



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City



CIRCULAR LETTER

No. : 2004-003

Date: October 4, 2004

TO: Heads of Financial Management Services of National Government Agencies, Local Government Units and Government-Owned and/or Controlled Corporations, Chief Accountants/Heads of Accounting Units; COA Assistant Commissioners, COA Directors, Heads of Auditing Units; and All Others Concerned

SUBJECT: **Computation of Depreciation Expense of Government Property, Plant and Equipment with Revised Useful Life and Adjustments Arising from the Revision**

1.0 PURPOSE/COVERAGE

This circular is issued to provide the guidelines on the computation of depreciation expense for Property, Plant and Equipment (PPE) pursuant to COA Circular No. 2003-007 dated December 11, 2003 and the adjustments resulting therefrom in line with the provision of COA Circular No. 2004-005 dated August 9, 2004.

2.0 GUIDELINES

- 2.1 For uniformity, government agencies shall be guided by the revised estimated useful life of the PPE prescribed under Annex A of COA Circular No. 2003-007 dated December 11, 2003. The computation of the depreciation expense shall start on the following month after the purchase/completion of the PPE, irrespective of the date within the month.
- 2.2 The current and subsequent monthly depreciation expense shall be computed as follows:

$$\text{Monthly Depreciation Expense} = \frac{\text{Carrying Amount} - \text{Residual Value}}{\text{Remaining Useful Life}}$$

- Carrying Amount shall be the cost minus the accumulated depreciation
 - Residual Value shall be ten percent (10%) of the cost
 - Remaining Useful Life shall be the revised useful life less the age of the asset expressed in months
- 2.3 Any adjustments arising from the revision on the useful life of the PPE shall be charged to the current and subsequent months' depreciation expenses of the particular asset. Hence, past depreciation expenses need not be corrected/adjusted.
- 2.4 An illustrative computation of the depreciation expense for PPE with revised useful life is presented as Annex A.

3.0 SAVING CLAUSE

Cases not covered in this Circular shall be referred to the Government Accounting and Financial Management Information System (GAFMIS) Office, this Commission, for resolution.

4.0 EFFECTIVITY

This circular shall take effect immediately.


LOURDES B. DIMAPILIS
Assistant Commissioner

Illustrative computation of the depreciation expense with revised estimated useful life**A. Data**Assumptions:

PPE classification:	Machinery and Equipment
PPE account:	Communication Equipment (Code 229)
Acquisition date:	January 1, 1999
Acquisition cost:	P150,000
Residual Value:	P15,000 (10% of P150,000)
Useful Life:	15 years or 180 months
Revised Useful Life per COA	
Circular No. 2003-007:	10 years or 120 months

B. Computation

1. Carrying Amount

Acquisition Cost on January 1, 1999	P 150,000
Less: Accumulated Depreciation as of January 1, 2004	<u>44,250</u>
Carrying Amount	<u>P 105,750</u>

2. Remaining Useful Life in months

Revised Useful Life (10 yrs. or 120 mos.)	120
Age of the asset (5 yrs. - 1 mo.*)	<u>59</u>
Remaining Useful Life	<u>61</u>

*Depreciation shall start on the second month after the purchase/ completion of the PPE (NGAS Manual, Vol. I, Sec. 4, par. O).

3. Monthly Depreciation Expense

$$\begin{aligned} \text{Depreciation Expense} &= \frac{\text{Carrying Amount} - \text{Residual Value}}{\text{Remaining Useful Life}} \\ &= \frac{\text{P}105,750 - \text{P}15,000}{61 \text{ months}} \\ &= \underline{\text{P}1,487.70} \end{aligned}$$

C. Journal Entry

<u>Account Title</u>	<u>Account Code</u>	<u>Dr.</u>	<u>Cr.</u>
Depreciation-Communication Equipment	929	1,487.70	
Accumulated Depreciation-Communication Equipment	329		1,487.70

To record the monthly depreciation expense for the Communication Equipment