Using the DEL to Budget & Forecast Depreciation

### **Background**

From 1 August 2017 there was a number of changes to the way in which we account for departmental assets. These changes only affect equipment purchases (including vehicles, software and computer hardware) and did not affect the treatment of building and construction costs.

***For Internally Funded Equipment Purchases***
Equipment purchases that are deemed internally funded are those that are funded from the departments A1 ledger, with no matched funding release in the Income and Expenditure accounts and will be a cost to the department's overall bottom line.

For purchases over £50k, the department's cost centre will be credited with the capitalisation instead of central adjustments. The asset cost will sit on the department's cost centre using the appropriate balance sheet code. Department's will gain visibility of these codes in Oracle Financials but they cannot be coded to by users outside of the central Fixed Asset Team.

The accumulated depreciation\*\*\* will also sit on the department’s balance sheet and when added to the cost held on the balance sheet gives you the remaining Net Book Value\*\* (NBV) of the asset

Depreciation\* will be charged monthly via the Fixed Asset module to the department’s depreciation expenditure natural account over the life of the asset (usually 5 years).

***For Externally Funded Equipment Purchases***
Equipment purchases that are deemed externally funded are those that are funded from the departments A2 ledger or B ledger, with matched funding release to the Income and Expenditure accounts.

Departmental assets will be expensed in the department's Income and Expenditure accounts. For purchases over £50k, the capitalisation will be credited to central adjustments with the depreciation taken centrally too.

The expected life of an equipment asset will be 5 years or the remaining life of the project, whichever is shortest.

### **How to use the DEL for departmental budgeting & forecasting**

If you have any internally funded assets as explained above these will now impact your departmental accounts and so you will need to budget and forecast for the depreciation that will be debiting your cost centre and natural account 73803.

All the information you need to do this with is provided in the new DEL for 2017/18 but you will need to take the information provided and add in some additional columns and calculations; this is what this document will help you do.

***Identifying Assets that will have Departmental Depreciation***

Column AG gives you the account combination that the depreciation\* charge will be debited to. Using the filter functionality you can find any in the DEL that are coding to your own main departmental cost centre. These are the only assets that will be coded to your accounts, all others in the list will be coding to a JT cost centre, which is one of the central finance ones, and these can be ignored for budgeting and forecasting purposes.

***Life in Months***

The first step is to calculate the life of the asset in months as the report shows years. Create a new column and times the Life in years (column AB) by 12 i.e. =AB\*12.

You will need to round this new column to 0 decimal places as we only deal in whole months with depreciation.

**NOTE**: We charge a whole month’s depreciation in the first month i.e. Depreciation Start Date.

***Monthly Depreciation Charge***

To calculate the monthly depreciation charge that will be debiting your expenditure code 73803 you need to create a new column and divide the cost in column C by the life in month figure you have just worked out. So if the cost was £60,000 and the life was over five years, in months 60, we divide £60,000 by 60 giving us a monthly depreciating figure for this asset of £1,000.

***Remaining Life***

In a new column called Remaining Life you will need to divide the Net Book Value\*\* (NBV) in column AF by the monthly depreciation charge you calculated above. Again this column would need to be set with 0 decimal places to get whole months.

You can now use these new columns to populate your budget or forecast, however if you feel you need further guidance on budgeting and forecasting please contact your Divisional Office.

If you require further guidance on assets and departmental depreciation itself please contact the Fixed Asset team.

**\* Depreciation** is a fundamental accounting concept to match expenditure against the income that it helps to generate and for assets, this is done by depreciation. In each accounting period, a depreciation charge is levied on the income and expenditure account to write off the cost. This means that the cost of these assets is split out over a number of years to reflect the contribution they make to the University’s services in future years.

**\*\* Net Book Value** is the cost of an asset minus the depreciation that has already been debited to the relevant expenditure code. This is shown in column AF on the DEL.

**\*\*\* Accumulated Depreciation** is the total amount of the depreciation already debited to the relevant expenditure account. This is shown in column AE on the DEL.