



Quality Assurance Work Instruction

GSD-00-3001-07

Approved:

Date: 27 September 2006

Title: Capital Equipment

REV
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1.0 POLICY/PURPOSE

Santa Barbara Applied Research, Inc. (SBAR) prepares, evaluates, and maintains complete financial records of the company's business activities. The purpose of this work instruction (WI) is to document how SBAR conducts the purchase of capital equipment.

2.0 SCOPE

This WI applies to all Santa Barbara Applied Research, Inc. business units.

3.0 REFERENCES AND DEFINITIONS

3.1 References

- AICPA 1970. "Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises," APB Statement No. 4.
- CP-00-4000 Purchasing Procedure

3.2 Definitions

Capitalization Threshold and Life. The following guidelines are to be used when purchasing Office or Computer Equipment, Software, Automobiles, and Other Equipment. The following are general guidelines for depreciation; however, in all instances the expected useful Life of the Asset will determine the Life for Depreciation purposes.

- Computer Equipment \$1000 Life 3 Years
- Computer Software \$1000 Life 3 Years
- Office Equipment \$1000 Life 7 to 10 Years
- Automobiles Term of Purchase Contract

Capital Equipment Fixed assets both plant and equipment that are acquired by the company and depreciated over their useful life.

Fixed Assets (Plant and Equipment). Fixed assets are assets that are used in the production or sale of other assets or services and that have a useful life longer than one accounting period. A fixed asset contributes to the production or sale for several periods, and as a result of the *Matching Principle*, its cost must be allocated to these periods in a systematic and rational manner.

Depreciation. When an plant asset is purchased, in effect a quantity of usefulness that will contribute to production throughout the life of the asset is acquired. However, since the life of



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any plant asset (other than land) is limited, this quantity of usefulness is also limited and will in effect be consumed by the end of the asset's service life. Consequently, the depreciation, as the term is used in accounting, is nothing more than the expiration of an asset's quantity of usefulness, and the recording of depreciation is a process of allocating and charging the cost of this usefulness to the accounting periods that benefit from the asset's use. The depreciation method to be used is the Modified Straight Line Method. This method allocates 1/2 a year depreciation in the first and last years, and with a full years depreciation allocated for remaining balance (years).

Salvage Value. When a fixed asset has a salvage value, the cost of its quantity of usefulness is the asset's cost minus its salvage value. The Salvage Value of a fixed asset is the portion of its cost that is recovered at the end of its service life.

4.0 RESPONSIBILITIES

4.1 President or Director of Finance

Approves all major capital equipment requirements.

4.2 Area Managers

Verifies the need for equipment and approves all capital equipment requests issued by managers and supervisors under their direct supervision.

4.3 Functional Area Managers

Issues a [Form CP-4000-A Purchase Requisition](#) or [Form CP-00-4000-B Purchase Order](#) for all capital equipment that is acquired for company use and depreciated as a company asset.

4.4 Buyers and Purchasing Personnel

Acquire all capital equipment only after the receipt of an approved Purchase Requisition or Purchase Order.

4.5 Accounting Manager

The Accounting Manager is responsible for ensuring that no capital equipment is purchased and paid for without an approved Purchase Requisition or Purchase Order and the accounting records relating to the equipment are maintained in accordance with this instruction and Generally Accepted Accounting Principles.

Accounting Manager is responsible for Lease (Capitalize) or Buy (Expense) decisions.



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5.0 REQUIREMENTS/PROCEDURES

Figure 1 presents the process for the review, coordination and approval of SBAR capital equipment requests. This process is discussed below.

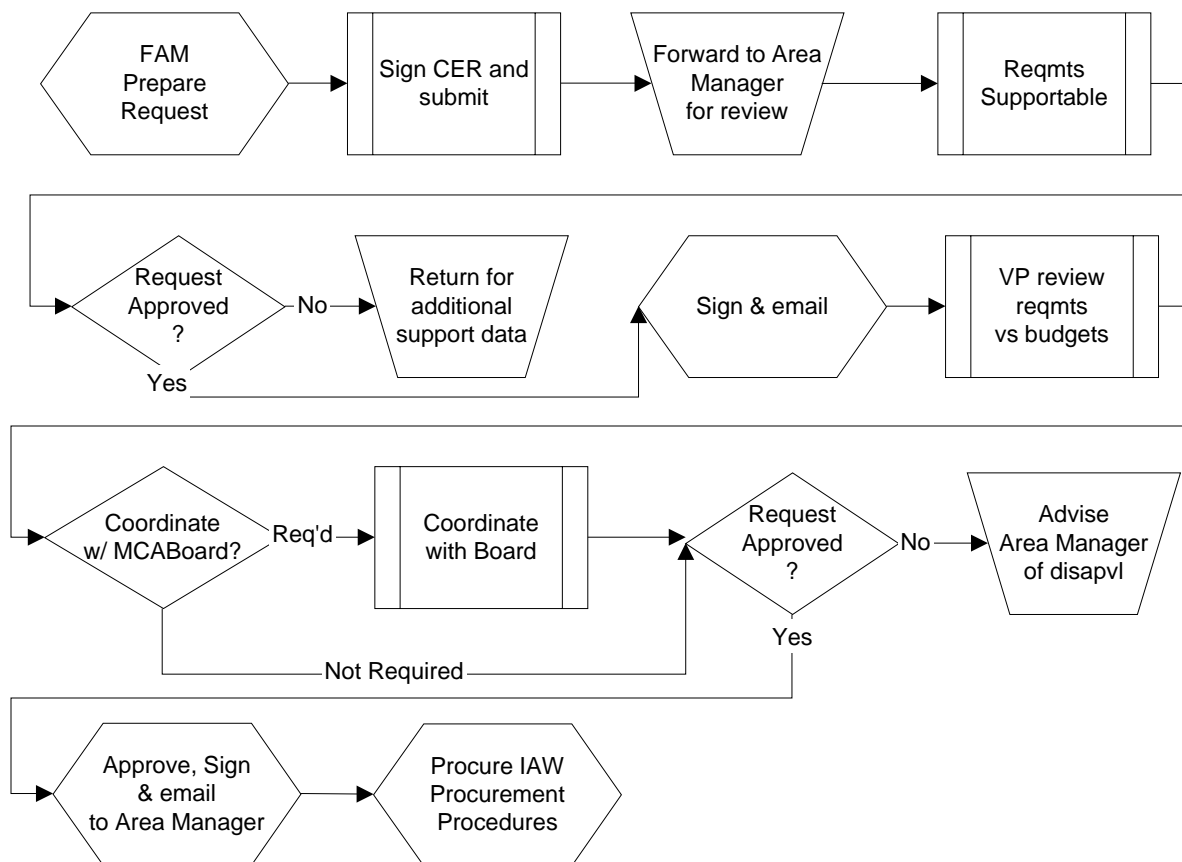


Figure 1- Capital Equipment Approval Process



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5.1 Purchase Order Preparation

The FAM documents the need for capital equipment on the Purchase Order Form. Each request contains a complete definition of the requirement including the following:

- Type of request
- Requesting Department
- Criticality
- Description, quantity and cost of equipment
- Sources of equipment
- Detailed Justification for the need

Each Area General Manager designates an individual to maintain a log of all requests issues for his/her organization. The log contains at minimum the following information:

- Purchase Order Number – Numbers will be sequentially assigned.
- Date required
- Description
- Total Cost

5.1.1 Guidelines for Lease versus Purchase

The following guidelines are to be used in determining whether equipment should be leased or purchased. As a general rule,

- All software is purchased.
- Computers and printers are purchased.
- Office equipment such as reproduction equipment is leased.
- Office furniture is purchased.
- Vehicles should be considered for lease.
- Equipment or Material purchased to be used and delivered as part of a Task are to be charged to the appropriate Job or Task.
- However, leases are to be considered when the required equipment is used on a specific contract; and the usable life (see Capitalization Threshold and Life, Paragraph 3.2) of the equipment extends beyond the term of contract for which it is purchased.



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- Long-term facility and vehicles leases are negotiated to coincide with period of performance of the government contract, for which the facility or vehicle is leased.
- Leasehold improvements should, to the maximum extent, be negotiated into the monthly lease cost.

5.2 Review of Equipment Requests

5.2.1 Area Manager Review

All requests will be reviewed by the appropriate Area General Manager to ensure that the criticality is properly designated, requirements are clearly defined, properly justified and the guidelines of Paragraph 5.1.1 were properly considered.

5.2.2 Division Review

All equipment requests approved by the Area General Managers are forwarded to the president for consideration. The president reviews the requirements and based upon the requirement, criticality and justification.

Approved Purchase Requisition or Purchase Order are signed by the president and returned to the Area General Manager for processing and acquisition.

5.3 Procurement of Capital Equipment

All capital equipment that is leased or purchased is competitively acquired in accordance with the Purchasing Procedure, [CP-00-4000](#).

5.4 Records

A copy of the approved Purchase Requisition/Order is retained with the invoice in Accounting Department's Capital Equipment files.

5.5 Accounting of Depreciation Expense

Depreciation of the equipment is charged to the appropriate indirect pool of the department for which the equipment resides.

In the event the equipment is assigned to a different department, a memo is prepared to document the transfer of the equipment. The department owning the equipment issues the memo showing where the equipment is being transferred. The receiving department initials the memo to acknowledge acceptance, and forwards the memo to the Accounting Department. The accounting Department then adjusts the accounting records to transfer any remaining depreciation to the new custodian and user of the equipment.



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PREPARATION, REVIEW, AND APPROVAL OFFICIALS

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