

FIXED ASSET MANAGEMENT		Document No: 01
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## **Purpose**

The purpose of this guideline is to establish procedures for the Organisation's fixed assets management. This is to ensure:

- The existence of a uniform format and method of preparing and submitting request for capital acquisitions and disposals;
- All fixed asset purchases and disposals are properly authorised, recorded and assigned a depreciation life;
- That the costs of using fixed assets are adequately matched with the benefits generated from their use; and
- The protection of Organisation's assets from any physical loss by theft. Utilize asset record for insurance purpose. In the event of a loss it is necessary to have an accurate record of the asset to ensure adequate insurance coverage of the item lost.

## **Scope**

The processes in this manual cover significant procedural aspects of the Organisation's fixed assets management including acquisition, custody, maintenance, disposals and transfers.

## **Attachments**

Attachment 1: Fixed Asset Requisition Form  
Attachment 2: Fixed Asset Release Form

## **Associated Documents**

1. Delegation of Authority Limit

## 1.0 DEFINITION

'**Fixed Asset**' is defined as those assets that provide benefit to the Organisation extending over more than two accounting periods. Fixed assets are durable and subject to depreciation over their expected/estimated useful life with the exception of lands, which usually appreciate. Fixed assets shall include office equipment, computer equipment (hardware and software), furniture, fixtures and fittings, motor vehicle, renovation works, general equipment and/or machinery and emergency response assets, tools and equipment.

'**Depreciation**' is the measure of the wearing out, consumption or other loss in value of fixed asset whether arising from use, passing of time or obsolescence through technology or market changes.

'**Accumulated Depreciation**' is the total amount of depreciation charged against income for an asset at the end of an accounting period and it does not reflect true losses in the market value of an asset.

'**Gross Book Value**' is the total cost to the Organisation of acquiring a fixed asset and locating it in its first place of operation. Therefore GBV include cost of asset itself, labour required in construction and initial freight and transportation expenses (if any).

'**Net Book Value**' is Gross Book Value less accumulated depreciation and a value at which organisation carries an asset on its Balance Sheet.

'**Capex**' is capital expenditure on a new asset, excluding transfers. Capex is the acquisition or right to use, or the improvement of assets including purchase, lease, improvement or modification of land and buildings and purchase, lease, improvement or rearrangement of machinery, equipment, motor vehicles, furniture, fixtures, computer hardware and software.

## 2.0 GENERAL CAPITALISATION POLICY

2.1 Capitalisation of fixed assets refers to accounting treatment reserved for the purchase of items to be used in the operation of the business. The process entails recording the purchase as an asset instead of a period expense, then amortizing, or depreciating, portions of the purchase price over a set period, in regular intervals. This allows the organization to spread the cost of the asset over its useful life and avoid drastic impacts to the income statement in the period the asset was purchased.. The Organisation shall treat as capital assets for any assets for which the Organisation has title with an expected useful life beyond one (1) year; together with any expenditure relating to the alteration, modernization of such asset which appreciably prolongs that item's period of usefulness, increases its value, or improves its utility to the Organisation.

2.2 A fixed asset will be capitalised as a Balance Sheet item when:

- i) It is separately identifiable;
- ii) The Organisation has the access to the benefits and risks associated with the use of it;
- iii) It is held by Organisation for the use in the rendering of service, rental to others and administrative purposes;

- iv) Its purchase is not for the purpose of resale or to be consumed as part of products or services;
  - v) Its expected/estimated useful life is at least one year; and
  - vi) Its purchase price is more than RM800.00 per item.
- 2.3 In addition to the above, the cost of major overhauls or modifications to Organisation's equipment and motor vehicles is eligible for capitalisation as fixed asset when all the following conditions apply:
- i) The amount is more than RM1,000.00; and
  - ii) It will increase the useful life of the asset by at least one year.
- 2.4 Renovation of an office building for the use in business operation and administrative purposes is capitalised as fixed asset. Any plumbing costs and costs to install wires and cables for electricity and telecommunication purposes are capitalised together with the construction costs of the building. Any item that can be separately identified from the renovation, such as an air-cond unit, shall be capitalised as a separate fixed asset, if it satisfies the requirements in (2.2) above.
- 2.5 Mercy Malaysia has a few categories of fixed assets capitalization as per Para 3.0 below.

### 3.0 MERCY MALAYSIA FIXED ASSETS CAPITALIZATION

#### General Fixed Assets

**MM** general fixed assets are assets that are acquired for use within the organization mainly for office, administration or operations support. The assets will be capitalized according to the MM General Capitalization Policy as 2.0 above. Fixed Assets are broken down into two broad categories:-

1. Real Property : Land & Building – determined by an appraisal.
2. Equipment : Computer, Motor Vehicle, Renovation, Furniture & Fittings etc – determined by the purchase amount.

#### Emergency Response & Operations Equipment and Assets

The emergency response and operations equipment and assets could be of any specific items such as generator set, mobile clinic tents and accessories, medical equipment, high-technology communications equipment, satellite phones, boat engines and other such equipment. Apart from that, there are also common day-to-day assets such as hand-phones, laptops, cameras, printers and others that could be acquired and utilized for the response mission.

These assets will be capitalized according to the MM General Capitalization Policy as 2.0 above. However, it should be written off at the point the assets are to be donated during or upon completion of a mission. A write-off process needs to be initiated as per 7.0 below.

The management and administration of the emergency response equipment and assets shall be under the Logistics, Safety, Security Department (LSSMD).

### **Program Assets**

Program assets are assets that are required for a specific program or project which are fully funded by donors or sponsors. These assets are required for MM to perform its obligations towards conducting the said program or project.

These assets could be of any specific items such as generator set, medical equipment, boat engines and other such equipment. Apart from that, there are also common day-to-day assets such as hand-phones, laptops, cameras, printers and others.

These assets are to be charged as part of the program or project expenditure and shall not be subjected to the capitalization policy.

However, for the administration purposes, these assets are to be reported in a Program Related Assets List. The list and the physical assets are to be tracked and/or kept under the LSSMD custody.

## **4.0 FIXED ASSET ACQUISITION**

4.1 All acquisition of fixed asset must be made within the approved Annual budget or Work Plans according to Delegation of Authority Limit (DAL). This is to ensure that all proposals to acquire fixed assets:

- Are carefully evaluated;
- Formally approved at appropriate levels; and as stated in Delegation of Authority Limit

4.2 All acquisition or procurement of fixed assets must be pursued through the Procurement Guidelines and Procedure with a minimum approval by the General Manager (budgeted) or Executive Director (unbudgeted) or other higher authority as stipulated in DAL (3.1 and 3.3)

4.3 Fixed assets acquisition or procurement must be supported by **the Fixed Assets Requisition Form (as per Appendix 1)**

## **5.0 CUSTODY OF FIXED ASSET**

It is essential that there is a proper recording and control of the Organisation's fixed assets and that there is a reasonable assurance that they can be accounted for at all times. This can be achieved by implementing the following procedures:

### **5.1 Maintain a Fixed Assets Register**

All fixed assets are physically tagged and updated in the Fixed Assets Register. A periodic physical identification of assets held and agreed to the register maintained.

### **5.2 Fixed Assets Register (FAR)**

FAR is a register generated by the Finance Department. It contains the details of each asset from all asset groups. The total NBV of fixed assets generated by the FAR must be in agreement with the total value of fixed assets as reflected in the Balance Sheet of the Organisation. FAR is kept to

facilitate monitoring and control of assets in used and should be checked that it tallies with both accounting records and physical assets concerned.

FAR can be maintained on an Excel format and should have the following details:

- i. Acquisition Date
- ii. Description of Assets
- iii. Identification of Assets
- iv. Class of Assets
- v. Location
- vi. Cost of Acquisition
- vii. Accumulated Depreciation
- viii. Net Book Value (NBV)

### 5.3 **Program Related Assets List**

The Program Related Asset List (refer 3.3) is to be maintained by LSSMD. The list must be updated on the movement of the assets. The list should also indicate the original requester (department) for which the request was made for the purchase of the asset.

### 5.4 **Fixed Asset Tag (Identification of Assets)**

Each fixed asset must display a sequentially coded tag to facilitate physical identification with the exception of Motor Vehicles and Fitting and Renovation. This can be pasted, painted or welded to the assets (whichever is the most appropriate).

### 5.5 **Specific Location of Asset**

A brief description of an asset's specific location should be available to speed up any locating and identification task. This information should be incorporated in the FAR.

### 5.6 **Control of Assigned/Unassigned Asset**

#### 5.6.1 **Assigned Asset**

An assigned asset is a mobile asset granted to an approved assignee, which include but not limited to the followings:

- Mobile phone
- Laptop/Notebook and/or accessories
- Special tools or mobile equipment that require specific expertise to operate
- Motor vehicle

#### 5.6.2 **Unassigned Assets (Emergency Response, Operations & Program Related Assets)**

All Emergency Response & Operations Assets and Program Related Assets are to be managed and administered by LSSMD.

LSSMD must ensure that the assets are in good conditions and kept in orderly manner taking into account the safety and security of the assets.

LSSMD will coordinate and/or release the assets for deployment upon receiving the request from any of the Operations departments or Unit and subsequently track the movement of the assets.

### 5.6.3 Unassigned Assets (General Assets)

5.6.3.1 Unassigned asset includes but not limited to the followings:

- All Office furniture
- Computer/Printer
- Television Set
- Telephone Set/Facsimile Machine

5.6.3.2 All staff are required to get approval their Head of Department before moving any unassigned asset from its original location. Once approved, the movement of the said fixed asset shall be recorded in the FAR.

5.6.3.3 The depreciation charges for the above assets will not be charged out to the respective transferee cost centres according to the duration of the assets' use. The charges will still be borne by the cost centre that first requested, acquired and received the particular asset. The charges will rest with the cost centre so long as the transfer period is less than 3 calendar months.

## 5.7 Physical Identification Process

5.7.1 All fixed assets must be physically identified and the associated working papers systematically documented.

5.7.2 Any physical variances from the FAR must be investigated. If an asset is, for example, not at the location where it is supposed to be, appropriate action has to be taken.

## 5.8 Safeguard of fixed assets

5.8.1 All assets of the Organisation must be properly safeguarded from any physical loss by theft or damage. Each asset, other than Motor Vehicle and Fitting and Renovation, must display an asset tag for physical identification purposes.

5.8.2 Any loss of assets must immediately be reported to Head of Department to initiate further action (refer Disposal of Fixed Assets section of this Guideline).

## 6.0 FIXED ASSETS DEPRECIATION

### 6.1 Depreciation Charges

- 6.1.1 The depreciation of fixed assets purchased specifically for the use of office will be charged on a straight line basis to the administrative overhead expenses.
- 6.1.2 The depreciation of fixed assets purchased specifically for the use of office will be charged on a straight line basis to the administrative overhead expenses.
- 6.1.3 The depreciation of fixed assets specifically purchased for a particular project will be charged on a straight line basis as a direct cost to that project.
- 6.1.4 Depreciation shall be charged commencing from the month in which the asset is purchased or fully installed.
- 6.1.5 No depreciation shall be charged in the month of disposal asset.
- 6.1.6 For transfer of asset, depreciation shall be charged to the transferred department in the month of transfer.
- 6.1.7 A monthly depreciation calculation worksheet for all Fixed Assets categories shall be prepared to update the General Ledger.
- 6.1.8 Depreciation charged in the Fixed Asset Register should be reconciled monthly to the General Ledger Balances.

## 7.0 DISPOSAL/WRITTEN OFF OF FIXED ASSETS

- 7.1 Disposal/written off of fixed asset shall take place when the asset is:
  - Obsolete or Expired (obsolescence of machinery parts, expiration of medicines etc);
  - Damaged;
  - Donated to beneficiary
  - Stolen;
  - Lost; or
  - Trade-in for new asset.
- 7.2 A disposal/written off of fixed asset must be made through the **Fixed Assets Disposal Form (as per Appendix 3)** and shall be approved in accordance with the requirements stated in the Delegation of Authority Limit (DAL).
- 7.3 An **Incident Report** would also be required to be completed for assets that were damaged, stolen or lost followed by **Fixed Assets Disposal Form**.
- 7.4 Any fixed assets acquired for a program or project under specific funds, for specific disaster response or other humanitarian programs and subsequently deployed for mission or donated to the beneficiaries will not be capitalized and will be expensed off as charitable or program expenditure. (Refer Program Related Assets 3.3 above)



- 7.5 However, in the above circumstances 7.3, a list of detail assets must be maintained in a Program Related Asset List, which will also indicate the location of assets, custodian (original asset holder/requester) such as Relief Operations Dept. Or Logistics Dept. Or Philippines Office etc, status of assets (in-use at site, donated or other such status) for record keeping purposes.
- 7.6 As for the Emergency Response Clinic Unit (ERU-H) assets, any acquisition or procurement of equipments, tools, fittings and electrical items will be capitalized as the Organisation's assets.
- 7.7 Any such assets as defined in 7.5 and are decided to be donated to the beneficiary at site, must be reported by the custodian i.e. Logistics, Safety, security Management Department. And must be approved as per DAL 5.4.5. The submission of approval should be made through Finance Department using the Fixed Assets Transfer and/or Disposal Form.
- 7.8 Such disposal will be expensed off as charitable expenditure for a particular humanitarian response mission or program.
- 7.9 The Organisation may trade-in its existing fixed asset for a new one when the asset is:
- Obsolete;
  - To be improved/upgraded due to inefficiency;
  - Not operating well; or
  - Damaged.
- 7.10 Disposals shall be at market value.

## **8.0 TRANSFER OF FIXED ASSETS**

- 8.1 The physical movements of fixed assets between:
- one project site to another;
  - Head Office to site vice versa;
- are termed as transfer.
- 8.2 Any transfer or request for usage of fixed assets other than the custodian must be made through the **Fixed Asset Transfer/Usage Request Form (as per Appendix 2)** and shall be approved by the Head of Department.
- 8.3 The Gross Book Value (GBV) and accumulated depreciation are transferred when the asset permanently (refer permanent and temporary transfer below) changes location or cost centre. The costs of transfer are charged to the transferee.
- 8.4 No transfer of GBV and accumulated depreciation will be made in the accounting system to account for temporary transfers.
- 8.5 **Permanent and temporary transfer**

- 8.5.1 Permanent transfer is a transfer that lasts for at least six (6) calendar months and has no current plans of return.
- 8.5.2 Transfer, which lasts less than the aforementioned period is a temporary transfer.
- 8.5.3 Both parties (transferor and transferee) must document details of fixed assets transferred/taken over through the Fixed Asset Transfer and/or Disposal Form and must be submitted to LSSMD (for Emergency, Operations and Program assets) or Finance Department (for the General Assets).