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Chapter 10

10.01 OVERVIEW OF ACCOUNTING FOR INVESTMENT IN PLANT

This chapter encompasses the policies and procedures for proper accounting and effective control of fixed and movable assets acquired by the College. Objectives of these policies and procedures include:

- Establishment and maintenance of necessary records including depreciation and insurance data.
- Identification of assets acquired and/or utilized.
- Controls regarding asset location and parties responsible for maintaining and safeguarding assets.

Although IA-FRS is used to process and account for all financial transactions of the College, an additional system is necessary to accomplish the aforementioned objectives with regard to fixed and movable assets. This system, the GSC Assets Information System, is maintained for financial reporting, property control and insurance purposes. Non-consumable items (furniture, fixtures, and equipment) with a per unit cost of $300 or more are considered College inventory and are included in the Asset Information System. Of these, items costing $500 or more are capitalized for financial reporting purposes. In addition, items costing $20,000 or more are recorded in the State of New Jersey Fixed Assets System, as are buildings, land, and capital improvements costing $25,000 or more.

10.01.1 CURRENT POLICY

- Plant funds are recorded and maintained for the major fund groupings consisting of Unexpended, Renewal and Replacement, Retirement of Indebtedness, and Investment in Plant.
- Plant and equipment assets costing $500 or more per unit which have a useful life of at least two years are considered capital assets.
- Capital expenditures for the year are recorded as additions to Investment in Plant.
- Sold or discarded plant and equipment assets are recorded as deletions from Investment in Plant.
- A complete physical inventory of plant and equipment is taken once every three years, and periodic spot checks are performed at random to ensure departmental compliance with procedures.
- Detailed inventory records of plant, property, and equipment, including required data for all known reporting purposes, are maintained in the GSC Assets Information System. Asset Input Forms are completed and used for entering data into the system (see Exhibit 10-2).
Historical cost of plant and equipment is used for financial accounting and reporting purposes.

The State of New Jersey will retain title to all buildings, land, and capital improvements acquired prior to July 1, 1987 with acquisition cost of $25,000 or more and will report these as state-owned assets.

The State of New Jersey will retain title to all equipment acquired prior to July 1, 1987 with acquisition cost of $20,000 or more and will report these as state-owned assets.

Asset Input Forms are completed and forwarded to the State of New Jersey-OMB for assets to which the state retains title (See Exhibit 10-1).

10.02 INVENTORY MAINTENANCE AND CONTROL

The procedures regarding maintenance and control of College inventory are discussed.

10.02.1 PROCEDURES FOR RECEIVING INVENTORY ITEMS

Ensuring that inventory items are properly recognized and recorded as received requires special efforts of various departments as follows:

Purchasing - Department names do not appear on copies of purchase orders mailed to vendors. This serves to force all deliveries through Central Receiving, when practicable, so that all items received may be tagged.

Central Receiving - An asset number is assigned to each item received with a cost of $300 or more and, when practicable, the asset tag containing the number is applied to the item. The asset number for each item received is recorded on a copy of the purchase order printed at Central Receiving, and these are forwarded to the Fixed Assets Accountant on a weekly basis (See Exhibit 10-3). All information for coding Input Forms is taken from these receiving reports.

Requesting Departments - Departments which insist on receiving shipments directly from vendors, and those requesting that equipment be delivered unopened by Central Receiving are responsible for making arrangements with the Fixed Assets Accountant so these items may be tagged as set forth above.
10.02.2  GSC ASSETS INFORMATION SYSTEM

The Fixed Assets Accountant maintains an updated plant and equipment inventory list based on information regarding additions and deletions forwarded by Central Receiving (See Section 10.02.1), information forwarded by departments (Sections 10.02.1 and 10.02.4), and physical inventory results (Sections 10.02.3). This computerized inventory system maintains records for leased assets, donations of assets, and purchased assets. See Exhibit 10-4 for a complete listing of fields maintained in the database. The GSC Assets Information System is capable of assisting in risk and insurance management by maintaining records of all insurable fixed and movable assets in addition to capital assets. A complete set of manuals for the Assets Information System is maintained in the office of the Fixed Assets Accountant.

10.02.3  PHYSICAL INVENTORY PROCEDURES

A physical inspection of all recorded fixed and movable assets is performed over a three-year period by the Fixed Assets Accountant with the assistance of an inventory control team as follows:

- All rooms are covered in each building owned and/or utilized by the College.
- Bar coded asset tag numbers are scanned and recorded in data collect terminals for all items found in each room for uploading to the Assets Information System.
- If no tag is present on an inventory item, a tag is applied and a specific description is manually entered in data collect terminals, in addition to any other relevant information available (serial number, model number, manufacturer, etc.). The results of the physical inventory is compared to information contained in the GSC Assets Information System to verify that all inventory items contained in the system remain in use and are at the recorded locations. In cases where a tag is applied to an item by the inventory team, all records in the system are scanned for a match on the asset description, serial number and other information available to ascertain that the asset is previously unrecorded before entering the item in the system as an addition. When necessary, estimates of acquisition cost and acquisition date are based on similar assets for which records exist.

10.02.4  PROCEDURES FOR MOVING/DISPOSAL OF INVENTORY ITEMS

User departments should complete an Inventory Record Form (see Exhibit 10-5) when inventory items are to be moved from one location to another. This applies even if items are only moved to a new room within the same building. This form should also be completed when the inventory items are missing/stolen, returned to vendor, damaged/stored or otherwise disposed of. Upon receipt of this form, inventory records are updated accordingly. The Inventory Record Form should be filled out as completely as possible and promptly
forwarded to the Fixed Assets Accountant.

The Rowan College of New Jersey Maintenance Department will move no inventorable assets without having received a copy of the Inventory Record Form forwarded from the Fixed Assets Accountant.

10.03 PROCESSING CAPITAL EXPENDITURES

The procedures regarding processing of capital expenditures are discussed.

10.03.1 CAPITAL EXPENDITURE APPROVAL AND PROCESSING

Capital expenditures originate within requesting departments by completion of a purchase requisition. Two different categories of furniture, fixtures and equipment are distinguished as follows:

- Minor Equipment - Furniture, fixtures, and equipment costing less than $500 per unit; these items are charged to object code 2800 (see Exhibit 10-6).
- Capital Equipment - Furniture, fixtures, and equipment costing $500 or more per unit; these items are charged to the object codes in the 7000 series (see Exhibit 10-6).
- Exception - Items costing less than $500 per unit which must be installed and used with a larger unit which, when fully assembled, costs $500 or more; these items are treated as Capital Equipment.

A purchase order should be issued to initiate all expenditures. The purchase order is approved and processed in accordance with procedures outlined in Chapter 13 of this manual. The Fixed Assets Accountant reviews detailed purchase requisitions (see Exhibit 10-7) to verify that equipment purchases are properly classified. Corrections are made as follows:

- Purchasing corrects object codes on purchase requisitions as related to Inventory Assets at the request of the Fixed Assets Accountant.
- Accounting Office processes journal entries at the request of the Fixed Assets Accountant to transfer expenditures from incorrect object codes to proper object codes in those cases where purchase orders have already been expensed. Supporting detail is provided with each request.
- Object codes on Miscellaneous Disbursements Vouchers are reviewed and corrected when necessary by Budget Office, as these are approved in that office. This will serve to verify that expenditures for equipment purchases are properly classified in those cases where no purchase order is prepared.
10.03.2 CAPITAL LEASE EXPENDITURES

When one or more of the following four criteria are met, inventory items financed through leasing arrangements are accounted for as purchased capital assets (per FASB #13):

- The lease transfers ownership of the leased asset to the College by the end of the leased term.
- The lease contains a bargain purchase option.
- The lease term is equal to 75 percent or more of the total estimated life of the leased asset.
- The present value of the minimum lease payments at the inception of the lease is at least 90 percent of the market value of the leased asset.

10.03.3 ACCOUNTING FOR CAPITAL EXPENDITURES

All capital expenditures are accounted for at the time the goods are received and accepted by the College.

- Fixed Assets Accountant reviews paid purchase orders and expense vouchers for the following:
  - Capital assets charged to Current Funds accounts, and
  - All charges to the Unexpended Plant Funds and Funds for Renewals and Replacements.

- Fixed Assets Accountant reviews and classifies purchases according to the following:
  - Current Funds Expenditures - by type of asset, restricted vs. unrestricted and capital vs. expended.
  - Unexpended Plant Funds and Funds for Renewals and Replacements - by type of plant asset, restricted vs. unrestricted and capital vs. expended.

- Fixed Assets Accountant prepares and posts journal voucher entries to record additions as follows:
  - Current Funds - amount of capital expenditures by funding source transferred to Plant Funds - Investment in Plant as "Expenditures from Current Funds for Investment in Plant," and
  - Unexpended Plant Funds and Funds for Renewals and Replacements - amount of
expenditures by asset account (land, buildings, land and other improvements) transferred to Plant Funds -Investment in Plant.

- Fixed Assets Accountant files purchase orders numerically in Plant Fund File for current year.

### 10.04 PROCESSING CAPITAL DELETIONS

The procedures regarding processing of capital deletions are discussed.

#### 10.04.1 ACCOUNTING FOR CAPITAL DELETIONS

All capital deletions originate from the department responsible for safeguarding the asset. When written notification is received per procedures outlined in Section 10.2 of this manual, the Fixed Assets Accountant:

- Determines historical cost (acquisition cost or estimated historical cost).
- Prepares and posts journal voucher entries at the end of the fiscal year to delete the value of the asset and related accumulated depreciation from the Plant Funds -Investment in Plant subgroup.

### 10.05 VALUATION AND ACCOUNTING FOR INVESTMENT IN PLANT

The valuation and accounting for the various asset types comprising Investment in Plant are discussed.

#### 10.05.1 VALUATION METHODS FOR ASSET TYPES

Fixed and Movable Assets purchased by the College are valued at acquisition cost. Exceptions are noted below:

- Acquisition cost of buildings, land, and capital improvements existing at June 30, 1987 were estimated by consultants of the State of New Jersey (American Appraisal Company and Ernst & Whinney). An appraisal of these was performed to arrive at current replacement cost, and index factors were applied to backtrend the current replacement cost to the known or estimated date of construction or acquisition to arrive at an estimated historical cost.
10.05.2 ACCOUNTING FOR INVESTMENT IN PLANT

- The Fixed Assets Accountant determines which accounts in the Investment in Plant Fund trial balance have had activity as of the June 30 fiscal year end.
- The Fixed Assets Accountant prepares and posts a Journal Voucher closing out the addition and deletion accounts to the Investment in Plant Fund balance:
  - Additions - debit to Transfers from Current Fund - Equipment Purchased and Addition accounts for total in the accounts (accounts are zero at end of fiscal year), and credit to Investment in Plant Fund balance for total;
  - Deletions - debit to Investment in Plant Fund balance for total of deletions, and credit to Investment in Plant deduction account for total in account (account is zero at end of fiscal year).

10.06 FINANCIAL REPORTING AND DISCLOSURES

Annual financial reporting for Capital Assets and necessary disclosures are discussed.

10.06.1 FINANCIAL REPORTING

The following reports are prepared at the end of each fiscal year:

- Detailed Listing of Assets by Building
- Summary of Assets by Class Code
- Additions
10.06.2  **DISCLOSURES**

The necessary disclosures for financial reporting purposes are as follows:

- Disclosures are made as to the valuation of Plant Assets included on balance sheet.
- Disclosures are made as to the owner or title-holder of assets included on the balance sheet.
- Disclosures are made as to method(s) used for computing depreciation expense.