FASOM - Section 05.04: Grants and Contracts - Building and Equipment Use or Depreciation Allowance

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The content of this policy is current, although it has not yet been transitioned to the new Fiscal Policy format. This will be accomplished as time and resources permit.

A. General

A major component of indirect costs is an allowance for building and equipment use or depreciation. Two percent per year of building costs are allowed, and 6 2/3 percent per year of equipment costs are allowed. An institution may use the depreciation method in lieu of these use allowances.

OMB Circular A-21 covers several topics related to indirect cost recovery for depreciation and use allowances, including the following:

- Assets and allowable costs
- Methods of analyzing activities that benefit from the use of those assets
- Methods of computing allowances or depreciation

A-21 requires a physical count of all the assets to verify their existence. The verification must include the asset's description, location, condition, source of funding, utilization and continued need, etc. Because of these verification requirements, the equipment management system is an integral part of the process of determining building and equipment use or depreciation allowances.

FASOM 05.04B is a compilation of the various FASOM locations of OUS's asset capitalization policy and Property Management System information. FASOM 05.04C explains the accounting procedures used to record indirect cost recoveries.

B. Capitalization Policy

Several FASOM sections contain policy and procedural statements regarding the accounting for and treatment of capital outlay transactions. Following is a summary of the FASOM sections relating to the capitalization of certain transactions.

[1] FASOM 01.29, Accounting for Equipment Sale or Trade-In

This section describes the accounting procedure for the sale or trade-in of equipment.

[2] FASOM 02.40, Capital Outlay Account Codes
This section describes the appropriate account code to use for a given capital outlay transaction.

[3] FASOM 08.03 Equipment

FASOM 08, Physical Facilities, Stores and Equipment

This section describes property control, rental of facilities, equipment, supplies and rededication of facilities. FASOM 08.03 defines the term "equipment" as it relates to OUS's Inventory System requirements.

[4] FASOM 13.01, Invoice Review

FASOM 13.01E[2], Equipment Lease or Rental, describes the requirements of the Department of Administrative Services and OUS for reviewing purchases of; accounts payable for; or encumbrances of equipment.


Any item of equipment with a unit cost of $500 or more and a useful life of two years or more must be capitalized (see Department of Administrative Services Administrative Rules 15-010-01).

C. Accounting Procedure

The Controller's Division prepares indirect-cost-rate proposals based on analysis of the institution's annual accounting data and its building and equipment inventory data. Because the institution's treatment of capital outlay transactions directly influences the development of indirect-cost-rate proposals, careful accounting and inventory management throughout the year is essential. FASOM 05.04D[1] describes the accounting procedure used to record indirect cost recoveries.

[1] Indirect Cost Pool Percentages

Indirect cost recovery receipts are recorded as use allowances or depreciation allowances depending on the components of recovery. The Controller's Division produces an annual report, "Contribution of Indirect Cost Functions to the Proposed Indirect Cost Rate for the Fiscal Year Ended June 30, 19XX." This report indicates each indirect cost pool's percentage of total expected return. The use allowance or depreciation recoveries should be recorded in one of the two following accounts:

- Building Use Or Depreciation Recoveries: Credit indirect cost recoveries attributable to building use or depreciation allowances to Unexpended Plant Funds - Reserves for Renewal and Replacement. These funds are restricted to renovation or remodeling of facilities that are directly used for research or research support activities. Funds for
approved capital projects are transferred to appropriate Plant Funds. Any unused funds are returned to the Reserve Fund.

- Equipment Use Or Depreciation Recoveries: Credit other indirect cost recoveries, including equipment use or depreciation allowances, to account Institutional Income of Educational and General Funds - Grant and Contract Indirect Cost Recoveries (see FASOM 05.01C[5]).

[2] Sponsored Program Revenues

Normally, sponsored program revenues are credited to sponsored programs in the Restricted Fund. The indirect cost portion is then transferred monthly to indirect cost clearing. The indirect cost recoveries are then cleared to the appropriate institutional or Chancellor's Office income or operating FOAPALs (see FASOM 05.01C[5]).

*Note: This electronic document supersedes all previous versions and is subject to change.*

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