

## **Appendix F to Constructed Asset Policy: Guidance for Specific Costs Policy: Constructed and Fabricated Asset (ID 024-0006)**

### **Accounting for Moveable Equipment Purchased on a CIP Chart String**

Pursuant to the Property, Plant, and Equipment Policy (Policy ID: 024-0001), moveable equipment purchased on a CIP account chart string or through the typical purchase requisition process must be tagged and tracked in the Oracle Fixed Assets Module. As such, moveable equipment, including AV equipment, purchased as part of a CIP will be recorded separately from other charges. All information required to be provided for moveable equipment purchases pursuant to the Property, Plant, and Equipment Policy will be provided for moveable equipment purchases of \$5,000 or greater when purchased on a CIP account chart string. If the contractor for the capital project purchased the equipment, these charges should be recorded separately from other construction costs and all required information for moveable equipment purchases will be supplied. Refer to Property, Plant, and Equipment Management Policy (ID: 024-0001) and the Moveable Equipment Inventory Policy (ID: 024-0011) for guidance on moveable equipment and required information and documentation.

#### *Chart String Guidance*

Pursuant to Property, Plant, and Equipment Policy Appendix E, moveable equipment purchases must be recorded to specified natural classes based on the cost of the asset/equipment. These specified natural classes differ for CIP accounts; use the natural classes in accordance with the guidance below for moveable equipment purchases on CIPs.

#### Purchases from external vendors

- Under \$5,000 – 5479-NONOP NONCAP Supplies Equip <25000
- Between \$5,000 – \$24,999 - 5479-NONOP NONCAP Supplies Equip <25000
- Over \$25,000 – 1724-CIP CONST Moveable Equip

#### Purchases from another department within Dartmouth

- Under \$5,000 – 5474-NONOP NONCAP Intl Equip under 5000
  - Between \$5,000 – \$24,999 - 5484-NONOP NONCAP Intl Equip 5000-24999
- Note:** A completed Equipment/Asset Transfer Request Form is required for internal transfers of equipment and the existing asset record will be updated within the Fixed Assets Module of Oracle.

### **Accounting for Studies and Planning Costs**

This Appendix provides guidance on the accounting for the costs of planning and studies related to potential capital projects.

#### *Definition*

The first stage during which costs are incurred related to long-lived assets is the Preliminary Stage. During the Preliminary Stage, activities are performed exploring the opportunities for

acquisition or construction of the asset. Typical activities that occur in the Preliminary Stage include the following:

- **Studies** may be conducted to evaluate whether to propose a project. These may involve general examination of a building to identify whether there are issues needing attention that result in a proposed project, or which project should be proposed first if there are multiple potential projects.
- **A Feasibility Study** is a formal evaluation of a proposed project. The intent behind this study is often to see whether the project goals can be achieved within an estimated cost target and/or timeframe. The study may also examine whether a project is technologically feasible, and whether it can be achieved within any applicable regulatory or other legal constraints. This evaluation is needed when a project involves a significant investment, so that a decision can be made to continue, alter, or cancel the project.
- **Planning** activities are other preliminary costs necessary to determine whether a proposed project will proceed. These could include surveying, engineering studies, design layouts and other similar items.

#### *Accounting treatment*

US GAAP has limited guidance on capitalization policies for facilities constructed for a reporting entity's own use. However, the reference materials listed at the end of this Appendix provide helpful guidelines in this area. These materials indicate that accounting for costs during the Preliminary Stage of a construction project is similar to accounting for costs associated with start-up activities, for which guidance is provided in ASC 720-15, *Other Expenses - Start-up Costs*. ASC 720-15 states that such costs should be expensed as incurred.

#### *Setting up a CIP account*

Preliminary Stage costs may be expensed, either in a CIP project (non-operating), charged directly to operations, or charged directly to a deferred maintenance reserve (operating), as appropriate. Preliminary Stage work may be approved as part of the annual Capital Budget, but a CIP account will only be set up when a specific asset-producing project has been identified and approved.

Once the asset-producing project has been identified, the cost of studies or other planning activities can be charged to a CIP account if the estimated costs meet the minimum threshold for establishing a CIP account (currently \$50,000). Subactivity 0000-Default must be used to identify these Preliminary Stage costs within the CIP account string. As part of componentization, these costs will be expensed.

### *Managing a CIP account*

If the project moves forward to the Design phase, costs should be charged to the same CIP account; however, Subactivity 0000 must be disabled and a new Subactivity set up for the remainder of the work. The CIP project will be closed after the componentization process is complete. If additional planning dollars are approved, Subactivity 0000 should continue to be used.

If the planning work or feasibility study does not lead to an approved capital project within an agreed upon period of time (normally 1-2 years), the CIP account will be closed. The Controller's Office may grant exceptions to this timing for unusual circumstances.

### *Reference Materials*

#### *Appendix to Constructed Asset Policy*

The proposed Statement of Position issued by the Financial Reporting Executive Committee of the AICPA (FinREC), *Accounting for Certain Costs and Activities Related to Property, Plant and Equipment* (2003).

PwC accounting and financial reporting guide, *Property, plant, equipment, and other assets*, issued in June 2017 and partially updated in September 2018.

Effective Date: FY19.