procedures for the capitalization of expenditures for capital additions paid from Current Funds. Although similar considerations are involved, capitalization of capital Outlay projects is not governed by the policies and procedures set forth below. Major and minor capital improvement projects are included as part of the University's Capital Improvement Program; therefore, they are not a topic covered in this chapter. (For the treatment of capital outlay projects, see Accounting Manual chapters L-217-11, Accounting and Reporting for Leases and Installation Purchase Contracts; P-415-3, Plant Accounting: Investment in Plant; and P-415-8, Plant Accounting: Unexpended Plant Funds.)

II. POLICIES AND PROCEDURES

A. GENERAL POLICY STATEMENT

Generally, Current Funds designated for capital additions are transferred to Unexpended Plant for expenditure. The exception to this procedure is General Funds appropriations (1990 funds), which may not be transferred to Unexpended Plant. However, there are occasions when Current Funds expenditures must be recognized as capital expenditures. The range of expenditures that properly should be treated as capital

II. POLICIES AND PROCEDURES (Cont.)

A. GENERAL POLICY STATEMENT (Cont.)

additions is so varied that it is impossible to provide explicit guidelines. Judgment is required; and it should be recognized that where, on occasion, the distinction between noncapital and capital expenditures is "hairline," the judgment is bound to be arbitrary. Accordingly, the following requirements should be followed in deciding whether to capitalize expenditures: (1) the decision to capitalize additions must **be consistent**, (2) the additions must **be material**, and (3) the additions must **benefit future periods**.

B. DEFINITIONS AND POLICIES

The following definitions and policies provide guidelines for determining the capitalization of expenditures paid from Current Funds:

1. Improvements or Betterments

Improvements or betterments, in the context of this chapter, are significant alterations or structural changes to plant assets which increase the usefulness, enhance the efficiency, or prolong the life of property; **they must be capitalized**.

2. Repairs

Repairs refer to normal, regularly recurring disbursements to keep property in an efficient operating condition, neither adding to the value of the property nor appreciably prolonging its life. This type of expenditure **should not be capitalized**.

3. Replacements

Replacements of component parts of buildings or structures that do not significantly lengthen the life of the entire asset **should not be capitalized**.

4. Reconditioning of a Newly Acquired Plant

The reconditioning of a newly acquired plant asset is assumed to be for the purpose of improving

operating efficiency. It is further assumed that the purchase price of the asset reflected its condition at the time of the purchase, before it was reconditioned. Therefore, those reconditioning expenses designed to bring the acquisition to a satisfactory operating condition **should be capitalized.**

5. Expenditures of \$35,000 or More

Current Funds expenditures that are otherwise determined to be of a capital nature **should be capitalized** when the amount of each job equals or exceeds \$35,000. An exception to this policy occurs with respect to a newly acquired building or structure requiring the establishment of an asset on the plant records for the **first time**. In this case, the expenditure **should be capitalized** without regard to the \$35,000 minimum stated above.

C. USE OF STATE OF CALIFORNIA SUPPORT FUNDS

No more than \$35,000 of the funds appropriated for support purposes under Section 2.00 of the State Budget Act may be encumbered for preliminary plans, working drawings, or construction of any project for the alteration of a state building unless the State of California Director of Finance determines that the proposed alteration is critical and that it is necessary to proceed using funds appropriated for support purposes. The maximum cost of any such project cannot exceed \$250,000. In addition, any approved critical project costing more than \$35,000, but not greater than \$250,000, must be reported to the Chairperson of the Joint Legislative Budget Committee or his or her designee, not less than 30 days prior to requesting bids for the project. The report must detail those factors that make the project so critical that it must proceed using support funds.

D. ACCOUNTING PROCEDURES

An analysis is made at the time a requisition or purchase order is issued to determine the nature of the work being performed. When the work is of a capital nature, as defined above, object code 9700, "Expenditures for Facilities to be Capitalized," is

II. POLICIES AND PROCEDURES (Cont.)

D. ACCOUNTING PROCEDURES (Cont.)

entered in the "Object" field of the purchase requisition form. At the end of each fiscal year, a listing of object code 9700 expenditures will be prepared as one of the standard procedures in the Closing Schedule to provide the necessary information for use in the capitalization of such expenditures.

The following financial journal entry is made at the end of the fiscal year to capitalize Current Funds expenditures:

Dr. Individual Asset Acct	X-1018XX-01990-0-XXXX
Cr. Invested in Plant	X-10199X-01990-0

The journal should include adequate descriptive data to support the entries, including information regarding the origins of the expenses and the sources of funds.

III. RESPONSIBILITY

It is the responsibility of the accounting officer to determine which items constitute capital additions. This determination must be made based upon an analysis of expenditures and/or by consultation with the campus buildings and grounds department or the campus physical planning and construction office.

IV. REFERENCES

Associate Vice President and Director of the Budget Hershman, Memorandum to Campus Budget and Planning Officers, Senior Vice President Kennedy, and Vice President Gomes on Increase in Lower Limit of Minor Capital Improvement Program from \$20,000 to \$35,000, September 27, 1996.

Historical note: Most of the materials in this chapter were formerly contained in BFB A-44. Accounting Manual chapter first published 9/1/76. Revised 12/1/85 and 6/30/97; analyst--Ken Strangfeld.