

## IS IT EQUIPMENT/A CAPITAL ASSET?

In other words, should an expense go in the **Equipment** section of a budget?

- Items in the **Equipment** section of an [OR Budget Template](#) are excluded from the **Modified Total Direct Costs (MTDC)** base used to determine indirect costs on a project.
- It is therefore important that any expenses entered in the **Equipment** section fit the specific definitions of **Equipment, Fabrication, Add-On, Software** or **Renovations/Facility Improvements** as described below.
- If unsure, email [Equipment Management](#) at [eghelp@ucdavis.edu](mailto:eghelp@ucdavis.edu)
  - Note: the following assets are handled by Capital Asset Accounting at [caa@ucdavis.edu](mailto:caa@ucdavis.edu):
    - Capitalizable Software not purchased as part of equipment
    - Renovations/facility improvements
    - Fixed equipment

*\*Note that principal investigators and their administering departments are responsible for ensuring all costs budgeted as equipment or capital assets meet the definitions of those categories.*

*The Sponsored Programs Office (SPO) therefore strongly recommends reaching out to [eghelp@ucdavis.edu](mailto:eghelp@ucdavis.edu) and Capital Asset Accounting at [caa@ucdavis.edu](mailto:caa@ucdavis.edu) in the planning phases of your proposal -- or anytime equipment is added to a project -- for a full determination.*

### Equipment

- Non-expendable
- Standalone (i.e., moveable, not fixed)
- Normal useful life is 1 year or more
- Cost is more than \$5,000
  - Costs that count toward the \$5,000 are:
    - Tax
    - Dedicated hardware components
    - Dedicated non-renewing software purchased with equipment
    - Fees (import, recycle, etc.)
    - Freight / shipping
    - Labor / installation
      - Note that all the above costs should be listed on the same invoice from a single vendor to be summed toward the \$5,000 threshold.
- **NOT equipment:**
  - Replacement/repair parts
  - Most upgrades to previously purchased equipment
  - Fixed equipment (i.e., bolted to a wall)
  - Part of a structure
  - Maintenance Agreements

### Fabrication

A fabrication has to meet all ten of the following criteria:

1. Is non-expendable (is not a consumable).
  2. Is tangible.
  3. Is free standing (not fixed to a structure or embedded in the ground, cement, etc.).
  4. Has an acquisition value of \$5,000 or more, not including UCD labor, unless recharged by a department other than the researcher's own.
  5. Is complete in itself, does not lose its identity or become a component part of another piece of equipment when put into use.
  6. Has a normal life expectancy of one year or more after completion.
  7. Will be at least partially physically constructed by a University activity; a product resulting from simple assembly or connecting of various parts does not qualify as a fabrication.
  8. Is expected to be used by the University upon completion for more than one year.
  9. Is not a product resulting from simple assembly or connecting of various parts.
  10. Will not be fabricated for the sole purpose of sale or delivery to an external entity (a deliverable).
- **NOT a fabrication:**
    - Deliverables
    - Fixed equipment
    - Computer parts

**Equipment Management** will provide a **Fabrication Justification** form to the PI/Department Administrator when a Fabrication is to be included in a budget.

### Add-On

An **add-on** is an accessory item or component **\$5,000 or over** whose acquisition value is **permanently added** to the acquisition value of the underlying equipment to which it is being added, aka "capitalized."

- **Accessory items** are either:
  - **Add-ons** if they are internal/external and dedicated permanently to one asset; or
  - **Stand-alone** if they are external and non-dedicated.
- **Component parts** are either:
  - **Add-ons** if they are internal/external and dedicated permanently to one asset; or
  - **Expensed** (i.e., not capitalized) if they are external and non-dedicated.
- **NOT an add-on:**
  - Replacement parts
  - Not dedicated permanently to one asset

### Software

- A non-renewing (perpetual) software whose purchase price is \$5,000 or more per copy.
  - Standalone item, not tied to an asset.
- A non-renewing (perpetual) software license of any amount which is included as part of the cost of capital equipment.
- **NOT software:**
  - Any software with annual license fees and maintenance costs

While you may send software inquiries to Equipment Management (at [eqhelp@ucdavis.edu](mailto:eqhelp@ucdavis.edu)), software is actually handled by Capital Asset Accounting at [caa@ucdavis.edu](mailto:caa@ucdavis.edu).

## Renovations/Facility Improvements

Renovations or facility improvements are capitalized (and excluded from indirect costs) when:

- The cost is \$35,000 or more.
- They are improvements or betterments.
  - Significant alterations of structural changes to plant assets which increase the usefulness, enhance the efficiency, or prolong the life of property.
- **NOT renovations or facility improvements:**
  - Repairs
  - Replacements

While you may send renovation/facility improvement inquiries to Equipment Management (at [eqhelp@ucdavis.edu](mailto:eqhelp@ucdavis.edu)), these are actually handled by Capital Asset Accounting at [caa@ucdavis.edu](mailto:caa@ucdavis.edu).

## DEFINITIONS

- **“Accessory Item”**: An item that facilitates or enhances the operation of equipment, but which is not essential for its operation. Accessory items necessary to place the equipment into its intended location and condition for use should be capitalized and inventoried as part of the basic asset. Accessory items acquired after the initial acquisition of the basic unit, and with an item cost of \$5,000 or more and with a normal life of greater than one year must be capitalized and inventoried.”
- **“Capital”**: At the University of California, “capital” typically refers to investments in physical infrastructure like buildings, land, and **equipment**, as well as the process of planning and managing these investments.
- **To “Capitalize”**: In accounting, to “capitalize” equipment means to record the cost of a piece of equipment as a **long-term asset** on the balance sheet, rather than expense it as an immediate cost on the income statement.
  - This is typically done when the equipment is expected to have a **useful life of more than one year**.
- **“Component Parts”**: Items which are not complete in themselves and thus are not separately inventoried. Component parts are capitalized or expensed according to Section III.C.1.i”
- **“Fabrication”**: An item of non-expendable, tangible personal property that: (1) has been physically constructed by a University activity; (2) has a total acquisition cost of \$5,000 or more; (3) has a normal life expectancy of more than one year; and (4) is expected to be used by the University upon completion. A product resulting from simple assembly or connecting of various parts does not qualify as a fabrication. As used in this Bulletin, “fabrication” does not include a piece of equipment fabricated for the sole purpose of sale and delivery to an external entity under an award made specifically for the fabrication of the equipment. (See the University Accounting Manual, P-415-32/Plant Accounting: Fabricated Property).

## POLICIES

**Equipment:**

- Equipment Definition - [Equipment Threshold Increase Directive](#) (PDF)
- [UCOP BFB-BUS-29](#)
- [UCOP BFB-BUS-38](#)
- [UCOP CGM, Chapter 15](#)
- [Uniform Guidance - UCOP](#)
- **UCD PPM 350 - Supplies and Equipment**
  - [350-24, Equipment Screening and Sharing](#)
  - [350-50, Classification of Inventorial Equipment](#)
  - [350-51, Identification of Equipment](#)
  - [350-55, Care and Control of Equipment](#)
  - [350-65, Loans, Gifts, and Transfers of Equipment](#)
  - [350-70, Movement of University Property](#)
  - [350-75, Fabrication and Modification of Equipment](#)
  - [350-80, Disposition of Excess and Surplus Property](#)

#### **Fabrication:**

- [UCOP BFB-BUS-29](#)
  - Page 2 (“Fabrication”)
  - Page 4 (“University Inventorial Equipment”)
  - Page 12 (“Fabrication”)
- [UCOP UAM P415-32](#)
  - Pages 2-3
- [UCOP CGM 7-205](#)
- [UCOP CGM 15-240](#)
- [UCD PPM 350-75](#)

#### **Add-on:**

- [UCOP BFB-BUS-29](#) (see definitions of “accessory items” and “component parts”)