

# Chapter 7: Equipment and Fixed Assets

This chapter covers Equipment and Fixed Assets. In this chapter you will learn:

- The definition of equipment.
- The processes for fixed assets and equipment setup in SAP.
- The shopping cart document type for capital purchase orders is CAPP.
- Which BW reports are most useful in identifying equipment and fixed assets.

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## Overview of Fixed Assets and Equipment

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### What is Equipment?

Equipment is defined as an article of non-expendable, tangible property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. The Fixed Asset Shared Service Center (FASSC) is responsible for maintaining an inventory of all of the University's equipment assets. Additionally, any questions or problems related to the purchase or capitalization of equipment can be directed to the FASSC.

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### Review of the Basic Process for Equipment Setup

The basic process for fixed assets and equipment setup is as follows:

1. User creates a SRM shopping cart to purchase the desired items. If the equipment is capital (as defined above), the user selects shopping cart document type CAPP, capital purchase order. Users should be aware when purchasing equipment that the default Document Type setting is the ECPO or Expense Purchase Order. Selecting the CAPP document type lets SAP know the purchase order is for equipment.
2. The CAPP PO will reflect commitment item 631099, EQ-SRM Only. If you are creating a Purchase Order with a PROJ doc type, G/L 651633 should be used.

3. After the appropriate department approvals are received, the shopping cart is routed to Fixed Assets Shared Services, where it is evaluated for a capital equipment purchase, and an asset shell is established with an asset number (a seven digit identifier beginning with 4XXXXXX), cost object, commitment item and G/L account. No dollar amounts are assigned to the asset shell.
4. FASSC will then forward for additional approval if required (e.g., SOM purchases over \$50K per unit.)
5. If no additional approval is necessary, the shopping cart is routed to Purchasing. A purchase order is created which references the asset shell, and the order is placed.
6. When a goods receipt is completed, the expense posts using the cost object, commitment item and GL account on the purchase order.

In limited circumstances, equipment may be purchased using the Online Payment Request. This option is utilized when the item is not available on the SAP shopping cart. An on-line payment request is initiated once an invoice is received from the vendor. The commitment item used will be 631113, JHU Only Equip>5k. This practice is discouraged because equipment acquisitions other than through purchase orders are not easily identified.

Even when using purchase orders, there are situations when capital equipment is incorrectly purchased as regular expense (e.g. 633032, Office Supplies). This presents problems for the university with calculation of F&A Cost Recovery Rates and with calculation of depreciation. Not correctly classifying a purchase as equipment may be recognized by the department buying the equipment, by General Accounting in the Office of Finance, or by FASSC as they routinely review purchases over \$5,000, which use certain G/L accounts.

If it is determined that equipment was purchased incorrectly, FASSC will create the asset shell and assign an asset number using the cost object, funds center and fund from the purchase order. FASSC will then transfer the equipment from the expense GL/Commitment Item to GL 180202 and then notifies the user that the purchase was made incorrectly and that a transfer was made.

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### **Reconciliation of Equipment and Fixed Asset Expenses**

Equipment purchases are reconciled in the same manner as other valued purchase orders, meaning the three-way match of PO, invoice receipt and goods receipt is needed for the expense to be recognized. This process is outlined in “Purchase Order Categories” on page 3-2. Equipment and fixed asset expenses will post to sponsored class 653400, Equipment for sponsored accounts, and commitment item 653406, Major Movable Equipment, for non-sponsored.

As our process of reconciliation has moved toward a more risk-based approach, an equipment purchase using the SRM shopping cart method has become a lower risk transaction. This is because of the multiple levels of approval needed in the equipment and fixed asset purchasing process.

End users should realize that while equipment expense is recognized in full at the time of purchase in both the GM or FM modules, the equipment itself is depreciated over its useful life. Depreciation of equipment posts to the Special Ledger (SL) reports and if necessary, can be tracked using BW Controlling reports, such as the *Controlling > Actual Trend* report. More information about asset purchases and treatment can be found on the website of FASSC.

<http://ssc.jhu.edu/fixedassets/index.html>

## Reconciliation Examples

### Tracking an Equipment Purchase Order using BW Reports

The example below shows an equipment purchase using non-sponsored funds (1203130104). Display 7-1 shows the CAPP PO was approved on June 15, 2010. On June 23, 2010, the invoice was received as indicated by the 51 doc and it was valued with a goods receipt as indicated by the 50 doc on the 29th of June. The user will be able to track this purchase through SAP beginning with ME23N as shown in Display 7-1.

**Capital Expenditure 2000951846 Created by Mary Hogan**

Document Overview On | Print Preview | Messages | Personal Setting

Capital Expenditure 2000951846 Vendor 1003221 DELL COMPUTER CORP Doc. date 06/15/2010

S	Itm	A	I	Material	Short Text	PO Quantity	O..	C	Deliv. Date	Net Price	Curre..	Per	O...	Matl Group	Plnt
	1	A			PowerEdge R610: Powe...	1.000	EA	D	06/16/2010	8,185.18	USD	1	EA	COMPUTER	1099 JHU Service

Item: 1 PowerEdge R610: PowerEdge R610;Chassis

Material Data | Quantities/Weights | Delivery Schedule | Delivery | Invoice | Conditions | Account Assignment | Purchase Order History | Texts | De

S...	MVT	Material Do...	Item	Posting Date	Quantity	Delivery cost quantity	OUn	Amount in LC	L.cur	Qty in OPUn	DelCostQty (OPUn)	Or...
GR		5008503659		1 06/29/2010	1.000	0.000	EA	8,185.18	USD	1.000	0.000	EA
Tr./Ev.		Goods receipt			1.000		EA	8,185.18	USD	1.000		EA
IR-L		5107257601		1 06/23/2010	1.000	0.000	EA	8,185.18	USD	1.000	0.000	EA
Tr./Ev.		Invoice receipt			1.000		EA	8,185.18	USD	1.000		EA

Display 7-1. CAPP PO 2000951846 for Equipment in ME23N

The Account Assignment tab shown in Display 7-2 in ME23N shows the asset tag number (# 4057942) assigned to the equipment. You'll notice the purchase posted to G/L 180202 and commitment item 653406, Major Movable Equipment, indicating the equipment was charged to non sponsored funds.

S	S	Quantity	Perce	Cost Ctr	G/L Acct	BusA	Order	Asset	SNo.	WBS Element	Commitment	Funds Ctr	Fund	Grant
1	1.000	0.0			180202	120		4057942	0		653406	1203130104	1012000000	NOT-RELI

Display 7-2. Account Assignment tab showing the Asset Tag Number

On the BW Non-Sponsored Financial Summary report in Display 7-3, we can see the goods receipt posting the expense of \$8,185.18, the third part of the three way match (PO, IR, GR) needed for CAPP PO's. So, the full purchase price of the capital equipment was recognized in Funds Management at the time of purchase. The same holds true for equipment purchases posting in the Grants Management module..

Non Sponsored - Financial Summary		<input type="button" value="Toggle Nav Block"/> <input type="button" value="Variable Screen"/> <input type="button" value="Printing"/> <input type="button" value="Bookmark"/> <input type="button" value="No. of Rows"/> <input type="button" value="No. of Columns"/> <input type="button" value="Email"/> <input type="button" value="New Window"/> <input type="button" value="Exceptions/Conditions"/>									
		1012000000									
Fund		GENERAL FUNDS									
Fund Type		General Operating Fund.									
#											
Funded Program		JHEN/Not assigned									
		1203130104									
Funds Center		COMP SCIENCE									
Pers.Resp.Name		Alison Milligan									
		120									
Business Area		WHITING SCHOOL OF ENGINEERING									
		2010	JUN	MAY	JUN	Total	2010	Tot Recog/	Unrecog/Uncom	Ending	
Commitment Item		Opening	2010	2010	2010	YTD	Commitments	Committed	Bdgt Balance	Balance	
		Balance	Current	YTD	Revenues/	Expenditures					
653406											
MAJOR MOVABLE EQUIP					8,185.18	8,185.18	0.00	8,185.18	(8,185.18)	8,185.18	
Overall Result					8,185.18	8,185.18	0.00	8,185.18	(8,185.18)	8,185.18	

Display 7-3. Non-Sponsored Financial Summary showing Expense Recognized

And, again, depending on its useful life, or length of time the depreciable asset is expected to be usable, an asset will have an associated posting of depreciation in the Special Ledger (S/L). For example, in running a BW *Controlling > Actual Trend* report (Display 7-4) from the date the equipment was purchased and expensed (period 012/2010) through the end of the month just closed (period 008/2012), we can deduce that the equipment has a useful life of five (5) years,

because if we divide the purchase price, \$8,185.18 by the rate of monthly depreciation \$136.42, we come up with 60 months. The net book value remaining on this equipment based on current recorded value (as of period 008/12) is \$2,864.82.

Although it is not necessary to track depreciation, it is helpful to know how far into the useful life of the asset you are. Equipment will remain open or active in the university's records until action is taken by the purchasing department, such as donating, transferring, selling, or otherwise disposing of it. Non-sponsored accounts used to purchase equipment that have a remaining net book value cannot be inactivated unless the department works with FASSC to resolve.

Depreciation is determined at the time of purchase based on the asset class assigned to the equipment. For more information, contact FASSC with your purchase order number and/or asset tag number..

Fiscal Year/Period		012/2010	001/2011	002/2011	003/2011	004/2011	005/2011	006/2011	007/2011	008/2011	009/2011	010/2011	011/2011	012/2011	001/2012	002/2012	Overall Result
Cost Center	Cost Element	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	
1203130104	651705	DEPREC-MAJ MOV EQUIP	\$ 136.42	\$ 136.42	\$ 136.42	\$ 136.42	\$ 136.42	\$ 136.42	\$ 136.42	\$ 136.42	\$ 136.42	\$ 136.42	\$ 136.42	\$ 136.42	\$ 136.42	\$ 136.42	\$ 2,046.30

**Display 7-4. Controlling>Actual Trend Report Showing Depreciation**

Keep in mind that depreciation on equipment purchased with either sponsored funds or with a non-sponsored internal order, is recorded at the cost center. Please contact staff at FASSC for more information regarding capitalization of equipment.

### Duplicate Charge Example

The following example demonstrates how a duplicate expense posting can occur when a goods receipt is done on a purchase order, but the vendor is paid via online payment request, instead of using an invoice which references the purchase order. We will track this example from shopping cart through problem resolution.

1. This piece of equipment was purchased through SRM, with the shopping cart being created on 1/22/07. The purchase order was created as a valued PO, meaning goods receipt is required and expense posts at the time of goods receipt.
2. A goods receipt was completed on 1/28/07, causing an expense of \$10,372.51 to post to sponsored class 653400.
3. An online payment request was submitted separately, without referencing the original PO, causing an additional \$10,372.51 to be charged to the cost object.

So, we have seen that the cost object has been charged twice for this freezer, the first time upon goods receipt, and the 2nd time when an online payment request was submitted and paid. (As noted above, the problem resulted from the online payment request being submitted for payment. Because the online payment request does not reference the purchase order, payment of the invoice caused a duplicate expense to post. Additionally, it left a hanging goods receipt that will need to be addressed.)

In this situation, instead of submitting an online payment request, the user should have notified Accounts Payable Shared Services to inform them that an invoice needed to be paid for this Purchase Order.

To correct the duplicate payment, the following steps will be followed.

1. The department deletes the goods receipt. This removes the asset shell and clears one of the \$10,372.51 expense postings.
2. Purchasing deletes the purchase order.
3. The department deletes the shopping cart.
4. The department processes an Equipment, Non-Payroll Cost Transfer crediting sponsored class 637000, and debiting sponsored class 653406 for \$10,372.51. This effectively moves the charge to the correct G/L and re-establishes the dollar value of the asset at \$10,372.51. The cost transfer is routed to Financial Research Compliance (if charging a sponsored account) and FASSC for approval.

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## Additional Resources

Here are links to other resources you may find helpful:

Fixed Asset Shared Service Center Website:

<http://ssc.jhu.edu/fixedassets/index.html>

Supply Chain Shared Service Center Website, PO Information:

<http://ssc.jhu.edu/supplychain/index.html>