

CHAPTER 7. ACCOUNTING FOR GENERAL PROPERTY, PLANT, AND EQUIPMENT (PP&E)

7-1. Background

- A. The primary FASAB policy governing accounting standards for Property, Plant, and Equipment (PP&E) is SFFAS 6, *Accounting for Property, Plant, and Equipment*. Initially published in November of 1995, it has been modified several times, generally to provide refinements or implementation guidance.
- B. The addition of SFFAS 10, *Accounting for Internal Use Software*, modified SFFAS 6 by incorporating internal use software, including software developed internally by an agency, as a category that is to be treated as part of PP&E.
- C. PP&E is defined as tangible assets that (1) have an estimated useful life of 2 or more years, (2) are not intended for sale in the ordinary course of business, and (3) are intended to be used or available for use by the entity (see Appendix 1, *Definitions*). (The Capitalization Threshold is covered in Section 7-3.B.)
- D. The three categories of PP&E include:
 - 1. General PP&E, used to provide general government services or goods;
 - 2. Heritage assets, possessing significant educational, cultural, or natural characteristics; and
 - 3. Stewardship land, land that is not included in general PP&E.
- E. This policy pertains to the accounting for general PP&E, which consists of items that:
 - 1. Could be used for alternative purposes but are used by HUD to produce goods or services, or to support HUD's mission;
 - 2. Are used in business-type activities; or
 - 3. Are used in activities whose costs can be compared to other (Federal or non-Federal) entities.
- F. General PP&E includes land acquired for or in connection with other general PP&E.

7-2. Responsibilities

- A. Office of the ACFO-Accounting
 - 1. Accounting Center (formerly the Fort Worth Accounting Center)
 - a. The Accounting Center is responsible for maintaining auditable asset and depreciation accounts for general PP&E other than Internal Use Software (IUS).

- b. The Accounting Center is responsible for reconciling account balances monthly with the Office of Administration, Property Management Branch (PMB), which tracks capital assets and maintains inventory and depreciation records for planning and accountability purposes. The Accounting Center will also reconcile with those offices that have acquired the assets, as needed.
 - c. The Accounting Center is responsible for creating monthly journal vouchers to reflect depreciation expenses for general PP&E.
2. Financial Reporting Division (FRD)
- a. The FRD is responsible for maintaining auditable asset and amortization accounts for Internal Use Software (IUS), as described in the HUD Accounting Policies Handbook, Chapter 6, *Accounting for Internal Use Software*.
 - b. FRD verifies and certifies HUD's financial statements produced by ARC, including depreciation and amortization. FRD will provide instructions for program and support offices to submit financial data, as needed, for inclusion in the consolidated statements.
- B.** Office of the CFO, New Core contract with Department of the Treasury, Bureau of Fiscal Service, Administrative Resource Center (ARC)
- 1. ARC is responsible for entering transaction data into the core financial system from journal vouchers created by the FRD and the Accounting Center and for maintaining auditable information.
 - 2. ARC is also responsible for making transaction data available to the Accounting Center in formats suitable for tracking and reporting account balances.
 - 3. ARC prepares the financial statements, which are to be verified and certified by FRD.
- C.** Office of Administration, Property Management Branch (PMB)
- 1. The PMB is responsible for tracking all of HUD's PP&E, above a predetermined threshold, including historical cost, useful life, enhancements, impairments, discontinuance, and disposal. This tracking is for inventory and planning purposes.
 - 2. The PMB also tracks Internal Use Software (IUS), based on information provided by the Office of the Chief Information Officer (OCIO), which is the responsible office for Internal Use Software.

3. PMB is responsible for reporting to the Accounting Center any changes in the use or value of general PP&E assets reported by the responsible program or support office so that the carrying value of the capital asset can be adjusted accordingly.
4. PMB will reconcile capital assets monthly with the Accounting Center.

D. HUD Program and Support Offices

1. For every HUD office acquiring any item, either through acquisition, lease, or financing, that falls into the category of general PP&E as defined above (not including Internal Use Software) and in Appendix 1, *Definitions*, the Allotment Holder or other responsible official shall ensure that the correct Budget Object Classification (BOC) code is used for all financial activity related to the acquisition of that item, in accordance with this policy.
2. If any office requires clarification concerning which codes apply, the Accounting Center will provide the necessary codes.
3. The acquiring office will notify the PMB of the planned acquisition at the time that budgeted funds are committed during the acquisition process. This can be accomplished through utilizing the proper BOC codes. The PMB will obtain other information from the acquiring office in order to satisfy their responsibilities for tracking and maintaining an inventory of assets.
4. In conjunction with this policy and in consultation with the Accounting Center, the acquiring office will establish the category and unit of general PP&E to be acquired.
5. Upon completion of the acquisition, the acquiring office must notify both the Accounting Center and the PMB of the date of completion. The PMB may also require additional information concerning the location and custodial responsibilities for the acquired asset.

E. Ginnie Mae

1. Ginnie Mae has separate authority and a separate financial system.
2. To the extent that Ginnie Mae acquires capital assets that are classified as general PP&E, Ginnie Mae must include those assets on its balance sheet and show depreciation as an expense.
3. Ginnie Mae must provide to the Accounting Center a description of the business process used, including the internal controls in place, for identifying and tracking general PP&E and depreciation.

F. FHA

1. FHA has separate authority and a separate financial system for certain types of transactions. However, FHA has not acquired any general PP&E through their separate authority.
2. FHA does not plan to acquire any general PP&E apart from the processes established by the HUD Office of the Chief Procurement Officer. No separate policy on general PP&E is needed for FHA. FHA has elected to be governed by this policy.

G. Office of the Chief Procurement Officer (OCPO)

1. OCPO conducts acquisitions for HUD program and support offices and oversees the use of HUD's acquisition system.
2. OCPO does not provide systems or procedures for tracking assets, since this function is performed by the Office of Administration, Property Management Branch.
3. OCPO is also not responsible for ensuring proper Budget Object Classification codes. The acquiring office is responsible for ensuring accurate coding and coordination of requirements prior to submission of requisitions.

7-3. Identifying PP&E**A. Categories of General PP&E**

1. General PP&E includes:
 - a. Assets acquired through capital leases, including leasehold improvements
 - (1) The Program or Support Office initiating a lease will determine at the time of preparing the requisition for entering into the lease whether the lease could result in HUD ownership of general PP&E.
 - (2) In conjunction with the Accounting Center, the acquiring office must identify those costs associated with the capital lease that will be included in calculating the historical cost of the asset.
 - (3) The cost of PP&E acquired through a capital lease is equal to the amount recognized as a liability for the capital lease at its inception.
 - (4) This amount is equal to the net present value of the lease payments calculated as specified in the liability standard (see Statement of Recommended Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, unless the net present value exceeds the fair value of the asset).
 - b. Property owned by HUD in the hands of others:

- (1) Others may include state and local governments, colleges and universities, or Federal contractors.
 - (2) Such property is part of PP&E. However, since property in this category is not being used by HUD in business-type activities, it is not part of general PP&E and is not included in this policy.
 - (3) HUD could have a reversionary interest in property purchased using grant funds. When the grant is closed out, if the property is still in possession by the grantee with no provision for disposing of the property, ownership could revert to HUD. Such property would be recorded upon receipt and would not be depreciated.
- c. Land rights are not part of general PP&E and are not included in this policy. Land rights are interests and privileges held by HUD in land owned by others, such as:
- (1) Leaseholds
 - (2) Easements
 - (3) Water and water power rights
2. Identifying the categories of general PP&E requires a determination of the base unit, or level of detail, against which the category definitions will be applied.
 - a. The acquiring office will make an initial determination of the base unit and provide the rationale to the Accounting Center.
 - b. The Accounting Center will review the initial determination made by the acquiring office and either approve or propose an alternative base unit, according to the effect the decision will have on the financial statements.

B. Capitalization Thresholds

1. Thresholds for the purpose of tracking general PP&E are determined by the PMB, in accordance with Federal regulations pertaining to property management.
2. The CFO is responsible for establishing the threshold for capitalization of general PP&E acquisitions. This threshold is based on the financial and operational conditions of the agency.
3. The CFO has determined that the capitalization threshold for general PP&E assets is \$100,000, for single purchase items. For similar assets acquired as a lot or batch costing greater than \$250,000, in which each item costs at least \$5,000, the entire lot will be capitalized as though it were one asset, providing that the items in the lot meet the other qualifications for a general PP&E asset.

4. The Accounting Center will maintain documentation of threshold determinations and the justification and any methodologies used.
- C. Acquisition of PP&E**
1. **Obligation**
 - a. Prior to the time of obligation, during the requisition, reservation, and commitment process, the acquiring office will use the Budget Object Classification (BOC) code 310901 for capitalized assets. In addition, the acquiring office will notify the PMB of the planned acquisition of a capital asset.
 - b. The Accounting Center, through the accounting codes used for the acquisition, assure that the account established for the asset will aggregate associated acquisition costs.
 - c. The Accounting Center will coordinate with PMB, and with the acquiring program office as needed, to establish the basis for the cost, useful life, and Net Realizable Value (NRV) for the asset. The useful life should be consistent with the projected useful life used to acquire the asset.
 - d. Costs that will be included in the capitalization of the asset will be recorded in an asset account for that purpose with a corresponding offset account.
 2. **Asset Recognition**
 - a. The acquiring office will determine the date an acquired item of general PP&E is received, based on the terms of the acquisition contract.
 - b. The acquiring office will notify the Accounting Center and the PMB of the date of acquisition and the location of the acquired item.
- D. Enhancement and impairment of PP&E**
1. **Program requirements**
 - a. Program offices that have acquired general PP&E are responsible for identifying and reporting any enhancements or impairments that affect the useful life or the Net Realizable Value (NRV) of those assets.
 - b. Program offices must report the enhancements or impairments to the PMB and to the Accounting Center. A valuation will be placed on the enhancement or impairment by the program office, and the rationale for the valuation will be provided to those offices.

2. Review requirements
 - a. Each program office will conduct an annual review of all assets tracked by the PMB to establish that the asset is still physically present in the proper location and to determine whether any changes to the value of the asset have occurred that will affect the useful life or NRV.
 - b. The results of the annual review will be provided to the PMB in a format specified by the PMB. PMB will notify the Accounting Center of any significant changes.

7-4. Establishing Cost of PP&E

A. Historical cost basis for asset recognition

1. When the goods have been delivered, the asset is recognized upon the receipt and payment of the vendor's invoice against the obligation line that contains the BOC code for capitalized assets; for example, 310901, Other Equipment – Capitalized.
2. Historical costs include the following expenditures:
 - a. Amounts paid to vendors;
 - b. Transportation charges to the point of initial use;
 - c. Handling and storage costs;
 - d. Labor and other direct or indirect production costs (for assets produced or constructed);
 - e. Engineering, architectural, and other outside services for designs, plans, specifications, and surveys;
 - f. Acquisition and preparation costs of buildings and other facilities;
 - g. An appropriate share of the cost of the equipment and facilities used in construction work;
 - h. Fixed equipment and related installation costs required for activities in a building or facility;
 - i. Direct costs of inspection, supervision, and administration of construction contracts and construction work;
 - j. Legal and recording fees and damage claims;
 - k. Fair value of facilities and equipment donated to the government; and
 - l. Material amounts of interest costs paid.

3. Establishing, recording, and reconciling costs
 - a. The Accounting Center will assure that updates to this policy are made if there are any changes to the above list.
 - b. For every capital purchase, including those expenditures that contribute to the historical cost of the asset, the acquiring office will assure that the proper BOC codes are used.
 - c. The Accounting Center will reconcile historical costs with the PMB.
- B.** Estimating costs when historical cost is not identifiable
 1. When historical cost is not identifiable, estimates may be based on:
 - a. Cost of similar assets at the time of acquisition,
 - b. Current cost of similar assets discounted for inflation since the time of acquisition, or
 - c. Other reasonable methods, including methods specified in SFFAS 23, paragraph 12.
 2. Accumulated depreciation/amortization shall be recorded based on the estimated cost and the number of years the PP&E asset has been in use relative to its estimated useful life.
 3. Alternatively, the PP&E may be recorded at its estimated net remaining cost (original cost less accumulated depreciation to date), and depreciation/amortization charged over the remaining life based on the net remaining costs.
 4. The methodology used for estimating costs must be approved by the Accounting Center, which shall retain a record of the methodology used.

7-5. Determining Useful Life and Net Realizable Value

- A.** Governmentwide standards or norms
 1. The useful life and NRV for an acquired asset are determined by the acquiring office at the time of acquisition. The useful life estimate that is used for the acquisition process should be the same as the useful life used to determine the depreciation of amortization of the asset once it has been acquired.
 2. The acquiring office must provide to the Accounting Center a justification if the determination is not in line with the useful life or the NRV for similar assets owned by HUD.

B. Documentation

1. The Accounting Center will maintain a record of submissions by the acquiring offices for all general PP&E acquired.
2. Methodologies for establishing useful life and NRV will be reviewed for consistency with the acquisition useful life or reasonableness, if different from the acquisition useful life, and retained by the Accounting Center.

7-6. Discontinuance and Disposal**A. Accounting for discontinuance**

1. When a program or support office discontinues the use of a tracked general PP&E asset, the responsible official in that office must notify the PMB and the Accounting Center of the revised status of that asset.
2. The PMB will determine, based on information received from the notifying office, whether the asset will be retained for possible reactivation, transferred to another Federal office, treated as surplus for resale, or disposed of in another fashion. Future tracking of the asset by the PMB will be based on this revised status.
3. The PMB will assure that the Accounting Center has also been notified of the discontinuance and the future plans for the asset. PMB and the Accounting Center will coordinate and reconcile the book value of the asset and the basis for the future accounting treatment.

B. Accounting for disposal

1. For general PP&E assets that will be disposed of, the PMB will work with the office responsible for the asset to assure compliance with applicable Federal regulations for disposal of Federal property.
2. The date of disposal of the asset, the condition of the asset at the time of disposal, and any amounts of funds received at the time of transfer of the asset will be reported to the PMB.
3. Based on the BOC codes used for the disposal of the asset, the Accounting Center will prepare journal vouchers to reflect the disposal of the asset, with adjusting entries for accumulated depreciation, Net Realizable Value, funds received in exchange for the sale of the asset, and Net Cost of Operations.
4. The Accounting Center will retain a record of the asset from acquisition to disposal for a minimum of two years in order to assure that the financial statements reflecting the use of the asset are able to be audited.

7-7. Recording and Reporting PP&E

A. Records and documentation

1. The acquiring office will provide the PMB and the Accounting Center with documentation of cost, useful life, NRV, enhancements, impairments, discontinuance, and disposal of general PP&E assets.
2. The PMB will assure that the documentation provided by the acquiring office is satisfactory for the tracking requirements contained in Federal regulations pertaining to the inventory and protection of Federally owned assets.
3. The Accounting Center will assure that documentation provided by the acquiring office is adequate for all Federal GAAP and accounting standards.
4. The Accounting Center will maintain accurate records of determinations of cost, useful life, NRV, materiality, enhancements, impairments, discontinuance, and disposal for general PP&E.

B. The Accounting Center will prepare Journal Vouchers to reflect the acquisition, depreciation, enhancement, impairment, discontinuance, and disposal of general PP&E.

C. Reporting General PP&E

1. For each reporting period, the FRD will produce instructions and distribute a request for data to the Accounting Center, as needed, to capture financial information related to the acquisition, depreciation, enhancement, impairment, discontinuance, and disposal of general PP&E assets.
2. The Accounting Center will provide accurate data for the production of financial statements as required by the FRD, and reconciled with the records kept by the PMB.