

Guidance for A1 Ledger Equipment Capitalisation & Depreciation (Departmental Depreciation)

From Aug-17, equipment purchases greater than £50k with departmental internal funding are capitalised, and depreciation is charged to the relevant departments' A1 ledger over the life of the asset. This guidance explains what that means and outlines the process.

Definitions

- **Fixed Assets** are items of equipment which have a life of more than one year, are acquired for use in the operation of the University, have a minimum value of £50k and are not intended for resale to customers
- **Expense Assets** means that the entire cost is charged to the GL in the period of purchase i.e. when the invoice is processed but it is still tracked on the asset register & Departmental Equipment Listing (DEL), these are usually items between £25k-£50k
- To **Capitalise** an asset means that the cost of the asset is charged to the I&E in equal monthly instalments spread over the life of the asset
- **Depreciation** is the monthly amount charged to the expenditure account for a capitalised asset; the sum of the depreciation charges across the whole asset life will equal the asset cost

Rationale

- Smooth accounts make it easier to compare expenditure year on year and compare similar departments
- Improved management of research facilities: income is matched with expenditure
- £50k capitalisation threshold across the University

I&E Implications

- An **Expensed Asset** costing £30k with a 5-year life is charged to the I&E at £30k in the month of purchase
- A **Capitalised Fixed Asset** costing £60k with a 5-year life is charged to the I&E at £1k **depreciation** per month for 60 months, with the first charge in the month of purchase

GL Coding of Capitalised Fixed Asset

- Where the cost has already been charged to the equipment purchases account (76110), the cost is credited, resulting in zero net cost in 76110
- Monthly depreciation is charged to the depreciation account (73803)
- The cost centre will be the department's main cost centre i.e. XX0000, if a specific one is required you must notify the Fixed Asset Team before the invoice is processed

Applies to

- Equipment purchases (including vehicles and computer hardware / software / software development)
- Assets with a total value greater than £50k; the total may be made up of more than one element, e.g.:
 - microscope: built from a number of components
 - asset made up of several lines on a PO, or paid over a number of instalments
 - group of assets: collection of items purchased at the same time, and placed in service at the same time, e.g. lab fit out
 - irrecoverable VAT is included in the asset cost
- Internally funded element (A1 ledger **only**):
 - If an asset exceeding £50k has multiple funders that are a mixture of external and internal funding then the internal element **only** will be coded to the department's cost centre, with the external portion being coded centrally e.g. £80k asset funded by £40k research grant and £40k departmental funds: the department's £40k is capitalised using the department's cost centre and the research element is capitalised centrally.
- Only applies to assets purchased from Aug-17 onwards – there are no retrospective amendments being made

Does not apply to

- A2 / B ledger / trust funds / restricted donations: for these, income is fully matched to equipment cost which is expensed in the month of purchase for departmental accounts, capitalisation is done centrally

- Buildings and work on buildings (e.g. the non-equipment element of lab refurbishments)
- Training costs, process improvement or documentation, and any system support costs including maintenance contracts and warranties
- Purchases before Aug-17: for these assets, there will be no retrospective adjustments

Department Responsibilities

- Code equipment purchases correctly to the default natural accounts (10xxx)
- Liaise with the central Fixed Asset Team to ensure internally funded asset details are correct:
 - Default asset life is 5 years – request longer life (7-10 years) if a specialised piece of equipment with a longer expected life (e.g. autoclaves / high tech microscopes)
 - Default cost centre is the departments main cost centre XX0000 - the Fixed Asset Team cannot make changes to this code once the asset has been set up – if depreciation should be charged to a different cost centre, you should alert the Fixed Asset Team before the invoice is
 - Email details to del@admin.ox.ac.uk
- Check asset capitalisation information (DEL) provided by the Fixed Asset Team to ensure correct (e.g. maintenance contracts miscoded to equipment purchase)
- Budget and forecast in BFT for depreciation of capitalised assets. For more information, please refer to “Using the DEL to budget and Forecast Document” at <https://www1.admin.ox.ac.uk/finance/accounting/assets/>.

Fixed Asset Team Process

- Fixed Asset Team picks up asset details on a monthly basis after the Accounts Payable and Projects module close (close of WD2)
 - Fixed Asset Team journals capital adjustments by WD6
 - Credit the equipment purchase expense to 76xxx (resulting in net zero charge in 76xxx)
 - Debit the equipment purchase to the balance sheet on a code in the range 10101-10213
 - Charge the first month of depreciation to the GL in that month (in account 73803)
 - Depreciation charged every month for the remaining life of the asset (73803)
 - Report sent to departments showing Oracle accounting entries for the capitalisation adjustments made
- Quarterly DEL issued with a list of all department assets (regardless of capital treatment or funding) by WD10

Capital Projects

- Set up departmental Capital Project for assets where costs will be incurred over several months or straddles a year-end:
 - This ensures costs are not expensed as the asset is built (there is no A1 impact until asset is complete)
 - Depreciation will start from the period in which the asset is complete and ready for use
 - Contact Research Accounts to set up

SRFs (Small Research Facilities)

- Contact the Fixed Asset Team prior to the invoice being processed to ensure the coding is correct for any SRF purchase (this cannot be changed once the asset is set up)
- General principal is that future income generated by the SRF will cover the monthly depreciation charge
- If the SRF owns the asset the full cost should be taken to its cost centre. Any contributions would be shown as other income rather than a reduction in cost. If the asset isn't fully owned by the SRF please contact Research Services for further assistance
- For further guidance regarding costing SRFs, please refer to the Research Services web pages

Reserves

- Because the cost is capitalised and depreciation charged over the whole life of the asset, there is a risk of it appearing as though the funds for the equipment are still available to spend if reserves are being used to fund the purchase
- Some Divisional Finance Teams will adjust reserves (in same cost centre), so value of capitalised assets doesn't appear available to spend:
 - When a new asset is capitalised, reserves will be reduced by the full capital cost

- Depreciation charges will be added back monthly to reserves to avoid double-charging
- These adjustments ensure that the impact on reserves is as if the asset were not capitalised
- ***Any changes to reserves will be managed by your Divisional Finance Office***

It is important to ensure that coding and information entered at requisition, purchase order and invoice level is correct as the Fixed Asset module does not retrospectively amend prior accounting entries.

If changes are required, please contact the Fixed Asset Team as soon as possible and preferably before the asset is created. This will ensure accounting entries are correct on the outset. If corrections are to be made to existing departmental assets, it will be the department's responsibility to correct any retrospective General Ledger accounting entries.

Further Information

- Further detail on capital treatment is available at <https://www1.admin.ox.ac.uk/finance/accounting/assets/>
- Please contact your Divisional Finance Team or the Fixed Asset Team who will be happy to help with any queries