THE UNIVERSITY of EDINBURGH
FINANCE DEPARTMENT

# Accounting Procedure for Capital Equipment

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| **Purpose of Procedure** | The University's Capital Policy defines what can be treated as capital expenditure.<br><br>The Capital Equipment Guidance outlines the procedure for correctly recording capital equipment purchases in eFinancials (excluding items purchased through Estates projects). |
| **Scope: Mandatory Policy** | All budget holders responsible for authorising capital expenditure and all staff involved with the purchasing of capital equipment. |

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## 1. Introduction

### 1.1 The purpose of this document

This document outlines the procedure for correctly recording capital equipment purchases in eFinancials (excluding items purchased through Estates projects).

### 1.2 Who this guide is for

This guide is for budget holders involved in approving capital equipment spend and staff member involved in purchasing capital equipment.

### 1.3 Why is it important

It is critical that a consistent approach is applied when recording capital expenditure, as this will improve the accuracy and reliability of our planning, budgeting, forecasting and reporting.

### 1.4 Capital Policy

The full accounting policy is located on the FIRST website. The policy details the different type of expenditure that may or may not be capitalised.

## 2. Capital Equipment

### 2.1 What is Capital Equipment

Capital expenditure represents funds invested in acquiring, upgrading and constructing fixed assets. A fixed asset is a resource the University controls and from which we can expect to derive future economic benefit (income generated by the asset, either directly or indirectly, outside of the financial year in which the original expenditure occurred). Expenditure for any other purpose is revenue.

It is University policy to only capitalise equipment and software purchases if the cost of an item (or group of related items) is £50,000 or higher.

### 2.2 Grouped items

To be capitalised, grouped assets should be functionally interdependent and have been purchased for a shared purpose. Some examples of multi-item equipment and software purchase as well as the criteria that should be applied are as follows:

| | Cost | Capital/Revenue | Rationale |
|---|---|---|---|
| **Example 1** | | | |
| Desktop computer<br>Scanner<br>Software license | £6,000<br>£43,600<br>£500 | Capital | **Functionally interdependent** – the computer is required to operate the scanner, the license is required to operate the computer, and the total cost of the items exceed £50,000 |
| **Example 2** | | | |
| 10 Desktop computers | £6,000 each | Revenue | **Independent** – desktops can be individually relocated, or replaced, and do not require the others for their continued use<br><br>No single computer meets the capitalisation limit |
| **Example 3** | | | |
| 30 computer servers<br>Networking and cabling | £17,000<br>£34,500 | Capital or revenue | **Infrastructure** – should be considered for capitalisation<br><br>The treatment will depend on planned location and intended purpose of this purchase and the finance department will assist with the final determination of this |

### 2.3 Computer licenses and software

The purchase of new computer licenses or software, with a useful life exceeding four years, can be capitalised if the cost is £50,000 or greater. Internal development costs, such as staff costs, cannot be capitalised; only external incurred development costs can be capitalised (i.e. external consultancy).

| | Cost | Capital/Revenue | Rationale |
|---|---|---|---|
| **Example 1**<br>New software application | £60,000 | Capital | **New acquisition** – the cost of a new software application over the capitalisation limit can be capitalised. |
| **Example 2**<br>New software application package<br><br>External consultancy | £45,000<br><br><br>£12,000 | Capital | **External costs included** - external consultancy required to tailor a new software system to University requirements brings the total cost over £50,000. |
| **Example 3**<br>New software application package<br><br>Internal staff time/costs (in place of external consultancy) | £45,000<br><br><br>£12,000 | Revenue | **Internal costs excluded –** University staff costs used in place of external consultancy cannot be treated as a capital cost so the system does not meet the capitalisation limit |
| **Example 4**<br>100 desktop software licences | £500 each | Revenue | **Independent -** the individual licences operate independently of each other<br><br>No single license meets the capitalisation limit |
| **Example 5**<br>Purchase new 1 year software licences, e.g."Software as a Service" | £80,000 | Revenue | **No future benefit** - as the licence is for one year only it cannot be classified as a capital item, regardless of cost. |
| **Example 6**<br>Renewal of software licence | £60,000 | Revenue | **Not a new acquisition -** the cost of retaining a service or application we have previously purchased should be treated as revenue |

If a software licence is for a period of more than one year, the cost should be treated as prepaid expenditure. For example, if a 3 year licence is paid for in advance (e.g. as the supplier was offering a reduced rate for advance purchase) financial accounting will recognise the cost of the licence equally over the next 3 years in line with the usage of the licence.

| | Cost | Capital/Revenue | Rationale |
|---|---|---|---|
| **Example 7** | | | |
| Software licence for 3 years purchased | £150,000 | Revenue | **Prepayment** - £50,000 cost would be accounted for in each of the next 3 financial years |

**2.4 Other costs**

As well as the cost of the item being purchased, additional expenditure may be incurred such as delivery and support costs.

| | Capital/Revenue | Rationale |
|---|---|---|
| **Delivery, freight and installation** | Capital | Costs charged to bring an equipment asset into working order can be capitalised provided the asset has already met the capitalisation criteria. |
| **Support, warranties and maintenance** | Revenue | Support and maintenance payments cannot be capitalised. Subsequent expenditure maintaining assets cannot be capitalised. The cost of support and maintenance contracts longer than one year would be treated as prepaid expenditure. |
| **Training** | Revenue | Cost of training staff to use new items of equipment or software cannot be capitalised. |

### 2.5 Purchase Orders

A purchase order, where possible, should always be raised in eFinancials for the item. Please note:

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| **Purchases Paid in stages** | Equipment purchases are often settled in stages e.g. 10% on order, 70% on delivery and 20% on commissioning.<br>It is important that all stage payments are included in the same PO even though individual stage payments may be less than £50k. |
| **Costs NOT capitalised** | Warranty costs, maintenance contracts, delivery costs and other associated charges will not be capitalised as part of equipment purchase costs. Consumables used in the running of the equipment cannot be capitalised.<br>These can be included in the same purchase order but should be coded to revenue account codes. |

## 3. Capital Equipment Expenditure (CEE) Form

A CEE form must be completed for all capital equipment or software purchases costing £50,000 or more. The form is the method by which Schools and Planning Units notify Central, College and Support Group Finance of the intention to purchase capital equipment and software.

The form is not authorisation to purchase an item – this follows the standard Delegated Authority Schedule.

The Capital Equipment section of the FIRST website contains separate guidance on the CEE form.

## 4. Coding of Equipment Expenditure

It is essential to record capital expenditure against the correct codes in eFinancials. The correct codes depend on the how the expenditure is funded.

### 4.1 Capital Equipment funded by restricted funds

Restricted funds are external funds received for a particular purpose e.g. a research funder, Scottish Funding Council or endowment fund.

Capital equipment purchased from restricted funds, such as Research Grants, Endowment Funds and other External Funders should be coded to the corresponding job code. The job code will normally be the same for both capital and revenue purchase costs.

The correct account code to be used for capital purchases from restricted funds are:

| | Account Code | Account Description |
|---|---|---|
| **Research** | | |
| Not capitalised | 3316 | EQUIP - UOE OWNED <10K |
| | 3310 | EQUIP >10K <50K |
| Capitalised by central finance | 3314 | EQUIP - UOE OWNED >50K <100K |
| | 3318 | EQUIP-UOE OWNED >100K |
| **Other restricted** | | |
| Not capitalised | 4801 | COMPUTING EQUIP PURCHASE |
| | 4804 | GENERAL EQUIPMENT PURCHASE |
| | 4430 | COMPUTER SOFTWARE – PURCHASE |
| Capitalised by central finance | 4800 | OVER£50k EQUIP&COMP ITEM PURCH |
| | 4443 | NON-RECURRENT ELECTRONIC PURCHASE |

**4.2 Capital Equipment funded by unrestricted funds**
Unrestricted funds are the University's own funds. Capital equipment funded

Capital equipment funded by all other sources (University Capital and Revenue Resource Allocations) must be coded directly to a fixed asset job code and the capital equipment acquisition account code in the balance sheet.

College/SG Finance Offices will allocate asset job codes to each approved purchase, enabling the Purchase Order to be raised directly to the asset code. The purchase order should be coded to:

| Cost Centre | Account Code | Job Code |
|---|---|---|
| College/SG Cost Centre | 7315 | e.g. X00001 (all asset job codes begin with an 'X') |

**5. Capital Equipment Register**
The financial records of all University capital equipment is maintained in the eFinancials Fixed Asset Register. Each individual asset has a unique asset job code, with an individual asset record.

**5.1 Maintenance of asset registers verification and disposals**
Equipment should if possible be effectively marked to identify them as University property and local inventories should be maintained.

Please refer to separate procedure notes on Asset Management.

**26 April 2017**

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Document control

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| **Author** | Jennifer Roskilly |
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