Purpose

The purpose of this guidance is to provide direction on accounting for the purchase of equipment, assembly of components, and fabrication of complex equipment for delivery to the government or prime sponsor on Sponsored Program Accounts. This guidance has been established to ensure consistency with other University policies and compliance with the requirements of Office of Management and Budget (OMB) Uniform Guidance in 2 CFR Part 200 (Uniform Guidance).

Definition

Capital Equipment. An asset with a purchase price of $5,000 or more and having an estimated useful life of more than one year.

Fabricated Equipment. Fabricated equipment is self-constructed equipment having a useful life of more than one year and a total cost of $5,000 or more upon completion. Fabricated equipment cannot be purchased off the shelf. Fabricated equipment does not include upgrades to existing equipment and refers only to the construction of a new piece of equipment.

Fabricated items delivered to a sponsor or sponsor directed third parties will not be considered Capital Equipment, will not be coded as equipment, and will incur full F&A.

Guidance

The activity on a government contract may consist partially or entirely of the fabrication of equipment for delivery to the government. It may also involve the acquisition of government-titled equipment or use of government-furnished equipment for the production of the deliverable. The identification and accounting differ for the production of fabricated equipment for government deliverables.

Government regulations require that the cost of fabricated equipment for delivery to the government be computed in accordance with generally accepted accounting principles, be reasonably accurate and based on procedures that include all direct and indirect costs.

Costs comprising the fabricated equipment are to be charged to the appropriate expenditure account. For example, charge personnel costs to the appropriate salary account; charge component parts with a unit cost less than $5,000, and raw materials, to the appropriate supply account; charge parts with a unit cost of $5,000 or more to account code 740010 Sponsor Deliverable Equipment (previously Capital Equipment – Flight Parts).

Indirect Cost:
Indirect cost is budgeted on fabrication costs according to the expenditure account codes assigned to the costs, consistent with the federal negotiated indirect cost rate agreement. The institution incurs substantial indirect costs in the construction of complex equipment and systems and expects full indirect cost recovery in the cost pricing for fabrication projects.

Investigators wishing a reduced indirect cost rate should petition the Senior Vice Provost for Research using the Request for Facilities & Administrative Cost Waiver form. The petition should include a justification for the reduced indirect cost rate and should be approved by the department head and dean.
Waivers will be granted only on the basis of the benefit to the University for fabricating the equipment at less than the full indirect cost rate. Improving the competitive advantage of the proposal is generally not a legitimate justification for waiver of indirect cost.

Completed Fabrication:
Upon contract closeout, Sponsored Programs Administration will work with the Business Service Center and the principal investigator with regard to excess material left over from the fabrication. If excess material exists with a fair mark value greater than $5,000.00 and is in returnable quantities, the excess material shall be returned to suppliers for full credit less the cost of restocking charge (not greater than 25%) and the cost of handling and transportation. The appropriate adjustments shall be made for the credit to material expenses charged directly to the government.

Accounting for Non-Government Fabricated Equipment Deliverable:
The same method should be used when accumulating the costs on the fabrication of equipment for delivery to a non-government sponsor.