**Furniture and Equipment: Depreciation, Reconciliations Reports and Centralized Functions**

# Depreciation

1. Depreciation is the measure of wearing out, consumption or other loss of value of a fixed asset over its useful life. This is also known as ‘depreciation expense’, which is expensed over the life of the asset rather than when the asset is paid for.

1. Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. The residual value of an asset is the estimated amount that would currently be obtained from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. In UNDP the residual value is set at “0”.

1. Depreciation will begin when asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management until the asset attains its full established useful life or is transferred, sold or donated. On retirement of the asset, depreciation will be run to its penultimate month (month before disposal month) i.e. it will not be depreciated in its final month. Please note that depreciation is not budget checked and has no impact on resources. The full asset cost impacts resources at the time of purchase. Subsequent depreciation serves the purpose of allocating this cost over the useful life of the asset. Depreciation will be an automated process that will be run at HQ level.

1. The useful life is defined as the period of time over which an asset is expected to be available for use. In UNDP, the useful lives for various categories have been established based upon UNDP’s practices of retaining assets in use with the intention to seek a **reasonable average useful life** across all the population of similar assets within UNDP. Therefore some assets may be disposed of prior to reaching their useful life, following a review of their usefulness at their recommended replacement life. Equally, other assets may be retained in service for periods longer than their useful lives, for operational reasons. The number and original cost of assets retained beyond their useful lives will be disclosed in UNDP’s financial statements.

1. The useful lives of UNDP assets shall be reviewed at each annual reporting date and if expectations differ from previous estimates, the change(s) shall be accounted for as a change in accounting estimate prospectively by including it in the surplus or deficit in the period of the change, if the change affects the period only or the period of the change and future periods, if the change affects both.

# Reconciliation

1. Reconciliation is an accounting process used to compare two sets of records to ensure the figures are in agreement and are accurate. Given that the furniture and equipment data will be initiated in one module and ultimately recorded in the Quantum Asset Module as well as the General Ledger Account, there will be a need to reconcile the data and information in the three modules in Quantum on a monthly basis. In addition to reconciliations of accounting data there will also be a requirement to reconcile the physical verification exercise results with furniture and equipment records. The inter-module reconciliation will be carried out at HQ by the General Operations (GO/BMS), while the reconciliation of physical verification to asset records will be carried out by each CO or HQ unit.

1. Due to the need to verify the accuracy of records through reconciliations and for purposes of preparing accurate asset information for the financial reporting, there are various reports designed to assist the users to perform the functions of reconciliation and review of asset records. For more details on the types of reports, please refer to the sub section on Reports.

# Centralized Functions

1. Centralized functions are those functions that will be performed only by the GSSC and UNDP NYHQ through Accounts Division, OIMT or by General Operations as detailed out below.

# Flowchart

[Month End Process under IPSAS including Depreciation](https://popp.undp.org/node/3736)

# Depreciation Method

1. Each item of Furniture and Equipment shall be depreciated when it is available for use (i.e. tagged as in-service within the Asset Module), using the straight-line method or equal apportionment/ constant charge over its useful life, on a monthly basis, using the actual month convention. Depreciation calculations and charges will be carried out in Quantum and the necessary expense entries posted to the chart of accounts (COA) associated with the asset. It is for this reason that it is critical that the COAs associated with the assets are accurate and valid.

# Accounting Useful life

1. The useful life is defined as the period of time over which an asset is expected to be available for use. In UNDP, the useful lives for various categories have been established based upon UNDP’s practices of retaining assets in use with the intention to seek a reasonable average useful life across all the population of similar assets within UNDP. In determining the useful lives of various items under Furniture and Equipment the following factors have been considered:

* 1. The expected usage of the asset by the entity;
	2. The expected physical wear and tear on the asset;
	3. Technical obsolescence;
	4. Legal or similar limits on the use of the asset, such as the expiry of related leases

1. The following are the useful lives of various classes of Furniture and Equipment:

| *Class* | *Depreciable Life* |
| --- | --- |
| IT & Communication Equipment | 8-20 years |
| Heavy Machinery and other equipment | 20 years |
| Vehicles | 12 years |
| Furniture  & Fixtures | 15 years |

1. The actual month convention requires that, if an asset were placed into service on January 28, 2010, then the depreciation charge would be for a full month of January and not just for three days. Therefore depreciation will be charged in full during the month when asset become available for use. *No* depreciation will be charged in the month of disposal, irrespective of the disposal date.

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1. The number and original cost of assets retained beyond their useful lives will be disclosed in UNDP’s financial statements (fully depreciated assets).

# Recommended Replacement Life

1. For operational purposes and to ensure safety standards, UNDP has a set of recommended replacement lives for assets that are to be used to trigger the review of the asset condition and for disposal if assessed to be ready for disposal.

1. When determining whether or not an asset should remain in use or is to be disposed, please consider that ICT assets (from desktops, laptops, servers, printers, video-conferencing equipment, etc.) may need to be replaced when one or more of the conditions below are met:

* 1. The life of an ICT asset reaches End of Support by the manufacturer, and/or
	2. A manufacturer’s extended warranty expires, and/or
	3. The annual extended warranty cost for an ICT asset exceeds net book value, and/or
	4. An ICT asset is no longer compatible with UNDP standard Operating System, Personal Productivity Tools (word processing, spreadsheet, presentation, etc.), and UNDP enterprise applications such as Quantum ERP, Email and Unified Communication systems, and/or
	5. Costs to address/prevent risk of security or repair of an ICT asset exceed its value.

1. The table below reflects the recommended replacement lives to be used for assessing whether or not an asset should remain in use or is to be disposed. Because these recommended replacement lives are different from the accounting useful lives used for depreciation, there will be instances where UNDP offices dispose assets that still have NBV within the records. The project will absorb the remaining NBV less any cash from sale of the asset as an expense. The recommended replacement lives are as follows:

| **Classifications of ICT Assets** | **Recommended Replacement Life (Years)** |
| --- | --- |
| Desktops | 4 |
| Laptops | 4 |
| Servers  | 7 |
| Network/Telecom Equipment | 7 |
| Printers | 4 |
| Video Conferencing Equipment | 4 |
| Other Equipment (with purchase value of >=$50,000 | 10 |
| **Communications & Other Equipment include:** |  |
| A. Automated file storage equipment | 7 |
| B. Equipment for production, storage, and viewing of microforms. | 7 |
| C. Document processing equipment such as photocopiers, mail handling equipment, check handling equipment, and shredders | 7 |
| D. Television studio, cameras, and other photographic equipment | 7 |
| E. Printing and binding equipment | 7 |
| F. Office equipment, devices, and machines other than IT equipment | 7 |
| G. Uninterruptible power supplies (UPS) | 7 |
| **Other classes of assets** |   |
| Heavy Machinery and other equipment | 10 |
| Vehicles | 5 |
| Furniture and Fixtures | 8 |

# Residual Value

19. UNDP has determined that, given the expected pattern of usage, there are no residual values for any fixed assets following full depreciation. The residual value of all UNDP Furniture and Equipment will be zero after depreciation. All assets that remain in use with zero net book value will be disclosed in the financial statements at the end of every financial year.

# Reconciliation

20. The following reconciliation reviews will be carried out by the relevant sections or divisions. Most are prepared by the Quantum system.

| ***Reconciliation Review*** | ***Periodicity*** | ***Responsible Unit*** |
| --- | --- | --- |
| 1.     Quantum Asset Module to GL Asset Accounts | Quarterly | General Operations/BMS |
| 2.     Quantum items procured (P2P) to Quantum Asset Module  | Monthly | General Operations/BMS |
| 3.     Clearing Account Transactions to Assets Recorded in the Quantum Asset Module | Monthly | Accounts Division |
| 4.    Asset Movement Schedule Reconciliation1. Opening Balance
2. Acquisitions
3. Adjustments
4. Disposals
5. Closing Balance
 | Quarterly | General Operations/BMS |
| 5.     Physical Verification Results to Quantum Asset Management Reports -  | Bi-Annual | All Business Units-HQ and CO  |
| 6.    Depreciation Charge-Global Reconciliation |  Quarterly | General Operations/BMS and Accounts Division, NYHQ |

**Reports**

The following reports will be available for management and operational use:

**Management reports:**

1. AM Detail Report – In Service Report
2. AM Transaction Detail Reports (Acquisition, Adjustment, Transfers, and Disposals)
3. AM Summary Report

**Operational reports:**

1. Re-categorization
2. UNDSS Report
3. Depreciation by Period
4. Net Book Value Report – by asset ID, BU, OU.
5. Asset Reclassifications

**Centralized Functions**

The following functions will be carried out by GSSC and General Operations/BMS:

# Global Shared Service Centre (GSSC)

1. Process all Asset Management transactions and corresponding GLJEs relating to basic add, disposals, asset transfers and asset impairment
2. Update status to in—service for assets that were put into service that had been FOB,

CFR, CIS, or awaiting allocation

1. Capitalize UNDSS assets shipped directly to the CO by UNDSS
2. Recording of UNDP share of common assets through CSA
3. Review and classify Leases and record identified Finance Leases.
4. Support the Country Offices in implementation of key IPSAS related processes that pose an audit risks.
5. Review and process exceptional requests such as cost adjustment and asset recategorization
6. At time of capitalization and or transfer GSSC will review the chart of account combinations to ensure assets are recorded against valid chart fields.
7. Process requests for change COA of assets and create adjusting GLJEs
8. Advise General Operations/BMS and OIMT of any system limitations in processing asset management transactions in Quantum for re-configuration
9. As custodians of the UNall asset submissions, ensure that cases are regularly reviewed for consistency, integrity, user friendliness and upgrade.
10. Communicate to business units any UNall upgrades, offer trainings and webinars and ensure compliance with the UNall’s requirements as a document repository
11. Process approved asset impairment requests
12. Regularly review the chart of account combinations to ensure assets are recorded against valid chart fields.

# Headquarters

***General Operations/Bureau for Management Services***

## Monitoring

1. Monitor dashboards
2. Follow up with the GSSC and Cos/HQ Units on the errors/corrections
3. Inter-module reconciliation
4. Process and review accuracy of depreciation charge

## Guidance

1. Provide overall policy guidance to GSSC as well as the Cos/HQ Units
2. Review operational issues that need to be addressed through policies

## Transactions

1. Review/approve write-off request
2. Regularly review Asset Registers & Dashboard for exceptional items under disposals
3. Develop training packages for use by GSSC
4. Review depreciation via dashboards
5. Reconciliation of the AM module

*Reporting*

a) Develop reports to be used by offices and HQ for monitoring and operational purposes.

## Accounts

1. Make adjusting entries at the GL level
2. Review depreciation at the GL level
3. Presentation of financial information on assets in the financial statements and appropriate disclosures

## OIMT

1. Run monthly depreciation, accounting entries generation and posting processes
2. Interface Assets from AP to AM
3. Develop reports
4. Process system change requests