



FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

SECTION 3

Multiple Unit Assets

1 Purpose

The purpose of this section is to establish procedures for distinguishing multiple unit assets from individual property units and creating records for this type of asset.

2 Scope

A careful distinction will be made in the definition and determination of individual fixed assets in those cases where a property unit comprises distinguishable interdependent parts or subunits that will be used together in normal operations. These property units will be referred to as *multiple unit assets* and will be classified as follows:

Asset Systems – Multiple property subunits that function together as a single fixed asset.

Group Assets – Multiple property subunits of like items.

Component Assets – Individual fixed assets that can function independently, but will be related to or associated with a larger property unit for management or control purposes.

An asset in the FAMS can represent either an individual asset unit or a multiple unit asset. Multiple unit assets provide a way of grouping related property subunits together for capitalization, control, and record-keeping purposes. Multiple unit assets generally are created to facilitate, control, and simplify record keeping.

When classifying a unit into one of the multiple unit asset categories, it is important to consider the accounting that will occur over the life of an item. As an asset ages and is used, maintenance and replacement to its subunits or components will usually be required. Proper accounting practice calls for the retirement of a component unit and capitalization of the replacement component if the replacement substantially increases the value of the asset or extends its life; otherwise, the replacement will be expensed as maintenance.

Note: *Retirement of components and capitalization of replacement components must be done consistently.*

The multiple unit asset's classification will dictate whether the replacement of a subunit or component is handled as a retirement of the subunit and recapitalization of the replaced subunit (improvement or betterment), or simply charged to maintenance expense.



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3 Guidelines

3.1 Definition of an Asset System

An asset system consists of multiple property subunits that function together as a single fixed asset; the life and usefulness of the individual subunits are mainly dependent on the property unit as a whole and are not likely to be transferred. Assets of this type, such as communication networks, will be entered in the fixed asset records as a single unit. Asset systems are not dependent on another asset to exist or function.

3.2 Definition of a Group Asset

A group asset consists of multiple property subunits of like items that are not practical to control on an individual basis and have unit values that are not considered significant. Assets of this type will not be entered in the fixed asset system.

3.3 Definition of a Component Asset

Component assets are tangible property that can function independently but generally are related to or associated with a larger property unit for management or control purposes. These assets may meet the general definition of a fixed asset (cost equal to or greater than \$5,000, useful life greater than 1 year) and may be either

- added, attached, or in some other way permanently affixed to a larger unit of property that has previously been placed into service (e.g., renovation, improvement); or
- one of the original structural components of a building asset (e.g., roof and drainage, plumbing, electrical).

A component asset differs from an asset system in that the component, while a subunit of a larger property unit, individually may meet the capitalization criteria, whereas the subunits in an asset system do not. A subunit of property or equipment will generally not be considered for componentization if its cost represents less than 10% of the cost of the larger unit with which it is associated.

For buildings, component assets can refer to the following structural elements:

- General construction (base unit or parent)
- Heating, ventilation, and air conditioning
- Roof and drainage
- Electrical
- Plumbing



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- Fire protection and life safety systems
- Elevators

Component assets will be recorded and accounted for as individual asset records. Component assets may be related as individual asset records (child records) to the base unit (parent record) to which they have been added, attached, or in some way permanently affixed.

3.4 Capitalization Criteria for Multiple Unit Assets

An asset system is generally acquired and placed into service simultaneously and must, as a whole, meet the basic capitalization criteria of a value **equal to or greater than \$5,000** and 1-year useful life. If the combined costs of the subunits do not exceed the \$5,000 criteria, then the unit will not qualify as an asset system and will not be capitalized.

Group assets generally have individual unit costs of less than \$1,000 and will not be capitalized or recorded in the FAMS. If the units meet the criteria for controlled items, they will be entered in the FAMS as individual controlled items. Departments may track group assets with an appropriate subsidiary tracking system, at the discretion of the department director.

A component asset is capitalized if it meets the basic criteria of a value **equal to or greater than \$5,000** and 1-year useful life.

4 Recording an Asset System

4.1 Characteristics

An asset system has the following characteristics:

- The multiple property subunits function together as a single fixed asset.
- The subunit costs are generally not individually significant.
- The lives and usefulness of the individual subunits are mainly dependent on the property unit as a whole.
- The subunits are not likely to be transferred.



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4.2 Criteria

The key criteria for determining that multiple property subunits should be capitalized as an asset system are as follows:

- The individual subunit costs are generally not significant in comparison to the conglomeration. Individually, the subunits generally do not meet the capitalization criteria. Taken as a whole, however, the group qualifies as a fixed asset (\$5,000 acquisition cost, 1-year useful life, etc.).
- The estimated useful life of the asset system is considered to be the life of the conglomeration operating as a whole, and not the life of the subunits.
- When a subunit is replaced, it generally does not extend the overall life of the conglomeration. Therefore, replacement will generally be expensed. However, if maintenance is not routinely performed and “major catch-up” is performed, a partial retirement and recapitalization may be considered.
- Each subunit is permanently integrated and configured in such manner as to make identification of individual components difficult. Therefore, it is impractical to tag, track, and inventory each unit of the group.
- The grouping of items basically stays together throughout its useful life, and subunits are not subject to significant cannibalization or transfer.

Exception: If the individual units of a conglomeration actually qualify as individual fixed assets, but otherwise involve the same identification and tracking problems outlined above, they may also be capitalized as an asset system.

4.3 Examples of Commonly Classified Asset Systems

- Outdoor sprinkler system (pumps, timers, sprinkler heads, piping) (e.g., golf course or athletic field system)
- Ticket counter (cabinet, permanently mounted monitor, internal ticket dispenser)
- Conveyor frame (conveyor sections, motor, computer operating system)
- Underground pipe sections
- Retaining wall sections
- Security system (sensors, cabling, transmitter, activation panels, base control unit)



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4.4 Recording Procedure

Recording the asset system in the FAMS is the responsibility of the Department Fixed Asset Coordinator (DFAC), in accordance with asset system guidelines, and will involve the following:

1. A single fixed asset identification (FAI)/tag number will be assigned to the asset system by the DFAC. The quantity will be 1.
2. A single Capitalization Form–Data Entry Form Fixed Asset Acquisitions (FA-1) will be initiated.
3. The serial number (if appropriate) will be from the major subunit component.
4. The acquisition cost will be the aggregate of the subunit costs (if broken out separately).
5. The description will identify the various subunits included in the asset system.
6. A class (from which useful life is obtained) will be assigned that is representative of the composite lives.

4.5 Subunit Replacement

The replacement of a subunit that does not extend the overall life of the conglomeration will be expensed. However, if maintenance is not routinely performed and “major catch-up” is performed, a partial retirement and recapitalization may be considered.

4.6 Depreciation

The FAMS will depreciate asset systems as one asset on the basis of the total cost and useful life of the asset system class assigned.

5 Recording a Group Asset

5.1 Characteristics

A group asset has the following characteristics:

- The asset comprises multiple property subunits that are the same as or similar to others in the conglomeration.
- The subunits require general control but are impossible or impractical to tag, identify, track, and inventory individually.



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- The individual subunit costs are insignificant and do not meet the capitalization criteria.
- The lives and usefulness of the individual subunits are the same.

5.2 Criteria

The key criteria for determining that multiple property subunits are not capitalized or recorded for control purposes are as follows:

- The individual subunit costs are generally insignificant and generally do not meet the capitalization or controlled item criteria.
- A subunit that is lost or disposed of would not usually be replaced, resulting in the reduction of the number of units and value of the original group. The overall replacement of subunits would generally be accomplished through the acquisition of new units.
- The estimated life is the same for all subunits. The conglomeration does not have a life of its own as a unit.
- It is impractical to tag, identify, track, and inventory each unit individually outside of the group.

Note: Departments may track group assets with an appropriate subsidiary tracking system, at the discretion of the department director.

6 Recording a Component Asset

6.1 Characteristics

A component asset has the following characteristics:

- Multiple property subunits function together as a single fixed asset, but can also function independently as individual units.
- The subunits are attached to, affixed to, or contained in a larger host unit of property or make up a structural component of a building (i.e., items normally classified as building systems and improvements).
- Subunit costs generally are individually significant and individually meet the capitalization criteria.



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- The lives and usefulness of the individual subunits differ and are not dependent on the property unit as a whole.
- Subunits may be subject to transfer between hosts.

6.2 Criteria

The key criteria for determining that multiple property subunits should be capitalized as component assets are as follows:

- The individual subunit costs are generally significant in comparison to the host asset and are easily separately identifiable. To prevent the overaccumulation of small components, an individual component should generally not be less than 10% of the cost of the conglomeration. Individually, the subunits generally do meet the capitalization criteria. Taken as a whole, component assets function together as a single entity that in itself qualifies as a fixed asset (\$5,000 acquisition cost, 1-year useful life, etc.).
- When a subunit is replaced, while it may not extend the life of the conglomeration as an overall unit, it can increase its value and usefulness. Therefore, replacement is generally treated as a retirement and recapitalization.
- The estimated lives of the subunits are finite and readily identifiable and not necessarily related to the useful life of the host asset taken as a whole. They generally are maintained independently of the other subunit components.
- Each subunit is integrated and configured in such manner that identification of individual components is feasible. Each unit can be tagged, tracked, and inventoried.
- The grouping of the subunits is required for the operation of the conglomeration/host; however, the individual subunits may be readily transferable to other similar hosts.

6.3 Examples of Commonly Classified Component Assets

6.3.1 Buildings

The building shell is generally classified as the host or parent component. Building systems are then classified as individual asset systems that are child components of the host, such as the following:

- Roof and drainage
- Plumbing
- Electrical
- Heating, ventilation, and air conditioning



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- Fire protection and life safety systems
- Elevators and escalators
- Interior construction and improvements
- Other building systems (e.g., power generators, preconditioned air systems)

6.3.2 Specialty Vehicles

The chassis and cab are generally classified as the host or parent component. Other subunits are then classified as individual asset systems that are child components of the host, such as a motor or winch and utility bed (dumb bed, ambulance “box”).

6.3.3 Mainframe Computer

The primary central processing unit (CPU) and cabinet are generally classified as the host or parent component. Other subsystems are then classified as individual asset systems that are child components of the host, such as the following:

- External digital storage drives
- Tape units
- Front-end processors (FEPs)
- Modems and modem pools

6.4 Recording Procedure

Recording the component assets in the FAMS is the responsibility of the DFAC, in accordance with asset system guidelines, and will involve the following:

1. Individual fixed asset identification (FAI)/tag numbers will be assigned to each component asset of a conglomeration/host by the DFAC. The quantity will be 1.
2. An FA-1 will be initiated for each component asset.
3. The serial number (if appropriate) will be that of the individual component.
4. The acquisition cost will be the cost of the subunit or component alone.
5. The description will identify the subunit alone.
6. A parent/child relationship will be established in the FAMS between the component assets and the larger host asset that incorporates them.



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7. A hierarchical structure will incorporate the component asset (child) record into the host asset (parent), providing a total for the combined asset. It is assumed that a department owning building facilities will also maintain or have access to engineering drawings, plant catalogs, or similar records from which the host-component structure can be verified.
8. A class (from which useful life is obtained) will be assigned that is representative of the individual component.

6.5 Subunit Replacement

The replacement of a subunit of the conglomeration will be treated as a retirement and recapitalization.

6.6 Depreciation

The FAMS will depreciate component assets individually, on the basis of the total cost and useful life of the component asset treated as a separate unit.



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