

The Care and Keeping of Inventory and Fixed Assets

1

**INVENTORY AND FIXED ASSETS
FOR SDA CONFERENCES AND UNIONS**

Ann Gibson, PhD, CPA
Andrews University

Inventory in Nonprofit Organizations

2

Inventory:

Goods and materials that have been purchased, developed, or manufactured for the express purpose of being sold or otherwise transferred to other entities and individuals.

Supplies in Nonprofit Organizations

3

Supplies:

Prepaid expenses that have been purchased specifically for consumption or benefit in the organization's own operations over a period extending beyond the current statement of financial position date.

Internal Control Over Inventory and Supplies

4

Controls at the time of purchase or manufacture.

Controls over storage of the asset.

Controls over the disbursement of the asset.

Controls at the Time of Purchase

5

Purchases of inventory or supplies should be done through the normal purchasing channels of the organization.

Quantities purchased should be directly related to the needs of the organization.

Controls Over the Storage of the Asset

6

Inventory and Supplies should be kept in a secure location.

Access to the asset should be limited to one or two persons.

Periodic counts should be made to ensure that the accounting records agree with the physical count.

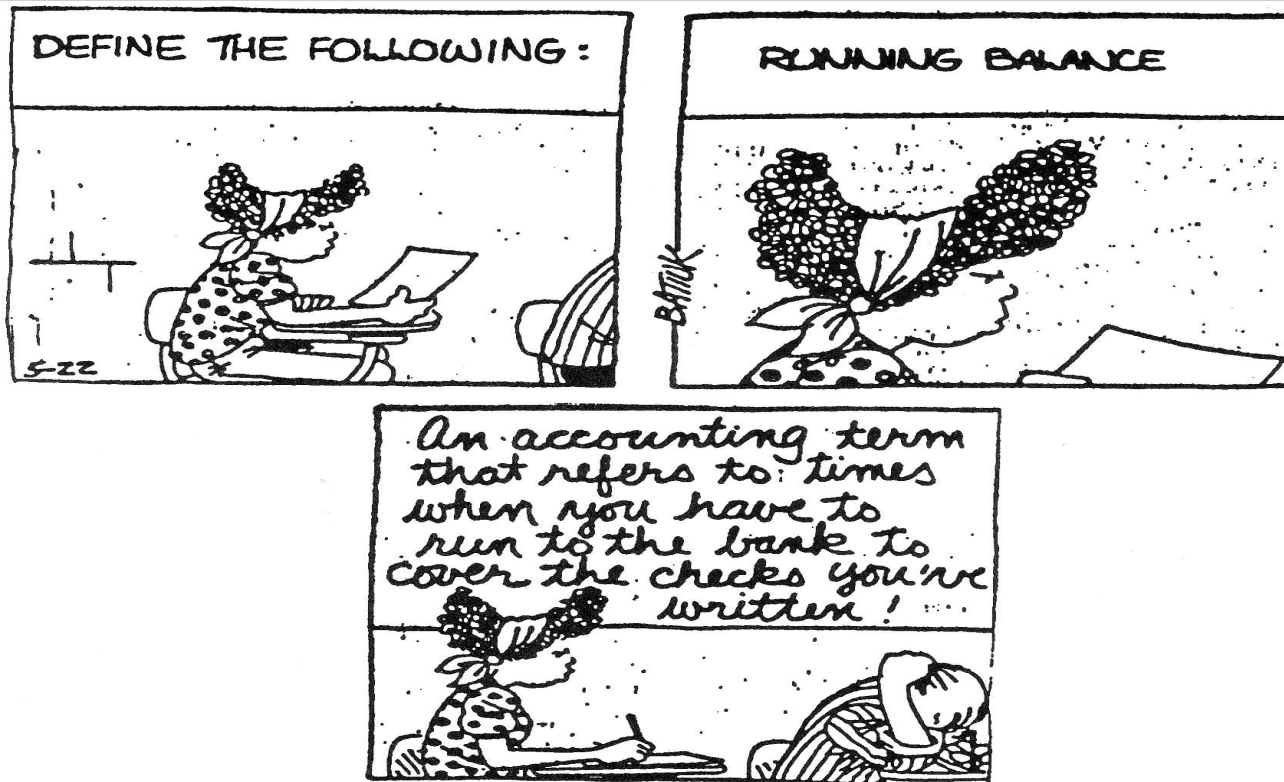
Controls Over the Disbursement of the Asset

7

If the inventory/supply amount is large, documentation will be required for disbursement of the asset.

If the amount is small, monitoring may take the form of a list of supplies disbursed which is maintained in the supply cupboard.

The higher the cost or quantity, the tighter the controls should be.



Fixed Assets in Nonprofit Organizations

9

Property, plant and equipment includes all tangible assets with a service life of more than one year that are used in the operation of the business and are not acquired for the purpose of resale.

Categories of Property, Plant and Equipment

10

- Land
- Land Improvements
- Buildings
- Machinery, Equipment, and Furnishings
- Library Materials
- Natural Resources
- Leased Equipment
- Donated Assets

Land

11

Held in the accounting records at historical cost.

Cost includes cash paid plus costs of acquisition.

Is not depreciated.

Land Improvements

12

Items generally attached to the land but which will deteriorate over time.

Examples: fences, parking lots, sidewalks, exterior lighting, etc.

Depreciate over useful life.

Buildings

13

Held in the accounting records at historical cost.

Cost includes cash paid plus costs of acquisition.

Depreciate over useful life.

Interest paid or accrued during construction should be added to the cost of the building.

Machinery, Equipment, Furnishings

14

Held in the accounting records at historical cost.

Cost of machinery and equipment includes amounts paid for installation and testing prior to initial use.

These assets are generally identified in a subsidiary ledger rather than in separate accounts in the general ledger.

Depreciate over useful life.

Library Materials

15

Includes books, tapes, discs, subscriptions, special collections, microfilm, etc.

Depreciation methods vary depending on the stability of the collection.

Special collections of historical value and works of art are not generally depreciated.

Natural Resources

16

Subject to depletion as the natural resources are extracted or removed.

Examples: oil wells, coal mines, timber tracts.

Leased Buildings or Equipment

17

Assets acquired under capital lease must be accounted for as an installment purchase.

For assets acquired under an operating lease, immediately expense the lease payments as incurred.

Donated Assets

18

Any assets donated are recorded at their fair market value at the date of acquisition.

Assets should be depreciated over useful life.

Internal Control Over PPE

19

Point of Purchase:

- Approval for large purchases of PPE must be given by the Board. A capital budget may be prepared annually for Board approval.
- Approval for smaller purchases may reside with the CFO. Organizational policies set the dollar amount.

Internal Control Over PPE

20

Point of Purchase Continued:

- Organizational policies should distinguish between capital expenditures and revenue expenditures.
- This is generally done through establishing a dollar amount over which all items are capitalized.

Internal Control Over PPE

21

Point of Delivery or Installation:

A second senior employee should review purchase transactions after delivery or installation to ensure that the product ordered was actually the product delivered or installed.

Internal Control Over PPE

22

During the Life of the Asset:

Accurate records are required for insurance and accounting purposes.

For insurance purposes, consider taking pictures.

For accounting purposes, a subsidiary ledger should be maintained.

Internal Control Over PPE

23

The subsidiary ledger account for each asset should include the following information:

- Basic description of item; historical cost
- Date of purchase
- Estimated useful life
- Annual depreciation rate
- Accumulated depreciation
- Identifying feature (e.g., asset inventory tag number)

Internal Control Over PPE

24

The subsidiary ledger should be reconciled regularly with the general ledger control account.

Periodic physical inventories should be taken to verify the existence, location, and condition of all property listed in the accounts. SDAAM recommends every 3 years.

Internal Control Over PPE

25

Legal documents should be on file to support the organization's ownership of purchased assets.

For leased assets, lease documents should be held in the organization's files.

Internal Control Over PPE

26

Point of Retirement:

Procedures needed to identify what body can authorize the retirement of PPE.

Procedures should be in place to ensure that the asset and its accumulated depreciation are removed from the accounting records.

Internal Control Over PPE

27

Point of Retirement Continued:

Cash received from the disposal of property, plant and equipment should be subject to normal receipting procedures.

Asset exchanges should be subject to normal accounting and management controls.

Assets and Technological Changes

28

Special Considerations with Technology:

- Equipment quickly loses its value
- Equipment may not be “fixed” in location
- Insurance on “traveling” equipment is a special challenge
- The information on the equipment may be more valuable than the equipment. What are the organization’s back-up procedures?

Sample Fixed Asset Policy

29

Purpose:

To define guidelines for the capitalization of purchases of land, buildings, land improvements, infrastructure, equipment and library materials.

Policy Statement:

Fixed assets consist of all capitalized assets which are expected to be useful for more than one year and cost \$5,000 or more.

Sample Fixed Asset Policy

30

Procedure:

Land includes all land owned by the University, either purchased or donated, and used, rented, or held for investment.

Buildings include all buildings owned by the University, either purchased or donated, and any building improvements costing \$25,000 or more. This includes buildings used, rented, or held for investment.

Sample Fixed Asset Policy

31

Land Improvements include all improvements to land owned by the University costing more than \$25,000. Land improvements include parking lots, athletic fields, plazas and gardens.

Infrastructure includes all items of campus systems improvements owned by the University costing more than \$10,000. Infrastructure items include roadways, sidewalks, passages, and utilities including steam tunnels, sewer systems, etc.

Sample Fixed Asset Policy

32

Equipment is defined as any movable property i.e., machinery, vehicles, computers and furniture costing at least \$5,000 that is not a replacement part. Component items that form one working equipment system are combined for capitalization purposes. A “system” definition applies to computer configurations, AV equipment and scientific or manufacturing equipment. Additions to equipment that become either component parts or permanently connected to existing equipment items are also defined as equipment and should be capitalized, regardless of cost.

Sample Fixed Asset Policy

33

Each item of equipment acquired will be assigned a serially numbered University of Northern Iowa tag affixed to the equipment and marked “University of Northern Iowa Property.”

Library Materials include books, tapes, discs, subscriptions, special collections, binding, and microfilm that are added to the general collection. Costs are accumulated on an annual basis.

Sample Fixed Asset Policy

34

Equipment Inventory:

Annually, all equipment having University property numbers must be inventoried, in accordance with Iowa Code. Department heads are responsible for conducting an inventory of all taggable equipment regardless of acquisition method (purchase, transfer, donation). The individual making the physical inventory should identify items that are missing or were sold, traded-in, discarded, or transferred to other departments.

Sample Fixed Asset Policy

35

Depreciation:

All fixed assets are depreciated on a straight-line basis using estimated useful lives as follows:

Buildings	40-50 years
Land Improvements	20-30 years
Infrastructure	20-40 years
Equipment	5-20 years
Vehicles	7-10 years
Library Materials	10 years

Sample Fixed Asset Policy

36

The University does not capitalize works of art, historical treasures, or computer software purchased by licensure usage.

Office of Business Operations
President's Cabinet Approved
University of Northern Iowa

Questions?