



United States Department of Agriculture  
Rural Development

Rural Business-Cooperative Service • Rural Housing Service • Rural Utilities Service  
Washington, DC 20250

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TO: All Electric Borrowers

FROM: KENNETH M. ACKERMAN *Kenneth M. Ackerman*  
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SUBJECT: Special Equipment Accounting

Electric borrowers of the Rural Utilities Service (RUS) are required to account for certain items of equipment designated as special equipment in a manner prescribed in 7 CFR Part 1767, Accounting Requirements for RUS Electric Borrowers (Uniform System of Accounts), and RUS Bulletin 1767B-2, Work Order Procedure. Generally this equipment is capitalized to the electric plant accounts upon purchase and retired from the plant accounts only when disposed of permanently. All subsequent movement of this equipment between plant in service and the inventory of materials and supplies is accounted for as an operations expense.

Several RUS borrowers have recently requested a waiver of the special equipment accounting requirements in order to account for special equipment as all other items of materials and supplies. The equipment would be charged to materials and supplies upon purchase and all installation and removal activities associated with special equipment would be accounted for using the work order procedure.

Electric borrowers that wish to receive such a waiver from the special equipment accounting requirements should submit a letter request to RUS. In order to expedite these requests the letter to RUS should state that the borrower will adhere to the following requirements to account for special equipment using the work order procedure rather than the special equipment accounting procedures prescribed by RUS:

1. New purchases of special equipment items are to be charged to Account 154, Materials and Supplies, upon purchase.
2. Labor, material and overhead costs associated with the initial installation and all subsequent installations of special equipment are recorded on construction work orders and charged to the appropriate plant accounts upon closeout of the construction work order.

3. Labor and overhead costs associated with the removal of special equipment items, whether the items removed are placed in inventory or permanently retired and disposed of, are recorded on retirement work orders and charged or credited to the depreciation reserve account upon closeout of the retirement work order.
4. The special equipment items retired and salvaged for reuse are returned to the materials and supplies account at the average material cost in the materials and supplies account and credited to the depreciation reserve upon closeout of the retirement work order.

In addition to recognition of the requirements noted above, the borrower should indicate how it plans to account for the items of special equipment that have been charged to the plant accounts but not installed (in inventory). Two acceptable methods to account for this equipment are: (1) leave the equipment in the plant accounts until the inventory is depleted and charge only new purchases to materials and supplies, or (2) credit the plant accounts for the installed cost of the equipment in inventory, charge the equipment cost to materials and supplies, and charge the installation cost to the appropriate operations expense account. Also, under the second method, the borrower must submit a "negative" special equipment summary to RUS to return to the balance in reserve for the current loan the installed cost of special equipment in inventory on the date of transition.

In the next Loan Fund and Accounting Review conducted by RUS the RUS Field Accountant will review the procedures to transition the special equipment accounting procedure to the work order procedure and determine compliance with the four accounting requirements noted above. The notification of transition from the special equipment accounting procedures and any other questions regarding the actions required to secure a waiver of the special equipment accounting requirements should be addressed to the Technical Accounting and Auditing Staff, 1400 Independence Avenue SW, Stop 1523, Washington DC 20250.