



General Equipment Valuation Estimation Methodologies

Prepared By

The Office of the Under Secretary of Defense (Acquisition,
Technology and Logistics) Property and Equipment Policy

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GENERAL EQUIPMENT VALUATION METHODOLOGIES

Background:

On September 20, 2013, the Office of the Under Secretary of Defense (OUSD) Comptroller (C) and OUSD Acquisition, Technology & Logistics (AT&L) jointly-signed a memorandum communicating the Department of Defense (DoD) initiatives to meet the congressionally mandated objective of asserting full financial statement audit readiness by the end of Fiscal Year (FY) 2017. Valuation of General Property, Plant and Equipment (GPP&E), to include General Equipment (GE), Real Property and Internal Use Software (IUS), is integral to meeting this objective. As noted in the memorandum, DoD is taking the following actions to assist Component valuation efforts:

1. Combining Military Equipment (ME), previously reported as a separate line item for GPP&E, and GE into a single category entitled "General Equipment." With implementation of this change, the current definition of ME is rescinded.
2. Increasing the capitalization threshold from \$100,000 to \$1 million for the Department of the Air Force and Department of the Navy GE general funds assets and \$250,000 for all Internal Use Software (IUS) and other GE assets for the remaining DoD Components/Agencies general and working capital funds. The change in the capitalization threshold is prospective and should be applied to all acquisitions and modifications/improvements to these assets accepted by DoD and placed into service on or after October 1, 2013.
3. Updating the Financial Management Regulation (FMR) to require Components to conduct and document valuations in accordance with accounting standards for all new GPP&E acquisitions accepted by DoD and placed in service on or after October 1, 2013. It will also specify that in the event the Component's business processes or systems limit full compliance with SFFAS No. 6, the Component should report values in accordance with SFFAS No. 35 *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23* where applicable.

Additionally, for GPP&E assets acquired prior to October 1, 2013, that will have remaining net book values (NBV) on or after September 30, 2017, the guidance will specify that Components should review their valuations and compile adequate documentation to support the financial reporting of these assets. Valuation and supporting documentation for these assets should be completed prior to September 30, 2017.

Specific guidance concerning how these changes impact the Intelligence Agencies, which are required to prepare audited financial statements and report to the Senate Select Committee on Intelligence, is currently under advisement and being addressed within the Department.



In anticipation of these actions, OUSD (AT&L) Property & Equipment Policy (P&EP) Office initiated efforts to assess how asset valuations might be accomplished in time to support DoD's FY 2017 assertion objective. The P&EP Office worked closely with DoD Components and determined that the valuation options identified in Technical Release (TR) 13 could be implemented within the available time frame. A summary of the results of this assessment, including a listing of valuation methodologies for use by the Components, is provided below.

Valuation Timeframes:

For new acquisitions beginning October 1, 2013:

- Beginning October 1, 2013, all new equipment acquisitions shall be valued in accordance with SFFAS No. 6, SFFAS No. 35, and the implementation guidance included in TR 13.
- Components shall document the acquisition cost, date placed in service and estimated useful life in accordance with FIAR guidance.
- Documentation shall be maintained in a manner that facilitates a timely review.

For acquisitions prior to October 1, 2013:

- For equipment acquired prior to October 1, 2013 with a remaining Net Book Value (NBV) on or after September 30, 2017, Components shall ensure that adequate supporting documentation has been prepared to support financial reporting in compliance with SFFAS No.6, SFFAS No. 35 and the implementation guidance included in TR 13.
- Supporting documentation shall comply with FIAR guidance and must adequately support the equipment's acquisition cost, date placed in service and estimated useful life.
- Documentation shall be maintained in a manner that facilitates a timely review.

For equipment that will be fully depreciated by September 30, 2017:

- Components shall ensure adequate supporting documentation exists to support the asset's acquisition cost, date placed in service and estimated useful life in accordance with SFFAS No. 6, SFFAS No. 35, and the implementation guidance included in TR 13.
- Components shall address the adequacy of supporting documentation for fully depreciated equipment assets only after the completion of the compilation of supporting documentation for equipment assets with a remaining NBV on or after September 30, 2017.
- This documentation shall comply with FIAR guidance and support the proper financial reporting of these assets.
- This support documentation shall be maintained in a manner that facilitates timely review.



Business Rules:

- The estimating methodologies identified below are consistent with SFFAS No. 35 and the related Accounting and Auditing Policy Committee (AAPC) Technical Release (TR) 13 *Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment*.
- These methodologies use and are dependent upon information associated with ancillary DoD standardization efforts including the Standard Financial Information Structure (SFIS), Wide Area Work Flow (WAWF) and Item Unique Identification (IUID).
- The DOD's long-term goal, which is consistent with SFFAS No. 35, is to use transactional information derived from a fully-compliant accounting system to value assets. However, until audited accounting systems and processes support transaction-level valuation, asset valuations should be based on the estimating techniques identified in TR 13.
- All of the methodologies included in this document are acceptable for valuation purposes for new acquisitions and capital improvements.
- When developing an estimated value for General PP&E, modifications / improvements must be considered in the acquisition costs. Capital modifications, as defined in the DoD Financial Management Regulation (DoD 7000.14-R), are those that increase the General PP&E asset's capability, size, efficiency, or useful life. In addition, the cost of an improvement must equal or exceed the DoD capitalization threshold.
- Other considerations impacting capital modifications and asset acquisition cost valuation are:
 - Capital improvements which extend the life of the asset will be depreciated over the revised remaining extended useful life of the asset.
 - Capital improvements which do not extend the useful life of the asset but have the same useful life as the remaining useful life of the General PP&E asset will be depreciated over the remaining useful life of the asset.
 - Capital improvements which increase the asset's capability, size or efficiency but have an expected useful life that differs from the useful life of the General PP&E asset are depreciated separately.
- Components should assess their financial system's ability to meet SFFAS No. 6 transaction-based accounting requirements for GPP&E on an annual basis. If it is determined that the Component's financial system can track costs on a transaction basis to the level of individual assets, the Component should implement processes and procedures to support the development of transaction-based equipment values.
- Final determinations as to the valuation methodology that will be applied to value equipment should consider factors including:
 - relevance/usefulness of information (both to internal and external stakeholders);
 - level of precision (e.g., materiality) needed to properly manage and report costs;



- cost-benefit of establishing and executing intricate cost assignment processes, methods, and tools.
- The organization responsible for developing financial statements within each Component is responsible for determining the valuation methodology that will be employed.
- Valuation documentation substantiates how the asset value was derived. To be adequate, this documentation should identify the source of the cost data, demonstrate how the end item values were determined, and indicate the estimation methodology. This documentation should be maintained in a manner that supports retrieval upon request (i.e., during an audit). The manner in which the value is documented should be at a level where a knowledgeable third person could review the documentation, conduct a similar process, and arrive at approximately the same value for the asset. Finally, the documentation should note why the specific valuation methodology was selected.

Valuation Methodologies

According to SFFAS No. 6, all GPP&E shall be recorded at cost. Cost includes all costs incurred to bring the asset to a form and location suitable for its intended use. Components should utilize factors including:

- relevance/usefulness of information (both to internal and external stakeholders);
- level of precision (e.g., materiality) needed to properly manage and report costs;
- cost-benefit of establishing and executing intricate cost assignment processes, methods, and tools.

when selecting a valuation methodology. The listing shown in Table 1 (below) has been prioritized based on an assessment of these factors. However, all of the methodologies comply with the accounting standards and Components may determine that in their circumstances alternative prioritization is appropriate.

When Components select a lower priority methodology the valuation documentation should provide a basis for the selection.



Table 1: Valuation Methodologies for GPP&E

Priority	Valuation Method	Key Attributes for Determining Applicability	Example
1	Based on actual expenditures	<ul style="list-style-type: none"> Valuations based on expenditures, transaction based valuations, are preferred and should be used whenever Components determine that their accounting systems and processes support this methodology Accounting system has ability to accumulate expenditure transactions Accounting system can associate accumulated costs to individual assets or facilitate the allocation of expenditures to individual assets. Accounting system has ability to capture costs of GFM items or enables the costs of GFM to be reasonably estimated and documented. 	<ul style="list-style-type: none"> Navy Ships Procurement contract, invoice and payment for Fire Engine
2	Based on Similar Assets	<ul style="list-style-type: none"> Similar type asset has been previously valued Method for valuing similar asset(s) satisfies SFFAS No. 6 and/or SFFAS No. 35 Differences in features and functions between similar type assets are insignificant 	<ul style="list-style-type: none"> C-21A & LearJet
3	Based upon Budget Data	<ul style="list-style-type: none"> President's Procurement Budget submissions has sufficient detail to differentiate between the types of end items being acquired Procurement Budget submissions have sufficient cost detail enabling the identification of costs to include in the end item acquisition value Acquisition costs include GFM provided to the end item or the cost of GFM can be reasonably estimated and documented. 	<ul style="list-style-type: none"> President's Budget for MV/CV-22 Osprey President's Budget for RQ-4 (Global Hawk)
4	Based upon DD 250 / Receiving Report	<ul style="list-style-type: none"> DoD Material Inspection and Receiving Reports (DD 250) provide unit acquisition costs for individual end item(s) DD 250 value is reasonable as compared to expected unit acquisition cost DD 250 value is determined to include GFM costs or the cost of GFM can be reasonably estimated, documented and included in the cost of the end item CLINs shown on the DD 250 represent key deliverables for all procurement contracts 	<ul style="list-style-type: none"> DD 250 for CLIN for Earth Mover and CLIN First Destination expenses
5	Based on Contract Information	<ul style="list-style-type: none"> Prime contracts associated with end item value include info on sub-contracts and CLINs Contracts for government furnished material have been factored into the cost of the end item. Contracts contains necessary elements enabling the calculation of an individual asset acquisition cost (number of units, contract value, CLINs) 	<ul style="list-style-type: none"> C-130J Super Hercules contracts UH-60M Blackhawk contracts
6	Based upon Appraisals	<ul style="list-style-type: none"> The method should only be used for exceptions and for a limited number of unique assets as it can be expensive Consideration should be given to assets with a significantly high dollar value or where this appraisal could be extrapolated over a large number of similar type assets 	
7	Based on Program Office Data	<ul style="list-style-type: none"> This method may be appropriate when the Program Office has detailed documentation and cost analysis for unit acquisition cost Unit acquisition costs can be verified by tracing the dollar values back to source documentation that substantiates the amount(s) Cost estimates include costs of government furnished materials This methodology should only be used on an exception basis after approval from the Component office responsible for financial reporting 	<ul style="list-style-type: none"> C-17 Program RQ-11 Raven Program

The following comments describe the suggested methodologies and include comments regarding when each would be appropriate for determining GPP&E asset costs.

1 – Valuation based on expenditures - When systems have demonstrated the required capabilities, transaction based data/expenditures should be used to value assets. To establish asset valuations based on expenditures, the accounting system must:

- support tracing expenditures/payments to the related supporting documentation;
- include detail sufficient to allow the Component to associate the expenditures/payments with individual assets;
- support the accumulation of the appropriate costs into the value of the asset.

Major weapon systems typically include numerous subsystems and/or equipment that may be provided by the Government (known as Government Furnished Material (GFM)) or that may be acquired by the prime contractor under separate subcontracts. To use the expenditure based valuation methodology, Components must have the ability to accumulate all subsystem costs into the end item summary cost. Navy ships are an example of a class of assets where this



methodology may be appropriate since the Navy accumulates all costs associated with producing a ship with a single line of accounting.

Additionally, there may be costs included in the prime acquisition contract for items such as spare parts and logistical support that should not be included in the value of the end item. These items would generally be on separate Contract Lines. Components must ensure that only those costs/ Contract Line Item (CLINs) that are associated with capitalizable items are included in the end item value.

This methodology would also be applicable in situations where less complex assets are being acquired and there is a one-to-one relationship between an expenditure and the asset being acquired (i.e., where a single expenditure/payment represented the cost of the asset). A more detailed explanation of methodology implementation is included in Appendix A.

Components may use estimates to allocate program costs to individual assets and/or to estimate the cost of Government Furnished Equipment and Material. A discussion of how this approach would be implemented is included in TR No. 13. See Example 3 - Use of Expenditure Information.

The requirement to properly reflect costs for GFM, spare parts, logistics support, and other types of costs in the capitalized asset value is consistent for all valuation methodologies. See Appendix B for a complete listing.

2 – Valuation based on similar assets

SFFAS No. 6, Para 40, states that assets may be valued based on the cost of similar items. This method would be appropriate when a series of similar items are being acquired over time and a Component has a reliable value for a base asset. This method has more applicability when valuing existing asset than when valuing new assets. A Component might value a piece of equipment using any of the methodologies included in this guidance. This value could then be used as a basis for valuing similar assets. Additionally, a Component receiving assets that had been acquired by another Component will need to work closely with the acquiring Component to gather the information needed for valuation. Finally, when this methodology is used Components should apply price indices to estimate the cost of the asset in the period when it was placed into service. A discussion that addresses the use of price indices is contained in TR 13 Example 1 – Deflation of Current Replacement.

3 – Valuation based on budget information

This methodology utilizes information included in Component budget exhibits to estimate the value of assets acquired. The key requirement is that the available Procurement budget detail must allow Components to associate budgeted amounts with individual assets. This may be relatively straight forward when individual assets such as fire trucks or support equipment are



being acquired, but much more complex when weapon systems that include GFM, spare parts, logistics support, and support equipment are being procured.

A discussion of how this approach would be implemented is included in TR No. 13. See Example 4 – Use of Budget and Appropriation Information.

A more detailed explanation of methodology implementation is included in Appendix A.

Program Offices must ensure that costs for GFM, spare parts, logistics support, and other costs are reflected properly in capitalized asset values. See Appendix B for a complete listing.

4 – Valuation based on DD 250 information

DD 250s (the Material Inspection and Receiving Reports), which are submitted by contractors when assets are delivered and which are tracked in the Wide Area Work Flow (WAWF) system, provide asset value and date placed in service information. While valuation based on the DD 250 is relatively straightforward, analysis has shown that the value included on the DD 250 may be based on a CLIN and may exclude other significant program costs that should be included in the asset value potentially resulting in a material undervaluation for the end item. These additional costs are frequently included on other CLINs. When the DD 250 methodology is selected, the Program Manager must ensure that the DD 250 developed value includes all appropriate contracts and CLINs.

A discussion of how contractor provided information may be used to value assets is included in TR No. 13. See Example 5 – PP&E in Possession of Contractors.

A more detailed explanation of methodology implementation is included in Appendix A.

Program Offices must also ensure that costs for GFM, spare parts, logistics support and other types of costs are reflected properly in capitalized asset values. See Appendix B for a complete listing.

5 – Valuation based on contract information

This methodology involves valuing assets using the pricing data included in contracts. A complete understanding of the acquisition program including the structure of all related contracts is required to implement this methodology. Components must align costs with individual assets and determine the contractual costs that should be included in the asset's value versus those that should be excluded. This can be extremely challenging, particularly when the costs to be capitalized are included in multiple Contract Line Items and multiple contracts.

A more detailed explanation of methodology implementation is included in Appendix A.



Program Offices must also ensure that costs for GFM, spare parts, logistics support, and other types of costs are reflected properly in capitalized asset values. See Appendix B for a complete listing.

6 – Valuation using appraisals

Appraisals are identified in TR 13 as an acceptable valuation methodology. Appraisals would normally be used to value existing classes of assets rather than the valuation of new assets. Additionally, appraisals require the expenditure of significance resources. As a result appraisals should only be used when the previously identified methodologies cannot be applied.

A discussion of how this approach would be implemented is included in TR No. 13. See Example 2 – Use of Appraisal Information.

7 – Valuation based on Program Office data

Where a lack of the types of data identified above prevents the use of any of the preceding methodologies, Components may value the end items based on documentation maintained by the program offices. This methodology is likely to result in some level of inconsistency since individual Program Offices may be relying on differing data sources for deriving their cost estimates. To address this, the responsible Component financial office must assess and acknowledge the appropriateness of any valuations based on this approach.

For additional information on valuing new acquisitions and capital modifications, please see the Property and Equipment Policy Office website at <http://www.acq.osd.mil/pepolicy/index.html>. If questions remain or assistance needed with implementing this guidance, please contact the Property and Equipment Policy Office.



Appendix A: Estimation Methodology Valuation Procedures

The steps below provide an explanation of how the various valuation processes may be used to establish reasonable estimates for equipment assets. Questions on implementation should be referred to the P&EP Office.

EXPENDITURE BASED VALUATION

1. Identify the accounting data fields used to record expenditures for the equipment being valued. This requires a detailed understanding of the accounting system being used by the Component to capture expenditures.
2. Accumulate and assign costs to individual capitalized assets. In the event actual costs are unable to be assigned to individual assets, estimates computed outside of the accounting system may be used.
3. Ensure that the values have been computed in accordance with the guidance included in Appendix B.
4. Compile documentation supporting the valuation in accordance with FIAR requirements (e.g., documentation demonstrating that the accounting system had been accepted for financial reporting purposes and detailing how the relationships between the expenditures and the related assets had been validated).
5. Obtain documentation that supports the estimated useful life and date placed in service for the asset (e.g., engineering studies validating useful life).
6. Document why the expenditure based method was used to value the assets.



BUDGET BASED VALUATION

1. Review the relevant President's Procurement Budget documentation for the program to determine whether the budget has adequate detail to support the budget valuation methodology. Specifically, determine whether the budget detail provides visibility of the various cost estimates for the asset.
2. Ensure that costs have been assigned to assets in accordance with the guidance included in Appendix B
3. Once the costs have been identified and a determination has been made as to whether they should be included or excluded, complete the Equipment Valuation (EV) Template with the current budget information (Appendix C).
4. Review the budget documentation to determine the planned number of units to be acquired for the end item.
5. Compile documentation supporting the valuation in accordance with FIAR requirements, e.g., the documentation would include copies of the referenced budget exhibits.
6. Obtain documentation that supports the estimated useful life and date placed in service for the asset, e.g., the documentation might consist of generally accepted asset useful life estimates included in the FMR.
7. Document why the budget based method was used to value the assets.



DD 250 BASED VALUATION

1. Identify the DD 250s associated with the asset being valued.
2. Ensure that the DD 250 value is reasonable (i.e., that the value is in line with projected unit cost). If the DD 250 value appears to be reasonable, this value may be used. If the value is significantly different, then an alternative valuation methodology should be selected.
3. Ensure that the values have been computed in accordance with the guidance included in Appendix B.
4. Compile documentation supporting the valuation in accordance with FIAR requirements (e.g., an analysis demonstrating the reasonableness of the DD250 value compared to other valuation methodologies in use by the Program Office).
5. Obtain documentation that supports the estimated useful life and date placed in service for the asset, e.g., documentation comparing the estimated useful life of the asset to the historical life of similar assets.
6. Document why the DD 250 based method was used to value the assets.



CONTRACT BASED VALUATION

1. Each Program Office should identify all active contracts, for the acquisition or modification of the end item for the selected programs.
2. Program offices should review all contract CLINs to identify costs that should be included in the acquisition costs for the end item and the costs which should be excluded.
3. Ensure that the values have been computed in accordance with the guidance included in Appendix B
4. Record the contract costs (capital or expense) into the contract valuation template spreadsheet (Appendix D) and identify the cost to be excluded from asset valuation and record the number of expected units to be delivered.
5. Compile documentation supporting the valuation in accordance with FIAR requirements (e.g., documentation should include copies of the relevant contract documents).
6. Obtain documentation that supports the estimated useful life and date placed in service for the asset (e.g., documentation might include copies of the relevant DD 250s).
7. Document why the contract based method was used to value the assets.



Appendix B: Capitalization Guidelines

The following Table should be used as a guide for differentiating between costs that should be capitalized and those that should be expensed:

Key Words	Notes/Explanation	Capitalize or Expense?
Accessory kits for end item	Acquired as part of initial acquisition. Otherwise expense when delivered to end user as spare parts. (e.g., medevac kits, hoist kits, tool kits, etc.)	Capitalize
Advance Procurement (AP)	Current year AP funding should be excluded when determining the overall value and capital costs of current year systems/assets. AP costs from preceding year should be added to current year when determining current year asset values.	Exclude (Current Year) Capitalize (Previous Years)
Support Equipment	Costs should be excluded when determining overall value and capital costs of major systems, e.g., aircraft and ships. Capitalize as separate assets if equipment meets capitalization requirements.	Capitalize
Design (system & engineering) labor costs and reviews	Services performed <u>after</u> RDT&E feasibility has been determined, normally funded with Procurement funds.	Capitalize
Design (system & engineering) labor costs and reviews	Prior to RDT&E feasibility has been determined. Funded with RDT&E dollars.	Expense
Direct Material	Costs of end item paid to the manufacturer.	Capitalize
Earned Award Fee	May have to be allocated if multiple assets are being acquired under a contract.	Capitalize
Engineering and Architectural support and services	Procurement Drawings, Manufacturing Plans	Capitalize



OUSD (AT&L) / Acquisition Resources and Analysis (ARA) Property and Equipment Policy (P&EP)

Key Words	Notes/Explanation	Capitalize or Expense?
Engineering Changes	Procurement costs associated with adjusting engineering drawings and manufacturing plans.	Capitalize
General and Administrative Costs	Any management, financial, and other expenses which are incurred by or allocated to a business unit and which are for the general management and administration of the business unit as a whole.	Expense
Government Furnished Equipment	Stand-alone equipment provided to the contractor to facilitate completion of program effort. Costs should be excluded when determining overall value and capital costs of major systems, e.g., aircraft and ships. Capitalize as separate assets if equipment meets capitalization requirements.	Capitalize
Government Furnished Material (GFM)	Material provided to the contractor which will become a component of the end item.	Capitalize
Handling and storage costs	Prior to project completion/asset delivery	Capitalize
Handling and storage costs	After project completion/asset delivery	Expense
Integrated Logistical Support	Contract management and logistical support costs should be excluded when determining the overall value and capital costs.	Expense
Labor to build end item	End items are assets and the labor to build an end item is part of the cost of the final asset.	Capitalize
Installation Costs	Costs associated with installing software, GFM and etc. to assets to full use should be included when determining the overall value and capital costs.	Capitalize



OUSD (AT&L) / Acquisition Resources and Analysis (ARA)
Property and Equipment Policy (P&EP)

Key Words	Notes/Explanation	Capitalize or Expense?
Non-recurring Support	Capitalize if provided by contractor prior to asset delivery. Expense if provided after asset delivery.	Capitalize /Expense
Overhead Costs	Contractor overhead costs will be allocated proportionately based on the total dollar value of capital vs. expense (i.e., spares, etc.) items on the contract. For example, if contract is 75% capital and 25% expense, the overhead will be allocated in the same proportions. Cost should be driven proportionately.	Capitalize /Expense
Packaging, Handling, Shipping	These costs follow the item that is being shipped. If the item is expensed, then the packaging/handling/shipping costs are expensed. Likewise, if the item is capitalized, then the packaging/handling/shipping costs are capitalized.	Treat Same as Underlying Asset
Production Costs (e.g., Production Materials/ Production Labor/ Production Travel)	Costs associated with manufacturing and/or producing asset or end item should be included when determining the overall value and capital costs of acquired assets.	Capitalize
PSAT (Peculiar Support and Test Equipment)	Costs should be excluded when determining overall value and capital costs of major systems, e.g., aircraft and ships. Capitalize as separate assets if equipment meets capitalization requirements. Support equipment is capitalized if it meets other equipment capitalization criteria: Two year useful life, not for sale, used by the entity and cost exceeds the capitalization threshold.	Capitalize
Publications/Technical Data	Data – Capitalize as element of asset cost	Capitalize
Retrofit Kit/Manufacturing & Kitting/Kitting Materials	Pre-delivery – Capitalize as part of initial asset acquisition cost Post-delivery – Expense unless the cost of an	Depends on Timing, Intent, and \$



Key Words	Notes/Explanation	Capitalize or Expense?
	individual kit meets the capitalization criteria and dollar threshold.	Amount
Shipping / Material and Transportation costs for new systems	To first point of initial destination for intended use (includes fuel to move Aircraft, Boats or Vessels from contractor location to initial DoD location)	Capitalize
Shipping / Material and Transportation costs for new systems	After initial point of intended use	Expense
Software costs	Internally/externally produced and embedded within a weapon system	Capitalize
Software costs	Stand-alone internally/externally produced software system	Note 2 Capitalize as IUS (depreciate over 5 years)
Spares	Spares are not capitalized as GPP&E however they are considered OM&S and/or Inventory. For equipment purposes, shares are not capitalized.	Report as OM&S and/or Inventory. Not equipment
Support Equipment & Support Equipment Labor	Support equipment is capitalized if it meets other equipment capitalization criteria: Two year useful life, not for sale, used by the entity and cost exceeds the capitalization threshold.	Capitalize



OUSD (AT&L) / Acquisition Resources and Analysis (ARA) Property and Equipment Policy (P&EP)

Key Words	Notes/Explanation	Capitalize or Expense?
System Integration	Procurement services associated with integrating GFE, software or systems should be included when determining the overall value and capital costs.	Capitalized
Tests/Testing	Tests on the delivered asset that are performed as part of the production or acceptance process are capitalized.	Capitalize if part of production or acceptance
Rate Tooling/Special Test Equipment/General Test Equipment	Rate tooling and special equipment are not specific to one system and can be used in the engineering, assembly and transportation of future systems. Therefore, it should be considered general equipment and capitalized if it meets other equipment capitalization criteria: Two year useful life, not for sale, used by the entity and cost exceeds the capitalization threshold.	Capitalize
Prototype Costs	Capitalize if the asset is to be used for operational purposes.	Capitalize or Expense
Technical Manuals	Technical manuals should only be capitalized if delivered as part of the asset production and acceptance process.	Capitalize
Inspection Pre-delivery	Inspection pre-delivery is included in the cost of the asset. Inspection post-delivery is expensed.	Capitalize or Expense
Upgrades / MODs	Capitalize if they meet capitalization threshold and if the upgrade/MOD extends the useful life or provides a new capability,	Capitalize



Appendix C: Budget Based Equipment Valuation Template

Electronic version of excel spreadsheet template is available on the P&EP website.

Link: http://www.acq.osd.mil/pepolicy/general/reference_library.html

Figure 1 Budget Based Valuation Template Calculate End Item Cost Spreadsheet

w/p A

Prepared by: Name of Person Performing
Date Completed: Date Valuation Performing

Department of Defense
Equipment Valuation: **[COMPONENT]**
[PROGRAM OFFICE DESCRIPTION OVERSEEING PROCUREMENT]
[EQUIPMENT ASSET BEING VALUED]

Valuation Calculation: Supporting Doc. Data as of
Pre's Budget FYs: [ENTER DATA DATE]

	FY2010 & Prior Years	W/P Ref.	FY2011	W/P Ref.	FY2012	W/P Ref.	FY2013	W/P Ref.	Totals
Total Funding									\$ -
LESS: Initial Spares Costs									\$ -
LESS: Ancillary Equipment									\$ -
LESS: Airframe Peculiar Support Equipment									\$ -
LESS: Engine POSE									\$ -
LESS: Avionics Peculiar Support Equipment									\$ -
LESS: Pcs Training Equipment									\$ -
LESS: Pub/Tech Data									\$ -
LESS: Other ILS									\$ -
LESS: Common SE (Support Equipment)									\$ -
LESS: Advance Procurement (CY)									\$ -
Plus: Advance Procurement Credit									\$ -
Adjusted Program Costs by FY	\$ -		\$ -		\$ -		\$ -		\$ -
Quantity by FY									0
Total Estimated Program Costs, Cumulative through FY12									0
Total Quantity, Cumulative through FY12									-

B-1

B-2

Average Unit Cost Calculation based FY vs Pre's Budget

Total Estimated Program Costs	A	\$ -	B-1
Total Number of End Items	B	0	B-2
Revised Estimated Cost per End Item	C=A/B	#DIV/0!	B-3

NOTE : use this space to describe any circumstance which requires additional explanation



Figure 4 Contract Based Valuation Template Calculate End Item Cost Spreadsheet

CONTRACT BASED VALUATION METHODOLOGY

Department of Defense
 [Component's Name]
 General Equipment Valuation

wp **C**
 Prepared by: [enter name pers]
 Program POC: [enter name of pe]
 Date Completed: [enter date works]

[enter description of end item being valued]

Valuation Calculation
Purpose: The objective of this workpaper is to accumulate all costs that should be included in the acquisition cost for the end item value of the end item being valued. Using the CLIN listing from workpaper B, the CLINs that should be factored into the overall cost for the end item should be individually listed below in the section "Costs to INCLUDE in End Item Valuation". If there are specific costs that are included the CLINs listed in the Cost to include section that should not be considered in the end item valuation, they should be listed in the section "Costs to EXCLUDE". This workpaper will generate the total costs for the end item then derive an average unit cost by dividing the total costs by the expected number of units. For multiple lots of end items, it may be necessary to create a separate worksheet for each lot produced for the end item.

Contract #	CLIN / SLIN	Description	Dollar Value	W/P Ref.
Costs to INCLUDE in End Item Valuation				
				B1
				B2
				B3
				B4
				B5
				B6
				B7
				B8
				B9
				B9
Total Costs INCLUDED			\$ -	C = (sum B1-B9)
Costs to EXCLUDED in End Item Valuation				
			\$ -	D1
			\$ -	D2
			\$ -	D3
			\$ -	D4
			\$ -	D5
			\$ -	D6
			\$ -	D7
			\$ -	D8
			\$ -	D9
			\$ -	D10
Total Costs EXCLUDED			\$ -	E = (sum D1-D10)
Sum of Total Costs			\$ -	F = C - E
EXPECTED Number of End Items			[]	G
Calculated AVERAGE Cost per End Item			#DIV/0!	H = (F/G)

Rationale for excluding cost