12. PROPERTY & EQUIPMENT AND DEPRECIATION

12.1 Description

Per IAS 16, property, plant and equipment (PPE) are tangible assets that are expected to be used during more than one period and that are held for use in the operations of the organization. PPE are recognized when it is probable that the future economic benefits associated with the asset will flow to the organization and its cost can be reliably measured. The asset is initially measured at cost and subsequently can be measured at cost or on revaluation basis.

In the business sector, the asset method is prescribed because of the principles of fair presentation of balance sheet and "matching principle", i.e., only the depreciated portion of the property and equipment is recognized as an expense because only this is portion was consumed in generating income during the accounting period. This is basically the reason why all available accounting standards prescribe the asset method.

12.2 Acquisition of PPE by NPOs

NPOs receive grants intended for specific purpose/s. In many cases, the grant is intended for the purchase of property or equipment. The donor will require the accounting of its grant against its intended use. To properly monitor the specific grant activities, the acquisition will be deducted against the said grant, thereby presenting the actual grant balance at the end of the period. The matching of grant against its intention is achieved here. However, for a fair presentation of the financial position of the NPO, the property and equipment should be reflected in the balance sheet.

These two accounting objectives should be met – matching of source against its intention and fair presentation of balance sheet. Sometimes, only one of these is reflected in the financial statements.

Acquisitions from Unrestricted Funds

The asset method is proposed as this is the prescribed method in the current pronouncements.

Entry upon Acquisition

Property and equipment	50,000	
Cash		50,000

To record acquisition of ______ equipment

Provision of Deprecation

Depreciation expense	10,000	
Accumulated depreciation		10,000

To record depreciation for the period.

Upon Retirement, Sale or Disposal

Assuming that after 80% of its cost is fully-depreciated or its net book value is only 10,000, the equipment was sold at 12,000. The entry to close the equipment accounts and to recognize the sale is:

Cash	12,000	
Accumulated depreciation	40,000	
Property & equipment		50,000
Gain from sale of equipment		2,000

To record the sale of ________ equipment.

If, on the other hand, the selling price is lower than the net book value, say 9,000, the loss from sale (1,000) should be debited.

In some instances, the old equipment is donated to another NPO or to beneficiaries.

Donation	10,000	
Accumulated depreciation	40,000	
Property & equipment		50,000

To record donation of ________ equipment to __________.

Acquisitions from Restricted Funds

When property and equipment are acquired from restricted grant funds, it is proposed to treat property and equipment as follows:

> To meet the requirements of fair presentation of balance sheet and proper matching of sources against its intentions, the accounting entries and presentation should provide for both. Corollary entries are made to record the acquisition as deduction from grant and recognizing the property as asset and crediting to Property and Equipment Fund (a net asset account). Depreciation will then be charged against the Property and Equipment Fund.

It is worthwhile to note that the above treatment of property and equipment requires a *separate budget for capital outlay is formulated and approved.*

Example: Purchase of a computer set charged against ABC grant

a. Acquisition

In ABC Operational Fund

	Dr	Cr
Office Equipment Acquisition or Capital Outlay or Fund Transfer to Property & Equipment Fund	5,000.00	
Cash		5,000.00

In Property & Equipment Fund

	Dr	Cr
Office Equipment (as Asset)	5,000.00	
Property and Equipment Fund		5,000.00

Note: The above two sets of entries should be made at the same time for every property acquisition.

<u>Presentation in the Statement of Changes in Net Asset</u>

	Restr. Fund ABC	Property & Equipt Fund	TOTAL
Office Equipment Acquisition or Capital Outlay or Fund Transfer to Property & Equipment Fund	(5,000)	5,000	-

b. Depreciation

This is an expense of the Property & Equipment Fund; it is not an expense of the grant fund (ABC) because the total amount of the acquisition has been deducted from the ABC fund already.

	Dr	Cr
Depreciation Expense	1,000.00	
Accumulated Depreciation		1,000.00

To record depreciation for the period

Presentation in the Statement of Activities

	Property & Equipt Fund
EXPENSES:	
Depreciation Expense	1,000.00

Presentation in the Statement of Financial Position

	Property & Equipt Fund
ASSETS	
Office Equipment	5,000.00
Less: Accumulated Depreciation	1,000.00
Net Book Value	4,000.00
NET ASSETS	
Net Asset	4,000.00

c. Disposition of Property

This is recorded and presented following the reciprocal of the above entries, i.e., to close the cost of the property, related accumulated depreciation, and the net book value under the Property and Equipment Fund. Proceeds or cash value, if any, is recognized as Other Income in the Operational Fund (not in the Property and Equipment Fund).

12.2 Ownership

Another issue here is the question of transfer of ownership from the donor to the NPO. In some instances, transfer of ownership from the donor to the NPO is deferred until the end of the project term or is dependent on meeting the agreement within the project period.

Property and equipment should be recognized at the time of ownership. The value of the property can be based on historical cost less depreciation or re-valued at the time of transfer of ownership. In the case of a property acquired from restricted grant/donation and ownership of the property remains with the grantor/donor until the fulfillment of certain requirements, then there should be a disclosure in the financial statements that there are these assets that are in the possession of the NPO but not yet in its name.

12.3 Valuation of Received Donated Properties

Many NPOs receive donated property and equipment; however, the historical record of the property may not be readily available, so donated properties are usually valued at fair value at the time of donation or transfer of ownership.

12.4 Depreciation Method

There are various methods of depreciation. Every method has its own justification. Generally for NPOs, the straight-line method is used over the estimated useful life of the property as most properties are identified with its usage over a specific period. An option is to use the written-down value or impaired value method.

12.5 Impairment of Assets

Impairment of assets shall be guided by IAS 36.