



October 15, 2021

**MEMORANDUM ORDER**

No. 66  
Series of 2021

**SUBJECT: ACCOUNTING POLICIES AND PROCEDURES WHICH ARE LEFT TO THE DISCRETION OF MANAGEMENT PURSUANT TO THE PHILIPPINE PUBLIC SECTOR ACCOUNTING STANDARDS (PPSAS) AND GOVERNMENT ACCOUNTING MANUAL (GAM)**

Due to the recent development and revisions effected in the Revised Chart of Accounts (RCA), there is a need to issue consolidated policies and procedures regarding impairments pertaining to the accounts Property, Plant and Equipment, Loans Receivables, Inter-agency Receivables, Other Receivables and Inventories.

To conform with the RCA per COA Circular No. 2020-001 dated January 8, 2020 and for uniformity in the application, hereunder are the accounting procedures and policies to be implemented in the Department of Agriculture-Office of the Secretary (CO, RFOs and attached bureaus).

PARTICULARS	POLICIES/PROCEDURES	REMARKS								
<b>A. Property, Plant and Equipment(PPE)</b>										
Estimated Useful Life for computation of depreciation	The PPE shall be depreciated based on the estimated useful life prescribed in COA Circular No. 2003-007 dated December 11, 2003	The eNGAS adopts the estimated useful life based on the cited circular.								
Residual Value	5% salvage value	Embedded in eNGAS								
Impairment Allowance	For fully depreciated PPE- the remaining 95% shall be considered the Impairment Allowance.									
	For not fully depreciated PPE - the following approaches shall be used whichever is applicable to the PPE: Replacement Cost Approach Restoration Cost Approach Service Units Approach	Prescribed and illustrated in pages 188-191 of the GAM.								
<b>B. Loans Receivables</b>										
Allowance for Impairment (formerly Allowance for Doubtful Accounts)	The determination of bad debts expenses shall be derived from computations based on the following percentages and aging of the receivables as follows:  <table border="1"><thead><tr><th>Age of Accounts</th><th>Percentage</th></tr></thead><tbody><tr><td>1-60 days</td><td>1%</td></tr><tr><td>61-180 days</td><td>2%</td></tr><tr><td>181- 1 year</td><td>3%</td></tr></tbody></table>	Age of Accounts	Percentage	1-60 days	1%	61-180 days	2%	181- 1 year	3%	For facility and simplicity in the computation the procedures embodied in Sec. 66 - Bad Debts of the NGAM prescribed under COA Circular No. 2002-002 dated June 28, 2002 is adopted.
Age of Accounts	Percentage									
1-60 days	1%									
61-180 days	2%									
181- 1 year	3%									

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PARTICULARS	POLICIES/PROCEDURES	REMARKS
<b>E. Inventories</b>		
<b>E.1. Inventory Held for Sale</b>		
Allowance of Impairment - Merchandise Inventory	<p>Inventories are susceptible to impairment because elements like consumer trends, technological changes, physical deterioration, obsolescence, and declining prices affect the value of inventory. Therefore, the accounting standards allow for a major departure from the historical cost principle to account for inventory.</p> <p>The Allowance for Impairment shall pertain to any initial or subsequent write-down of obsolete/outdated, spoiled, spilled, shrunk and/or evaporated merchandise inventory compared to <b>net realizable value</b>. This also includes allowable variance between book and volumetric count of merchandise inventory .</p>	<p>Net realizable value refers to the net amount that an entity expects to realize from the sale of inventory in the ordinary course of operations.</p> <p>Net realizable value for inventories may not equal fair value less costs to sell.</p> <p>Refer to Annex A for Illustration on how to determine the Impairment</p>
<b>E.2. Inventory Held for Manufacturing</b>		
<p>Allowance for Impairment-Raw Materials Inventory</p> <p>Allowance for Impairment-Work-in-Process Inventory</p> <p>Allowance for Impairment-Finished Goods Inventory</p>	<p>The Allowance for Impairment shall refer to any initial or subsequent write-down of obsolete/ outdated, spoiled, spilled, shrunk and/ or evaporated work-in-process inventory to <b>fair value</b> less costs to sell.</p> <p><b>Fair value</b> is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.</p>	<p>PPSAS and GAM allow management to use their judgment based on their experience.</p> <p>Refer to Annex A for Illustration on how to determine the Impairment</p>

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PARTICULARS	POLICIES/PROCEDURES	REMARKS
<b>E.3. Inventory Held for Distribution</b>		
Allowance for Impairment-Food Supplies for Distribution	<p>Paragraphs 15 and 16 of PPSAS 12 state that "Inventories shall be measured at the lower of cost <b>and net realizable value</b>, except where inventories are acquired through a non-exchange transaction, their cost shall be measured at their <b>fair value</b> as at the date of acquisition.</p> <p>For purposes of computing the amount of impairment the Current Replacement Cost (CRC) shall be considered. The <b>CRC</b> is the cost the entity would incur to acquire the inventories on the reporting date.</p> <p>The difference between the cost per books and the CRC will be accounted for as the Allowance for Impairment.</p> <p>The Property Unit shall determine the CRC of an inventory item at the end of the reporting period which will be basis for determining the Allowance for Impairment.</p>	<p>Net realizable value refers to the net amount that an entity expects to realize from the sale of inventory in the ordinary course of operations. Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. The former is an entity-specific value; the latter is not. Net realizable value for inventories may not equal <b>fair value</b> less costs to sell.</p>
Allowance for Impairment-Welfare Goods for Distribution		
Allowance for Impairment-Drugs and Medicines for Distribution		
Allowance for Impairment-Agricultural and Marine Supplies for Distribution		
Allowance for Impairment-Agricultural Produce for Distribution		
Allowance for Impairment-Textbooks and Instructional Materials for Distribution		
Allowance for Impairment-Construction Materials for Distribution		
Allowance for Impairment-Property and Equipment for Distribution		
Allowance for Impairment-Aquaculture Produce for Distribution		
Allowance for Impairment-Other Supplies and Materials for Distribution		

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PARTICULARS	POLICIES/PROCEDURES	REMARKS
<b>E.4. Inventory Held for Consumption</b>		
Allowance for Impairment-Office Supplies Inventory	<p>Paragraphs 15 and 16 of PPSAS 12 state that "Inventories shall be measured at the lower of cost and <b>net realizable value</b>, except where inventories are acquired through a non-exchange transaction, their cost shall be measured at their fair value as at the date of acquisition</p> <p>For purposes of computing the amount of impairment the Current Replacement Cost (CRC) shall be considered. The <b>CRC</b> is the cost the entity would incur to acquire the inventories on the reporting date.</p> <p>The difference between the cost per books and the CRC will be treated as the Allowance for Impairment.</p> <p>The Property Unit shall determine the CRC of an inventory item at the end of the reporting period which will be basis for determining the Allowance for Impairment.</p>	Refer to Annex A for Illustration on how to determine the Impairment
Allowance for Impairment- Accountable Forms, Plates and Stickers Inventory		
Allowance for Impairment-Non-Accountable Forms Inventory		
Allowance for Impairment-Animal/Zoological Supplies Inventory		
Allowance for Impairment-Food Supplies Inventory		
Allowance for Impairment-Drugs and Medicines Inventory		
Allowance for Impairment-Medical, Dental and Laboratory Supplies Inventory		
Allowance for Impairment-Fuel, Oil and Lubricants Inventory		
Allowance for Impairment-Agricultural and Marine Supplies Inventory		
Allowance for Impairment-Textbooks and Instructional Materials Inventory		
Allowance for Impairment-Military, Police and Traffic Supplies Inventory		
Allowance for Impairment-Chemical and Filtering Supplies Inventory		

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PARTICULARS	POLICIES/PROCEDURES	REMARKS
<p>Allowance for Impairment-Construction Materials</p> <p>Allowance for Impairment-Agricultural Produce for Consumption</p> <p>Allowance for Impairment-Aquaculture Produce for Consumption</p> <p>Allowance for Impairment-Other Supplies and Materials Inventory</p>		
<b>E.5. Semi-Expendable Machinery and Equipment</b>		
<p>Allowance for Impairment-Semi-Expendable Machinery</p> <p>Allowance for Impairment-Semi-Expendable Office Equipment</p> <p>Allowance for Impairment-Semi-Expendable Information and Communications Technology Equipment</p> <p>Allowance for Impairment-Semi-Expendable Agricultural and Forestry Equipment</p> <p>Allowance for Impairment-Semi-Expendable Marine and Fishery Equipment</p> <p>Allowance for Impairment-Semi-Expendable Communications Equipment</p> <p>Allowance for Impairment-Semi-Expendable Disaster Response and Rescue Equipment</p>	<p>Impairment of semi-expendable machinery and all equipment refers to any initial or subsequent write-down of cost of the purchased/acquired machinery and all equipment costing less than the prescribed capitalization threshold due to obsolescence, fortuitous events, pests and other similar infestations.</p> <p>For purposes of computing the amount of impairment the Current Replacement Cost (CRC) shall be considered. The CRC is the cost the entity would incur to acquire the inventories on the reporting date.</p> <p>The difference between the cost per books and the CRC will be accounted for as the Allowance for Impairment.</p> <p>The Property Unit shall determine the CRC of an inventory item at the end of the reporting period which will be basis for determining the Allowance for Impairment.</p>	<p>Refer to Annex A for Illustration on how to determine the Impairment</p>


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PARTICULARS	POLICIES/PROCEDURES	REMARKS
<b>E.6. Semi-Expendable Furniture, Fixtures and Books</b>		
<p>Allowance for Impairment-Semi-Expendable Furniture and Fixtures</p> <p>Allowance for Impairment Semi-Expendable Books</p>	<p>Impairment of semi-expendable furniture, fixtures and books refers to any initial or subsequent write-down of cost of the purchased/acquired furniture and fixtures, books and other reference materials costing less than the prescribed capitalization threshold due to obsolescence, fortuitous events, pests and other similar infestations.</p> <p>For purposes of computing the amount of impairment the Current Replacement Cost (CRC) shall be considered. The CRC is the cost the entity would incur to acquire the inventories on the reporting date.</p> <p>The difference between the cost per books and the CRC will be accounted for as the Allowance for Impairment.</p> <p>The Property Unit shall determine the CRC of an inventory item at the end of the reporting period which will be basis for determining the Allowance for Impairment.</p>	<p>Refer to Annex A for Illustration on how to determine the Impairment</p>

This guideline shall take effect immediately upon signing thereof and shall remain in full force and effect unless revoked, revised, or amended.

  
**WILLIAM D. DAR, Ph.D.**  
 Secretary

DEPARTMENT OF AGRICULTURE  
  
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PARTICULARS	POLICIES/PROCEDURES	REMARKS
Allowance for Impairment-Semi-Expendable Military, Police and Security Equipment		
Allowance for Impairment-Semi-Expendable Medical Equipment		
Allowance for Impairment-Semi-Expendable Printing Equipment		
Allowance for Impairment-Semi-Expendable Sports Equipment		
Allowance for Impairment-Semi-Expendable Technical and Scientific Equipment		
Allowance for Impairment-Semi-Expendable Other Equipment		



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## Annex A

### Impairment Losses in Inventory

Impairment is the condition that exists when the carrying amount of an asset is higher than the sum of its estimated future cash flows. The accounting standards require that all assets be tested for impairment regularly, and this includes the inventory asset.

Inventories are susceptible to impairment because elements like consumer trends, technological changes, physical deterioration, obsolescence, and declining prices affect the value of inventory. Therefore, the accounting standards allow for a major departure from the historical cost principle to account for inventory.

Agency using inventory valuation methods other than last-in-first-out (LIFO) or the retail inventory method are required to carry inventory at the lower of cost or net realizable value (LCNRV). Net realizable value (NRV) is defined as the expected selling price of an inventory item in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

Merchandise Inventory, Raw Materials Inventory, Work-in Process Inventory and Finished Good Inventory – The NRV shall be applied as illustrated below since the items are intended for sale in the ordinary course of business.

#### ILLUSTRATION

Item	Cost	Estimated Selling Price	Estimated Cost to Sell	Net Realizable Value (NRV)	Value of Inventory	Value of Impairment
A	100.00	75.00	5.00	70.00	70.00	30.00
B	150.00	100.00	10.00	90.00	90.00	60.00
C	120.00	80.00	6.00	74.00	74.00	46.00
<b>Total</b>	<b>370.00</b>	<b>255.00</b>	<b>21.00</b>	<b>234.00</b>	<b>234.00</b>	<b>136.00</b>

### Inventories Held for Consumption and Distribution

For purposes of computing the amount of impairment the Current Replacement Cost (CRC) shall be considered. The CRC is the cost the entity would incur to acquire the inventories on the reporting date. CRC is a synonym for Replacement Cost. The Replacement Cost of an asset (also Asset Replacement Cost & Current Replacement Cost) is the cost of replacing an existing asset with a substantially identical new asset or a modern equivalent.



**ILLUSTRATION**

**Assumption:** In case of damage of inventories intended for consumption

Item	Unit of Measure	Cost Per Unit	Current Replacement Cost	Difference	Quantity	Loss on Impairment
Bond Papers	Ream	200.00	250.00	50.00	10	500.00
Folders	Piece	10.00	12.00	2.00	100	200.00
Brown Envelopes	Piece	5.00	6.00	1.00	500	500.00
<b>Total</b>						<b>1,200.00</b>

**Assumption:** In case of spoilage of agricultural supplies intended for distribution to private individuals/organization

Item	Unit of Measure	Cost Per Unit	Current Replacement Cost	Difference	Quantity	Loss on Impairment
Seeds	kilo	100.00	150.00	50.00	200	10,000.00
Fertilizers	sack	1,500.00	1,650.00	150.00	100	15,000.00
<b>Total</b>						<b>25,000.00</b>

**Assumption:** In case of damage/spoilage of welfare goods for distribution to private individuals/organizations

Item	Unit of Measure	Cost Per Unit	Current Replacement Cost	Difference	Quantity	Loss on Impairment
Noodles	Piece	4.00	5.00	1.00	400	400.00
Blankets	Piece	250.00	300.00	50.00	100	5,000.00
Mosquito Nets	Piece	150.00	180.00	30.00	100	3,000.00
<b>Total</b>						<b>8,400.00</b>

**Assumption:** In case of obsolescence, fortuitous events, pests and similar infestations of Semi-expendable items for office use.

Item	Unit of Measure	Cost Per Unit	Current Replacement Cost	Difference	Quantity	Loss on Impairment
Printer	Piece	8,500.00	9,500.00	1,000.00	3	3,000.00
TV Set	Piece	7,800.00	9,200.00	1,400.00	2	2,800.00
Handheld Radio	Piece	2,150.00	2,800.00	650.00	5	3,250.00
<b>Total</b>						<b>9,050.00</b>


Item	Unit of Measure	Cost Per Unit	Current Replacement Cost	Difference	Quantity	Loss on Impairment
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Tables	piece	2,000.00	2,500.00	500.00	8	4,000.00
Chairs	Piece	1,200.00	1,500.00	300.00	8	2,400.00
Books	Piece	55.00	80.00	25.00	10	250.00
<b>Total</b>						<b>6,650.00</b>

The Accounting Entry will depend on the type of the semi-expendable items which were damage/destroyed/infested or become obsolete.



PARTICULARS	POLICIES/PROCEDURES	REMARKS										
	More than 1 year      5%											
<b>C. Inter-Agency Receivables</b>												
<p>Allowance for Impairment-Due from National Government Agencies</p> <p>Allowance for Impairment -Due from Government-Owned or Controlled Corporations National Government Agencies</p> <p>Allowance for Impairment-Due Government Units</p>	<p>Allowance for Impairment shall be applied only for Inter-Agency Receivables which remained unreconciled despite the efforts exerted and dormant for several years.</p> <p>For purposes of computing the amount of impairment, all inter-agency receivable account shall be aged.</p> <p>The determination of annual impairment loss shall be derived from computations based on the following percentages and aging of the Inter-Agency Receivables as follows:</p> <table border="1" data-bbox="634 1032 1109 1212"> <thead> <tr> <th><u>Age of Accounts</u></th> <th><u>Percentage</u></th> </tr> </thead> <tbody> <tr> <td>One year</td> <td>1%</td> </tr> <tr> <td>2 - 3 years</td> <td>2%</td> </tr> <tr> <td>3 - 4 years</td> <td>3%</td> </tr> <tr> <td>5 years and above</td> <td>5%</td> </tr> </tbody> </table>	<u>Age of Accounts</u>	<u>Percentage</u>	One year	1%	2 - 3 years	2%	3 - 4 years	3%	5 years and above	5%	<p>PPSAS and GAM allow management to use their judgment based on their experience.</p>
<u>Age of Accounts</u>	<u>Percentage</u>											
One year	1%											
2 - 3 years	2%											
3 - 4 years	3%											
5 years and above	5%											
<b>D. Other Receivables</b>												
<p>Allowance for Impairment-Due from Officers and Employees</p> <p>Allowance for Impairment- Due from Non-Government Organizations/Civil Society Organizations</p> <p>Allowance for Impairment-Other Receivables</p>	<p>For purposes of computing the amount of impairment, all Other Receivable Accounts shall be aged.</p> <p>The determination of annual impairment loss shall be derived from computations based on the following percentages and aging of the Other Receivables as follows:</p> <table border="1" data-bbox="634 1634 1109 1814"> <thead> <tr> <th><u>Age of Accounts</u></th> <th><u>Percentage</u></th> </tr> </thead> <tbody> <tr> <td>1-60 days</td> <td>1%</td> </tr> <tr> <td>61-180 days</td> <td>2%</td> </tr> <tr> <td>181- 1 year</td> <td>3%</td> </tr> <tr> <td>More than 1 year</td> <td>5%</td> </tr> </tbody> </table>	<u>Age of Accounts</u>	<u>Percentage</u>	1-60 days	1%	61-180 days	2%	181- 1 year	3%	More than 1 year	5%	<p>PPSAS and GAM allow management to use their judgment based on their experience</p>
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