

## ACCOUNTING FOR SERVICE CENTER CAPITAL ASSETS

### General Information

Service Centers are not allowed to purchase capital assets. Capital assets cost more than \$5,000 and have a life of over a year. Since service centers are only allowed to recover, through their rates, expenses that occur during the fiscal year (for department stores it is based on calendar year) a capital asset's total cost may not be expensed in the year of purchase to the service center's users. Capital assets with a depreciable life of three, five, ten years, etc may only be charged to the users on a straight line depreciation method over the life of the asset. For example, an MRI with an asset life of five years can only be recovered by a fifth of its total cost per year.

### Acquisition of Capital Asset Options

1. Obtaining the use of University Capital Funds from Capital Planning and Management – CP&M. Generally the ASM or DFA must contact CP&M to obtain approval for funding before the fiscal year starts.
2. Department Unrestricted / Gift Funds provide the amount required and the service center pays amount back through service rates.
3. Lease – Obtain a lease or “lease to own” purchase order with a vendor who can provide the asset at a reasonable cost. Procurement will likely perform a lease or buy analysis.
4. Manufacturer/Outside Entity Company - Capital Asset Donation

#### 1. Capital Funds – Capital Accounting

If you have already obtained approval for [loan funding](#) from Capital Planning & Management (CP&M), your service center will be allowed to utilize the university's capital funds for the amount approved. It is possible that the loan amount approved will not be sufficient for the asset purchase, in which case additional funding will need to be obtained (it is not permissible to charge a portion of the purchase price directly to the service center).

The Capital Accounting PTA will be charged for the principal amount (purchase price), sales tax and freight (if any). The total amount will be the capitalized and the asset will be amortized based on the capitalized amount.

Amortization is based on the capital asset's depreciable life. Amortization is the Total Cost divided by the number of depreciable years. Therefore a \$100,000 microscope with an asset life of 5 years plus a freight fee of \$500 and sales tax amount of \$8,292 would have a monthly amortization amount of \$1,813. Total asset cost is \$108,792.

Administrative Guide 5.2.1. [Financing of Purchases](#) provides additional information.

58610 – “Interest Expense” is an allowable cost to service centers. The service center can include the interest in the rate to be charged out to users.

Academic service centers must provide a gift or unrestricted account for the “markup unallowable” expense. 58630 – “Interest Markup Unallowable” expense is the fee charged by Controller’s Office for use of Debt. Administrative service centers can include this unallowable expense.

- a) After obtaining approval from CP&M, complete the Standard Capital Equipment purchase order by charging the asset to the Capital Accounting PTA provided.
- b) Answer “Y” to “Will the equipment be used in a service center” question. Provide the service center PTA for re-payment of loan (Amortization PTAE0). Interest may be charged to service center PTA as well.
- c) In the comment section, please provide the PTA for the “markup unallowable” which must be charged to the department’s unrestricted gift or operating fund. Contact Capital Accounting to provide the department PTA or gift unrestricted PTA for the markup unallowable. Administrative service centers can provide their service center PTA.

*All of the following expenditure types are restricted to Controller’s Office use only:*

Refer to [Expenditure Type Lookup](#) for additional information on expenditure descriptions.

58665 – SU Internal Princ Amortization.

For principal portion only of debt payments.

58610 – Interdept Int Exp Allow

For internal interest charged -- expendable fund pool rate, long-term rate or accounts receivable rate.

58630 – Interdept Interest Markup Unallow

Recovery of Internal Advances to/from Debt pool. For interest on equipment or for building construction.

Capital Accounting posts the monthly amortization/interest/markup journal as a Feeder file with the Source name “DEBT”.

## 2. Department Funds/Unrestricted Gift Funds

If the department is unable to obtain approval for use of the University’s capital funds or chooses to avoid the “interest” and “markup unallowable” expense, a gift or unrestricted funds may be used for the capital payment. Repayment of the principal as asset depreciation is an allowable service center expense. Keep in mind that increasing the service center rate(s) to recover all or a portion of the asset’s cost may decrease volume due to price.

*If the service center has obtained a Federal sponsored grant/contract for a capital asset purchase(s), be aware that you may not include the Federal sponsored asset into the*

*service center rate. The Federal government has paid for the asset and does not wish to pay for it again within the service center's rate.*

*If a federal sponsored grant/contract paid for a portion of the asset purchase, the service center will need to generate a separate rate which excludes the entire depreciation and interest expenses of the asset charged to all federally sponsored PTAs. The asset's cost may not be charged to federally-sponsored PTA even though only a portion of the cost was paid with federal funds.*

When using this method of payment, the service center will need to post the monthly depreciation journals themselves. The depreciation starts the month after the payment is posted. (Jan payment = Feb start the depreciation). iJournals has a "copy" function which will save the journal originator some effort.

All service center capital assets must be identified in the Fixed Assets database. Contact the appropriate DPA to ensure that the list of service center's capital assets is accurate and complete. The capital assets should be identified as "IDC Unallowable".

If the service center's department funded the equipment purchase with the intent of subsidizing the expense in whole or part, then changed their decision in the following fiscal year, any missed depreciation expense from prior year(s) cannot be retroactively recovered.

For example:

- A service center purchased and received a microscope in FEB 2017 with department funds. The department decided not to recover depreciation costs within the service center rates;
- in SEP 2017 the department requested that the service center recover the depreciation expense for the asset in their service center rate(s);
- the current year depreciation expense may be included in the FY18 Budget Submission but it may not collect expense for prior year (in this case it may not recover the FEB 2017 – AUG 2017 depreciation).

The equipment depreciation journal will need to provide adequate information for any audit questions.

Journal Title: should identify it as a Department purchased Capital Asset with MON-YR depreciation being charged to Service Center

Journal Description: should document that the asset was purchased by Department for use in the Service Center and include: Vendor Name, PO number, Total Cost (if multiple PTA posted payment than provide a breakdown by %), Depreciable Life, Month-Yr asset in service and Asset Description.

Journal line: should be for the month of depreciation posted, include PO number as Dept. Ref, and provide brief Asset Description.

DEBIT 58504 – Interdept Deprec Cap Equip  
Depreciation of Department funded capital asset recovered via Service Center by inclusion of expense in service rate(s).  
Debit to Service Center PTA

CREDIT 481XX – Interdept Revenue  
Revenue posted via interdepartmental recovery.  
Credit to Department Fund PTA (If multiple department unrestricted/gift funds were used then list each with appropriate %

### 3. Lease Capital Asset

If the two options above are not available, the service center may obtain a lease for the capital asset required in the service center.

When the PO is submitted, Procurement may generate a lease vs. own analysis in order to ensure that the University is obtaining a fair return for its dollar. If there is a lease to own option available, ensure that the buyout amount will be less than \$5,000 or the asset will be considered capital and the buyout cost may not be paid by the service center.

Lease expense is an allowable cost to include in the service center's rate(s).

### 4. Manufacturer/Company Capital Asset Donation

A service center may receive equipment donated by the manufacturer, company, foundation, etc. By donating equipment to Stanford the donator benefits may include the opportunity to have its newly developed equipment tested by Stanford University faculty, PIs, etc.; the equipment value could be used in the donator's tax deductions (if ownership has been granted to Stanford University), or the donator may request that equipment be acknowledged in any published research papers.

Service centers can decide to include all or part of the equipment donation's value as a depreciable expense within in the service center rate(s). The donator has to have transferred title ownership of asset to Stanford University before asset depreciation can be charged to users. (Manufacturer asset/equipment loans to Stanford University are not depreciable.) The journal process would be similar to option 2, except that the PTA receiving the credit will be the Department's unrestricted/gift fund which has the posted PO donation value. Contact [PMO](#) for donation PO process.

Keep in mind that the inclusion of donated asset depreciation expense will increase the service center rate(s) and could discourage users from utilizing the service center. The service center has the option of only including a portion of the depreciation as opposed to the entire amount allowable.

Journal information should be well documented.

DEBIT 58504 – Interdept Deprec Cap Equip  
Depreciation of Department funded capital asset recovered via Service Center by  
inclusion of expense in service rate(s).  
Debit to Service Center PTA

CREDIT 481XX – Interdept Revenue  
Revenue posted via interdepartmental recovery.  
Credit to Department’s Gift/Unrestricted Fund

If you have any questions, please contact your designated Service Center Analyst.