

Fixed Asset System

The purchase and use of property and equipment are treated differently from other operating expenditures and are subject to special accounting requirements. The *State University of New York Fiscal and Accounting Procedures*, in recognition of these special accounting rules, require that an “inventory control system shall be maintained to assure the proper disposition of equipment items costing in excess of a specified amount”. Therefore Sub-Board I, as custodial and disbursing agent, has implemented the following procedures for fixed assets.

I. What are “fixed assets”?

Definition



Fixed assets are physical items that are expected to render their services through use over their estimated useful lives, usually several years.

Examples of fixed assets include furniture, equipment, buildings and other types of tangible property that are used in the course of operations.

Costs incurred to acquire fixed assets are called **capital expenditures**. Capital expenditures are treated differently from

Capital expenditure



operating expenditures, such as telephone expenses or purchases of office supplies. Rather, purchases of fixed assets are not recorded as operating expenses, but are instead recorded as assets at the time the property is placed into service.

Depreciation



These assets are then **depreciated** over their estimated useful lives.

Depreciation is the periodic expense incurred as the value of the asset decreases over time. Depreciation expense is an operating expense that does not involve the use of cash – a *non-cash expense*. Even though no cash is expended to record depreciation, a budgetary account should exist in the Appropriation Budget to recognize the fact that an expense will be incurred that does not involve cash. The cash that is “saved” by budgeting for depreciation can then be used to purchase or replace fixed assets in the future.

II. What is the general policy for fixed assets?

Cost of \$500 or more and a useful life greater than 2 years

Sub-Board I has a fixed asset policy for all student governments/clients which considers a capital expenditure as the purchase of an item of depreciable property costing at least **\$500** and which has an expected useful life of longer than **two years**.

III. *How are capital expenditures recorded in the budget?*

Fixed asset
budgetary
accounts



All capital expenditures must be recorded using a special appropriation budgetary account number whose line item is **2101** (see “*How are different types of expenditures classified in the budget?*” in the Section “**Budgetary Control System**”). Because they are not routine operating expenses, and have a long-term affect (greater than two years), a student government/client that wishes to purchase a fixed asset should first consider the need and advisability for such a purchase.

Capital
Equipment
Fund



Since capital expenditures are not normal operating expenses, some student governments/clients have established a special fund, separate from the operating fund, called a **Capital Equipment Fund**, that is designated solely for such expenditures. A Capital Equipment Fund is normally funded from the operating budget based on the estimated amount of annual depreciation on fixed assets. In essence, the cash that is “saved” by appropriating non-cash depreciation can be transferred to the Capital Equipment Fund. Once established, all fixed assets are purchased from the Capital Equipment Fund.

IV. *What is the procedure for purchasing a fixed asset?*

Normal
encumbrance
procedures
must be
followed



A student government/client who wishes to purchase a fixed asset must submit an Encumbrance Request form as described in the section of this manual “**Encumbrance Approval System**”. The usual encumbrance process must be followed; i.e. the capital equipment budgetary account must be encumbered *before* the purchase is made. Along with the Purchase Order (REP form), the SBI Accounting Office will forward a **Capital Expenditure Requisition** to the student government/client. It is important that the Encumbrance Request form have a valid budgetary account number for the purchase of capital equipment and that **only** those items that fit the description of a fixed asset be included on the encumbrance request form. A student government/client that maintains a separate Capital Equipment Fund **must** make such purchases from the proper account in the Capital Equipment Fund. Any other items associated with the purchase that do not fit the description of a fixed asset or are not part of the cost of the fixed asset (e.g. supplies, etc.), must be submitted on a separate Encumbrance Request form using an appropriate budgetary account number for routine operating expenses (e.g., line item **4XXX**) in the operating budget.

Fixed assets
must be
distinguished
from other
types of

If more than one item of depreciable property is being purchased, each

Purchase of
multiple
fixed assets



item and its estimated cost must be listed on the Encumbrance Request form so that the correct number of Capital Expenditure Requisitions can be forwarded with the Purchase Order (REP form) to the student government/client. Multiple fixed assets that are part of a single purchase **cannot** be grouped on one Capital Expenditure Requisition. **Each asset requires a separate Capital Expenditure Requisition.**

Payment for services associated with the cost of a fixed asset



Payment to a different vendor for services that are part of a fixed asset purchase (e.g. installation, freight, etc.) must be submitted on a separate Encumbrance Request form, with a valid capital expenditure account number, for 1099 purposes. Such payments **should** be included on a pro-rata basis on the Capital Expenditure Requisition for each item being purchased.

V. ***What is the Capital Expenditure Requisition used for and how should it be completed?***



The Capital Expenditure Requisition acts as a written record of all information pertaining to the acquisition and disposal of a fixed asset, and is used as the source document to enter fixed asset information into the accounting system. Each asset is given a unique *Fixed Asset Number* that is used to track the asset throughout its life.

After the order has been placed and the fixed asset has been received, the student government/client must complete the Capital Expenditure Requisition(s) and return it/them with the completed, approved REP form(s) to the SBI Accounting Office for payment (see Section V, *Accounts Payable System* on Page 45). The Capital Expenditure Requisition includes the following information:

Organization Name: Enter the name of the student government/client that is purchasing the fixed asset.

Department: Enter the name of the department, division or activity center (if applicable) that will be using the fixed asset.

Requisition Date: Enter the date that the requisition was prepared.

Prepared By: Enter the name of the person completing the requisition.

Form of Acquisition: Indicate how the asset is being acquired, either as a purchase, a capital lease or a donation.

Purchase



- *Purchase:* A purchase occurs when the fixed asset is purchased outright with payment going directly to the vendor who is selling the fixed asset.

Capital lease



- *Capital Lease:* A capital lease is similar to a loan or mortgage whereby the student government/client makes installment payments to the vendor or to a bank, over a predetermined period of time. The installment payments include principal and interest. Because the interest payments on capital leases are usually very costly, and the accounting requirements complex, Sub-Board I does not recommend that fixed assets be acquired in this manner.

Donation



- *Donation:* Sometimes an individual or organization may agree to donate a fixed asset to the student government/client or to one of its departments. While such donations can be extremely beneficial to the student government/client, it should first be determined whether the item being donated is both necessary and cost-effective. Since most fixed assets require the subsequent outlay of operating funds for maintenance, upkeep, replacement of parts, etc., the student government/client should first evaluate its ability to maintain the asset in good working condition and the costs associated with such maintenance, and to determine the ability to replace the asset in the future when it is no longer of use. In addition, a donation agreement **must** be negotiated between the student government/client and the donor. Such an agreement is necessary to determine the ownership of the asset and whether the donor has placed any restrictions on its use. Generally, the student government/client should not accept any donated asset unless the donor relinquishes all ownership rights surrounding the asset to the student government/client. There is little advantage to the student government/client to pay for the upkeep of an asset it does not own. In instances where a donor wishes to contribute a fixed asset to a student government as a **charitable contribution**, i.e. as a contribution that is tax-deductible to the donor, the contribution may be made to the SBI Development Fund. The donor must complete a *Charitable Contribution Agreement for Property*. It is the *donor's* responsibility to assess the market value of the asset being contributed. If the value of the asset is greater than \$5,000 the IRS requires that the donor must have an appraisal from a qualified appraiser to support the contribution as a charitable deduction. Sub-Board I will send an acknowledgement to the donor indicating only a description of the item contributed and *not* its value.

Date of Acquisition: Enter the month, day and year that the fixed asset

is *placed into service*.

Anticipated Location of Fixed Asset: Enter the exact address including room number and building where the fixed asset will be located.

Estimated Useful Life: Enter the approximate length of time that the asset will be in use. Most assets can be estimated to have a useful life of five years (computers, office equipment, etc.) but there may be certain situations where the useful life of an asset may be greater or less than five years. Sub-Board I accounting personnel will make the final determination on the useful life of any asset.

Trade-in or retirement: If an asset is being acquired as part of a *trade-in* or *retirement* of an existing item, enter a full description of the asset that is being traded in or retired, especially its fixed asset number.

Description of Property Being Acquired: Enter a complete description of the asset so that it can be easily identified, including, where applicable, the manufacturer, model number, serial number, color, etc.

Cost of Property Acquired: Enter the cost of the asset. The cost is the market price that would be paid if the asset were purchased outright, i.e. the invoice cost. Do not include the trade-in allowance or other credits. For assets acquired through a capital lease, do not include the amount of interest on the lease in determining the cost of the asset. If the asset is being donated, and you are reasonably certain of its value, enter the amount. Also indicate the cost of freight, delivery, installation and any other costs associated with placing the asset into service, even if these costs were paid to different vendors.

Comments: Provide any additional information about the asset that may be helpful in record keeping.

VI. *How does Sub-Board I keep track of fixed assets?*

After a fixed asset has been acquired, and the Capital Expenditure Requisition has been completed, the SBI Accounting Office will assign a number to the asset for identification and recording in the accounting records. The asset will be tagged with an identification sticker which has the asset number imprinted on it. The tag is necessary to keep track of



the asset over its useful life.

Fixed asset inventory and update report



Periodically, the student government/client must conduct physical inventories of all fixed assets they own. Once a year, usually during the summer months, the SBI Accounting Office will send the student government/client a **Fixed Asset Update Report**, which is used to record current information from the fixed asset inventory. The purpose of reporting the fixed asset inventory is to insure that fixed assets are still in existence at their proper location, to determine the condition of fixed assets and to determine if any changes have occurred so that the accounting records can be updated.

VII. *What if a fixed asset is physically changed or modified?*

Changes to fixed assets



There may be times when physical changes are made to a fixed asset. These may include enhancements, addition or replacement of parts and components, movement to a new location, etc. An officer of the student government/client must report all changes to a fixed asset, including a change in location, to the SBI Accounting Office in writing. The reporting may take place at the time the **Fixed Asset Update Report** is completed. In addition, any alterations to a fixed asset (disassembling or reassembling, etc.) must be reported to the SBI Accounting Office in writing so that the accounting records can be updated.

VIII. *What happens when a fixed asset is no longer of use?*

Retirement of fixed assets

There may come a time when a fixed asset is no longer useful, either through normal wear and tear, obsolescence, breakage, etc. Such an asset must then be "*retired*", either by disposing of it, by selling it or by trading it in for a new asset. If an asset is no longer usable, the student government/client should report the condition as soon as possible to the SBI Accounting Office so that arrangements can be made to retire the asset, repair it, or replace it if necessary, and to adjust the accounting records accordingly. If the retired asset is being replaced with a new asset, the retirement of the old asset must be recorded on the Capital Equipment Requisition that is used for the replacement asset.

Selling a fixed asset

A fixed asset that is no longer useful, but which has value on the open market may be sold. Any proceeds from the sale of the asset must be deposited in a valid Revenue Budgetary Account established specifically for proceeds from such sales, or in the Capital Equipment Fund (if such a fund has been established) for the future purchase of other fixed assets.

Trading in a
fixed asset

A fixed asset which is no longer usable and which needs to be replaced may sometimes be traded in when purchasing a new asset at the discretion of the vendor. All trade-ins must be reported on the Capital Expenditure Requisition when the replacement asset is acquired.

IX. What if a fixed asset is stolen or vandalized?

Theft or
vandalism



The student government/client is responsible for the safeguarding and protection of all fixed assets located in its departments. Any theft or vandalism of property should be reported immediately to the University Police. Also, as part of its Accounting and Management Service, Sub-Board I maintains insurance on all property. Therefore, the student government/client must also notify the Executive Director of Sub-Board I to file an insurance claim. The insurance company will then reimburse the student government/client for the loss, minus a deductible.

X. Are there any reports for fixed assets?

Yes, there are several useful reports pertaining to fixed assets.

Fixed asset
master
report

The *Asset Master/Detail Report* provides a listing of each fixed asset on record for the student government/client, including the asset number, description, date of acquisition, original cost, present book value, department and location. The report can be sorted in a variety of ways (numerically by asset number, by department, by location, by asset type, by date of acquisition, etc.).

Depreciation
report

The *Depreciation Projection Report* calculates the amount of depreciation for each fixed asset that has a remaining book value. The report can be run for the current year or for any number of future years, and can be helpful in determining an estimate of depreciation expense for preparing annual budgets.

There are also reports for current year fixed asset acquisitions and current year fixed asset disposals.

Any of these reports can be provided at any time by contacting the SBI Accounting Office.