**Property, Plant & Equipment Process**

**Narrative 20X6 Reporting Year**

**DOCUMENT CONTROL INFORMATION**

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| --- | --- |
| Document Name | Global Property, Plant & Equipment (“PP&E”) Process Narrative |
| Applies To | Property, Plant & Equipment |
| Date Last Updated | 14 July, 20X6 |
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| Location | Lugano, Switzerland |

Note: Major changes to the process narrative documentation must be approved by the Global PP&E Accounting Manager.

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# Abbreviations & Definitions

|  |  |
| --- | --- |
| AP | Accounts Payable |
| CFO | Chief Financial Officer |
| GL | General Ledger |
| P&L | Profit & Loss Statement |
| PO | Purchase Order |
| PP&E | Property, Plant & Equipment |
| PR | Purchase Requisition |
| SAP | General Ledger Software |
| SE | Summit Equipment |
| Vendor Master File | The repository of information about the Group’s suppliers, which is used for the payment of supplier invoices and the issuance of PO’s. |
| WIP | Tangible assets in progress. |

# Policies, Procedures & Related Documents

|  |  |
| --- | --- |
| **Procedures** | **Description** |
| SE-001 | **Purchase Requisition (“PR”) Policy**  To outline the scope, process, and responsibilities for the PR policy. The Policy aims to ensure capital expenditures are approved appropriately and are adequately captured. |
| SE-002 | **Global Authorization Policy**  To define the level at which company personnel may commit resources or incur expenditures on behalf of the Company. |
| SE-003 | **Managing Journal Entries Policy**  To provide guidance on the requirements for journal entries, including the need for appropriate documentation and support and what constitutes properly prepared, reviewed, approved and posted journal entries. |
| SE-004 | **PP&E Policy**  To provide guidelines for acquiring, disposing, depreciating, transferring and maintaining control of PP&E. |
| SE-005 | **Account Reconciliation and Analysis Policy**  To define standards and procedures for balance sheet account reconciliations and analysis. |
| SE-006 | **PP&E Impairment Policy**  To provide guidelines for assessing PP&E for impairment. |

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# PP&E Accounts & GL Coding

| **Category** | **GL Account #** | **GL Account Name** |
| --- | --- | --- |
| Industrial and commercial equipment | 0002008000 | Equipment |
|  | 0002008002 | Accumulated depreciation equipment |
|  | 0002012000 | Electronic machines |
|  | 0002012002 | Accumulated depreciation electronic machines |
|  | 0002014000 | Furniture and fixtures |
|  | 0002014002 | Accumulated depreciation furniture and fixtures |
|  | 0002015000 | Office machines |
|  | 0002015002 | Accumulated depreciation office equipment |
| Land & Buildings | 0002000020 | Industrial land\* |
|  | 0002002002 | Building depreciation |
|  | 0002002020 | Industrial buildings |
| Plant & Machinery | 0002004000 | General plant |
|  | 0002004002 | Accumulated depreciation general plant |
|  | 0002005000 | Specific plant and machinery |
|  | 0002005002 | Accumulated depreciation specific plant and machinery |
| Work in Progress | 0002017000 | Tangible assets in progress |

*\*Note: No longer in use following sale of industrial land during 20X5.*

# Key People

| **Unit/Department** | **Function** |
| --- | --- |
| Accounting Department | Accounts Payable Clerk(s)  Accounts Receivable Clerk(s)  Business Unit Financial Controller |
| Controlling | Chief Financial Officer |
| IT Department | IT Administrator |
| PP&E Department | Global PP&E Accounting Manager  PP&E Accounting Manager(s)  PP&E Accountant(s) |
| Purchasing Department | Purchasing Clerk(s)  Purchasing Manager(s) |
| Warehouse Department | Warehouse Employee(s) |

# IT Overview

The company uses SAP as the Group’s IT system.

The company also uses a separate IT system to record and account for its PP&E. The system maintains a complete listing of all PP&E held for use and depreciates them according to appropriate accounting, tax, and regulatory requirements in the system.

# PP&E Process Narrative

## Acquiring Plant & Equipment

### Vendor Setup

To purchase an asset, the Vendor must exist in the Vendor Master File.

To input a new vendor in the SAP system, a Vendor Request Form must be completed.

A new vendor is initially selected by the Purchasing Department Manager, who negotiates the terms and fills in the form. The form must be approved by the CFO. The approved Vendor Request Form is then submitted to the IT Administrator who is responsible for the Vendor Master Data setup and maintenance in SAP.

User access rights to the Vendor Master File are limited to the IT Administrator.

For each vendor, a single Vendor Master File entry is created. Any subsequent changes to the Vendor Master Data File must be approved by the CFO. Vendor Master Data changes include:

* Adding/deleting vendors
* Editing general vendor data, e.g., name, address, tax ID number
* Editing vendor conditions such as payment terms, delivery terms
* Editing bank account details.

### Ordering

The acquisition of any asset is initiated when a business unit determines that there is a need for an asset.

All assets are acquired through the purchase requisition (PR) process, as required by the PR Policy.

In accordance with the PR Policy, the Requestor completes an electronic PR form in SAP. This form includes details such as:

* Date
* Requestor details
* Asset required
* Purpose, and
* Approval fields.

SAP assigns a PR number and forwards the form to the Department Manager for electronic approval in SAP. The capitalization of an asset and GL coding is determined at this stage by the Department Manager based on the Company’s PP&E Policy.

* If approved, an automated email is forwarded to the Requestor and the Purchasing Department with the details and approvals of the PR in SAP.
* If rejected, an automated email is forwarded to the Requestor and the PR is returned to the Requestor in SAP.

Once the Purchasing Department receives an approved PR in SAP, the Purchasing Clerk will create a purchase order (“PO”) in SAP. The SAP system automatically generates a PO with a unique number.

When creating the PO, the Purchasing Clerk will select an appropriate vendor from the Vendor Master File.

If there is more than one preferred vendor for the asset, the Purchasing Clerk is able to choose from the list. Additional information from the Vendor Master File such as price or delivery terms, is automatically downloaded onto the PO in SAP.

Different Purchasing Clerks are responsible for different Business Units. Only the responsible Purchasing Clerk can create/maintain a PO for their assigned Business Unit.

Before a PO can be sent to a Vendor, in accordance with the Global Authorization Policy, all PO’s greater than CHF 500,000 require CFO Approval.

* If approved, an email from the CFO will be sent to the Purchasing Clerk specifically noting the approval of the PO. The approved email is attached to the PO in SAP by the Purchasing Clerk.
* If rejected, an email from the CFO will be sent to the Purchasing Clerk and the PO is returned to the Purchasing Clerk in SAP. The email will outline and list why the PO was not approved (for example, a request for additional information). Once these items have been addressed by the Purchasing Clerk, it is resubmitted to the CFO for approval following the above process.

Once all the necessary approvals have been obtained, PO’s are printed from SAP and then sent to the Vendor by fax or electronically via email by the Purchasing Clerk.

Vendors agree the terms of the PO (quantity, delivery terms, price, etc.) by sending back an order confirmation via fax or electronically. Received order confirmations from suppliers are recorded in SAP by the Purchasing Clerk, and the status of the PO is changed to “Confirmed”.

### Asset Receipt

Upon receipt of the asset(s), a Warehouse Employee checks for any external damages and compares the quantity as well as type of assets received to the Goods Received Note included in the shipment from the Vendor. The warehouse employee stamps and signs the Goods Received Note to evidence that this check has been made and files the document.

If there is any external damage or discrepancies, handwritten notes will be made on the Goods Received Note. The same comment is written on the truck driver’s delivery sheet. The Goods Received Note is then sent to the Purchasing Department for further follow up with the Vendor.

Depending upon the extent of the external damage or discrepancies, a Purchasing Manager will decide whether to cancel the order and return the asset(s) back to the Vendor.

### Recording of Assets

The Warehouse Employee will access the related purchase order in SAP immediately on the receipt date and compare it to the Goods Received Note.

If there are no inconsistencies, the system has the function to just add the delivery by clicking “Yes” in the section “Delivery Matches Order”. An electronic Goods Received Note is then automatically generated in SAP. The Goods Received Note is added to the initial PO, and the PO is marked as ”Delivered” in SAP.

For all discrepancies, such as incorrect asset delivery, SAP does not allow the recording of the goods.

In this case, the Warehouse Employee makes handwritten notes on the Goods Received Note from the Vendor and sends it to the Purchasing Department for further follow up with the Vendor who need to contact the vendor and deal with the mismatch by either:

* Sending the asset back (order cancelled), or
* Amending the initial order to reflect the accepted changes (order changed)

After the amendment has been made, the Goods Received Note may be generated in the same manner as described above.

Once the PO is marked as ‘Delivered’, SAP will automatically create an entry within the general ledger as follows:

* DR – PP&E holding account
* CR – Invoices to be received

SAP uses the quantity received and the order price for this entry.

The journal entry is reviewed and authorized by the PP&E Accounting Manager in accordance with SE-004 Managing Journal Entries Policy. Once approved, the journal entry is posted to the general ledger. The approved journal entry is attached to SAP.

### Payment of an Invoice

The Accounts Payable (“AP”) department receives all invoices. Invoices are stamped with the date of receipt.

Normally vendors include the PO number on their invoice. If there is no PO number, the Accounts Payable Clerk notifies the Purchasing Department, which will add the purchase order number to the invoice. Invoices are entered in SAP by the Accounts Payable Clerks and follow the standard accounts payble process (refer to ***SE Cash Disbursements Process Narrative*** per Canvas for additional information).

Upon receipt of an invoice, the following journal entry in the AP subledger will occur:

* DR – Invoices to be received
* CR – Domestic suppliers or Payables - foreign suppliers

Once the invoice has been paid as part of the accounts payble process, the following journal entry will occur:

* DR – Domestic suppliers or Payables - foreign suppliers
* CR – Cash

## Depreciation of PP&E

PP&E is depreciated at predetermined rates or based on the estimated useful life of the type of asset as stated in the Company’s PP&E Policy.

The depreciation rate is automatically applied to an asset based on the GL coding, which is reviewed and approved by the Department Manager (refer Section 6.1 - Ordering above for additional information).

Depreciation of an asset begins when it 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.

The ability to add or make changes to depreciation rates in the separate IT system is restricted to the IT Administrator.

The PP&E Department at each Business Unit is responsible for monitoring depreciation expense for reporting purposes. On a monthly basis the PP&E Accountant will run a Depreciation Report and check that expenses are in line with expectation. The report will also ensure that all assets with a positive net book value are depreciating. If there are any inconsistencies, the PP&E Accountant will investigate, make any necessary changes and will re-run the Depreciation Report.

The Depreciation Report is reviewed and authorized by the PP&E Accounting Manager. Any errors identified from the review are corrected. Once there are no errors, the PP&E Accountant will run the depreciation function in the separate IT systemwhich will create a journal entry to record the depreciation. The journal entry is reviewed and authorized by the PP&E Accounting Manager in accordance with SE-004 Managing Journal Entries Policy. Once approved, the journal entry is posted to the general ledger. The approved journal entry is attached to the separate IT system.

## Disposals of PP&E

In order to dispose of any item of PP&E valued at CHF 200,000 or more, an Approval for Disposal Form (“AFD”) must be completed. The AFD is electronically initiated, reviewed and signed off per the approval matrix in accordance with SE-002 Global Authorization Policy in SAP.

On the disposal of an asset, the Accounting Department will provide the signed Purchase and Sale Agreement, the signed Acceptance Receipt, the signed Bill of Sale and the signed AFD. The Accounts Receivable Clerk from the Accounting Department will also provide details of the actual cash received to the PP&E Department. This information is used by the PP&E Department to book the disposal of the asset.

At the end of each month, the PP&E Accountant will prepare a Disposals Report which lists all assets disposed during that month.

## PP&E Reporting

### Monthly Reporting

Every month, a PP&E report is prepared by the PP&E Accountant reconciling the PP&E balances. This report contains a detailed Additions Schedule, Disposals Report, a detailed Transfers Schedule showing intercompany transfers, Depreciation Report and Impairment Schedule.

The asset classes and total balance of the PP&E report is reconciled in the separate IT system.

Any discrepancies are investigated. The PP&E Accountant will resolve any large discrepancies by pulling the asset balance breakdown in the separate IT systemfor the Business Unit and match up the items to the various listings to see where the error is. These schedules are reviewed by the PP&E Accounting Manager.

Once reconciled, the following journal entry is posted in SAP to record the PP&E balances at month end:

* DR – PP&E asset (0002008000-0002017000)
* CR – PP&E holding account

### Quarterly Reporting

On a quarterly basis, an additions report is prepared by category (equipment, electronic machines, general plant etc.) and reviewed by the Global PP&E Accounting Manager. This information is then used to prepare the financial statement disclosures.

Additionally, each quarter the P&L is reviewed by the Global PP&E Accounting Manager to determine if costs that should have been capitalized have been expensed.

### Impairment Considerations

On an annual basis, the PP&E Accounting Manager performs an impairment analysis in the form of an Impairment Schedule. Refer to SE-006 – PP&E Impairment Policy for further detail on and details on the impairment of PP&E.

### Financial Statement Reporting

The Business Unit Financial Controller will prepare the significant disclosures of the financial statements. Once prepared the financial statements are sent by the Business Unit Financial Controller to the CFO who performs a review.

# Segregation of Duties

The below describes observations as to any potential conflicting duties.

Incompatible duties may indicate other weaknesses in procedures and controls over authorization of transactions, safeguarding of assets, or asset accountability duties.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Segregation of Duties Table for PP&E** | **Who performs**  **Procedure?** | **Who records procedure?** | **Who reviews results?** | **Who approves?** |
| **Acquiring PP&E** | | | | |
| Issue and approve PR’s | Requestor | SAP | Department Manager | Department Manager |
| Issue and approve PO’s | **Purchasing Clerk** | **Purchasing Clerk** | **CFO if greater than CHF 500,000** | **CFO if greater than CHF 500,000** |
| Receipt of PP&E | Warehouse Employee | Warehouse Employee | **Purchasing Clerk or**  **Accounts Payable Department** | **Purchasing Clerk or**  **Accounts Payable Department** |
| Recording of PP&E into the PP&E sub-ledger | Warehouse Employee | Warehouse Employee | PP&E Accountant | PP&E Accounting Manager |
| Disbursements | Accounts Payable Clerk | Accounts Payable Clerk | **Accounts Payable Department** | **Accounts Payable Department** |