

# Property, Plant and Equipment Procedure

## Approval of Capital Budgeting

Capital budgets are developed in conjunction with the operating budget for review and approval by the Administrative Committee and ultimately the Board of Trustees.

## Capital Asset Purchase Authorizations

No purchase of capital assets exceeding \$5,000.00 shall be made without a purchase order reviewed and signed by the Vice President for Business Affairs (if the Vice President for Business Affairs is unavailable, the Treasurer or the Controller may sign) to ensure compliance with budget guidelines and sound investment decision making.

In some instances, capital items will need to be purchased that were not included in the budget. These acquisitions must be approved by the appropriate Vice President. The University permits individual departments, who have obtained Vice Presidential approval, to reallocate their respective line item budgets to accommodate the purchase of unbudgeted capital items.

## Long-Term Lease or Purchase

Obtaining the use of property, plant, and equipment through long-term leases is an alternative to outright purchase. Leases vary in term, assumption of expenses, and many other details. The purchase-versus-lease decision is based upon the basis of net cost, considering:

- Cash-flow consideration
- Financial statement presentation
- Suitability of the asset to leasing (i.e. some assets, such as computers, are subject to rapid technological change and may not be of as much benefit to the company after a few years)

All leases, whether capital or operating, must be approved by the Vice President for Business Affairs.

## Receipt and Recording of Capital Assets

All property and plant items are identified upon their receipt and recorded in the general ledger. Fixed assets are also tagged with sequentially numbered tags stating “Property of Methodist University” and tracked within the fixed asset module of the accounting software.

## Review of Purchase Price Variances

For each capital item purchased, a comparison is made of the actual versus budgeted cost. Differences are explained and approved by a responsible official.

## Maintenance of Detailed Fixed Asset Ledgers

Detailed fixed asset ledgers (see Asset Listing, Figure 7 – 1) that are accurate and complete are maintained for the following classifications:

Asset category in FE Asset module	Life in years
Land	N/A
Land Improvements	10, 12 or 25
Buildings	10, 25 or 50
Building Improvements	10, 25 or 50
Plant Equipment	10 or 25

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Computer Equipment	5
Vehicles	5
Leasehold Improvements	10
Library Books	12
Faculty Housing	50
Construction in Progress	N/A

### Depreciable Assets Net Acquisition Costs

Depreciable assets are carried in the accounting records at the original net acquisition cost, less separate accounts for accumulated depreciation or depletion. Non-depreciable capital assets (e.g. land) customarily are carried in the records at the original net cost. Purchased items of property, plant, and equipment that meet the capitalization requirements are to be capitalized at the invoice price, less refundable sales tax, plus all charges incurred to prepare the asset for operation.

- Cost of acquisition or construction includes not only the contract or invoice price but also such costs as preliminary engineering studies and surveys, legal fees to establish title, installation costs, non refundable use tax, freight, and labor and material used in construction or installation.
- Sales tax is usually not included in the acquisition cost, as the University receives a refund of said taxes.
- Cash discounts taken are recorded as a reduction of the cost.

### Posting to General Ledger

Asset additions, disposals, and period depreciation are posted to the general ledger.

### Posting to Detailed Ledger

Asset additions, disposals, and annual depreciation are posted to the permanent detail ledger monthly.

- The University maintains its fixed assets through the use of a fixed asset module within the Financial Edge accounting software. Assets are entered into the system monthly as purchased.
- Asset additions are posted to temporary detail accounts monthly by Accounts Payable personnel at the time of expense accrual.
- Entries for depreciation expense and accumulated depreciation are recorded monthly as well.

### Capitalization of Expenditures While Building

Expenditures made by the company while building a capital asset are capitalized. Improvements are assigned a Project ID#, expensed relating to a specific improvement and are tracked via the Project ID#.

- Expenditures such as those for materials, labor, engineering, supervision, clerks' salaries and expenses, legal expenses, insurance, overhead, and interest are capitalized as "construction in progress" until the project is completed and placed in service. No depreciation is taken on construction in progress.
- Periodically during construction, a comparison is made between projected and actual expenses incurred. Appropriate approvals are obtained if projected costs will exceed the budgeted amount.

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- Upon completion of construction and placement in service, assets are removed from construction in progress and entered into the general ledger under the appropriate classification. Depreciation is then taken on the asset.

### Expenditures – Capitalization vs. Expense

Repair expenses are distinguished from expenditures for improvements, additions, renovations, alterations, and replacements.

- Expenditures are repair expense if they do not materially add to the value of the property and do not materially prolong the life of the property. Examples of repair expense:
  - Replacing loose or damaged shingles
  - Replacing broken glass
  - Painting and decorating a classroom
  - Making temporary repairs to last less than one year
  - Making minor repairs to fully depreciated assets
- Repair costs that increase the value of property, prolong its life, or adapt it to a new or different use are capital expenditures. If the life of the asset has been significantly extended, the remaining original cost and the repair cost should be depreciated over the new life. Examples of repair expenditures that are capital expenditures:
  - Replacing floors
  - Replacing a roof, thereby substantially prolonging its life
  - Reconditioning machinery, thereby extending its life
  - Replacing an auto's or a truck's engine
  - Overhauling an auto or truck that was substantially worn out
  - Installing a new heating system
- Other expenditures that may be capitalized:
  - Land improvements that depreciate over time (e.g. parking lots)
  - Structural changes or alterations to company-owned buildings, which become a part of a building and increase its life or value
  - Significant improvements to property leased by the company, improvements that add value to the leasehold (e.g. permanent office partitions)

### Determination of Useful Life

The useful life is determined when a capital asset is acquired. The useful life may be expressed in terms of time, units of production, or hours of service.

- The cost of an asset is allocated over a useful life via depreciation or depletion.
- When a useful life is not determinable, such as for land, no depreciation is taken.
- If there is a change in the estimate of the remaining useful life after the asset is placed into service, the remaining cost to be depreciated is spread over the revised remaining life.
- The estimated useful life is reviewed by an appropriate level of management.

### Determination of Depreciation Method

The University primarily uses the straight line method for depreciation.

- The justification for the method selected is well documented and maintained.
- Once a depreciation method has been selected, it is applied consistently until conditions change to such a degree that its application no longer produces reasonable results.

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- Circumstances may arise that make it appropriate to accelerate or decelerate depreciation charges:
  - A change in the estimate of the useful life
  - A change in the estimated salvage value. This is a change in accounting estimate that should be accounted for prospectively, not retroactively, by depreciating the remaining balance over the remaining useful life.

### Allocation to Functional Classification

Depreciation expense is charged at the functional expense level (i.e. instruction, library, student services, administrative, etc.).

### Identification and Record of Assets

At the time of acquisition, all assets are identified with an asset tag. The Accounting department maintains a list of asset acquisitions which is updated on a monthly basis, and reviewed by the Assistant Controller, before being entered into the accounting system's fixed asset module.

- Assets which are no longer usable for their intended purpose or that are disposed of are reported to the Accounting department.

The University performs a semi-annual inventory inspection of selected fixed assets. Accounting staff perform this inspection. All assets are traced back to the accounting general ledger and any discrepancies are investigated.

### Documentation of Disposal

The following procedures apply to the retirement and disposal of company assets:

- No item of property, plant or equipment are to be removed from the premises without proper approval.
- All disposals are reported to the Accounting office, utilizing the [Asset Disposal/Transfer Form](#)

### Recording Disposal

Once the retirement has been properly approved and documented, the following procedures are applied to record the transaction:

- The cost is removed from the appropriate asset account; the related accumulated depreciation, including depreciation to date of disposal, is removed from the allowance for depreciation account; and the profit or loss, adjusted for the cost of removal, is recorded as an income (gain) or expense (loss) item.
- When the disposal is via a trade-in of a similar asset, the acquired asset is recorded at the book value of the trade-in asset plus any additional cash paid. In no instance does such cost exceed the fair market value for the new asset.

### Fully Depreciated Assets

Fully depreciated assets remain on the property records with the related accumulated depreciation as long as the property remains in use.