

TO : All Heads of Departments, Agencies, Bureaus, Commissions, Boards and Offices of the National Government; Heads of State Universities and Colleges; Local Government Units; Heads of Government-Owned or Controlled Corporations; Commission on Audit Divisions, Supervising Auditors and Audit Team Leaders of the National and Local Government Sectors; and All Other Concerned.

SUBJECT: Guidelines and Procedures in the Conduct of Physical Count of Property, Plant and Equipment (PPE) Accounts, Recognition of PPE Items Found at Station, and Disposition for Non-Existing/missing PPE Items, for the One-Time Counting of PPE Accounts of Government Agencies.

1.0 RATIONALE
Property, Plant and Equipment (PPE) generally constitute a significant portion of the total assets of the government, usually comprising more than fifty percent thereof.

The existence of enormous amounts of discrepancies in PPE account balances of government agencies has become a perennial issue and caused the non-establishment of the accuracy of the PPE balances presented in the financial statements. Such condition, if not properly addressed, would always cause an exception in the fairness of presentation of the financial position of government agencies and will deprive the government of reliable and useful information in decision-making and accountability for these assets.

Thus, there is a need to provide guidelines and procedures to assist government agencies in coming up with accurate PPE balances that are verified as to existence, condition and accountability.

2.0 COVERAGE
This Circular shall cover National Government Agencies, Local Government Units, and Government-Owned or Controlled Corporations.

3.0 PURPOSE
This Circular prescribes the guidelines and procedures on inventory taking, recognition of those found at station and disposition for non-existing/missing PPE items for the one-time counting of PPE accounts in the General Ledger.

4.0 SCOPE
This Circular prescribes the guidelines and procedures on inventory taking, recognition of those found at station and disposition for non-existing/missing PPE items for the one-time counting of PPE accounts in the General Ledger.

5.0 DEFINITION OF TERMS
For the purpose of this Circular, the following definitions shall apply:

6.0 PHYSICAL COUNT
The physical count shall be recorded/documented daily in a standard Inventory Count Form (ICF), using the format in Annex A of this Circular, which shall be used as the basis in the preparation of the RCP/PE after the physical count.

6.1 SIGNATURE ICF shall be used for the PPE sub-major account group such as Land, Land Improvements, Infrastructure Assets, Buildings and Other Structures, Machinery and Equipment, Transportation Equipment, Furniture, Fixtures and Books, etc. For use of the Inventory Count Form (ICF) shall be submitted by the PPE General Ledger account, e.g., Machinery and Equipment, etc. The description of accounts provided in the Chart of Accounts prescribed under the Accounting Manual of the respective Sector, shall be used as a basis in determining the proper classification of a PPE item.

6.2 ALL PPE items counted shall be tagged with new property stickers containing the information provided under Paragraph 3.7 of this Circular.

6.3 The Inventory Committee shall state clearly in the ICF the condition of the PPE, such as in good condition, needing repair, unserviceable, obsolete, no longer needed, not used since purchase, etc.

6.4 PPE found at station or items not included in the inventory working papers, but there is reasonable basis to consider the same as owned by the agency, shall likewise be included in the physical count and tagged with property stickers. These items shall be described as "found at station" which shall be indicated under the "Remarks" column of the ICF.

6.5 PPE included in the inventory working papers but are not found during the physical count shall be considered as non-existing/missing PPE as physical count. These items shall be described as "non-existing" or "missing" which shall be indicated under the "Remarks" column of the ICF.

6.6 Other relevant information on each PPE item shall also be stated under the "Remarks" column of the ICF.

6.7 Upon completion of the physical count, the Inventory Committee shall prepare the RCP/PE, using the prepared format under the Accounting Manual of the respective Sectors.

6.8 The unit value of articles/items counted shall be taken from PPE/Catalogue/1 pages (CA) if/when available, from Property Card or other property records.

6.9 The Inventory Committee shall be given five (5) calendar days to respond to the demand letter.

6.10 The demand letter shall be signed by the Head of the Agency or designated representative and immediately furnished to the Property Unit in the concerned accountable officer/department.

6.11 If the accountable officer/department was able to produce the PPE item demanded from him/her, the Property Unit shall indicate under the "Remarks" column of the List of Non-Existing/Missing PPE that the item was "produced/returned upon demand" and, subsequently, inform the Inventory Committee of such change in status of the RCP/PE.

6.12 If the accountable officer/department was not able to produce the PPE item, such fact shall be indicated under the "Remarks" column of the List of Non-Existing/Missing PPE.

6.13 After gathering all the necessary information by performing the preceding procedures, the Property Unit shall submit to the Accounting Unit the List of Non-Existing/Missing PPE, with complete information in which PPE items could not be produced upon demand and those which have pending requests for relief, as well as the corresponding accountable officer/department.

6.14 The Accounting Unit shall take up the accounting recognition entries to recognize in the books of accounts the loss of PPE and to set up the corresponding receivables from concerned accountable officer/department for the non-existing/missing PPE that could not be produced upon demand. It shall likewise check if appropriate accounting entries were already taken up recognizing the loss of PPE and setting up of receivables for those with pending requests for relief; otherwise, it shall effect the necessary accounting entries.

6.15 The amount to be set up as receivable over the loss of depreciable assets shall be based on depreciated replacement cost, which is replacement cost (current market price) less accumulated depreciation calculated on the basis of replacement cost.

6.16 If there are non-existing/missing PPE for which accountability could not be established despite collection of all relevant information, the following procedures shall be followed:

6.17 a. The Head of the Agency shall cause the conduct of an investigation to determine the loss known/knowledgeable where the missing PPE items were issued/installed, person accountable, circumstances of the loss, and the person responsible for the loss, among others.

6.18 b. If accountability/responsibility over the missing PPE was pinpointed after investigation, demand shall be made from the accountable personnel to produce the item or pay the depreciated replacement cost thereof.

6.19 c. A request for authority for derogation has been filed and still pending with the COA stating the date of filing thereof, or, still to be filed; and/or

6.20 d. The amount and breakdown of derogated PPEs which were transferred to the RDPPS based on the authority of derogation granted by COA; and

6.21 e. PPEs found at station which are still pending appraisal, supported with breakdown as to sub-major PPE account group.

1.0 SUNSET PROVISIONS
After the cut-off date or by the Inventory Committee in the PPE, the Accounting and Property Units of government agencies shall ensure that the proper accounting and recognition/transfer/disposal of PPEs pursuant to the Accounting Manual of the respective Sectors, and other relevant rules and regulations are strictly followed. This Circular is issued for one-time counting of PPE account balances. In case of audit findings, the Accounting and Property Units shall ensure that non-existing/missing PPEs and/or obsolete/disposed/unserviceable balances in PPE accounts.

2.0 EFFECTIVITY
This Circular shall take effect immediately.

3.0 APPROVAL
This Circular is approved by the Commission on Audit.

4.0 SIGNATURE
This Circular is signed by the Commission on Audit.

5.0 DATE
This Circular is dated 2020-09-09.

6.0 DISTRIBUTION
This Circular is distributed to all concerned offices.

7.0 ATTENTION
This Circular is for the attention of all concerned offices.

8.0 COMMENT
This Circular is for the comment of all concerned offices.

establish PPE balances that are verifiable as to existence, condition and accountability.

4.0 ACCOUNTING STANDARDS ON PPE

4.1 PPE are tangible items that are:

a. purchased, constructed, developed or otherwise acquired;
b. held for use in the production or supply of goods or services or to produce income;
c. held for sale in the ordinary course of business;
d. held for rental or other than investment purposes;
e. expected to be used during more than one reporting period; and
f. not intended for resale in the ordinary course of operations.

4.2 The cost of an item of PPE shall be recognized as asset if, and only if:

a. it is probable that the future economic benefits or service potential associated with the item will flow to the entity;
b. the cost or fair value of the item can be measured reliably;
c. beneficial ownership and control clearly rest with the government;
d. the asset is to be held for more than one reporting period; and
e. it meets the capitalization threshold of P10,000.

4.3 The carrying amount of an item of PPE shall be depreciated on disposal or when no future economic benefits or service potential is expected from its use or disposal.

5.0 GENERAL GUIDELINES

5.1 Each government agency shall conduct physical count of its PPE, whether acquired through purchase or donation, including those constructed by administration and found at station.

5.2 The Head of the Agency shall create an Inventory Committee composed of adequate number of members to be able to complete the physical inventory in three months or less. The Inventory Committee shall have at least one member each from the Accounting and Property Divisions/Units of the agency.

5.3 The members of the Inventory Committee shall be temporarily relieved of all their regular duties to devote their full time in the conduct of the physical inventory taking until the same is completed.

5.4 The entire inventory taking shall be witnessed by the Commission on Audit (COA) Auditor. The Audit Team Leader and any of his/her audit team members may be assigned to the purpose.

5.5 The Head of the Agency may also require a representative from the agency's Internal Audit Service Unit to witness the inventory taking.

5.6 Each government agency shall adopt a uniform property identification system for PPE wherein a unique Property Number shall be assigned for each PPE item, using the following numbering system:

5.7 The codes for the PPE sub-major account group and General Ledger account correspond to those provided in the Revised Chart of Accounts prescribed under the Accounting Manual of the respective Sectors (National, Local and Corporate).

5.8 Additional digits may be used for serial number and location/office, as necessary.

5.9 a. Description of the property
b. Serial Number
c. Acquisition Date/Year
d. Acquisition Date/Year
e. Space for the valuation/valuation of the Inventory Committee

5.10 In coordination with the Property Division/Unit, the Inventory Committee shall plan the inventory taking and complete the physical inventory within the prescribed period. It shall prepare a Physical Inventory Plan (PIP) containing, at the least, the following information: a. List of the PPE items, the one-off date and a schedule specifying the date and location of the inventory taking activities from start up to the targeted completion of the physical inventory.

5.11 The PIP shall be approved by the Head of the Agency.

5.12 The Inventory Committee shall submit the approved PIP to the COA Audit Team at least ten (10) calendar days before the scheduled start of inventory taking activities.

5.13 The Property and Accounting Units shall undertake collaborative procedures to ensure that all PPEs included in the RCP/PE are duly recorded in their respective accounts and that the Property Cards (PCs) submitted by the Property Unit and the PPEs maintained by the Accounting Unit are reconciled. The reconciliation shall be completed within ten (10) days from the submission of the RCP/PE by the Inventory Committee. The following procedures shall be observed:

5.14 a. Ensure that the PCs are updated by posting all recorded acquisitions/retirements, transfers and disposal of PPE, if any;
b. Prepare a List of PPEs Found at Station for those items described as "found at station" in the RCP/PE, using the format in Annex B of this Circular, and submit to the Accounting Unit for recording in the books of accounts;

5.15 c. Prepare PCs for items of PPEs found at station;
d. Prepare a List of Non-Existing/Missing PPEs for items described as "non-existing" or "missing" in the RCP/PE, as well as for items described as "found at station" in the RCP/PE, following the format in Annex C of this Circular;

5.16 e. Follow the procedures for the disposition of non-existing/missing PPEs provided under Paragraph 6 of this Circular;
f. Work together with the Accounting Unit to reconcile the PCs with the PPEs maintained by the Inventory Committee;
g. Renew all PARs; and
h. Prepare Inventory and Inspection Report of Unserviceable PPEs (IRUP) using the format prescribed under the Accounting Manual of the respective Sectors for all PPEs found unserviceable, obsolete and/or no longer needed.

5.17 The Accounting Unit shall:

5.18 a. Take up the necessary accounting entries to recognize PPEs found at station and prepayment/investment corresponding PPEs based on the List of PPEs Found at Station;
b. Take up the necessary accounting entries to recognize loss of PPEs and to set up the corresponding receivables from the concerned accountable officer/department, pursuant to Paragraphs 6 and 7.9 of this Circular;

5.19 c. Take up the necessary accounting entries to recognize PPEs for amounts not exceeding P100,000.00 per PPE item within fifteen (15) working days from receipt thereof.

5.20 d. In case the basis for denial of the request by the ATL and the SA is failure to comply with the conditions and requirements under Paragraphs 6.1 and 6.2, the Head of the Agency may refer the request for derogation before the ATL and the SA and the SA shall decide on the request within fifteen (15) working days from receipt thereof.

5.21 The Head of the Agency may appeal from the decision of the ATL and the SA to the COA Sector Director (CD) or Regional Director (RD), who has jurisdiction over the government agency under audit within fifteen (15) working days from receipt of the decision. The CD/RD shall decide on the appeal within fifteen (15) working days from receipt thereof. The decision of the CD/RD on the appeal request is final and non-appealable.

5.22 For amounts exceeding P100,000.00 per PPE item, the ATL and the SA shall forward the request and the entire records to the CD/RD together with their comments and recommendations, within fifteen (15) working days from receipt thereof.

5.23 The CD/RD shall review the entire records of the request and shall decide on amounts involving more than P100,000.00 but not exceeding P1,000,000.00 per PPE item within fifteen (15) working days from receipt thereof.

5.24 In case the basis for denial of the request for derogation by the CD/RD is failure to comply with the conditions and requirements under Paragraphs 6.1 and 6.2, the Head of the Agency may refer the request for derogation before the CD/RD provided that the basis for denial has been satisfactorily complied. The CD/RD shall decide on the request within fifteen (15) working days from receipt thereof.

5.25 The Head of the Agency may appeal from the decision of the CD/RD to the Assistant Commissioner (AC) of the Sector within fifteen (15) working days from receipt of the decision. The AC shall decide on the appeal within fifteen (15) working days from receipt thereof. The decision of the AC, on the appeal request is final and non-appealable.

5.26 For amounts exceeding P1,000,000.00 per PPE item, the CD/RD shall forward the request and the entire records, together with their comments and recommendations to the AC of the Sector within fifteen (15) working days from receipt thereof.

5.27 The AC of the Sector shall review the entire records of the request and shall decide on amounts exceeding P1,000,000.00 per PPE item within fifteen (15) working days from receipt thereof.

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5.29 Upon receipt of the request, the ATL and the SA shall assign a reference number, verify and validate the submitted documents and decide on the request.

5.30 The request shall be supported with the following documents:

5.31 a. List of Non-Existing/Missing PPEs and their carrying values certified by the Head of the Property Unit and the Accounting Unit and approved by the Head of the Agency;

5.32 b. Certification by the Head of the Accounting Unit that the non-existing/missing PPEs had already exceeded their estimated useful lives; and

5.33 c. Certified copy of the report of investigation conducted pursuant to Paragraph 7.9 of this Circular.

5.34 Upon receipt of the request, the ATL and the SA shall assign a reference number, verify and validate the submitted documents and decide on the request.

5.35 The request shall be supported with the following documents:

5.36 a. List of Non-Existing/Missing PPEs and their carrying values certified by the Head of the Property Unit and the Accounting Unit and approved by the Head of the Agency;

5.37 b. Certification by the Head of the Accounting Unit that the non-existing/missing PPEs had already exceeded their estimated useful lives; and

5.38 c. Certified copy of the report of investigation conducted pursuant to Paragraph 7.9 of this Circular.

5.39 Upon receipt of the request, the ATL and the SA shall assign a reference number, verify and validate the submitted documents and decide on the request.

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5.41 a. List of Non-Existing/Missing PPEs and their carrying values certified by the Head of the Property Unit and the Accounting Unit and approved by the Head of the Agency;

5.6 Each government agency shall adopt a uniform property identification system for PPE wherein a unique Property Number shall be assigned for each PPE item, using the following numbering system:

5.7 The codes for the PPE sub-major account group and General Ledger account correspond to those provided in the Revised Chart of Accounts prescribed under the Accounting Manual of the respective Sectors (National, Local and Corporate).

5.8 Additional digits may be used for serial number and location/office, as necessary.

5.9 a. Description of the property
b. Serial Number
c. Acquisition Date/Year
d. Acquisition Date/Year
e. Space for the valuation/valuation of the Inventory Committee

5.10 In coordination with the Property Division/Unit, the Inventory Committee shall plan the inventory taking and complete the physical inventory within the prescribed period. It shall prepare a Physical Inventory Plan (PIP) containing, at the least, the following information: a. List of the PPE items, the one-off date and a schedule specifying the date and location of the inventory taking activities from start up to the targeted completion of the physical inventory.

5.11 The PIP shall be approved by the Head of the Agency.

5.12 The Inventory Committee shall submit the approved PIP to the COA Audit Team at least ten (10) calendar days before the scheduled start of inventory taking activities.

5.13 The Property and Accounting Units shall undertake collaborative procedures to ensure that all PPEs included in the RCP/PE are duly recorded in their respective accounts and that the Property Cards (PCs) submitted by the Property Unit and the PPEs maintained by the Accounting Unit are reconciled. The reconciliation shall be completed within ten (10) days from the submission of the RCP/PE by the Inventory Committee. The following procedures shall be observed:

5.14 a. Ensure that the PCs are updated by posting all recorded acquisitions/retirements, transfers and disposal of PPE, if any;
b. Prepare a List of PPEs Found at Station for those items described as "found at station" in the RCP/PE, using the format in Annex B of this Circular, and submit to the Accounting Unit for recording in the books of accounts;

5.15 c. Prepare PCs for items of PPEs found at station;
d. Prepare a List of Non-Existing/Missing PPEs for items described as "non-existing" or "missing" in the RCP/PE, as well as for items described as "found at station" in the RCP/PE, following the format in Annex C of this Circular;

5.16 e. Follow the procedures for the disposition of non-existing/missing PPEs provided under Paragraph 6 of this Circular;
f. Work together with the Accounting Unit to reconcile the PCs with the PPEs maintained by the Inventory Committee;
g. Renew all PARs; and
h. Prepare Inventory and Inspection Report of Unserviceable PPEs (IRUP) using the format prescribed under the Accounting Manual of the respective Sectors for all PPEs found unserviceable, obsolete and/or no longer needed.

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5.18 a. Take up the necessary accounting entries to recognize PPEs found at station and prepayment/investment corresponding PPEs based on the List of PPEs Found at Station;
b. Take up the necessary accounting entries to recognize loss of PPEs and to set up the corresponding receivables from the concerned accountable officer/department, pursuant to Paragraphs 6 and 7.9 of this Circular;

5.19 c. Take up the necessary accounting entries to recognize PPEs for amounts not exceeding P100,000.00 per PPE item within fifteen (15) working days from receipt thereof.

5.20 d. In case the basis for denial of the request by the ATL and the SA is failure to comply with the conditions and requirements under Paragraphs 6.1 and 6.2, the Head of the Agency may refer the request for derogation before the ATL and the SA and the SA shall decide on the request within fifteen (15) working days from receipt thereof.

5.21 The Head of the Agency may appeal from the decision of the ATL and the SA to the COA Sector Director (CD) or Regional Director (RD), who has jurisdiction over the government agency under audit within fifteen (15) working days from receipt of the decision. The CD/RD shall decide on the appeal within fifteen (15) working days from receipt thereof. The decision of the CD/RD on the appeal request is final and non-appealable.

5.22 For amounts exceeding P100,000.00 per PPE item, the ATL and the SA shall forward the request and the entire records to the CD/RD together with their comments and recommendations, within fifteen (15) working days from receipt thereof.

5.23 The CD/RD shall review the entire records of the request and shall decide on amounts involving more than P100,000.00 but not exceeding P1,000,000.00 per PPE item within fifteen (15) working days from receipt thereof.

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5.29 Upon receipt of the request, the ATL and the SA shall assign a reference number, verify and validate the submitted documents and decide on the request.

5.30 The request shall be supported with the following documents:

5.31 a. List of Non-Existing/Missing PPEs and their carrying values certified by the Head of the Property Unit and the Accounting Unit and approved by the Head of the Agency;

5.32 b. Certification by the Head of the Accounting Unit that the non-existing/missing PPEs had already exceeded their estimated useful lives; and

5.33 c. Certified copy of the report of investigation conducted pursuant to Paragraph 7.9 of this Circular.

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5.51 a. List of Non-Existing/Missing PPEs and their carrying values certified by the Head of the Property Unit and the Accounting Unit and approved by the Head of the Agency;

5.52 b. Certification by the Head of the Accounting Unit that the non-existing/missing PPEs had already exceeded their estimated useful lives; and

5.53 c. Certified copy of the report of investigation conducted pursuant to Paragraph 7.9 of this Circular.

5.12 Property records shall be updated based on the results of the physical inventory and reconciled with accounting records to come up with the reconciled balances of PPE accounts to be considered as the correct balances of the agency's PPEs.

6.0 PROCEDURAL GUIDELINES

6.1 Preliminary activities prior to the conduct of inventory taking

6.1.1 The Property Unit shall obtain the latest Report on Physical Count of PPE (RCP/PE) from the Inventory Committee.

6.1.2 In the absence of the latest RCP/PE/Physical Inventory Report or if the same is determined to be undependable/unreliable, a demand form (Annex A) to the list of existing PPE shall be filed up by each office and submitted to the Property Unit for verification prior to the conduct of the actual inventory by the Inventory Committee.

6.1.3 The Accounting Unit shall update its record of acquisitions/disposals/transfer of PPEs in the PPE Ledger Cards (PPELCs) and ensure that the total balances of the PPELCs tally with the balances of controlling PPE accounts in the General Ledger.

6.1.4 The Property and Accounting Units shall compare the latest Report on Physical Count of PPE (RCP/PE) with the PPELCs.

6.1.5 The Property Unit shall prepare a list of PPE items which are reconciled to the PPELCs but not included in the RCP/PE/Physical Inventory Report as well as PPE items which are included in the RCP/PE but not recorded in the PPELCs.

6.1.6 Both lists and the latest RCP/PE/Physical Inventory Report shall be submitted to the Inventory Committee. These documents shall be considered as inventory working papers and shall be used by the Inventory Committee as a basis in preparing the PIP.

6.2 Inventory taking

6.2.1 The Head of the Inventory Committee shall ensure that the inventory taking activities are executed in accordance with the approved PIP. In case there are planned activities/procedures that cannot be efficiently performed, he/she shall keep record of the alternative activities/procedures undertaken and the reasons for the deviation from the PIP.

6.2.2 The Inventory Committee shall use the inventory working papers provided by the Property Unit as basis in inventory taking activities, taking into consideration the capitalization threshold of P10,000.

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Illustrative Accounting Entries:

1. Recognition of PPEs found at station:

Account Title

Medical and Scientific Equipment

2. *Recognition of loss of PPE and setting up accountability of accountable officer*

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Loss of Assets

Amortized Depreciation - Office Equipment

Office Equipment

To recognize loss of office

To recognize loss of effi-

Due from Officers and Employees

Other Deferred Credits

3. **Writing-Off** Dropping of remaining balances of unreconciled SL for PPEs

Account Title

Accumulated Surplus/Deficit

Office Equipment

To write-off remaining balance on Office Equipment

4. Derecognition of non-existing/missing PPEs with authority from CoA

Loss of Assets

Accumulated Depreciation - Office Equipment

Accumulated Impairment Losses - Office Equipment
Accumulated Depreciation - Medical Equipment

Accumulated Depreciation - Medical Equipment
Accumulated Impairment Losses - Medical Equipment

Office Equipment

Medical Equipment

To derecognize office equipment and

[illegible]