

HM Treasury

Rob Molan
Second Treasury Officer of Accounts



Allington Towers
19 Allington Street
London SW1E 5EB

For copies of this DAO letter, please contact
Mangai.Rajasingham
Tel : 020 7270 5362
Fax : 020 7270 4311
mangai.rajasingham@hm-treasury.gov.uk

Dear Accounting Officer

DAO(GEN)11/02
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TREATMENT OF ASSET SALES IN ESTIMATES AND RESOURCE ACCOUNTS FOR 2001-02 AND 2002-03

Purpose of this letter

In accordance with paragraph 12.1.10 b of the *2001-02 Resource Accounting Manual*, this DAO letter sets out how to account for asset sales in schedule 1 of 2001-02 resource accounts. This treatment also applies to 2002-03 Main Estimates and resource accounts.

Action and contacts

2. Departments are asked:
 - o to note the contents of this letter and the annex to this letter;
 - o to draw it to the attention of those preparing departmental resource accounts for 2001-02;
 - o to note that this accounting treatment of asset sales in schedule 1 will be included in the 2002-03 Resource Accounting Manual.
3. Any questions about this letter should be addressed to the following people:
 - o *Income, receipts and parliamentary control*: Debbie Edwards at the above address: phone 020 7270 5363, GTN 270 5363; email debbie.edwards@hm-treasury.gov.uk;
 - o *Estimates structure*: David Dipple in GEP, HM Treasury, Parliament Street, London SW1P 3AG: phone 020 7270 5534; email david.dipple@hm-treasury.gov.uk;
 - o *Resource budgeting*: Ciaran Martin, GEP, HM Treasury, Parliament Street, London SW1P 3AG; phone 020 7270 5439, GTN 270 5439; email ciaran.martin@hm-treasury.gov.uk.



Background - Supply Estimates

4. The Estimates treatment of income and receipts is set out in chapter 20 of *Government Accounting 2000 (amendment 1)*¹. Treating any resources as operating or non operating appropriations in aid is dependent on: Treasury approval; the limits on appropriations in aid set by Parliament; and there being expenditure associated with the relevant Request for Resources (RfR) against which resources can be appropriated in aid. If resources cannot be appropriated in aid, then cash associated with them must be surrendered to the Consolidated Fund as extra receipts.

5. At paragraph 20.3.19, *Government Accounting 2000* advises departments on the treatment of asset sales in Estimates. Subject to the general principles set out in paragraph 4 above, departments may:

- o take the book value as non-operating appropriations in aid;
- o take any profit as operating appropriations in aid; any loss should be treated as resource expenditure in the Estimate; and
- o where appropriate, bad debts should show as expenditure items in Estimates.
- o together the book value and profit/loss on disposal (along with any bad debt) add up to the disposal proceeds.

Treatment in Schedule 1 of Resource Accounts for 2001-02

6. In summary, the treatment of asset disposals in schedule 1 should be as follows:

- o any profit is recognised as operating appropriations in aid; any loss as resource expenditure;
- o the asset's carrying value, used to calculate the profit or loss on disposal, is shown as non-operating AinA;
- o no adjustment is made in the reconciliation of resources to net cash requirement in respect of the profit or loss on sale.

7. The annex to this letter sets out amendments to the 2001-02 version of the *Resource Accounting Manual*. Departments **must** follow these in conjunction with the *Manual* when preparing their resource accounts for **2001-02**. These amendments have been agreed with the Financial Reporting Advisory Board.

Resource Budgeting Treatment

8. The resource budgeting treatment for asset sales set out in the Consolidated Resource Budgeting guidance applying for 2001-02 continue to apply, that is departments' Capital Budget will be score:

- o *minus* the book value element of income from capital asset sales;
- o *minus* profit **or** *plus* loss on disposal of assets;
- o *plus* any bad debt on the sale of capital assets.

¹ Available at www.government-accounting.gov.uk

9. As the budgeting treatment is different to the Estimates and accounts treatment, the resource items - profit, loss or bad debt - will appear under the shoulder heading 'Other Spending outside DEL' in Estimates. Resource items relating to sales of administration costs related assets appear in the administration costs column in Estimates. Expenditure items thus form part of administration costs provision, but do not form part of the Administration Costs Limit.

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AMENDMENTS TO THE RAM 2001-02: SCHEDULE 1 TREATMENT OF DISPOSALS OF FIXED ASSETS

The amendments the Resource Accounting Manual comprise:

- The deletion of 12.1.10b, which says that the treatment of disposals of fixed assets will be the subject of a DAO letter
- The insertion of the following:
 - Additional sub-paragraphs 12.1.10 b and c
 - Additions to 12.1.10 d (previously c), 12.1.12 b and ci

They are shown below in ***bold, italics and underlined***.

Departments should follow the 2001-02 version of the *Resource Accounting Manual* in conjunction with these amendments when preparing their **2001-02** resource accounts.

Equivalent amendments will be incorporated in the 2002-03 version of the *Resource Accounting Manual*.

12.1.10 The disposal of tangible and intangible fixed assets, as well as investments, will be treated in Schedule 1 as follows:

- a. the profit or loss on disposal will be included within total resource outturn. A profit on disposal will be treated as an appropriation in aid provided the amount is within the level so authorised by Parliament. *Government Accounting*, (current version: 2000, Amendment 1/01), chapter 20 describes appropriations in aid and excess appropriations in aid;
- b. ***the carrying value of the asset, used to calculate profit or loss on disposal, will be treated as a non-operating appropriation in aid (12.1.12b)***
- c. ***the profit or loss on disposal will not be treated as a non-cash item in the accruals adjustments in the reconciliation of net total resources to net cash requirement (12.1.12ci). This is because the profit or loss within total resource outturn and carrying value, together, will equate to the disposal proceeds.***
- d. any bad debts ***or provision for bad debts will be included as a charge against resources.***

The disposal of an asset by way of a barter deal will follow the above treatment.

12.1.11 Because Excess Votes, in terms of both resources and cash, are calculated to the nearest penny, and there needs to be a separate reconciliation to the

Consolidated Fund, the following amounts should be shown to the nearest penny in respect of both resources as cash:

- a. the amount of excess or surplus of outturn compared with Estimate;
- b. the net total outturn.

These should be shown as a footnote to Schedule 1. Other items shown to the nearest penny are described in 12.1.14 and 12.1.35.

12.1.12 The “Reconciliation of resources to net cash requirement” will include the following items:

- a. **Capital:** This will cover all voted capital expenditure treated as such in Estimates:
 - i. **acquisition of fixed assets** , comprising both tangible and intangible assets, and including purchased assets, those acquired under a finance lease or barter deal, and PFI-financed on-balance sheet assets
 - ii. **investments** , including the acquisition of shares and issue of new voted loans. Principal repayments of voted loans will either be netted off here or, more usually, included as non-operating appropriations in aid (12.1.12b); *Government Accounting*, (current version: 2000, Amendment 1/01), chapter 11, provides further details.

These items will be recorded on an accruals basis, with any associated creditor changes included under “accruals adjustments”,

- b. **Non-operating appropriations in aid:** These are described in *Government Accounting* (current version: 2000, Amendment 1/01), chapter 20. They will include, **in respect of disposals of fixed assets, the carrying value used to calculate profit or loss on disposal (12.1.10), and** principal repayments of voted loans unless netted off in loans (12.1.12a.ii). *Government Accounting*, chapter 11 provides further details concerning the latter. These items will be expressed on an accruals basis, with any associated debtor changes included under “accruals adjustments”.
- c. **Accruals adjustments:**
 - i. **non-cash items** , including items of expenditure which in the private sector would be cash transactions - for example cost of capital charges and the audit fee (7.3.2), and also depreciation and the setting up of, and subsequent changes to, provisions. **Profit or loss on the disposal of a fixed asset will not be included here (12.1.10)**
 - ii. **changes in working capital other than cash** , including movements in balances relating to debtors, creditors, and stocks
 - iii. **changes in creditors** (amounts falling due after more than one year)
 - iv. **use of provision** , relating to the utilisation only of a provision, its setting up, and subsequent changes being included in 12.1.12c.i.