**Financial Management of Property, Plant and Equipment - Appendix D**

**Detailed Guidance on Disposals and Impairments**

**Basic rules for disposals and impairments:** when an asset has been sold, demolished, is no longer in service or its value has been permanently impaired, any remaining value of the asset, net of accumulated depreciation, less any salvage value, must be written off or written down to its net realizable value. This involves removing both the asset and the accumulated depreciation from the general ledger, and recognizing a gain or loss for the difference. Additionally, any remaining plant equity is transferred to operating net assets. Any outstanding loans on debt-financed assets that are being written off must be settled before impairments can be written off.

**Types of disposals:**

SALES OF ASSETS

External – Sales of assets to third parties will result in either a gain or loss on sale. Where proceeds are greater than the net book value of the asset (historical cost less accumulated depreciation), credit the gain to object code 5772, “Gain on sale, Capital Asset^Miscellaneous Income, External.” Conversely, where proceeds are less than the net book value of the asset, debit the loss to object code 8722, “Loss on sale of capital asset.” In either case, the local fixed asset manager or Tub finance office must write off the asset through Oracle Fixed Assets. If the asset is not yet fully depreciated, Financial Accounting and Reporting (FAR) must transfer any remaining plant equity to operating net assets as a below-the-line internal transfer (non-operating activity). See the University’s Internal Transfer Policy for further information: <http://vpf-web.harvard.edu/documents/fa_intrans104.pdf>. When selling assets, any outstanding loans relating to the assets must be settled; consult the Office of Treasury Management (OTM) in these cases.

Internal – When an asset is sold or transferred between tubs or departments, no gain or loss on the transaction may be recorded since the asset is still owned by the University, and gains or losses may not be internally generated. The asset is transferred at the net book value at the time of sale. Transfer request must be done through FAR as the assets need to be reassigned between the two Tubs in Oracle Fixed Assets. Any amount exchanged in excess of the net book value is recorded through the 9300 range of object codes as a below-the-line internal transfer (non-operating activity), and would not affect the net book value of the asset. Tubs transferring assets should contact FAR to ensure that the corresponding plant equity is transferred along with the asset. See the University’s Internal Transfer Policy for further information: <http://vpf-web.harvard.edu/documents/fa_intrans104.pdf>. For buildings, the root number remains the same; FAR updates the root’s attributes to reflect the building’s new owner and any change to the building’s primary use.

DEMOLITION

Partial demolition – In cases where part of a structure is being demolished so that a new addition may be built, the costs related to the partial demolition are capitalized to the new capital project by coding invoices to the CIP object code 1254, “CIP, Demo+Site Prep.” The historical costs associated with the asset that is being partially demolished must be written off in Oracle Fixed Assets. The write-down of a partially demolished capital asset must be done in Oracle Fixed Asset by the Tub’s Financial Office or Fixed Asset Manager. No additional entries are required as Oracle Fixed Assets will record the corresponding loss on disposal and transfer of plant equity.

Full demolition – When an entire building or piece of equipment is demolished, the asset and accumulated depreciation are written off, and a loss on demolition is recorded to object code 8722, “Loss on Sale/Disposal of Capital Asset” for the difference. The costs associated with the demolition are expensed as incurred. The write-off of a capital asset must be done in Oracle Fixed Asset by the Tub’s Financial Office or Fixed Asset Manager. No additional entries are required as Oracle Fixed Assets will record the corresponding loss on disposal and transfer of plant equity. When disposing of assets, any outstanding loans relating to the assets must be settled; contact OTM in these cases.

DEPARTING STAFF/FACULTY TRANSFERS

Equipment assets that are transferred with a departing faculty or staff member are handled based on how the assets have been accounted for and who has title to the assets. Note that school or other local policy may apply.

* If the assets are recorded in Oracle Fixed Assets at zero value for the purposes of tracking, then local asset managers write-off these assets on Oracle Fixed Assets. Typically this is done when faculty members transfer to the University and bring equipment with them. If the University does not have title to these assets, no gain or loss is recorded.
* If the assets belong to the University, then the assets need to be disposed of, with a subsequent gain or loss recorded. Depending on the type of transaction (gift or sale to the faculty or staff member) Payroll should be contacted to ensure any benefit to the faculty or staff member is properly recorded. If cash is exchanged for the asset, FAR must be contacted in order to transfer the corresponding plant equity.
* Questions on how to determine fair market value can be directed to Financial Accounting and Reporting.

SPONSORED ASSETS

* Sponsored assets may require prior approval from the sponsoring agency before disposal or removal from service. For any type of disposal, departments must complete the Notification of Disposal Form or equivalent documentation and provide it to their school’s equipment management office. Disposal of sponsored equipment is subject to the approval and conditions of the federal sponsoring agency.
* If the title of the asset belongs to someone other than Harvard, no gain or loss should be recorded on the transaction. These assets should have a zero value in Oracle Fixed Assets.
* See Appendix A for more information on sponsored assets.

WRITING OFF WORK IN PROGRESS/CONSTRUCTION IN PROGRESS (WIP/CIP)

Equipment work in progress and/or construction in progress costs that have been on the General Ledger for an extended period of time (i.e., more than one year) where the project has been either abandoned or significantly altered from its original plan must be written off. A loss is recorded to object code 8722, “Loss on sale/disposal of capital asset.”

ASSETS NO LONGER IN SERVICE

If assets are no longer in service, they must be written down to their estimated remaining value or, in some cases, written off entirely. This write-down or write-off is accounted for in the same manner described in the “Sales of assets” and “Demolition” sections of this document.

ACCOUNTING FOR FULLY DEPRECIATED ASSETS

Assets that are fully depreciated (i.e., the net book value of the historical cost less accumulated depreciation is zero) **and** that are no longer in use must be written off. This process is performed at the Tub level in Oracle Fixed Assets.

PHYSICAL INVENTORIES

Discrepancies noted during a physical inventory are to be recorded in conjunction with the completion of the physical inventory. Any inventory discrepancies noted during the inventory must be written off in Oracle Fixed Assets. The corresponding loss will be recorded to object code 8722, “Loss on sale/disposal of capital asset.” In addition, any assets that are found to be impaired must be written down to their estimated remaining value.

DISPOSITION

Disposition is the process of removing equipment from inventory that has no further University use. Any piece of capital equipment that no longer functions or for which Harvard has no further use must be disposed of and removed from University records. Disposition is required when equipment is:

* No longer in use nor expected to have future use;
* No longer the responsibility of Harvard University (e.g., transferred or sold); or
* No longer part of the inventory of active items

Equipment purchased with federal or other external sponsor funds are often subject to sponsor-specific disposition restrictions and cannot be disposed of without prior approval. Typically, the “Notification of Disposal Form” or equivalent documentation is required for disposition of sponsored equipment. Contact the Office for Sponsored Programs for more information.

**Impairment:** If assets have been permanently impaired, whether by damage, neglect, obsolescence or a change in the economic landscape, such that future expected cash flows from the assets are less than their net book value on the balance sheet, the assets must be written down to their estimated remaining value or, in some cases, written off entirely. Account for this write-down or write-off in the same manner as described in the “Sales of assets” and “Demolition” sections of this document.

Impairment is defined as the condition that exists when the carrying amount of a long-lived asset exceeds its fair value. Assets should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The following are examples of such events from ASC 360-10 Property, Plant and Equipment:

1. A significant decrease in the market price of a long-lived asset (asset group)
2. A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition
3. A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator
4. An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group)
5. A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group)
6. A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term *more likely than not* refers to a level of likelihood that is more than 50 percent.

Common reasons for impairment include, but are not limited to: missing equipment noted during a physical inventory; damaged or obsolete equipment disposed of; and building renovations of space that impair prior construction projects.

**Timing of recording**: account fordisposals due to sale or demolition and transfers of assets in the month of the disposal or transfer, and no later than quarter end.

**Tub annual review:** Tubs are encouraged to reviewall tub assets (both capital and equipment) at least annually for potential impairments and must record any known write-offs or adjustments of their net book values to the remaining realizable value.

**Examples of Proper Coding for Disposals and Impairments**

1. **On January 15, 20X1, HRES (tub 580) sold a building for $1,000,000 to an external party. The building had an original cost of $700,000 and accumulated depreciation of $210,000 as of January 15, 20X1. This building was debt-financed and there were outstanding loans at the time of disposal.**

*The University begins depreciation in the month the asset was purchased or placed into service, with a full month of depreciation expense recorded at the month-end close. When an asset is disposed, no depreciation expense is recorded in the month of disposal. In addition, since this asset predated the conversion to Oracle Fixed Assets, a full year of depreciation was taken in the year the building was acquired.*

*As the building is not fully depreciated, the plant equity (object code 3800, “CO^Funds invested in Facilities (Plant Equity”) as of December 15, 20X1, is $364,000 ($400,000 - $36,000).*

*The journal entries HRES will record for this transaction are:*

***Part 1: To record the sale and cash receipt***

|  |  |  |  |
| --- | --- | --- | --- |
| ***Object Code*** | ***Debit*** | ***Credit*** | ***Line Description*** |
| Tub: 580Object code: 0375, “Due to/from Consolidated Tub”\* | 1,000,000 |  | Record cash received  |
| Tub: 580Object code: 5772, “Gain on Sale, Capital Asset”Root: 06207 |  | 1,000,000 | Record gross sales price as gain on sale |

\*Since cash is held centrally, HRES’ balance sheet is automatically debited via object code 0375, “Due to/from Consolidated Tub”

**Part 2: To remove the asset and accumulated depreciation from the general ledger, FAR “Retires” the asset from Oracle Fixed Assets. The following entries are automatically generated:**

|  |  |  |  |
| --- | --- | --- | --- |
| ***Object Code*** | ***Debit*** | ***Credit*** | ***Line Description*** |
| Tub: 580Object code: 1630, “Facility Building Accumulated Depreciation”Root: 06207 | 210,000 |  | Remove accumulated depreciation |
| Tub: 580Object code: 8722, “Loss on Sale of Disposal of Capital Asset”Fund: 723001Root: 06207 | 490,000 |  | Oracle Fixed Assets will automatically generate the loss. The funds received will be manually applied in a separate step. |
| Tub: 580Object code: 1200, “Facility Building PIS”Root: 06207 |  | 700,000 | Remove original cost of building |

**Part 3: To pay off outstanding debt on building asset**

|  |  |  |  |
| --- | --- | --- | --- |
| ***Object Code*** | ***Debit*** | ***Credit*** | ***Line Description*** |
| Tub: 580Object code: 3000, “Transfers to/from Unrestricted Designated Balances” | 450,000 |  | To charge Principal Prepayment |
| Tub: 640Object code: 3000, “Transfers to/from Funds Invested in Plant” |  | 450,000 | To record loan payment receivable - Prepayment |
| Tub 580Object Code: 7401, “Facilities Placed in Service Loan Pool Interest Expense” | 5,000 |  | To charge interest payment for prepayment |
| Tub 640Object Code: 7401, “Facilities Placed in Service Loan Pool Interest Expense” |  | 5,000 | To record interest receivable prepayment |
| Tub 580Object Code: 9319, “Trsf to/from Funds Invested in Plant-Debt Pymt-Write off of Retired Assets”Fund: 000001 | 450,000 |  | To transfer to plant equity for principal prepayment |
| Tub 580Object Code: 9301, “Transfers to/from Unrestricted Undesignated Balances”Fund: 723001 |  | 450,000 | To transfer plant equity  |

**Part 4: To reclassify Loss on Disposal against Gain on Sale.**

|  |  |  |  |
| --- | --- | --- | --- |
| ***Object Code*** | ***Debit*** | ***Credit*** | ***Line Description*** |
| Tub: 580Object code: 5772, “Gain on Sale, Capital Asset”Root: 06207 | 490,000 |  | Since there is a net gain of $510,000 for the sale of this asset, reclassify the system recorded loss against the gain recorded in Part 1 above of $1M. |
| Tub: 580Object code: 8722, “Loss on Sale of Disposal of Capital Asset”Fund: 723001Root: 06207 |  | 490,000 | Removes the loss on disposal of the building from the CINA, resulting in a net gain of $510,000 |

**Part 5: To transfer plant equity to unrestricted net assets**

|  |  |  |  |
| --- | --- | --- | --- |
| ***Object Code*** | ***Debit*** | ***Credit*** | ***Line Description*** |
| Tub: 580Object code: 9302, “Transfers to/from Unrestricted Designated Balances”Fund: 723001 | 490,000 |  | Transfer plant equity to unrestricted net assets |
| Tub: 580Object code: 9320, “Transfers to/from Funds Invested in Plant - PIS - Purchases/Sales/Adjs”Fund: 052760 |  | 490,000 | Transfer plant equity to unrestricted net assets |

**Summary of above journal entries:**



1. **On October 12, 20X1, HRES (tub 580) transferred land and a building to UOS (tub 180). The land has a book value of $850,000. The building has a book value of $500,000, and the accumulated depreciation as of September 30, 20X1 was $25,000. As negotiated by the two tubs, UOS agreed to pay HRES an amount of $100,000.** **This building was not debt-financed, and there are no outstanding loans at the time of disposal.**

*As the building is not fully depreciated, the plant equity (object code 3800, “CO^Funds invested in Facilities (Plant Equity”) as of September 30, 20X1, is $475,000 ($500,000 - $25,000). Depreciation will be recorded on tub 180’s books as of October 12, 20X1.*

*The journal entries required to record this internal transfer/sale are as follows:*

***Part 1: To transfer the assets and accumulated depreciation from HRES to UOS. These will be system generated entries as the change of ownership of the asset will be changed in Oracle Fixed Assets.***

|  |  |  |  |
| --- | --- | --- | --- |
| ***Object Code*** | ***Debit*** | ***Credit*** | ***Line Description*** |
| Tub: 180Object code: 1230, “Land Acquisition”Root: 06195 | 850,000 |  | Transfer land from HRES to UOS |
| Tub: 580Object code: 1230, “Land Acquisition”Root: 06195 |  | 850,000 | Transfer land from HRES to UOS |
| Tub: 180Object code: 1200, “Facility Building PIS”Root: 06195 | 500,000 |  | Transfer building from HRES to UOS |
| Tub: 580Object code: 1200, “Facility Building PIS”Root: 06195 |  | 500,000 | Transfer building from HRES to UOS |
| Tub: 180Object code: 1630, “Facility Building Accumulated Depreciation”Root: 06195 |  | 25,000 | Transfer accumulated depreciation from HRES to UOS |
| Tub: 580Object code: 1630, “Facility Building Accumulated Depreciation”Root: 06195 | 25,000 |  | Transfer accumulated depreciation from HRES to UOS |

**Part 2: To transfer plant equity to unrestricted net assets. This is a manual entry processed by FAR.**

|  |  |  |  |
| --- | --- | --- | --- |
| ***Object Code*** | ***Debit*** | ***Credit*** | ***Line Description*** |
| Tub: 580Object code: 9320, “Transfers to/from Funds Invested in Plant”Fund: 723001 | 475,000 |  | Transfer plant equity from HRES to UOS |
| Tub: 180Object code: 9320, “Transfers to/from Funds Invested in Plant”Fund: 723001 |  | 475,000 | Transfer plant equity from HRES to UOS |

**Part 3: To record the negotiated payment of $100,000**

|  |  |  |  |
| --- | --- | --- | --- |
| ***Object Code*** | ***Debit*** | ***Credit*** | ***Line Description*** |
| Tub: 180Object code: 9302, “Transfers to/from Unrestricted Undesignated Balances”Fund: 052671 | 100,000 |  | Transfer UOS’s negotiated payment to HRES  |
| Tub: 580Object code: 9302, “Transfers to/from Unrestricted Undesignated Balances”Fund: 052760 |  | 100,000 | Transfer UOS’s negotiated payment to HRES |

1. **On February 12, 20X2, FAS (tub 370) disposed of a piece of scientific equipment. The equipment had been purchased in January 20X1 for $40,000. The equipment was disposed of as it was no longer functioning. This piece of equipment was not debt-financed.**

*All equipment data is housed in Oracle Fixed Assets, as such, FAS’s Fixed Asset Manager will need to retire the equipment in Oracle Fixed Assets. Oracle Fixed Assets will automatically calculate the net book value and the corresponding loss on disposal. This asset was placed in service in January 20X1, using an 8 year useful life with depreciation starting in the month of purchase. Depreciation is not calculated in the month of disposal. The net book value of this asset is $40,000 less 13 months of depreciation, $5,417, for a total of $34,583.*

The journal entries generated by Oracle Fixed Assets after FAS’s Fixed Asset Manager retires the asset in the system are automatically posted.

**To remove the asset and accumulated depreciation from the General Ledger**

|  |  |  |  |
| --- | --- | --- | --- |
| ***Object Code*** | ***Debit*** | ***Credit*** | ***Line Description*** |
| Tub: 370Object code: 1181, “Equipment, Scientific, Nonsponsored, Accumulated Depreciation” |  5,417 |  | Remove accumulated depreciation |
| Tub: 370Object code: 8722 “Loss on Sale or Disposal of Capital AssetFund: 724001 | 34,583 |  | Record offset to net gain on sale  |
| Tub: 370Object code: 1003, “Equipment, Scientific, Nonsponsored” |  | 40,000 | Remove original cost of equipment |