Fixed Assets Overview

Fixed Assets – What are they?

An **asset** is an item that the University owns and uses while providing our administration, education and research services.

A **fixed asset** is an asset that we retain for more than a year. Some common examples within the University are:

- Scientific equipment
- Office equipment, e.g. photocopiers
- Machinery
- Vehicles
- Land and Buildings
- Property held for Investment purposes

It does not include **consumable** and **stock** items.

Why do we track them…?

The University records its fixed assets for several reasons:

- To allow the cost of the asset to be spread (in accounting terms) over its deemed working life.
- It is required by the University's Financial Regulations.
- Security - the Asset module allows details of assets to be tracked. This states, for example location and responsible employee.
- It provides an insurance listing.

University Policy

Due to the large number of fixed assets that the University owns, our policy is to only recognise assets that cost over £5,000 (including any non-reclaimable VAT).

In addition to this, equipment that costs over £30,000 is capitalised. Funding categories include:

- The University of Cambridge.
- Funding Council and other grants.
- Research Grants.
- Trust Fund or Donations (except generally Works of Art as there are often conditions on how we can dispose of them).

Therefore, any items valued between £5,000 and £30,000 are not depreciated but are just "expensed".

What's the difference between "expensed" and "capitalised"?

Expensed	This means that the full cost of the item is included in your departmental accounts during the year of purchase.
Capitalised	These items are treated slightly differently in your departmental accounts and will be depreciated.

Depreciation

A fundamental accounting concept is that you match your expenditure against the income that it helps generate. For assets this is done by depreciation.

a) The cost of the asset is capitalised and transferred to the University's Balance Sheet from the Income & Expenditure Account.

b) Then in each accounting period a depreciation charge is levied on the Income & Expenditure Account to write off the cost.

Thus we split the cost of these assets out over a number of years to reflect the contribution they make to the services we provide in future years.

However, all you need to know is that when you purchase the item you enter its full value into the Accounts Payable module, and code it against your departmental accounts (using a normal expenses code) in order to generate a payment to the supplier. The cost is being spread over a number of years by means of depreciation and is a function that is carried out by Central Accounting within the Finance Division.

University policy on depreciation

Land:	Is not depreciated.
Property:	Laboratories are depreciated over 20 years. All other properties are depreciated over 50 years with the exception of investment properties.
Equipment:	Depreciated over 4 years.

A bit more information about Property…

Properties that are owned by the University were only brought into the University's Fixed Asset Register in 1994. At this stage they were all re-valued and this is the starting point for the subsequent depreciation calculations.

Many people may think of this as a strange concept, as we are used to property values rising instead of diminishing. In this case the depreciation reflects the expense to the University of maintaining the buildings so that they are in a habitable and useable state.

For example, it could be expected that after a number of years the wiring system of a building might become outdated and need replacing. If the building were to be sold at that point of time then it would realise a lower value.

The depreciation is considered in isolation to the cost of any maintenance work that is undertaken on a building. These costs would be "expensed" in the year that they occurred. This is different to construction costs that are incurred when an extension etc. to a property is built; in this case it is seen as an "addition" to the existing asset and it would be included in the value to be depreciated.

Department’s Role

Department's role in relation to the accounting for fixed assets is very limited. The majority of the accounting for fixed assets is done centrally by the Finance Division on your behalf.

There are three main departmental roles:

(i) The initial purchase of the fixed asset in the Accounts Payable module.

(ii) Viewing and updating details of existing assets in the Fixed Asset module.

(iii) Physical verification of assets in the Department.