

Chapter 14

Topic : Asset Management

Date of Creation : 06.04.2011

Asset Management

Introduction

BSNL, like all other public sector undertaking is governed by Company Act 1956 and as per the requirement of Company Act 1956, maintenance of assets of the enterprise is statutorily required to be done and updated from time to time.

On formation of BSNL w.e.f. 01.10.2000 all assets and liabilities of DTS (Department of Telecom Services) and DTO (Department of Telecom Operation) were transferred to BSNL. Assets to the tune of Rupees Sixty-three thousand Crores, approximately, were provisionally transferred to BSNL and opening Balance was taken in BSNL Books.

Definition

An asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise. Asset is always held with the intention of being used for the purpose of producing or providing goods or services. Assets are not ordinarily held by any enterprise for sale in the normal course of business.

BSNL being a service oriented organisation, it creates infrastructure for rendering telecom services.

Classification of Assets

Assets are of two types: one is Current Assets, and the other is Fixed assets. Some examples of current assets are Cash in Hand, Amount receivable from other organisation, Bank balance etc. On the other hand, fixed assets are infrastructure of the company such as land, building, apparatus and plants, computers, office machinery and equipments etc. Fixed assets are further classified under the following categories:

1. Tangible Assets: These are the assets having physical substance that can be seen and touched like building, plant and machinery etc.
2. Intangible Assets: These are the assets which do not have any physical substance but future economic benefits are expected to flow from them to the enterprise. Examples of intangible assets are goodwill, trademark, computer software, patents etc.

Component Costs of Fixed Assets

1. Purchase price including duties non-refundable taxes.
2. Directly attributable cost of bringing the asset to its working condition i.e.
 - a. Cost of site preparation,

- b. Initial delivery and handling costs,
- c. Installation cost, such as special foundation for plant,
- d. Professional fee (e.g. fees of architects and engineers).

Components of Fixed Assets in BSNL

- 1. Land
- 2. Building
- 3. Apparatus and Plant
- 4. Motor vehicles and launches
- 5. Cables
- 6. Lines and wires
- 7. Subscribers' installations
- 8. Installation and testing equipments
- 9. Mast and Aerials
- 10. Office machinery and equipments
- 11. Electrical fittings
- 12. Electrical appliances
- 13. Furniture and fixtures
- 14. Computers

The above fixed assets are categorised as assets falling under 'General Area', 'Tribal Area' and 'Rural Area' for the purpose of management information.

Works in Progress

- The expenditure of capital nature incurred on construction of assets is booked to works in progress and transferred to fixed assets on the basis of management certificate issued by the concerned authority as per the policy of capitalisation.
- There is an imperative need to ensure that the works in progress are completed in time and converted into assets, to claim the benefit of depreciation. The date of completion/ commissioning of the work is very much relevant for the calculation of depreciation.

Depreciation

Depreciation arises due to following factors.

- 1. Wear and tear due to actual use.
- 2. Efflux of time. Mere passage of time will cause a fall in value of an asset even if it is not used.
- 3. Obsolescence due to technological change.
- 4. Market change.

Depreciation is calculated on fixed assets from the date of purchase/ completion, as the case may be, as per the rate prescribed for each asset, by adopting WDV (Written Down Value) method.

Depreciation thus calculated is debited to concerned detailed head under depreciation (Sch-189/190/191) and credited to accumulated depreciation (Sch-108/109/110).

Rate of Depreciation

| | |
|------------------------------|--------|
| Building | 5% |
| Apparatus and Plant | 15.33% |
| Motor Vehicles | 25.89% |
| Cable | 15.33% |
| Lines and Wires | 13.91% |
| Installation Test Equipment | 13.91% |
| Subscribers Installations | 13.91% |
| Masts and Aerials | 13.91% |
| Office Machinery & Equipment | 13.91% |
| Electrical fittings | 13.91% |
| Electrical Appliances | 13.91% |
| Furniture and Fixture | 18.10% |
| Computers | 40% |

The above rates of depreciation are as per Schedule XIV of the Companies Act 1956. As per BSNL Accounting Policy on depreciation, the subscriber installation is depreciated over the useful life of 5 years on WDV method.

Capitalization

The following Policy is adopted regarding capitalisation.

| | |
|----------------------|--|
| Land | Land is capitalised as and when the possession is taken and final payment is made. Value of leasehold land is amortized over the period of lease. |
| Building | Building is capitalised to the extent it is ready for use as per management certificate. But in the case of buildings which are purchased, then are capitalised as and when the possession is handed over. |
| Apparatus and Plants | These are capitalised on commission of exchanges/ routes/ links. |

| | |
|-----------------|---|
| Lines and Wires | Expenditure on lines and wires are capitalised as and when these are erected and completion certificate issued by the management to the extent of erection/ completion. |
| Cables | Expenditure on cables is capitalised when cables are laid, jointed and is ready for connection to the main system. Management certificate is to be obtained. |
| Vehicle | Expenditure on purchase of vehicle is capitalised as and when it is purchased. |

Maintenance of Asset Register

Fixed assets are exhibited in the accounts under the following categories:

- a) Gross Block (at historical cost)
- b) Depreciation
- c) Net Block
- d) Capital works in progress

The asset registers will be maintained and identified with reference to estimate files, works registers, and management certificates as well as work schedules for civil/ electrical wings.

Asset register for each component of assets are maintained in the prescribed format of 21 columns fixed asset register in all primary accounting units by planning branch of the organisation. It should have full details of assets particularly the situation/ location of the assets and it should be updated immediately as and when the addition/ deletion of assets take place. The details shown in the fixed asset register must be reconciled with the booked figures in accounts.

Physical Verification of Fixed Assets

It is the responsibility of the management (GMs/ TDMs) to have the physical verifications of fixed assets by the officers of competence in order to ensure that the assets are in existence. The Auditor is to satisfy about this and will record this fact in his Audit Report.

When the assets are few and can be easily verified, annual verification is considered reasonable. Where the assets are numerous and difficult to verify, verification, once in every 3 years by rotation, so that all assets are verified at least once in every 3 years, may be sufficient.

Decommissioning of Assets

Whenever the asset is decommissioned, the fixed asset and the accumulated depreciation is to be relieved to that extent and the same may be transferred to decommissioned asset under inventory schedule and remain there till they are finally disposed off. Provision for loss may also be made in the accounts, if any. Whenever the decommissioned assets are finally disposed off, and the sale proceeds are more than the depreciated value or Net realisable value it will be treated as income, if the sale proceeds are less than the depreciated value or Net Realisable Value it will be treated as loss and accordingly necessary entries will be done in the accounts.
