
1106.6 PLANT ASSETS - EQUIPMENT IN PROCESS

Effective: May 2005

Revised: May 2017

Last Reviewed: April 2018

Responsible Officers: Senior Business Officers, Comptroller

Approval: Comptrollers

PURPOSE

To ensure proper accounting for Equipment in Process (EIP).

DEFINITION

Costs incurred for fabricating non-expendable, tangible personal property, that is not available elsewhere, by physically combining or assembling modular components and/or materials into one identifiable unit are considered EIP until the equipment is completed and placed in service. Costs incurred for standard items that are altered or customized to make them usable on a project do not qualify as EIP.

POLICY

1. EIP costs are capitalized as incurred when all of the following criteria are met:
 - Upon completion, aggregated cost of the fabricated unit exceeds \$5,000
 - Title is retained by the University
 - Upon completion, the equipment will be used by the University beyond the expiration of any grant that funded the fabrication and it has a remaining useful life in excess of one year.
2. EIP costs that do not meet the capitalization criteria in number 1 above are expensed.
3. The School/Center fabricating the asset should notify Accounting Operations (AO) in advance of purchasing components to be used for fabricating the asset so that AO may create the in-process asset in the fixed asset system. At the time of creating the asset, the School/Center should also provide AO with the necessary property information required to be tracked in the fixed asset system, including asset description, category code, asset location, tagging contact and phone number, and custodian and phone number. Upon creation, AO will notify the requestor within the School/Center of the asset number assigned to the newly-created in-process asset.

For more details, see Plant, Property & Equipment Procedure – Acquisitions: Assets Purchased via BEN Buys. <http://www.finance.upenn.edu/comptroller/accounting/property/procedures/>

4. When the equipment is placed in service, the School/Center fabricating the equipment will notify AO in writing. AO will then change the status of the asset from an in-process asset to a capitalized asset in the fixed asset system and begin depreciating the asset.
5. Costs related to the repair or upgrading of fabricated equipment in service, which does not extend its remaining useful life, must be expensed.
6. Retirements of fabricated equipment should be recorded in the fixed asset system by the Senior Asset Administrator in the month of disposal in accordance with Financial Policy [1106.3 Plant Assets – Retirements](#).

Examples

1. A department will fabricate two research widgets. It is estimated that the costs of materials and labor for both widgets will be \$5,500. Since the individual aggregate unit cost is \$2,250 and less than \$5,000, all costs are to be expensed as incurred.
2. A department will fabricate a super widget at an estimated cost of \$1,000,000. It has an estimated useful life of 5 years after completion. The costs will be incurred and funded by a sponsor over a 3 year period. The University retains title and will use the equipment beyond the related grant expiration. These costs meet all of the policy criteria in number 1 above and must be capitalized.
3. Same as (2) above except the equipment is to be transferred to the sponsor. All cost must be expensed as incurred since the University does not retain title.
4. The same as (2) above except the equipment will only be used once in an experiment at the end of the grant period. All costs must be expensed as incurred since the useful life of the equipment after completion is less than one year.
5. A fabricated research widget has been in service. One of the components has to be replaced or upgraded. While the component must be replaced or upgraded for the widget to function properly, it does not extend the useful life of the widget. The cost of the replacement component is considered a repair/upgrade and must be expensed.

Responsibility

1. Each School and Center has the primary responsibility for EIP related controls including asset tracking, tagging, and safeguarding in compliance with this policy. This includes, but is not limited to, implementation of monitoring procedures, at least quarterly, in the School/Center that:
 - Ensure that EIP costs are associated with the proper in-process asset in the fixed asset system
 - Ensure that AO has been provided the appropriate property information for inclusion in the fixed asset system as discussed above
 - Ensure that AO is notified to change the status of the EIP asset from in-process to capitalized in the same period the equipment is placed in service.
 - Ensure that the equipment is tagged upon being placed in service
 - Ensure that retirements of fabricated equipment are recorded in the fixed asset system in the period of disposal.

2. AO is responsible for creating the in-process asset in the fixed asset system upon request from the School/Center; accumulating the acquisition costs related to each asset in the fixed asset system as identified by the Buyer at the time of creating the requisition; changing the status of the asset from “in-process” to “capitalized” upon written notification by the School/Center; and reconciling the fixed asset system to the general ledger.
3. AO has the primary responsibility for the maintenance and interpretation of this policy
4. The Office of Research Services (ORS) has the primary responsibility for interpretation of this policy with respect to compliance with research grant rules and regulations. ORS will monitor School/Center compliance with removing costs from EIP object codes before grants are closed and the proper charging of equipment expense to object codes that do and do not draw overhead.