PLANT ACCOUNTING: FABRICATED PROPERTY

Contents

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I. INTRODUCTION

This chapter outlines the procedures for reporting and recording property fabricated by a University department. Property can be fabricated either for sale and delivery to an external entity or for University use. Fabricated property that meets the University's definition of equipment (see Section II.B below) and which is retained by the University is considered fabricated equipment. Such equipment must be capitalized and inventoried. Property that does not meet this definition, or property that is fabricated for the sole purpose of sale and delivery to an external entity, is not capitalized.

Section II of the chapter details the capitalization process, accounting procedures for applying indirect costs, and the areas of responsibility in accounting for fabricated equipment that is for University use. Procedures for reporting and recording non-capitalized fabricated property that is either for University use or delivery to a non-University entity are described in section III.

II. FABRICATED EQUIPMENT FOR UNIVERSITY USE--CAPITALIZED AND INVENTORIED

A. DEFINITION

Fabricated equipment, as defined in Business and Finance Bulletin BUS 29, Management and Control of Inventorial Equipment, consists of non-expendable, tangible, personal property, physically constructed by a University activity, which has a total acquisition cost of $1,500 or more, is free-standing, is complete in itself, does not lose its identity when affixed to or installed in other property, and is expected to be used by the University for one year or more.

B. REPORTING AND RECORDING

1. Reporting

Equipment that has been fabricated or is being fabricated by a department should be reported to the equipment management department and the accounting office. Information reported on this form should include a complete description of the item, its location, the name and account number of the department with custodial responsibility for the item, and the value of the equipment.

2. Recording

Capitalizable Expenses - When recording fabricated equipment, all materials, supplies, and services from outside vendors or authorized internal recharge activities, used in the fabrication process should be object coded 9600. Authorized internal recharge activities consist of campus machine, glass, electronics, and similar types of shops that design or build such equipment or its component parts.

Campuses that use other object codes to record fabricated equipment, e.g., 9610, should transfer that information to object code 9600 when submitting data to the Office of the President. (In this chapter, reference to object code 9600 also refers to campus codes 96XX.)

Non-Capitalizable Expenses - Departmental labor, travel, or other operating expenses associated with the fabrication of equipment are not considered part of its capitalization value and should be coded using the object codes normally used for such expenses. Departmental labor refers to the salaries of faculty member(s), principal investigator(s), graduate student researcher(s), or other comparable personnel who participated in the fabrication process.

Incomplete Fabrication - Fabricated equipment consists of components acquired under purchase orders object coded 9600. If it is determined that the fabrication will not be completed, the campus department should notify the equipment management department and the accounting office. Any charges previously made to object code 9600 must then be recorded under the appropriate nonfabrication object codes (e.g., laboratory supplies, recharges, etc.).

C. CAPITALIZATION

When fabrication is complete, the capitalization value consists of the direct costs of services purchased from outside vendors or authorized campus recharge service centers, and the costs of the component parts purchased by campus departments (expenditures object coded 9600).

II. FABRICATED EQUIPMENT FOR UNIVERSITY USE--CAPITALIZED AND INVENTORIED (Cont.)

C. CAPITALIZATION (Cont.)

Accumulated project costs for fabricated equipment should be capitalized at fiscal year-end. Costs for projects that extend beyond the fiscal year-end must be capitalized annually during the University's fiscal closing process.

For capitalization purposes, departmental labor, travel, or other operating expenses, and associated Federal overhead costs, must not be considered part of the cost of acquiring a fabricated asset.

D. INDIRECT COST

In accordance with Office of Management and Budget (OMB) Circular A-21, section G.2, and campus indirect cost rate agreements entered into after July 1993, equipment and capital expenditures are excluded from the modified total direct cost base to which overhead is applied. *Indirect costs, therefore, are not applicable to the cost of fabrication recorded under object code 9600.*

E. OWNERSHIP CHANGES

Capitalized fabricated items that are subsequently transferred to non-University entities must be removed from the equipment inventory database; however, the object codes used to record these items are not changed nor is the indirect cost amount recalculated.

III. NON-CAPITALIZED FABRICATED PROPERTY

A. RECORDING

If a fabricated item is to be delivered to a non-University entity or the item is of a non-capital nature, the appropriate non-capitalized object codes must be used to record the item.

For control purposes, object code 8100, Non-Capitalized Fabricated Cost, should be used to record expenditures for items delivered to a non-University entity. (Such expenditures are not recorded under object code 9600 or any other inventorial equipment object code (9000-9950).

If ownership of the fabricated property has not been determined, the fabricated item must be accounted for as inventorial equipment subject to capitalization (see Section II.B above).

B. INDIRECT COST

Fabricated property expenditures that are not capitalized by the University will be subject to indirect costs when funded by contracts and grants. (See the University Contract and Grant Manual, chapter 8, for indirect cost procedures.)

IV. RESPONSIBILITIES

A. DEPARTMENTS

Departments are responsible for the proper valuation of fabricated equipment and for disseminating to department units the procedures detailed in this chapter.

B. ACCOUNTING OFFICERS

Accounting officers are responsible for reviewing charges to contracts and grants to ensure that the correct expenses are included in the cost of fabrication, that fabrication expenses and associated indirect costs are properly recorded and reported to sponsoring agencies, for the recovery of the appropriate amount of indirect costs, and for determining the correct base for computing indirect costs.

C. CONTRACT AND GRANT OFFICERS

Contract and grant officers are responsible for reviewing contract and grant proposals and awards to ensure that extramural support budget proposals include indirect costs for fabrication expenses, if appropriate.

D. EQUIPMENT MANAGEMENT DEPARTMENTS

Equipment management departments are responsible for recording fabricated items of equipment in the University equipment inventory database.

V. EFFECTIVE DATE

The effective date for applying these changes is January 1, 1999.

VI. REFERENCES

OMB Circular A-21, Section G.2.

Accounting Manual chapter:

P-415-8 Plant Accounting: Unexpended Plant Funds.

Business and Finance Bulletin:

BUS-29 Management and Control of Inventorial Equipment.

University of California Contract and Grant manual: Chapter 8, Indirect Cost.

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End.