MASAKA DIOCESAN HEALTH OFFICE

LOWER LEVEL HEALTH UNITS'

FIXED ASSETS MANAGEMENT

GUIDE

NOVEMBER 2021

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LIST OF ACRONYMS

ASL	=>	Approved Suppliers List
CC	=>	Contracts Committee
EC	=>	Evaluation Committee
HC	=>	Health Centre
HOD	=>	Head of Department
HR	=>	Human Resource
HUMC	=>	Health Unit Management Committee
LLHU	=>	Lower Level Health Units
LPO	=>	Local Purchase Order
MD	=>	Masaka Diocese
PDC	=>	Procurement & Disposal Committee
PCAC	=>	Procurement Complaints Appeal Committee
PO	=>	Purchasing Officer
POO	=>	Pre-Qualification Questionnaire
Qty	=>	Quantity
SYD	=>	Sum of the Year Digits
UD	=>	User Department
VAT	=>	Value Added Tax
Wt	=>	Weight

FOREWORD

Just like the Procurement and Disposal Guide, this Guide has been prepared after sighting numerous and persistent fixed assets management deficiencies in many of our Health Centres.

This Guide is among others, meant to help the In-Charge(s) and their teams to understand the minimum requirements relating to the management of Fixed Assets.

Once in operation, we believe this Guide will enhance clarity in financial decision-making in relation to fixed assets. It will also ensure an appropriate balance between flexibility and efficiency, transparency and accountability of fixed assets management.

The better and more effectively the Health Centres will manage their assets, the greater the prospect of maximizing value from these assets.

Otherwise, without fixed asset management the Health Centres may experience: unplanned interruptions, equipment failures, misplaced or lost inventory and failure to meet compliance or regulatory standards.

So, we are hopeful that this Guide will help all staff members involved in the various fixed assets management actions conducted in the Lower Level Health Units of Masaka Diocese.

1 INTRODUCTION

Both procurement and fixed assets management play a very significant role in determining an entity's success or failure.

Whereas procurement is the process of sourcing and acquiring purchases to satisfy a specific need, fixed assets management is an accounting process that seeks to track fixed assets for the purposes of financial accounting, preventive maintenance, and theft deterrence.

2 PURPOSE OF THE GUIDE

This Guide is meant to ensure uniformity and standardization in fixed assets management, amongst HCs in Masaka Diocese.

The Diocesan Health Coordinator's Office is desirous to have in place a harmonized policy, procedures and guidelines in managing of fixed assets in all its HCs.

3 HIGHLIGHTS ON FIXED ASSETS MANAGEMENT

3.1 Defining Fixed assets management

Fixed asset management is the process of tracking, maintaining and disposing off an entity's fixed assets to prevent any kind of loses.

In fixed assets management, often more attention is given to the stage of disposal. Many policy documents prioritize procurement and disposal only, yet also other aspects of fixed assets management are equally important.

Due to absence of fixed assets registers, many HCs face a significant challenge of trailing the location, quantity, condition, and maintenance and depreciation status of their fixed assets.

3.2 Describing fixed assets

A fixed asset is a long lasting, tangible piece of property owned by the HC. When an asset is acquired, it should be entered in the fixed assets register so as to be recorded as a fixed asset in the balance sheet. In other words, the asset should: -

1. Have a useful life of greater than one year
2. Retain its original shape and appearance with use.
3. Be of significant value – i.e. should have a value greater than the capitalization threshold

The capitalization limit is the amount of expenditure below which an item is recorded as an expense, rather than an asset.

3.3 Custody and Control

All assets purchased using the HC's funds/money are owned by the HC until they are disposed of. HC assets must be acquired, recorded, safeguarded, transferred and disposed of in a responsible and accountable manner, and are to be controlled and safeguarded against misuse, loss, theft or damage.

3.4 Recognition Criteria

An asset is to be recognized in the HC's books when:

1. The risks and rewards of ownership of the asset have passed from the supplier to the HC
2. The cost (or fair value in the case of donated assets) can be measured reliably
3. The asset complies with the HC's capitalization thresholds

3.5 Capitalizing vs expensing

Capitalizing and expensing is an important aspect of a HC's financial decision-making. Entities have two options when adding a cost to their financial statement. They can either expense it or capitalize it.

If the HC chooses to expense the cost, it is subtracted from the revenue in the income statement to determine the surplus. On the other hand, when a HC capitalizes a cost, it is going to count towards capital expenditures, which in this case is referred to capitalization.

Capitalization in this case means accounting for a purchase in the HC's Balance sheet as an asset. In this case, the income statement will only feature the appropriate depreciation of the asset.

3.6 Capitalisation Thresholds

The HC follows the same procurement policies and procedures for the purchase of fixed assets as it does for the purchase of any other goods and services.

Capitalized items must be assets that the HC owns or controls and must have future measurable economic value.

In our HCs, assets are to be classified as capitalized fixed assets if their cost value is greater or equal to 200,000/= (including VAT).

Such fixed assets are capitalized because of their considerable value, for computation of depreciation and the resultant inclusion in the Balance sheet.

If purchased items do not fit the above mentioned parameters, then they should not be capitalized. They should instead be merely expensed.

3.7 Categorizing of fixed assets

Fixed assets should be recorded at cost of acquisition. Cost includes all expenditures directly related to the acquisition and the preparations for its intended use.

There are numerous categorizations of fixed assets. Fixed assets can be categorized by either their cost value, their form or their function.

3.7.1 Classification criteria by value

Fixed assets are hereby broken into two major categories i.e. capitalized fixed assets and inventoried fixed assets.

1. **Capitalized fixed assets**

Capitalized fixed assets are those fixed asset recorded or acknowledged as assets in the balance sheet SOFP. It is this act that is called “capitalizing".

All assets whose cost value is greater or equal to 200,000/= (including VAT) are to be classified as capitalized fixed assets.

All capitalized fixed assets must: -

a. Be depreciated.
b. Be recorded in the Health Unit's fixed assets register.
c. Not be removed from the Health Centre's premises, or used other than in course of the HC's proposes, except with approval of the respective delegated authority.

2. Inventory fixed assets

Inventoried fixed assets can be those items whose cost value is between 1,000/= and 49,999/= (including VAT). These items are expensed off in the year of acquisition, <u>but are maintained on the inventory lists</u>.

All Inventoried fixed assets must be recorded in the HC's Inventory lists, but may not be depreciated.

However, with the above perspective of inventoried fixed assets, it implies that all fixed assets whose cost is below 1,000/= are directly expensed and such assets need not to be put on the inventory lists.

3.7.2 Classification criteria by form / function

Here we have the tangible and intangible fixed assets. Tangible fixed assets generally refer to assets that have a physical value. Such assets are normally referred to as Property, plant, and equipment (PPE).

The opposite of tangible assets are intangible assets, such as patents, trademarks and copyright. These all have an intangible value as they usually have little value to anyone outside of the given business.

Following are the most common classifications by form, function, usage, purpose or task:

	Class	Notes
1	Land	This is the only asset that is not depreciated, because it is considered to have an uncertain useful life.
2	Buildings	This account may include the cost of acquiring a building, or the cost of constructing one.
3	Construction in progress.	This account is a temporary one, and is intended to store the ongoing cost of constructing a building.
4	Vehicles	This include motor vehicles, motorcycles, bicycles and all machines that transport people or goods.
5	Computers & accessories	Includes desktop and laptop computers. For the accessories we can include a broad array of computer equipment, such as routers, servers etc.
6	Furniture and fixtures.	This is includes diverse assets as desks, tables, chairs, storage racks, and office cubicles.
7	Medical equipment	Medical equipment consists of assets employed for the diagnosis, monitoring or treatment of medical conditions.
8	Machinery and equipment	This includes machinery and equipment not elsewhere classified.

3.8 Responsibility of Administrators

The HC's assets should be acquired, recorded, safeguarded, transferred and disposed of in a responsible and accountable manner, and are to be controlled and safeguarded against misuse, loss, theft or damage.

The In-Charge is responsible for the custody and control (i.e. safeguarding) of all the HC's fixed assets. S/he has to: -

1. Verify with physical checking and documentary evidence, the receipt of all newly acquired/purchased fixed assets;
2. Make certain that such assets are recorded in the appropriate forms (i.e. fixed asset registers or inventory lists);
3. Track their movement whenever changes in possession are made i.e. from one person / department to the other.

In case of any loss, spoilage or theft, S/he has to ensure that a written report is made through her / him by the concerned person for submission to the HUMC.

3.9 Fixed Assets Registers

Maintaining and updating the Fixed Asset Register is the responsibility of the In-Charge, who however may delegate this role to the Cashier/ Accountant.

All items of property, plant and equipment meeting the recognition criteria and capitalization thresholds must be entered into the fixed asset register.

The fixed assets register should record details which should among others include the following:

1. Asset number
2. Asset description
3. Asset class
4. Asset custodian
5. Location
6. Serial number (if provided)
7. Model number (if provided)
8. Acquisition date
9. Original purchase cost
10. Purchase reference
11. Estimated useful life
12. Accumulated Depreciation
13. Current year additions, disposals, depreciation expense, reclassifications and revaluations.

A physical count should be conducted at least once every other fiscal year for all fixed assets. Stock takes are undertaken to:

1. Verify the existence of assets recorded in the fixed asset register
2. Assess the serviceability of assets
3. Identify any loss or theft of assets

Revaluation of fixed assets may be conducted as often as required as considered appropriate by the HUMC.

3.10 Depreciating fixed assets

3.10.1 Defining depreciation

Depreciation is the term most often used to indicate that tangible assets have declined in service potential. It is process of allocating the cost of the asset to operations over the estimated useful life of the asset.

3.10.2 When to commence and end depreciation

Depreciation will have to be provided for all HCs property, plant and equipment other than land, buildings under construction and plant and equipment in progress.

Depreciation is to be calculated annually. Generally, the depreciable amount of an asset should be allocated on a systematic basis over its useful life.

Much as depreciation of an asset should ideally begin when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, for convenient computations, no depreciation is to be charged neither in the year of acquisition nor disposal.

Also to note is that, depreciation will not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

3.10.3 Types of depreciation Method

Depreciation expense is used in accounting to allocate the cost of a tangible asset over its useful life. In other words, it is the reduction in the value of an asset that occurs over time due to usage, wear and tear, or obsolescence.

There are several methods of computing depreciation. But, the depreciation method used should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

The three most common methods used for calculating depreciation expense are:

1. <u>Straight-Line Method</u>: –
   With this method the expense amount is the same every year over the useful life of the asset. There is constant charge over the useful life if the asset's residual value does not change.

   Depreciation Formula: Depreciation Expense = (Cost – Salvage value) / Useful life

2. <u>Diminishing Balance Method</u>: –
   With this method an asset is expensed at a set percentage, and there is a decreasing charge over the useful life of the asset. The earlier periods bear a greater portion of the cost of consumption than later periods

   This method results in a larger amount expensed in the earlier years as opposed to the later years of an asset's useful life.

   Depreciation Formula: Depreciation Expense = Depreciation charge per year = (net book value – residual value) x depreciation factor

3. <u>Sum-of-the-years-digits method</u>: -

With this method a higher expense is incurred in the early years and a lower expense in the latter years of the asset's useful life.

In the sum of the years digits depreciation method, the remaining life of an asset is divided by the sum of the years and then multiplied by the depreciating base to determine the depreciation expense.

Depreciation Formula: Depreciation Expense = (Remaining life / SYD) x (Cost – Salvage value)

SYD = Sum of the years digits

Example
ABC HC purchases a machine for Ugx 100,000. It has an estimated salvage value of Ugx 10,000 and a useful life of five years. The sum of the years' digits depreciation calculation is:

$$SYD = \frac{n(n+1)}{2} \quad \text{where n = estimated useful life}$$

$$SYD = \frac{5(5+1)}{2} = 15$$

This formula yields the sum of each year of the estimated useful life:
1 + 2 + 3 + 4 + 5 = 15

Schedule depicting the computation of SYD method of depreciation

Year	Remaining estimated useful life at beginning of year	SYD	Applicable percentage	Annual depreciation
1	5	5/15	33.33%	30,000
2	4	4/15	26.67%	24,000
3	3	3/15	20.00 %	18,000
4	2	2/15	13.33%	12,000
5	1	1/15	6.67%	6,000
Totals	15		100.00%	90,000

3.10.4 The adopted depreciation Method

The HCs are to use the Reducing balance method of depreciation because this method reflects the fact that assets are typically more productive in their early years than in their later years.

Also, the practical fact is that any asset (think of buying a car) loses more of its value in the first few years of its use.

Accordingly, the reducing balance method is preferred because it results in depreciation expenses that reflect the assets' productivity, functionality, and capacity to generate revenue.

3.10.5 Depreciation rates

The service life of a fixed asset for financial reporting may be arrived at, by management after considering some of the following factors:

1. Type of asset
2. Condition when purchased: New or used
3. Past experience
4. Expected usage: Normal or excessive
5. Expected obsolescence / scrap value

The overview of the proposed depreciation rates and useful lives for HC's assets could be as follows:

	Class	**Depreciation rate**	**Useful life**
1	Land	0.00%	Unlimited years
2	Buildings	2.00%	20 years
3	Construction in progress	0.00%	Not yet complete
4	Vehicles	20.00%	5 years
5	Computers & accessories	33.30%	3 years
6	Furniture and fixtures.	10.00%	10 years
7	Medical equipment	20%	5 years
8	Machinery and equipment	20.00%	5 years

3.11 Fixed assets disposal

3.11.1 Definition of disposal

Disposal is the action or process of getting rid of something. In the context of this guide, fixed assets disposal can mean reallocation, donation, write off, sale, loss / theft.

Disposal is an aspect of fixed assets management, indeed it is last stage of the fixed assets management cycle. The cycle literally begins with procurement.

Based on the above interpretation, fixed asset disposal is the removal of a long-term asset from the HC' accounting records.

3.11.2 Qualifications for disposal

Normally, fixed assets can be available for disposal because they are:

1. No longer required due to changed procedures, functions or usage patterns
2. Occupying storage space and not being needed in the foreseeable future
3. Reaching their optimum selling time to maximize returns
4. Part of an asset replacement program
5. Required to be disposed of under a particular policy
6. Technologically obsolete and operationally inefficient
7. No longer complying with workplace health and safety standards

8. Beyond repair but able to be sold for scrap

UDs are encouraged to recommend the disposal of assets where the cost of holding the asset exceeds its benefits.

3.11.3 Benefits of disposal

Fixed assets disposal is an important concept because capital assets are essential to successful health care operations. Moreover, proper accounting of the disposal of an asset is critical to maintaining updated and clean accounting records.

Otherwise, the benefits of timely and proper disposal of fixed assets to the HC, are but not limited to the following:

1. Reducing or avoiding unnecessary logistical costs such as storage and handling costs. ·
2. HCs can recoup some reasonable value from the said obsolete items.
3. Timely disposal makes property available to other sections of the HC i.e. by using another department's idle equipment.
4. If not compliant or properly done and in a transparent manner, HCs are susceptible to losing funding.

3.11.4 Methods of disposal

Fixed assets may be disposed of by:

1. Direct sale either internally or externally
2. Sale by auction
3. Disposal by scrapping or dumping where the asset has little or no resale value
4. Donation / Transfer to another Health Centre

On offering items for sale, the HC must be careful to not misrepresent the items or offer any kind of warranty I.e. all items are to be sold on **"as is", "where is"** basis with no guarantee or warranty expressed or implied as to the condition of the items.

The above expression implies that, there will be "no refunds" made to the purchasers after paying for the disposed items.

Choice of the most appropriate disposal option will normally be influenced by the nature of the items for disposal and by their location and market value.

3.11.5 Other considerations of disposal

3.11.5.1 Inappropriate disposals methods

1. Throwing equipment and materials in the trash.
2. Putting equipment in the lobby / hall under a sign saying "Free".
3. Taking home equipment, materials, supplies, or unusable parts for personal use.
4. Donating equipment without appropriate approval and authorization.

3.11.5.2 Authorisations for disposal of fixed assets

The authorization mandate for the procurement and disposal: -

1. Of all capitalized fixed assets is vested in the HUMC.
2. Of all inventoried fixed assets is vested in the PDC

3.11.5.3 Reporting of disposals of assets

Adequate documentation about the disposal must be completed and retained by the Finance Office. The following essential information should be provided in the disposal report:

1. Asset description
2. Asset number
3. Disposal date
4. Sale price
5. Receipt No. / Account Number (where sale proceeds are credited)
6. Disposal method
7. Sold to

3.11.5.4 Revenue Item Codes for Proceeds from Disposal

All sale proceeds from the disposed of assets have to be acknowledged in the HC's books of accounts. These may be recorded as "Sale of Assets" or split as follows for better trailing or the resultant incomes from the disposals: -

a. Sale of Depreciated Assets – i.e. this code is to be capturing the gross cash proceeds or trade-in value from the disposal of assets recognized in he fixed asset register.

b. Sale of Non-Depreciable Assets i.e. this code is to be capturing the gross cash proceeds or trade-in value from the disposal of assets not recognized in he fixed asset register.

4 APPENDICIES

4.1 Approval of the Guide

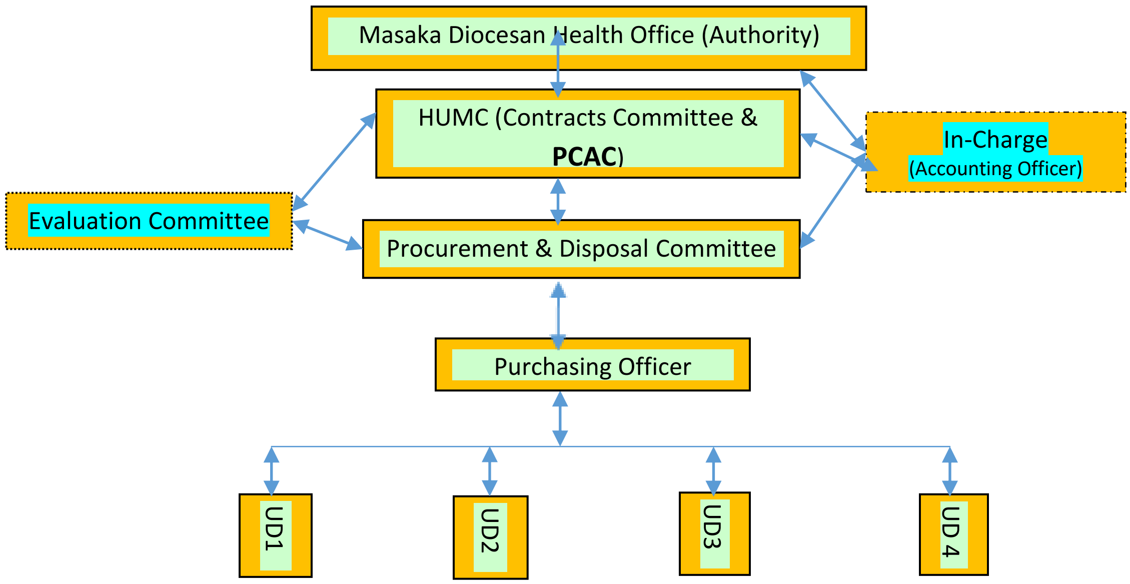
The following persons on behalf of Masaka Diocesan Health Board hereunder cause their respective hands in approval this Guide on this day of …………………… and shall be in effect from the day of …………………………………………..

	Designation	Name	Telephone	Signature
1.				
2.				
3.				

Stamp /Seal

4.2 Procurement and Fixed Assets Management Structure in MDLLUs

PROCUREMENT AND FIXED ASSETS MANAGEMENT STRUCTURE IN MASAKA DIOCESAN HEALTH CENTRES



Key:
HUMC – Health Unit Management Committee
PCAP – Procurement Complaints Appeal Committee
UD – User Department