

# MS 711 Accounting for Property, Plant, and Equipment

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## 1.0 Authorities

Accountability of Tax Dollars Act (ATDA) of 2002 (PL 107-289, November 7, 2002); Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, as revised; OMB Memorandum, Requirements of the Accountability of Tax Dollars Act, December 6, 2002; Statement of Federal Financial Accounting Standards (SFFAS) No. 6, Accounting for Property, Plant and Equipment, June 1996; and SFFAS No.10, Accounting for Internal Use Software, June 1998.

## 2.0 Purpose

This Manual Section addresses financial accounting concepts, responsibilities, and internal controls in governing the recording, accounting, controlling and reporting of Peace Corps

capitalized property, plants and equipment (PP&E). This Manual Section supplements, but does not replace, the property and vehicle management requirements contained in MS 511 *Property Management* and MS 527 *Vehicle Acquisition, Disposal, and Management*. Procedures implementing this Manual Section are found in the *Domestic Financial Management Handbook* (DFMH), Chapter 22.0 Property, Plant, and Equipment (PP&E) Reporting and in the *Overseas Financial Management Handbook* (OFMH), Chapter 41.0 Property, Plant, and Equipment (PP&E) – Financial Reporting. Changes to these handbooks are subject to approval by the Financial Operation Council (FINOPS).

### 3.0 Definitions

An accounting term not defined in this Manual Section shall have the meaning given in promulgations by the Federal Accounting Standards Advisory Board (FASAB). As used in this Manual Section, the terms set forth below have the following meanings and:

- (a) **Acquisition Cost** is the cost incurred to bring the asset to a condition and location suitable for its intended use. For PP&E acquired by the Peace Corps, it includes not only its purchase price, but also any transportation charges, handling and storage costs, and installation expenses, to include travel and labor, necessary to place an asset in service. These other incurred costs to place an asset in service are also known as Other Direct Costs (ODC). Acquisition cost may be used interchangeable with *Capitalization Value* or *Historical Cost*.
- (b) **Aggregate Purchase** means the purchase of multiple items to satisfy a single objective. Examples are the purchase of furniture and furnishings for a residence or office. These items will be capitalized if their aggregate value for a single site exceeds the aggregate capitalization threshold.
- (c) **Amortization** or (**Straight-Line Depreciation**) means the method of depreciation (or amortization) used by the Peace Corps. Depreciation under this method is calculated as:  $(\text{Capitalization Value} - \text{Estimated Salvage Value}) / \text{Estimated Life} = \text{Annual Depreciation (or Amortization) Expense}$ .
- (d) **Asset Category** (also referred to as **PP&E category**), means the classification grouping of assets (and their associated depreciation/amortization). Peace Corps has nine (9) categories: (a) Land, (b) Buildings, (3) Construction-In-Progress, (4) Leasehold Improvements, (5) General Property, Plant, and Equipment, (6) Vehicles, (7) IT Hardware, (8) Internal-Use Software in Development, and (9) Internal-Use Software.
- (e) **Asset Management Office** pertains to one of the Headquarters offices, such as the Office of Management, Administrative Services (M/AS) or the Office of the Chief Information Officer (OCIO) assigned to manage and oversee an asset category. The Asset Management Office is also responsible for establishing the office-specific internal policies and procedures for the asset category it oversees and manages.
- (f) **Capital Lease** means a lease that transfers substantially all the benefits and risks of ownership to the lessee. A lease is required to be funded and accounted for as a capital

lease if it meets one or more of the following criteria at its inception: it transfers ownership of the property to the lessee by the end of the lease term; it contains an option to purchase the leased property at a bargain price; the lease term is at least 75% of the estimated life of the leased property; or the present value of rental payments is at least 90% of the fair value of the rental property.

- (g) **Capitalization** is an accounting treatment of recording and carrying forward the cost or expense of an asset over an extended period of time. Capitalization of assets results in recognizing an expense, such as depreciation or amortization, over the useful life of an asset by matching the benefit gained from the use of the asset with an associated cost.
- (h) **Capital Asset** or (**PP&E**) refers to a tangible, long-lived assets that (1) have an estimated useful life of two or more years; (2) meet or exceed Peace Corps capitalization threshold; (3) are not intended for sale in the ordinary course of business; (4) are intended to be used by Peace Corps; and (5) have the acquisition cost charged, over the asset's useful life, to expense through depreciation (or amortization). If applicable, capital assets also include leasehold improvements, assets acquired through capital leases, and property owned by the Peace Corps in the hands of others (e.g., contractor, other agency). In this Manual Section, capital asset is also referred to as "PP&E."
- (i) **Capitalization Threshold** is a specific criteria for an asset as set forth by the Peace Corps, or the minimum value of a PP&E item or an aggregate purchase that qualifies an item for capitalization.
- (j) **Construction-in-Progress (CIP)** is the accounting term that refers to the temporary classification of assets that are being built/assembled before placed in service. Peace Corps tracks these costs in a special "construction in progress" general ledger account until the assets are complete and ready to be placed in service. Depending on the size of the project, CIP can be accounted for on the books of the Peace Corps for several years until the asset is ready to be placed in service.
- (k) **Depreciation** or (**Amortization**) means the expensing of the capitalized asset over its estimated useful life (i.e., economic life).
- (l) **Economic Life** means the estimated useful life of a PP&E item.
- (m) **Internal-Use Software** means software that is either purchased or internally-developed by Peace Corps. The two types of Internal-Use Software are: (1) Commercially-Off-The-Shelf software purchased from a vendor that is ready for use with little or no changes; and (2) software that is internally developed by Peace Corps employees with or without the assistance of contractors.
- (n) **Internal-Use Software, In Development** means software that is internally created within the Peace Corps for use of the agency. Costs incurred during the development phase for internal use software is tracked in the "in-development" account. Accumulated costs for software are transferred from the "in-development" account into the Internal-Use Software, until the software development is complete and ready to be placed in service.

- (o) **Leasehold Improvements** refers to any construction costs (e.g., alter, renovate, add, or remodel) incurred for a leased property (e.g., building an extension to an existing or new office or making an improvement for added security to an existing residence). And, upon termination of the lease, the improvements are reverted back to the property owner (or lessor). Cost for leasehold improvements are tracked and recorded in the “Construction-In-Progress” account until project completion date. Upon completion, all costs incurred are capitalized as Leasehold Improvement. Once capitalized, the Leasehold Improvement is depreciated over the remaining period of occupancy of the leased property.
- (p) **Net Book Value** means the recorded value of a capitalized asset less its accumulated depreciation.
- (q) **Property, Plant and Equipment (PP&E)** has the same meaning as Capital Asset.
- (r) **Property Account Holder (PAH)** means the head of the organization that has physical control of the property and is ultimately responsible (and accountable) for all Peace Corps property within his or her office (Country Director, Regional Manager, or headquarters office manager). For additional information on PAH, refer to MS 511.
- (s) **Real Property** means property consisting of land and anything permanently attached to the land (e.g., buildings) or grown on the land. If real property is acquired or given to Peace Corps in a form of a donation, the real property (i.e. Land and anything attached to is, such as Building), shall be capitalized at its current market value at time of exchange.
- (t) **Salvage Value** means the estimated value of the PP&E at the end of its estimated useful life.

## 4.0 Policies

A capital asset acquired by the Peace Corps that (i) has a useful life of two years or more, (ii) is not intended for sale in the ordinary course of business, and (iii) is intended to be used by the Peace Corps, is to be capitalized if the asset meets or exceeds the capitalization threshold set forth by the Peace Corps. Capitalized assets, less its estimated salvage value (if applicable), are depreciated over two to 15 years depending on its economic or useful life, with the exception of real property.

### 4.1 Financial Statements

The Peace Corps shall report on the complete and accurate value of its capitalized assets in its quarterly financial statements in accordance with generally accepted accounting principles as promulgated by the FASAB, in addition to other Federal guidance and regulations.

### 4.2 Capitalization Thresholds

Capitalization thresholds are determined by the Chief Financial Officer (CFO) for each asset category based on their materiality. Established thresholds can be found in the procedural handbooks, DFMH and OFMH.

### **4.3 Capitalization and Depreciation**

PP&E are recognized at the time the asset is received and placed in service by the agency. PP&E is valued at its acquisition cost, except for vehicles which are capitalized at its acquisition cost, less the salvage value determined by the CFO. Depreciation (amortization) is recorded, at least quarterly, based on a straight-line depreciation method for all capitalized assets, with the exception of Land and those still in progress, such as Construction-In-Progress and Internal-Use Software in Development.

### **4.4 Economic Life**

The estimated economic life for each asset category is determined by CFO in consultation with the Asset Management Office for that asset category. The range of the established useful lives for each asset category is set forth in the appropriate procedural handbooks, DFMH and OFMH.

### **4.5 Asset Categories**

PP&E are reported on the face of the financial statement at its consolidated net book value, however, the accompanying footnote and the accounting records separate capital assets into the following nine categories: (1) Land, (2) Buildings, (3) Construction in Progress (CIP), (4) General Property, Plant, and Equipment (e.g., office equipment and furniture, residential equipment and furniture, and generators), (5) Vehicles, (6) Information Technology (IT) Hardware (including telecommunication equipment), (7) Leasehold Improvements, (8) Internal-Use-Software in Development, and (9) Internal-Use Software.

### **4.6 Records Retention**

The Peace Corps shall maintain complete and accurate records for all active assets. Records for PP&E that have been removed from service, due to theft, loss, damage, or sale shall be maintained in accordance with MS 892 *Records Management* (see also Guide to Peace Corps Records Schedules for Posts). [\[LINK\]](#)

### **4.7 Internal Controls**

Periodic reconciliation and internal controls for the recording, reporting, and safeguarding of PP&E shall be performed, on a rolling basis to ensure compliance of policies established within this Manual Section.

## **5.0 Responsibilities**

While the primary responsibility for the accounting and reporting for PP&E belongs to the CFO, offices designated as Asset Management Offices (the Headquarters office assigned to manage and oversee an asset category), and PAH (the activity/office having physical control of the asset) are critical contributors in this effort. The Asset Management Offices are M/AS (for Land, Buildings, Leasehold Improvements, and Vehicles) and OCIO (for IT Hardware and Internal-Use Software), while the Peace Corps PAHs are the Country Directors at Posts and the Regional

Managers at Regional Recruiting Offices (RROs). For capital assets located at Headquarters, the PAH is a designated person in either M/AS or OCIO.

### **5.1 Office of the Chief Financial Officer**

- (a) Establishes financial standards for the proper accounting of capitalized assets.
- (b) Responsible for the accurate and complete reporting of PP&E in the Peace Corps financial statements in accordance with Federal accounting standards and U.S. Treasury reporting timelines.
- (c) Records transactional events (acquisition, transfers, and disposals) for PP&E in the financial management system in a timely manner (i.e. quarterly basis) Accrue, at least quarterly, the Peace Corps calculated depreciation (or amortization) expense for PP&E, in addition to recognizing gains or losses due to theft, loss, or disposal through sale, donation, transfer, or destruction.
- (d) Performs periodic reconciliation of PP&E balances as recorded in the financial management; establishes internal control checklist for PP&E and performs periodic independent internal control testing of PP&E and its supporting documentation.
- (e) Ensures that inventoried items recorded in the Property Management Software System (PMSS) that meet the capitalization threshold are capitalized and accounted for in the financial management system.
- (f) Acts as the official record keeper of all capitalized assets and maintains the documentation to support additions, transfers, and disposals as they are recorded in the financial system.
- (g) Serves as the focal point for external audits for PP&E.

### **5.2 Office of Management**

- (a) Designated as the Asset Management Office for managing and overseeing land, buildings, vehicles, leasehold improvements, and other PP&E; establishes property and records management standards, which will facilitate the accurate and complete reporting of assets for land, buildings, vehicles, leasehold improvements, and other PP&E.
- (b) Monitors and provides capital asset activity information to CFO when updates, such as additions, transfers, and disposals occur for land, buildings, vehicles and other PP&E.
- (c) Provides reports to CFO on expenses incurred for leasehold improvements for capital improvements located at Headquarters and RROs.
- (d) Certifies that PP&E data it must submit to CFO is complete and includes the necessary supporting documentation for accurate recordation in the financial system.

- (e) Provide capital asset information to the CFO quarterly or within specified due dates as required for financial statement reporting purposes.
- (f) Retain supporting documentation for real property acquired by the Peace Corps, in addition to all non-IT assets within the custody of M/AS, and maintain all disposal records provided by other offices and Posts for capitalized assets.

### **5.3 Office of Chief Information Officer**

- (a) Designated as the Asset Management Office for managing and overseeing IT Hardware and Internal-Use Software; establishes asset management procedures for information technology assets, which will facilitate the accurate and complete reporting of PP&E, specifically for IT Hardware and Internal-Use Software.
- (b) Monitors and provides capital asset activity information on a timely basis to CFO when updates, such as additions, transfers, or disposals occur for IT Hardware and Internal-Use Software for which OCIO is the PAH.
- (c) Certifies that PP&E data it must submit to the CFO is complete and includes the necessary supporting documentation for accurate recordation of the asset as PP&E in the financial system.
- (d) Provides capital asset information quarterly or within specified due dates as required for financial statement reporting purposes.
- (e) Retains the necessary records to support acquisition, transfer (to and from Headquarters), and disposals of IT related assets within the custody of OCIO.

### **5.4 Posts**

- (a) Follows the guidelines provided by Headquarters to ensure that PP&E are properly accounted.
- (b) Monitors and reports on a timely basis capital asset activity for which Post is the PAH to CFO.
- (c) Certifies that PP&E data it must submit to the CFO is complete and includes the necessary supporting documentation for accurate recordation of the asset as PP&E in the financial system.
- (d) Provides capital asset information quarterly or within specified due dates as required for financial statement reporting purposes.
- (e) Maintains the necessary records to support the acquisition, transfer (to and from Post), and disposal of assets within the custody of the Post.

## **5.5 Regional Recruiting Offices (RRO)**

- (a) Follows the guidelines provided by Headquarters to ensure that PP&E are properly accounted.
- (b) Monitors and reports on a timely basis capital asset activity for which the RRO is the PAH to the CFO.
- (c) Certifies that PP&E data it must submit to the CFO is complete and includes the necessary supporting documentation for accurate recordation of asset as PP&E in the financial statement. Capital asset information must be provided quarterly or within specified due dates for financial statement reporting purposes.
- (d) Maintains the necessary records to support the acquisition, transfer (to and from the RRO), and the disposal of assets within the custody of the RRO.

## **5.6 Procurement Request (PR) Initiators, Approving Officials, and Fund Certifiers**

Procurement Request Initiators, Approving Officials, and Fund Certifiers are responsible for familiarizing themselves with the unique coding requirements for procuring PP&E assets. Additional information may be found in the Peace Corps Fiscal Coding Handbook.

## **6.0 Effective Date**

The effective date is the date of issuance.