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INTRODUCTION

The purpose of the manual is to introduce fixed asset accounting concepts and procedures used by Missouri Western State University in controlling the fixed assets of the College. This manual will address the acquisition, use, control and disposal of fixed assets.

Regardless of the account, all fixed assets are to be recorded at historical cost at the date of the acquisition. Historical cost not only includes the purchase price or cost of construction, but also any other charges incurred to place the asset in service. Examples of costs that should be capitalized include closing costs, surveying fees, land-preparation costs, architect and accounting fees, transportation fees, and optionally, interest costs.

Not all property is required to be reported on Western's balance sheet.

Specifically, property with extremely short useful life and of minor value (less than \$1,000) is reported as an expense in the period it is acquired. Fixed assets that are reported on the balance sheet are "capitalized".

The capitalization threshold for Missouri Western State University is \$1,000.

The threshold should be applied to individual fixed assets rather than to groups of assets (e.g., desks, tables, chairs, etc.).

FIXED ASSET DEFINITIONS

Fixed Assets

A Fixed Asset is defined as a financial resource meeting all the following criteria:

1. It is tangible in nature.
2. It has a useful life of greater than one year.
3. Its unit cost, including freight and installation, exceeds \$1,000.

Fixed Assets acquired by the College should be recorded at cost. Cost is equal to either the fair market value of the asset, if it is being donated, or the amount paid for the asset. In addition, ancillary costs associated with preparing the fixed asset for its intended use should be capitalized. Some ancillary costs that may be incurred by the College are included in the following definitions:

- **LAND** – Original contract cost, broker’s commission, legal fees for examining and recording ownership, cost of ownership guarantee insurance policies, cost of real estate surveys, cost of razing old buildings, structures, or other improvements acquired with the property, cost incurred to put property in condition for its intended use, including draining, clearing, landscaping, land filling, and grading costs. Excluded are fees for ownership searches, expenditures

in connection with disposal of refuse, costs of utility easements, and repairs to other improvements.

- **BUILDINGS** – Original purchase price of construction, expenses incurred in remodeling, reconditioning, or altering a purchased building to make it suitable for the purpose for which it was acquired, cost of excavation, grading or filling of land as part of the construction of a specific building, expenses incurred for the preparation of plans, specifications, blueprints, etc., cost of building permits, architects' and engineers' fees for design and supervision, other costs such as temporary buildings used during the construction period that are not moveable or reusable and are razed at the end of construction. **EXCLUDED** are extraordinary costs that are merely incidental to the erection of the building (e.g., those due to strike, flood, fire, or other casualty), and the cost of abandoned construction.

- **FURNITURE, FIXTURES, AND EQUIPMENT** – Original invoice cost, freight and storage charges, installation costs, and costs for testing and preparation for use. All costs incurred after acquisition but prior to placing in service to

make a fixed asset ready for use should be capitalized as part of the cost of the asset. Such as:

- Adding auxiliary equipment to a vehicle.
- Installation and testing of radios, antennas and other communications devices.
- Installation and testing of electronic equipment.
- Painting and application of logos, signage, etc.
- EXCLUDED is any trade-in allowance.

In some instances, the cost of the fixed asset may not be available and some alternative basis must be used to record the fixed asset. For example, the College may not have documented the original cost of the fixed asset, and it may be impossible or time-consuming to reconstruct the actual cost of the fixed asset. Under this consideration, the original cost of the fixed asset may be estimated and used as the basis for capitalization.

Construction In Progress – As construction on a building or piece of equipment progresses, the cumulative expenditures are capitalized as Construction In Progress (CIP) and will remain in this category until the construction is completed and the fixed asset (building or equipment) is ready for use. Upon completion of the fixed asset, the balance in the Construction In Progress account is transferred to the appropriate account such as building or equipment.

Self Constructed Assets – When the College utilizes internal staff, resources, equipment, and/or materials to construct a building or piece of machinery, fixture, furniture or equipment for its own use which meets the capitalization criteria (\$1,000), an acquisition cost will be established and the asset will be recorded in the computerized inventory system as if it had been acquired. All direct costs, including materials and labor costs, are included in the total cost of the asset. Overhead (indirect) costs are not included unless they were incrementally increased by the construction of the asset.

Improvements or Betterments – Proper accounting practice calls for the retirement of a component of an asset and capitalization of its replacement only if the replacement substantially increased the value, the capacity/capability, or useful life of the asset system, (i.e., replacement of a car engine). Otherwise the replacement is treated as maintenance expense, (i.e., replacement of a car headlight).

Asset System – Many assets consist of multiple components that make up the asset. This is particularly true for Personal Computer systems. The College has decided to control all Personal Computers as a system. A system has the following characteristics:

- Consists of multiple sub-units which function together as a single fixed asset.

- Individual sub-unit costs are generally not significant in comparison to the total cost of the entire system.
- Normally, individual sub-units would not meet the capitalization criteria, however, the grouping as a whole qualifies as a Fixed Asset (\$1,000 acquisition cost, one year useful life, etc.).
- When a sub-unit is replaced, it generally does not extend the life of the larger asset. Therefore, replacement would generally be treated as maintenance expense.
- Each sub-unit is integrated and configured in such a way as to make identification of individual components difficult.
Therefore, it is impractical to tag, track, and inventory each sub-unit.

Repairs – Ordinary repairs are expenditures made to maintain assets in operating condition. Replacement of minor parts, lubricating and adjusting of equipment, repainting, and cleaning are examples of normal maintenance and are treated as normal operating expenses. The major consideration in determining whether an expenditure should be treated as an expense or an improvement is if the expenditure increases the future service potential of the asset. If a major repair will extend the life of the asset several years it should be handled as an improvement.

ACQUISITIONS

Asset Acquisition by Purchase Order

Requisitions and purchase orders for Fixed Assets acquired through Purchase Orders will be processed in accordance with the College's purchasing procedures manual with the additional steps outlined below:

- When the asset is received by the ordering department and the purchase order is completed and returned to the Purchasing Department, the item will be recorded in the computerized inventory system. An I.D. tag is assigned and the serial number and the location of the asset are noted. Any asset with a purchase price greater than \$1,000 will be tagged as follows:
 - On the upper left-hand side of the unit,
 - On the front side of the unit if it is not possible to tag the upper left-hand side, or
 - On the bottom if it is a laptop computer.

Asset Acquisition by Donation

Assets acquired by donation must go thru Missouri Western Foundation. The Foundation will provide Accounting Services with a listing of all assets that were received during the year. Accounting Services will record and capitalize all items over \$1,000 and the Fixed Asset Clerk will tag and record the asset in the inventory system.

RETIREMENTS

When a department has determined that a fixed asset is no longer needed or is no longer serviceable, a FIXED ASSET DISPOSAL FORM (see the forms section) **must** be filled out and forwarded to the Purchasing Department.

Information that must be completed on this form include:

- Disposal Date
- MWSU I.D. Tag #
- Asset Description
- Department Approval

1. The department that is discarding the fixed asset **must fill out the Disposal Form, remove the inventory ID tag and contact the Fixed Asset Clerk before the item is sent to west campus.** The Fixed Asset Clerk will verify the information on the Disposal form and update the inventory system.
2. After the disposal form is completed and verified by the Fixed Asset Clerk, the department must contact Physical Plant to initiate the removal of the asset. **If the asset is in good working order, please send a campus email to make it available to other departments.**
3. At the point that the department deems the asset as non-serviceable, the Fixed Asset Clerk will record the item as disposed of in the inventory system and Accounting Services will write the item off the general ledger.

TRANSFERS

When an asset is transferred from one department to another, or the location of the asset is changed, the department must complete a **FIXED ASSET TRANSFER FORM** (see the forms section) and forward it to the Purchasing Department with the following information completed:

- Date
- Department Number Transferred From
- Building/Room
- MWSU I.D. Tag Number
- Department Number Transferred To
- Building/Room
- Asset Description
- Department Approval

PHYSICAL INVENTORIES

The purpose of this procedure is to establish and maintain an accurate inventory system for financial reporting purposes, as well as safeguard the Colleges' assets.

The Purchasing Department will be responsible for:

- Initiating and coordinating physical inventories.
- Reconciling any exceptions in order to provide a complete accounting of all Fixed Assets recorded in the inventory system.
- Random spot checks will be initiated and coordinated by the Fixed Assets Clerk.
- The Fixed Asset Clerk will distribute an inventory listing to each department annually. The department will be responsible for verifying the accuracy of the inventory listing by physically identifying that the assets on the list are accounted for. The department is also responsible for adding any asset that is not included on the listing.
- The Fixed Asset Clerk will complete a physical inventory of approximately 1/3rd of the campus departments on an annual basis to verify the accuracy of the inventory listings.

Capital Asset Type Listing

<u>Obj/Code</u>	<u>Asset Type Description</u>	<u>Life</u>
8465	Land	0
8466	Land Improvements (Capitalization threshold \$10,000)	15
8404	Computers Laptops (Deskjet, Laser) Printers Software	3
8411	Books/Multi Media Materials Electronic Presentation Equipment Overhead Data Projection Equip Professional Equipment:	5 7
8404	Copiers	
8404	Grounds Equipment	
8404	Lab/Science/Engineering Equip	
8405	Licensed Vehicles	
8404	Office Equipment	
8404	Printers (Line)	
8404	Machinery and Tools	

<u>Obj/Code</u>	<u>Asset Type Description</u>	<u>Life</u>
	Equipment:	10
8404	Athletic Equipment	
8404	Appliances/Food Service	
8404	Audio Visual Equipment	
8404	Furniture & Accessories	
8404	Musical Instruments	
8404	Outdoor Recreational	
8404	Overhead Slide Projectors	
8404	Paper Folder (Campus Printing)	
8404	Press, Offset (Campus Printing)	
8404	Stage & Auditorium	
8404	Video Projectors	
8411, 8412	Library Materials (Books)	
Various	Buildings	40
	Building Improvements	15
	(Capitalization threshold \$50,000)	
	Donated Assets	Determined based on type of asset

All items received costing over \$1,000 are recorded in the Fixed Asset Inventory system.

<u>Obj/Code</u>	<u>Asset Type Description</u>
8404	Equipment over \$1,000
8405	Licensed Vehicles over \$1,000
8410	All assets between \$1,000 to \$2,499

Do not use the following object codes:

8401-8403, 8406-8409

Sample Forms

A. Fixed Asset Transfer/Disposal Form