AL-ABBAS
GROUP

Al-Abbas Sugar Mills Limited

Policy Matter

Property, Plant and Equiptment Policy

Prepared by: Internal Audit & Systems Department

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POLICY AND PROCEDURES FOR PROPERTY PLANT AND EQUIPMENT

Definition:

Property Plant and Equipment (PPE), also known as **Non-Current Asset (NCA)** or **Fixed Assets (FA)**, is a term used in accounting for assets and property that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. These are items of value which the organization has bought and are expected to be used during more than one accounting period. PPE normally include items such as land and buildings, motor vehicles, furniture, office equipment, computers, fixtures and fittings, plant and machinery, capital stores and intangible assets. PPE are assets whose future economic benefit is probable to flow into the entity and whose cost can be measured reliably.

Capital Stores:

The major spare parts and stand-by equipments that are key components and are expensive items as well, whose benefit expected to be used for more then one accounting period.

Policy Highlights

This section sets out the policy matters for carrying PPE and procedures that are to be followed for procurement, transfer and deletion of the various types of PPE.

Detailed policies relating to the following are included in this section:

- Accounting policy for property, plant and equipment.
- Accounting policy for intangible assets.
- Procurement of PPE.
- Capitalization policy for PPE.
- Impairment of PPE.
- Depreciation on PPE.
- Disposal of PPE.
- Fixed Assets / PPE tagging.
- Physical count and verification of PPE / FA.

1.1. PROPERTY, PLANT AND EQUIPMENT

a. Accounting policy for Operating Property Plant and Equipment – at cost

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except for land, which is stated at cost.

Cost in relation to self manufactured assets includes direct cost of materials, labour and applicable manufacturing overheads. If the cost of certain components of an item of property, plant and equipment are significant in relation to the total cost of the item, they are accounted for and depreciated separately.

Depreciation is charged, on a systematic basis over the useful life of the asset, on reducing balance method, which reflects the patterns in which the asset's economic benefits are consumed by the Company, at the rates specified later note. Assets residual value and useful lives are reviewed and adjusted appropriately at each financial year end. Depreciation on additions is charged from the month in which the assets are put to use while no depreciation is charged in the month in which the assets are disposed off.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized.

Gains or losses on disposals, if any, are included in Profit and Loss Account.

b. Operating Property Plant and Equipment – at revalued amount

PPE can be carried at revalued amount less any accumulated depreciation and accumulated impairment losses, if any.

Depreciation is to be charged on revalued amount.

c. Accounting for leases

i. Finance leases

Leases that transfer substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. Assets on finance lease are capitalized at the commencement of the lease term at the lower of the fair value of leased assets or the present value of minimum lease payments, each determined at the inception of the lease. Each lease payment is allocated between the liability and finance cost so as to achieve a constant rate of return on the balance outstanding. The finance cost is charged to profit and loss account and is included under finance costs.

Depreciation is charged at rates and method used for similar owned assets, so as to depreciate the assets over their estimated useful life in view of ownership of the assets at the end of the lease term.

ii. Operating leases

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit and loss on a straight-line basis over the period of the lease terms.

d. Land and Building (owned and leased)

It can also be classified as investment property, if the assets held for capital appreciation and for rental earning. These are initially measured at cost.

For subsequent measurement, an entity has an option to choose either:

1. Cost Model
2. Fair Value Model (FVM)

Cost Model – The assets are stated at cost less accumulated depreciation and accumulated impairment loss, if any. Depreciation is charged, on a systematic basis over the useful life of the asset, on reducing balance method, which reflects the patterns in which the asset's economic benefits are consumed by the Company, at the rates specified later note. Assets residual value and useful lives are reviewed and adjusted appropriately at each financial year end. Depreciation on additions is charged from the month in which the assets are put to use while no depreciation is charged in the month in which the assets are disposed off.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized.

Fare Value Model (FVM) - The assets are measured at Fair Value at each reporting date. Any gain or loss arising from a change in the fair value of investment property shall be recognized in profit or loss account in the period in which it arises.

e. Capital work-in-progress – owned

Capital work-in-progress represents expenditures on PPE in the course of construction and installation. Transfers are made to relevant category as and when assets are available for use. Capital work-in-progress is stated at cost.

Cost includes, in relation to self manufactured assets, direct cost of materials, labour, applicable manufacturing overheads and interest cost.

1.2. INTAGIBLE ASSETS

a. Software

Intangible assets acquired by the Company are stated at cost less accumulated amortization and impairment losses, if any.
Subsequent expenditures on intangible assets are capitalized only when it increase the future economic benefits embodied in the specific assets to which it relates. All other expenditure is charged to Profit and Loss account as and when incurred.

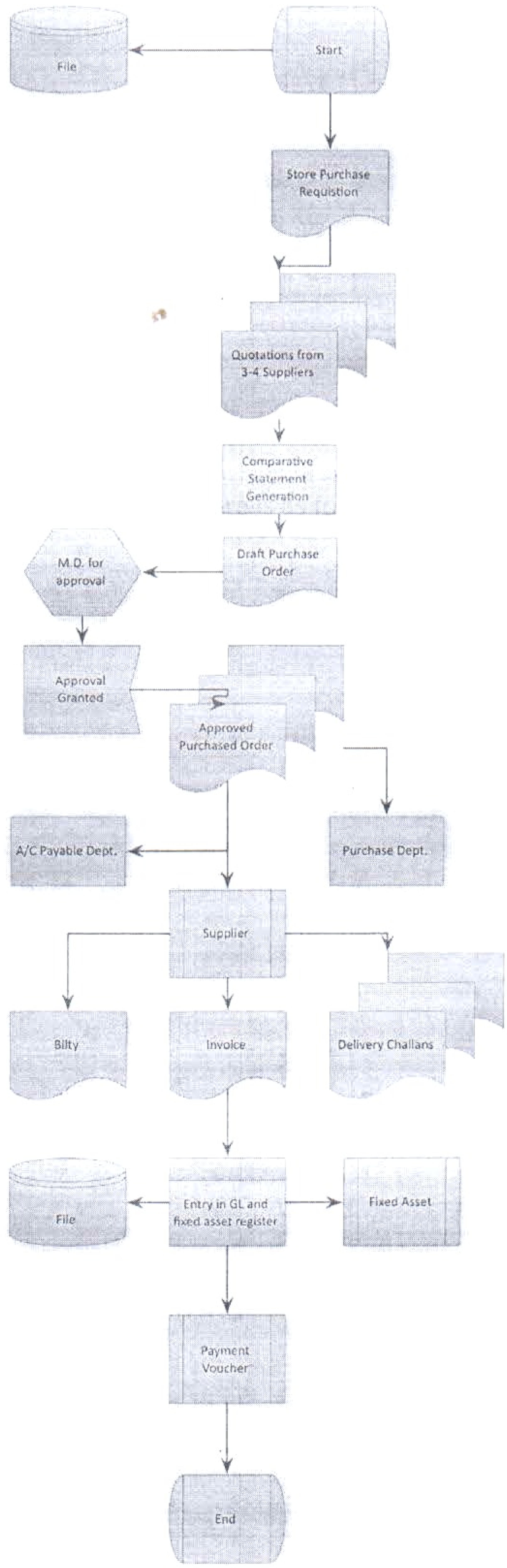
Amortization is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite. All intangible assets are systematically tested for impairment at each balance sheet date. Amortization on additions to intangible assets is charged from the month in which an item is acquired or capitalized while no amortization is charged for the month in which the item is disposed off.

PROCUREMENT PROCEDURE FOR PPE:

1. If any Department (either at Head Office or Site) requires any PPE it has to raise a Store Purchase Requisition (SPR).	SPR approved by relevant departmental head
2. After receiving the Store Purchase Requisition (SPR), the same is to be approved by procurement Manager upon the necessity and should be supported by the approved budget.	Match the SPR with approved department budget.
3. The purchase department after above approval enters it in the system. A document is generated from the system based on which quotations from registered suppliers are invited. Registered Suppliers are those who have reliable past dealing and good reputation.	Ensure that quotations are obtained from registered suppliers.
4. Usually Quotations are obtained from 3-4 suppliers are chosen in their quotations. Exception of above for specialized purchases against which alternate suppliers are not available.	Quotations from 3-4 suppliers are obtained.
5. Quotations received are entered in the system and a comparative statement is generated by the system.	Review comparative statement.
6. Comparison for lowest price and good quality is made by the purchase department.	Comparison is made to ensure that purchases are made at lowest price, considering the quality approved. In case of **exception** to above proper justification should be provided.
7. Pre-numbered Purchase order (PO) is raised stating the name of supplier, rate, terms of payment, credit period allowed and other details by the supplier. PO is then sent to appropriate level of authority for approval.	Purchase officer prepares purchase order. Purchase order is pre-numbered Appropriate level of authority approves purchase order.
8. After approval from the appropriate authorized person a final purchase order is raised. Purchase order made in triplet, copies of which are sent to the supplier, accounts payable and one copy is retained by the purchase department	Copies of approved purchase order.
9. Items are received by the store / purchase Department (either at head office or site) along with the delivery challan, bilty (in certain cases)	Based on delivery challan, Builty and Invoice. Matching SPR and PO with delivery challan by the

and invoice. Goods are then checked by the store Department and ensured, in accordance with the Delivery Challan and Purchase Order. The delivery challan are made in 2 copies; the store department retains one and other copy is given to the supplier duly stamped by the store / purchase department.	store / purchase department.
10. A Material inspection report (MIR) except for motor vehicles is prepared on the receipt of goods at site only. After inspection the Receiving Report (R.R.) is made certifying the quality, quantity and receipt of goods.	MIR and RR is prepared in Oracle.
11. Invoice is received by the purchase department from the supplier. The purchase department then forwards the invoices to the accounts payable departments for processing after ensuring that the material ordered is received at store.	Accounts department ensure that PO # mentioned in invoices.
12. On the basis of documents received from the purchase department entry is made in the GL and fixed asset register by the accounts payable department.	Entry is approved by DM finance and CFO.
13. The intimation is sent to the finance department that entry has been made in the general ledger based on which payment voucher is prepared to process the payment.	Payment voucher is prepared based on the Purchase Order.
14. On the basis of payment voucher, entries for payments are made in General Ledger in relevant accounts.	General ledger and cashbook is reviewed on monthly basis.

The flow chart of above Procurement Procedure is as follow:



1.4. CAPITALIZATION POLICY FOR PROPERTY PLANT AND EQUIPMENT

PROPERTY PLANT AND EQUIPMENT	CAPITALIZATION POLICY
Land - Freehold	100% costs incurred should be capitalized
Factory building on freehold land	100% costs incurred should be capitalized
Non - Factory building on freehold land	100% costs incurred should be capitalized
Plant and Machinery	Cost of Rs.200,000 and above should be capitalized
Office and laboratory equipment	Cost of Rs.25,000 and above should be capitalized
Furniture and Fixture	Cost of Rs.25,000 and above should be capitalized
Capital Stores	Cost of Rs.200,000 and above should be capitalized
Vehicles	Cost of vehicle including registration charges should be capitalized
Intangible	Cost of Rs.100,000 and above should be capitalized

This policy for capitalization is subject to change depending on the nature and use of assets categorized above.

1.5. IMPAIRMENT OF PROPERTY PLANT AND EQUIPMENT

This section sets out the guidelines an entity should follow when considering the impairment of PPE (including tangible and intangible assets).

Impairment testing shall be carried out:

- At each reporting date for an asset when there is an indication of a possible impairment (a triggering event); and

- Annually for the intangible assets (with an indefinite useful life and not yet available for use), regardless of whether there is a triggering event.

The annual impairment test should be performed in *addition* to any impairment tests performed by the management as a result of a triggering event

The management shall at each reporting date assess whether there is an indication that an asset is impaired. In determining whether there is an impairment indicator, the management should consider both internal sources (e.g. adverse changes in performance) and external sources (e.g., changes in the technology and changes in market value).

Recognition of impairment loss

An impairment loss is recognized to the extent that the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss account unless the assets are carried at revalued amount.

Reversal of impairment loss

At each reporting date the management should assess whether there is an indication that a previously recognized impairment loss has reversed. If there is such an indication and the recoverable amount of the impaired asset subsequently increases, then the impairment loss is reversed.

1.6. DEPRECIATION ON PROPERTY PLANT AND EQUIPMENT

"Depreciation is the systematic allocation of the depreciable amount (Cost less residual value) of an asset over its useful life."

The following rates should be used to depreciate assets:

PROPERTY PLANT AND EQUIPMENT	DEPRECIATION RATES
Land – Freehold*	N/A
Factory building on freehold land	5%
Non - Factory building on freehold land	10%
Plant and Machinery	Unit of production method
Capital Stores	Unit of production method
Office and laboratory equipment	10%
Furniture and Fixture	10%
Vehicles	20%
Computer equipment	33%
Software	10-20%

Each part of an item and property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, (therefore based on this treatment, capital stores are also required to be depreciated).

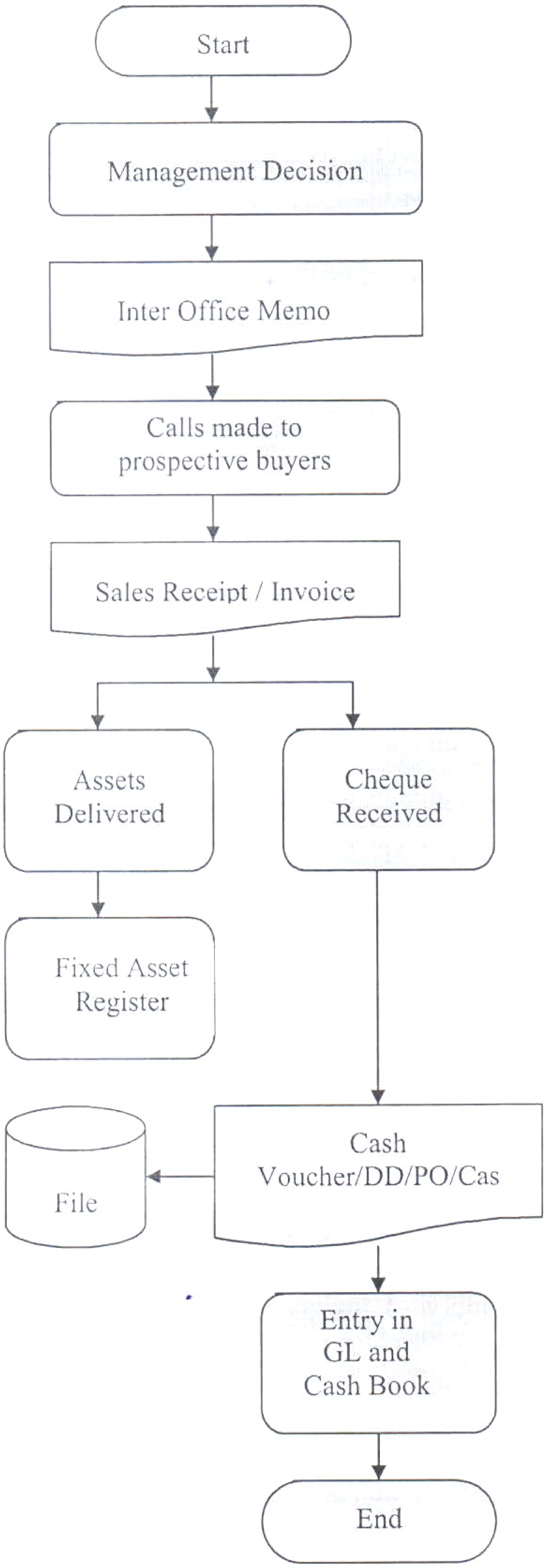
Depreciation is recognized even if the fair value of the asset exceeds its recoverable amount, as long as the asset's residual value does not exceed the carrying amount.

*Land has an unlimited useful life and therefore is not depreciated.

If the cost of land includes the cost of dismantling, removal and restoration, that portion of the land asset is depreciated over the period of benefits obtained by incurring those costs. In some cases, land itself has a limited useful life, in which case it is depreciated in a manner that reflects the benefits to be derived from it.

1.7. DISPOSAL OF PROPERTY PLANT AND EQUIPMENT

The procedure for disposal of PPE is set out below:



PROCEDURES	CONTROLS
1. The Decision to dispose off an asset is taken by the Director finance and the head of the relevant department	Approval as per authorization policy.
2. An IOM is sent to the Admin Dept/ Concerned Dept to make necessary arrangement for the disposal of asset	Transparency in the process is ensured as the IOM is signed by authority level.
3. The Admin Department / Concerned Dept invite the buyers to send in their bids regarding the asset being disposed off.	N/A
4. The Admin Department / Concerned Dept make a comparative statement analyzing the bids acquired.	The comparative statement is sent to the appropriate level as per authorization policy.
5. After obtaining approval, sales Invoices are raised by Accounts / Administration Department. Copies (four) of sales invoice are made original is sent to the buyer. One copy is kept in assets file, one is sent to the concerned department and one is retained by finance department.	Copies are checked and reviewed.
6. On the basis of Invoice, cash voucher is generated from the system by the finance department.	Cash voucher is approved by Deputy Manager Finance and compared with Sales Receipt.
7. Entries are made in General Ledger and Fixed asset register based on sales invoice to retire the asset there from.	General ledger and fixed asset register is reviewed on regular basis.

1.8. PROPERTY PLANT AND EQUIPMENT TAGGING

On receipt of the PPE item a tag, containing PPE numbers generated by system, shall be affixed on the assets by the relevant department.

1.9. PROPERTY PLANT AND EQUIPMENT REGISTER

Adequate itemized record of PPE should be maintained which at minimum must indicate following particulars:

a. Detail description of each item.
b. Original cost of the item.
c. Date of its acquisition.
d. Classification of the item.
e. The location and/or the custodian of the item.
f. The rate of depreciation.
g. Accumulated depreciation.
h. Depreciation charge for the period.
i. The department / cost center/ product to which the depreciation is charged.
j. Date of revaluation (if any).
k. Revalued amount (if any) of the items.
l. Deprecation on revalued amount.
m. Accumulated depreciation on the revalued amount.
n. Impairment loss, if any.

1.10. PHYSICAL COUNT OF PROPERTY PLANT AND EQUIPMENT

Physical count of Property Plant and Equipment involve the following procedure:

a. A list of assets along with their location shall be extracted from the system and a list of assets shall also be extracted from the manual record.

b. Assets shall be physically checked at their respective locations as stated in the list.

c. For assets where the asset number or identification tag is not appearing, a new tag with the same asset code shall be pasted thereon.

d. The assets which are issued to one cost centre and are used at another cost centre shall be transferred to the appropriate cost center.

e. Assets which are not physically available, destroyed or broken and are not usable shall be deleted from the system (after due verification).

General

This policy was reviewed and approved on __________________ and shall come into place with period beginning on and after October 01, 2010.