



# Fabricated Capital Equipment Procedure

Procedure #: 110.4

Rev.: 0

Effective Date: January 1, 2017

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**Related Policy:** [Capital Equipment Policy](#)

**Functional Owner:** Property Control, Business Services

**Contact:** Property Control Manager: (608) 890-3131  
Property Control Mailbox: [Property@bussvc.wisc.edu](mailto:Property@bussvc.wisc.edu)

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### I. Procedure Statement

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Some departments internally fabricate custom pieces of equipment. When fabricating an equipment item with aggregate costs of \$5,000 or more and that meets the definition of capital equipment, UW-Madison departments must code component parts and direct labor purchases to the 4670 (Fabrication in Progress) account in the [UW System Chart of Accounts](#). In order to correctly assign purchases to an in progress fabrication, an Asset ID number must be created by completing [Form 110.4F Capital Equipment Fabrication Request](#) and using the assigned Asset ID number for all qualifying purchases. Property Control routinely reviews purchases and will contact departments to gather more information before establishing inventory records.

### II. Who is affected by this Procedure

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This procedure applies to all UW-Madison departments that fabricate equipment, which may require the completion of the fabrication and ability to initiate the use of the capital equipment over a period of time. The period of time can range from weeks to years, depending on the complexity of the capital equipment being fabricated. It should be understood by Procurement Specialists, DPAs, Department Chairs, Department Managers, Directors, Deans, CFOs, department financial staff and employees responsible for fabricating equipment.

### III. Procedure

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The following steps represent the overall process:

1. The employee responsible for fabricating a new piece of equipment expected to cost \$5,000 or more should contact their DPA to confirm the anticipated equipment will meet the definition of capital equipment, and obtain an Asset ID number by working with the DPA to complete Form 110.4F Capital Equipment Fabrication Request.
2. The DPA sends the form to Property Control for review. Property Control reviews the submission and confirms title requirements.
  - a. If title is vested with a sponsor, Property Control will notify the Department and DPA.
  - b. If the fabrication is to be paid for with a sponsored award, Property Control will route the request to Research and Sponsored Programs (RSP) for additional review.
3. After the completed Form 110.4F Capital Equipment Fabrication Request is received, Property Control will establish an inventory record, assign an Asset ID number, and notify the responsible employee, DPA, department financial personnel, and RSP. **Although an Asset ID number will be established for fabricated equipment, Property Control will not assign or mail a physical tag at this time.**
4. During fabrication, department financial staff must code components and direct labor to the 4670 account in the UW System Chart of Accounts and always reference the Asset ID number. All qualified components or direct labor should be coded to 4670, regardless of cost. 4670 is the only capital purchase account for which it is permissible to code single item purchases less than \$5,000. The cost of replacement/spare parts for the equipment should not be coded to 4670 as these items are considered repair or maintenance expenses.
5. Property Control reviews 4670 purchases at the end of each month. Property Control attempts to find the referenced Asset ID number and accumulate costs on the inventory record. The following is where Property Control will look to find the Asset ID number:
  - a. Purchase Order: In the requisition comments field in the External Requisition Generator, which feeds into BusPO.
  - b. P-Card: The current Purchasing Card Capital Equipment Documentation Form. This form generates an email to the Property Control inbox ([property@bussvc.wisc.edu](mailto:property@bussvc.wisc.edu)).
  - c. Cost Transfer Tool: The comments field in the Cost Transfer Tool.
6. If Property Control cannot find the Asset ID number, they will ask department financial personnel to provide this.
7. Property Control examines 4670 purchases to ensure they meet four criteria:
  - a. Items are fabricated over a period of time, which can range from weeks to years.
  - b. Component parts must be attached to, or internal to the completed fabrication and essential for the equipment's operation (i.e. if the component is removed, the equipment will not operate correctly). Replacement/spare parts cannot be capitalized, they must be expensed. Generally, software is not capitalized, but software can be considered a capital component if it serves as the operating system for the fabricated equipment.

- c. Direct labor must be hands-on assembly labor and traceable to the equipment (e.g. Physical Sciences Lab). Direct labor would not include expenses such as design, salaries, or personnel expense, as these would normally be considered part of indirect costs.
- d. For electronic systems, component parts must be attached in a manner of dependency integral to the functional operation of the fabrication. Interchangeable component parts purchased during the fabrication period will not be disconnected from the electronic system and/or used in a similar manner with another system. The component parts will be used in the same electronic system for the entire duration of the system's life.

These criteria are in place to ensure that fabricated items are properly accounted for, can subsequently be located, and valuations can be adequately supported. Please contact the Property Control Office if you have any questions or may have an exception to the criteria listed above. Otherwise, if Property Control thinks a purchase does not meet criteria, they will contact the DPA and department financial personnel to investigate. If it is determined that it isn't a qualifying purchase, Property Control will complete a journal entry to reassign the purchase to an appropriate account.

- 8. Because fabrications do not begin to depreciate until completion, they can be at risk for impairment if they are not completed on schedule. To mitigate this risk, Property Control will request, once per year, that DPAs with fabrications open past their estimated completion date contact the responsible employee for the fabrication to confirm in writing that the equipment is still not in use and no impairment has occurred. The responsible employee should also provide a revised estimate of the date the fabricated equipment will be ready to put into initial use.
- 9. When the fabricated asset is ready to be placed into initial service, the employee responsible for the fabricated equipment must notify their DPA, who will inform Property Control in writing.
- 10. Property Control will aggregate all costs during the fabrication period to establish the value of the capital equipment, and change its status to "in-service", which will start depreciation. Property Control will also assign and mail an appropriate asset barcode tag (red or blue) to the DPA.
- 11. Follow [Procedure 110.1 Recording and Tagging Capital Equipment Purchases](#) after corresponding step #4.
- 12. After the fabricated asset is placed into initial service, further purchases cannot be coded for capitalization unless the purchases meet the criteria for a qualified upgrade to an existing equipment item. Qualified upgrades may be fabricated or an item costing \$5,000 or more. A fabricated upgrade requires a new Asset ID number to correctly capture upgrade costs (refer to [Procedure 110.5 Upgrades to Existing Capital Equipment](#)).

#### IV. Contact Roles and Responsibilities

	Dept Fin Staff	Responsible Employee	DPA	RSP	Property Control
<b>Fabricated Capital Equipment</b>					
1) Complete and sign Fabrication Request Form and send it to Property Control, who will review submission and confirm title requirements.		X	X		
2) Fabrication Request Form is reviewed to confirm title requirements.				X	X
3) Inventory record established, Asset ID number assigned, responsible employee, DPA, department financial personnel, and RSP are informed.					X
4) Code components and direct labor to 4670, referencing the Asset ID number.	X				
5) Review 4670 account activity and accumulate cost on the inventory record.					X
6) If necessary, ask department financial personnel for the Asset ID number.					X
7) If 4670 purchases do not appear to meet criteria, investigate with department financial personnel. If confirmed invalid, complete journal entry to reassign to another account.					X
8) Annually, follow up with DPA if a fabrication is open past its estimated completion date.					X
9) When fabricated asset is ready to be placed into service, notification sent to DPA, who will notify Property Control		X	X		
10) Aggregate all fabrication costs, capitalize equipment and start depreciation by changing system status to "in-service". Assign and mail asset barcode tag to the DPA.					X
11) Affix asset barcode tag per Procedure 110.1.			X		
12) After equipment placed into initial use, disallow future code 4670 purchases (except qualified upgrades that cost more than \$5,000).	X				X

#### V. Definitions

- [Capital Equipment Definitions](#)

## VI. Related References

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- [UW System Chart of Accounts](#)
- [Form 110.4F Capital Equipment Fabrication Request](#)
- [Procedure 110.1 Recording and Tagging Capital Equipment Purchases](#)
- [Procedure 110.5 Upgrades to Existing Capital Equipment](#)

## VII. Revisions

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Procedure Number	110.4
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