Property, Plant, and Equipment (PP&E) and Internal Use Equipment

Brief

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<tr>
<th>Title</th>
<th>Property, Plant, and Equipment (PP&amp;E) and Internal Use Software</th>
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BRIEF

Policy Summary

This policy provides guidance for the appropriate financial accounting of Berkeley Lab's Property, Plant, and Equipment (PP&E), in accordance with Chapter 10 of the Department of Energy (DOE) Financial Management Handbook and other applicable regulations. This replaces the policies for Capital Equipment Fabrications, Construction Work in Progress, and Accounting for Internal Use Software (IUS).

Who Should Read This Policy

Any Berkeley Lab employee involved with the purchase of a capitalizable PP&E asset

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Contact Information

Property Accountant

Policy

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POLICY

A. Purpose

This policy provides guidance for the appropriate financial accounting of Lawrence Berkeley National Laboratory's (Berkeley Lab's) Property, Plant, and Equipment (PP&E), in accordance with Chapter 10 of the Department of Energy (DOE) Financial Management Handbook and other applicable regulations. This replaces the policies for Capital Equipment Fabrications, Construction Work in Progress, and Accounting for Internal Use Software (IUS).

B. Persons Affected

Any Berkeley Lab employee involved with the purchase of a capitalizable PP&E asset

C. Exceptions

None
D. Policy Statement

1. PP&E accounting includes all phases of the financial accounting life cycle as it relates to items that exceed the capitalization threshold, including internal-use software (IUS). The financial accounting life cycle for PP&E includes acquisition/capitalization, depreciation/amortization and accounting, and disposition/retirement.

a. The Laboratory will capitalize individual items that are purchased, constructed, or fabricated in-house, including major modifications or betterments to any of these items, if they have an anticipated service life of two years or more and if the cost meets the capitalization threshold.

b. The capitalization threshold for purchased assets, fabricated assets, construction, betterments, and capital leases placed in service prior to October 1, 2011, is $50,000. For items placed in service on or after that date, the threshold is $500,000.

i. The threshold includes costs to purchase and/or fabricate and includes freight, installation, and any applicable taxes. Internal labor costs may also be included if they are incrementally identified to the specific project and appropriately tracked and documented.

ii. The item must be tangible and capable of specific identification and continuous control through tagging and periodic physical inventory.

c. The capitalization threshold for IUS is $750,000. IUS includes purchased commercial of-the-shelf (COTS) software, internally developed software, and contractor-developed software. Additional information on elements of capitalizable costs is included in Section D.2.b.vi.

d. The Laboratory will capitalize related items that individually cost less than the capitalization threshold but that collectively cost more than the capitalization threshold, such as the initial complement of equipment (for example, office equipment) for a building, if current costs would be distorted in a given period by charging such items to expense accounts.

e. Items that are inherently experimental, used as special tools, or, by nature of their association with a particular scientific experiment, not expected to have an extended useful service life or an alternative future use are not capitalized.

2. Acquisition/Capitalization

a. Identification and Monitoring of Costs

i. Capitalizable assets/projects are identified by division resource analysts (RAs). The first step in the capitalization process is opening the project in the financial system and segregating costs that will require capitalization.

ii. There are specific requirements concerning project setup (e.g., burdens, Budget & Reporting [B&R] code/color of money, etc.). RAs are strongly encouraged to seek assistance from General Accounting/the Property Accountant if they are unfamiliar with these requirements.

iii. RAs complete and submit the Plant and Capital Equipment (PACE) Project Life Cycle form to the Property Accountant at propertyaccounting@lbl.gov. The Property Accountant reviews the PACE form and forwards it to the Budget Office. The Budget Office verifies that funding has been secured in the appropriate color of money and updates the project status to "open." Once the project is in open status, the division can begin to incur costs against the project.

iv. Over the course of acquisition, the RA monitors the costs at the project level. In addition, the Property Accountant monitors the costs incurred to Construction Work in Progress (CWIP) or Software Work in Progress (SWIP). Costs will be recorded in the CWIP/SWIP account(s) until the project is completed and the item placed in service and capitalized.

b. Types of Capitalizable PP&E Assets. Capitalizable PP&E assets fall into the following categories:

i. Purchased Assets. A purchased asset is a procured item that meets the capitalization criteria.

ii. Fabricated Assets. A fabricated asset project must be a unique or custom device not available in the open market. It must be a self-constructed asset built at Berkeley Lab to be used for or by Berkeley Lab employees. Fabrications will include Berkeley Lab labor, including all applicable burdens, as part of the total cost. To qualify as a fabrication, any modification or improvement of off-the-shelf equipment must be a betterment that significantly increases its value, functionality, or life.

iii. Construction. Construction is the erection, installation, or assembly of a new plant facility. Construction includes equipment installed in and made part of the facility and related site preparation; excavation, filling and landscaping, or other land improvements; and the design of the facility.

iv. Betterments. Betterments are (1) improvements that result in better quality, higher capacity, or an extended useful life; or (2) work that is required to accommodate regulatory and other requirement changes. Although a particular project may meet the characteristic of a betterment, if the capitalization criteria are not met or the improvement added is insignificant, the project should be expensed. Betterments are capitalized when they are significant and they meet the capitalization criteria.

1. Determining when and to what extent an expenditure should be treated as a betterment requires judgment. General Accounting/the Property Accountant should be contacted to discuss capitalization requirements as they relate to betterments.

v. Leases. Typically, leased items are funded by operating funds, and as operating leases, at Berkeley Lab.

1. If at its inception a lease is considered capital, the asset will be capitalized appropriately. A capital lease is an agreement that transfers substantially all the benefits and risks of ownership to the lessee. If at its inception a lease meets one or more of the capital-lease criteria, it should be classified as a capital lease. A lease is considered a capital lease if:

a. There is a transfer of ownership to the lessee at the end of the lease term

b. There is an option to purchase the asset at a "bargain price" at the end of the lease term

c. The lease life exceeds 75% of the life of the asset

d. The present value of the lease payments, discounted at an appropriate discount rate, exceeds 90% of the fair market value of the asset

2. General Accounting works in partnership with Procurement to identify capital lease transactions.

3. Certain leases have an option that allows the Laboratory to purchase the item at a renegotiated price during or at the end of the lease period (lease to own). When the decision is made that the leased asset will be "purchased" and the asset meets the capitalization criteria, the Property Accountant will ensure that all appropriate accounting entries are made to recognize the purchased asset.

vi. Internal Use Software. IUS includes the purchase, development, or modification of software for use by the Laboratory.
IUS is subject to different capitalization criteria, as prescribed by the DOE Statement of Federal Financial Accounting Standards (SFFAS) No. 10, Accounting for Internal Use Software.

1. The Laboratory will capitalize cost if it has an anticipated service life of two years or more and if specific costs meet the capitalization threshold of $750,000. Types of IUS include:
   a. Purchase of commercial off-the-shelf (COTS) software
   b. Software development cost developed software
      i. The $750,000 threshold applies to software “development” costs in Phase II only (see Table 1 for what costs are to be capitalized.)

2. Enhancements are capitalized if they add significant new capabilities or functionality and meet the capitalization criteria.

3. Other software costs not capitalized:
   a. R&D/experimental software not having a useful life of two years or more
   b. Legacy waste software. Primary purpose of the software is to support activities associated with environmental cleanup efforts.
   c. Application maintenance

   c. Capitalization. Upon completion of a fixed asset acquisition, as in most cases reflected in a project status of “closed,” the Property Accountant will: (1) verify the capitalizable costs, (2) verify tagging of the asset with Property Accounting, and (3) transfer costs from CWIP/SWIP to the appropriate fixed asset account to begin depreciation/amortization, using the depreciable life schedule included in Chapter 10 of the DOE Financial Management Handbook.

3. Depreciation/Amortization and Accounting
   a. Assets are recorded at acquisition cost and in accordance with definitions of asset types. The straight-line method of depreciation/amortization is used. Depreciation/amortization reduces the net book value (original acquisition value less cumulative depreciation/amortization expense life to date) on a monthly basis over the life of the asset. DOE has established useful lives for each asset category in Chapter 10 of the DOE Financial Management Handbook.
   b. On a monthly basis, the fixed asset subsidiary ledger is reconciled to the Laboratory general ledger, which, in turn, is reconciled to DOE’s Standard Accounting and Reporting System (STARS). This includes all fixed asset accounts and related accumulated depreciation/amortization accounts. At year end, a roll forward of the PP&E fixed asset and accumulated depreciation/amortization balances is performed.

4. Disposition/Retirements
   a. Retirements. Items identified as "retired" are no longer needed or in use at the Laboratory. Often these items are destroyed or have no residual value and therefore cannot be sold as part of the Laboratory bid and scrap sale processes.
   b. Trade-ins. Items identified as "trade-ins" occur when Laboratory-owned property is accepted as partial payment for the purchase of a new asset. Trade-ins require coordination of two transactions: (1) the disposition of the owned asset and (2) the acquisition and capitalization of the new asset. The division must work with Procurement to facilitate the trade-in transaction. The Exchange Notification Form is used to facilitate communication and appropriate accounting for the transaction between the division, Procurement, Property Management, and General Accounting.
   c. Sales. Items identified as "sales" are sold through the Facilities bid, scrap, and online sales processes.
   d. Transfers Out. As an integrated contractor, the Laboratory participates in the federal excess property process. GSA Standard Form (SF) 122 — Transfer Order — Excess Personal Property is used to facilitate transfer of federal excess property from one federal entity to another. Property Management prepares the SF 122 when Berkeley Lab is transferring property to another federal site, including other management and operating contractors.
   e. Accounting for Disposition/Retirement Transactions. Based on actions taken in Property Management to dispose of or retire Laboratory property, the Laboratory’s Sunflower Finance module generates the Final Event Report. The Final Event Report is considered the definitive source of information related to retirements, sales, trade-ins, and transfers out. The report includes fixed assets determined to be no longer needed, usable, or serviceable, or that no longer belong to the Laboratory.
      i. When disposition of a capital item on the Final Event Report occurs:
         1. The related fixed asset is retired from the subsidiary PP&E ledger and removed from the Laboratory's balance sheet.
         2. The item is removed from the Final Event Report.
            a. For further information on the disposition and retirement process, see Controller's Office — Desk Guide: PP&E Final Event.

5. Bulk/Aggregate Acquisitions: The Laboratory will capitalize the cost of Bulk/Aggregate Acquisitions if those acquisitions have an anticipated service life of two years or more and specific costs meet the capitalization threshold of $500,000.
   a. Bulk Acquisitions are similar assets with related purpose/utility that meet the capitalization criteria.
   b. Aggregate Acquisitions are dissimilar assets with related purpose/utility that meet the capitalization criteria.
   c. For further information on this process, see the Decision Tree for Bulk/Aggregate Purchases in Section 6.

- construction work-in-process (CWIP)
- internal use software (IUS), and
- bulk/aggregate purchases.
E. Roles and Responsibilities

<table>
<thead>
<tr>
<th>Role</th>
<th>Responsibility</th>
</tr>
</thead>
</table>
| Division Resource Analyst | • Project initiation  
  • Ensures appropriate funding is available to fund the project  
  • Establishes a project ID and completes a Plant and Capital Equipment (PACE) Life Cycle Form “new project”  
  • Project monitoring  
  • Project closeout  
  • When the project is completed and asset(s) have been placed in service, closes the project ID in FMS. For construction, equipment fabrication, and IUS projects, submits a completed (close) PACE Form with the final project costs to General Accounting Property Accounting  
  • Bulk/Aggregate Purchase  
  • Submits an open PACE form upon notification from General Accounting of Bulk/Aggregate Purchase |

![Decision Tree for Bulk/Aggregate Purchases](image-url)
General Accounting Property Accountant

- Project initiation
  - Verifies PACE Form data and coordinate with Budget Office to "open" the project
- CWIP/SWIP monitoring
- Capitalization
  - Verifies costs of closed CWIP/SWIP projects with completed PACE Form, as appropriate
  - Submits electronic notification to Property Manages asset tagging, as needed
  - Capitalizes asset
  - Reconciles fixed asset accounts
- Retirement/Disposition
  - Monitors the Final Event Report and take appropriate action
- Bulk/Aggregate Purchase
  - Receives notifications from Procurement of potential bulk/aggregate POs
  - Requests Division to submit open PACE form for bulk/aggregate purchases
  - Tracks, capitalizes, and depreciates bulk/aggregate purchases
  - Works with Property Management to retire bulk/aggregate assets

Budget Office

- Project initiation
  - Validates that funding has been received and is available to cost
  - Changes status to "open" the project

Property Management/Receiving

- Identify and tag fixed assets; document transactions in the Sunflower system
- Dispose of/retire fixed assets in the ledger

Procurement

- Assists in identification of capital lease transactions
- Facilitates trade in transactions and completes Exchange Notification Form
- Bulk/Aggregate Purchases:
  - Completes the decision tree for bulk/aggregate POs
  - Notifies General Accounting of potential bulk/aggregate POs

F. Definitions/Acronyms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Aggregate Acquisitions</td>
<td>Purchases of dissimilar items with related purpose/utility that meet the capitalization criteria</td>
</tr>
<tr>
<td>Betterment</td>
<td>(1) Improvements that result in better quality, higher capacity, or an extended useful life; or (2) work that is required to accommodate regulatory and other requirement changes</td>
</tr>
<tr>
<td>Budget and Reporting (B&amp;R) code classifications</td>
<td>DOE Budget and Reporting classification code. See Budget and Reporting (B&amp;R) Code (Classification) definition in Glossary.</td>
</tr>
<tr>
<td>Bulk Acquisitions</td>
<td>Purchases of similar items with related purpose/utility that meet the capitalization criteria</td>
</tr>
<tr>
<td>Capital equipment</td>
<td>A movable, tangible item of equipment with a value meeting the capitalization threshold</td>
</tr>
<tr>
<td>Capitalization</td>
<td>In accounting, the recording of a fixed asset that allows the related value of the fixed asset (cost) to be allocated or depreciated (expended) over the life of the asset</td>
</tr>
<tr>
<td>Commercial off-the-shelf (COTS)</td>
<td>Software, purchased from a vendor, that is ready with little or no changes</td>
</tr>
<tr>
<td>Construction</td>
<td>The erection, installation, or assembly of a new plant facility. Construction includes equipment installed in and made part of the facility; related site preparation, excavation, filling, landscaping, or other land improvements; and the design of the facility.</td>
</tr>
<tr>
<td>Construction Work in Progress (CWIP)</td>
<td>A general ledger account that captures in-process costs incurred for property, plant, and equipment that complies with accounting standards and capitalization criteria in Chapter 10 of the DOE Financial Management Handbook and DOE PPE Best Practices.</td>
</tr>
<tr>
<td>Contractor-developed software</td>
<td>Software that Berkeley Lab pays a contractor to design, program, install, and implement, including new software and the modification of existing or purchased software</td>
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</table>
Depreciation/(Amortization for IUS)

The allocation of the cost of an asset over the useful service life for accounting purposes.

Fabrication

A tangible, self-constructed asset meeting the capitalization threshold. It must be a unique or custom-built device not available in the open market. To qualify as a fabrication, any modification or improvement of off-the-shelf equipment must be a betterment that significantly increases its value, functionality, or life.

Internal use software (IUS)

Software purchased off the shelf, internally developed, or contractor developed solely to meet the Laboratory's internal or operational needs.

Internally developed software

Software that employees of the entity are actively developing, including new software and existing or purchased software that is being modified with or without a contractor's assistance.

Plant

Land, buildings and improvements, associated infrastructure (e.g., electrical substations, piping systems, roads).

Maintenance and Repair

The act of keeping IUS and other assets in useable condition, including preventative maintenance, normal repairs, the replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide services and achieves its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from or significantly greater than those originally intended.

Software Work in Progress (SWIP)

A general ledger account that captures in-process costs incurred for software that complies with accounting standards and capitalization criteria in Chapter 10 of the DOE Financial Management Handbook and DOE PPE Best Practices.

G. Recordkeeping Requirements

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<tbody>
<tr>
<td>General Accounting</td>
<td>Responsible for maintaining documentation to support (1) the capitalization</td>
</tr>
<tr>
<td></td>
<td>of assets, (2) monthly feeder entries and reconciliation, and (3) retirement</td>
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<tr>
<td></td>
<td>and disposition of assets</td>
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H. Implementing Documents

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<tr>
<th>Document Number</th>
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<tr>
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I. Contact Information

Property Accountant

J. Revision History

<table>
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<tr>
<th>Date</th>
<th>Revision</th>
<th>By whom</th>
<th>Revision Description</th>
<th>Section(s) affected</th>
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<tr>
<td>7/19/2013</td>
<td>0</td>
<td>Rachelle Jeppson</td>
<td>Replaces CWIP and Capital Equipment Fabrication policies</td>
<td>All</td>
<td>Major</td>
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<td>3/6/2014</td>
<td>1</td>
<td>Mary Beedle</td>
<td>Consolidates Internal Use Software policy into PPE policy</td>
<td>Multiple</td>
<td>Major</td>
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<td>11/12/2014</td>
<td>1.1</td>
<td>Mary Beedle</td>
<td>Editorial change</td>
<td>D.2.b.ii</td>
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Document Information

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<td>Policy Area:</td>
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<td>OCFO</td>
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<td>Combination of CWIP and Capital Equipment Fabrications</td>
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Source Requirements Documents

DOE Financial Management Handbook, Chapter 10, Plant and Capital Equipment

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