

JSP 886
THE DEFENCE LOGISTICS SUPPORT CHAIN MANUAL

VOLUME 9
THE DISPOSAL OF MATERIEL

PART 8
FINANCIAL ACCOUNTING FOR THE DISPOSAL OF
SURPLUS NON-PROPERTY FIXED ASSETS, CAPITAL
EQUIPMENT, CAPITAL SPARES AND STOCK



MINISTRY OF DEFENCE

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**FOR TECHNICAL REASONS, EXTERNAL LINKS ON THIS
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SECTION 1 – INTRODUCTION TO FINANCIAL ACCOUNTING FOR THE DISPOSAL OF SURPLUS NON-PROPERTY FIXED ASSETS INCLUDING CAPITAL SPARES AND STOCK

INTRODUCTION

1. This instruction refers directly to the Financial Accounting Procedures that are to be utilised throughout the disposal process. An introduction to the Joint Supply Chain (JSC) Disposals Policy, Regulations, Guidance and Procedures (PRGP) are at JSP 886, Volume 9, Part 1.

PURPOSE

2. The purpose of this instruction is to set out and explain the Financial Accounting Treatment that is applied to the disposal of surplus non-property fixed assets including Capital Spares, Raw Materials and Consumables (RMC) Stock and the management of receipts in line with the accounting treatment found in Resource Accounting Treatment Bulletin 11 and JSP 472 – Resource Accounting Policy Manual.

3. For specific circumstances not covered within this instruction, further assistance and guidance can be obtained from the Disposal Services Authority (DSA) Finance Team (Tel Civil: 0207 305 2949 / Military: 96305 2949).

OWNERSHIP AND POINTS OF CONTACT

4. The policy, processes and procedures described in the Defence Logistics Support Chain Manual (JSP 886) are owned by Director Joint Support Chain (D-JSC). Head Supply Chain Management (SCM-Hd) is responsible for the management of JSC policy on behalf of D JSC.

5. This instruction is sponsored by DES DSA who should be approached in case of technical enquiries about the content:

DES DSA-TL/CD
MOD, Bld 9, H Site, DSDA Bicester, Ploughley Road, Bicester, Oxon OX25 2LD
Tel: Mil: 94240 8633. Civ: 01869 258633
Email: DESDSA-ADOps@mod.uk

6. Enquiries concerning the accessibility and presentation of this instruction should be addressed to:

DES SCM-PolComp-JSP886 Editorial Team
Cedar 2b, #3246, MOD Abbey Wood, BRISTOL, BS 34 8JH
Tel: Mil: 9679 80953. Civ: 030679 80953
Email: DESSCM-PolComp-JSP886@mod.uk

GLOSSARY

7. A glossary of JSC terms is available at JSP 886 Volume 1 Part 1A.

LINKED PUBLICATIONS

8. The following publications are linked to Accounting for Disposal of Surplus Non-Property, Capital Spares and Stock:

- a. Resource Accounting Treatment Bulletin 11.
- b. JSP 472 – Resource Accounting Policy Manual.
- c. DSA/IPT Internal Business Agreements.
- d. 2007DIN09-020 FI 20/07 – Process for dealing with Surplus Fixed Assets.
- e. JSP 886, Volume 9, Part 1 - Introduction to Disposals and the Declaration Process.

SECTION 2 – DISPOSAL POLICY – FINANCIAL ACCOUNTING AND TREATMENT FRAMEWORK

INTRODUCTION

1. This section provides an overview of the Financial Accounting and Treatment framework policy to be adopted for the Disposal of Surplus MOD Non-Property Fixed Assets, Capital Spares and Stock. Fixed assets in this context relates to all assets excluding Land, Buildings and Nuclear items. Stock consists of Raw Materials and Consumables (RMC).
2. Methods for disposing of surplus fixed assets include sales, recycling and scrapping. Losses and cannibalisations are the responsibility of the Integrated Project Teams (IPT) and Basic Level Budget (BLB) holders. The Single Balance Sheet Owner (SBSO) and the DSA, under the instruction of the IPT, perform all financial accounting treatment.

RESPONSIBILITIES

3. IPT/ BLB that maintain the asset are responsible for:
 - a. The disposal decision under the Concept, Assessment, Demonstration, Manufacture, In-Service and Disposal (CADMID) cycle and Through Life Management requirements.
 - b. Ensuring that DSA are informed once the predicted Out of Service Date (OSD) has been confirmed.
 - c. Communicating disposal decisions and plans to:
 - (1) SBSO for asset management and control purposes
 - (2) Joint Business Agreement (JBA) Development Team for output management, reporting and costing.
 - (3) Inventory Optimisation Team for stock management purposes and for advice on financial accounting for Capital Spares and Consumable Stock including reserves and provisions.
 - (4) Corporate Plans and Reporting Team for 'planning round' financial management purposes.
 - (5) DFMA Reporting Team for 'in-year' financial management purposes.
 - d. Completing the Declaration Process as detailed in JSP 886 Volume 9 Part 1.
 - e. Provision of an Accurate Certificate of Material Condition.
 - f. Raising the Stock Valuation Provision as part of the original Business Case (BC) process.

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4. DSA are responsible for:
 - a. The disposal of all MOD surplus non-property assets and as such has the authority to approve local sales.
 - b. Financial accounting for asset disposal receipts.

DISPOSAL ROUTE

5. A fixed asset is generally disposed of when it reaches its planned OSD or as a result of unforeseen circumstances which result in the decision being taken to dispose of the asset. DSA will normally be advised of the surplus asset two years prior to the predicted OSD to enable sufficient time for marketing. If the disposal is due to an Option¹ then DSA should be contacted as soon as possible. This consultation is an important part of the disposal process, and in the case of assets that are intended for spares recovery prior to disposal the DSA must be consulted as part of the initial Investment Appraisal (IA) or BC considerations.

6. Once consulted DSA will complete a Phase One BC for assets that individually or collectively have a Net Realisable Value (NRV) of £1M or more to determine the most suitable disposal route for example recycling or Government-to-Government sale. A business case is not required for those assets with a NRV under £1M.

7. When the appropriate disposal method has been agreed those high value assets over £1M will have a Phase Two BC produced by DSA outlining a recommended project strategy. The DSA will then further support UK Trade and Industry Defence Security Organisation (UKTI DSO) in marketing surplus capital assets and will negotiate and project manage the sale and transfer of these higher value assets.

ASSET VALUATION

8. **Non-Property Fixed Assets.** Non-property fixed assets are normally carried in the accounts at Net Current Replacement Cost (NCRC). On disposal a current sales value for the asset will be ascertained (with the possibility that a reduction in cost, or impairment, is required) and forwarded to the SBSO who will perform the relevant accounting treatment.

9. **Capital Spares and RMC Stock.** Although there are some exceptions, Capital Spares and stock are normally held at current Replacement Costs. Once a disposal decision has been made, a Valuation Provision will be raised by the IPT by way of a reversible journal to reduce the value to nil. The physical disposal of these items off the supply system will automatically remove their value from the financial accounts and any valuation provision made will need to be reversed.

NET REALISABLE VALUE (NRV)

10. DSA will advise the SBSO and IPT of the NRV of surplus assets where the individual item has a NCRC of more than £10K. This will enable relevant journals to be produced by the appropriate finance team to impair the asset or establish the stock provision. Assets below the £10K threshold will have a suitably determined NRV attached.

¹ Option details are articulated in JSP 472 – Resource Accounting Policy Manual.

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11. DSA will record and inform IPTs/ BLBs and SBSO of any material changes to NRVs.

ASSET IMPAIRMENTS AND STOCK PROVISIONS

12. **Asset Impairments.** SBSOs as the owner of all fixed assets are to manage the impairment of all surplus fixed assets and are to post the impairment values into the accounts via the Fixed Assets Processing Centre (FAPC). IPTs / BLBs, as the owners of all Capital Spares, are to manage the impairment of all surplus Capital Spares and are to post the impairment values into the accounts.

13. **Stock Provisions.** IPTs / BLBs as the owners and managers of RMC stock are to manage creation of stock provisions and are to post changes into their accounts.

TRANSFER OF ASSETS TO DSA

14. Surplus stock and assets, which are no longer in service, should be declared and transferred to DSA as soon as they become surplus.

15. After declaration to DSA that an asset is surplus, IPTs/ BLBs are to continue to manage their assets and ensure that inspections, maintenance and preparation for disposal are being conducted until such time as the asset is physically removed from their custody.

16. The IPTs are to meet all disposal preparation costs and ensure that adequate financial provisions are in place to support any costs relating to management of the asset up to its final sale and handover. However, when the transfer to DSA takes place the remaining provision should also be transferred from the IPT to DSA. Thereafter, the IPT continues to manage the asset whilst the accounting treatment is undertaken by DSA.

DISPOSAL RECEIPTS

17. DSA will retain and account for all disposal receipts on behalf of DE&S.

PROJECT MANAGEMENT AND GUIDANCE

18. DSA utilise Project Management methodology for control, risk management and the provision of assurance.

19. Financial assurances are obtained from Project Financial Accounts identifying the full cost of disposals; these details are to be made available from IPT finance staff and are to indicate if the financial objectives have been achieved. This process forms an important input for Post Project Evaluation.

REDEPLOYMENT

20. If redeployment of assets takes place DSA does not need to be notified as there is no disposal-taking place, the 4 main categories of redeployment are:

- a. **Spares Recovery.** Applies to equipment that has been removed from the asset.

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- b. **Support to MOD-Sponsored Museums.** Interest in surplus assets received from service museums sponsored by MOD, as Non-Departmental public bodies and national museums, sponsored by the Department of Culture, Media and Support (DCMS) are handled by the MOD Directorate of Financial Policy. Refer to JSP 886, Volume 9 Part 9, Gifting of Surplus Assets.
- c. **Training and Instruction purposes.** Training needs involving surplus assets are to be identified and supported by the Training Authority. The asset will thereafter be transferred to the relevant training unit at a value discussed within the initial IA/BC.
- d. **Gate Guardians.** Requests for Gate Guardians are made through the Disposal Cluster Forum. Surplus assets identified for use as Gate Guardians should be transferred to the relevant station at the end of its useful economic life. Prior to transfer the assets should be written down to NRV within the accounts. Consultation should therefore be undertaken with SBSO.

LOCAL SALES

21. Local disposals may only take place after written delegated authority and instructions are received from DSA. For local sales a sale return spreadsheet should be maintained by the IPT and forwarded to DSA on a monthly basis. Local sales issues are dealt with by DSA on a case-by-case basis.

SECTION 3 – PHYSICAL AND FINANCIAL ACCOUNTING PROCESS FOR THE TRANSFER OF SURPLUS ASSETS TO DSA

GENERAL

1. Assets are transferred to Disposal Services Authority (DSA) once they are deemed as surplus to MOD Business. DSA will, on receipt of notification that the asset is to be surplus, establish the Net Realisable Value (NRV) of the individual asset with a Net Current Replacement Cost (NCRC) greater than £10K. Assets that fall below the threshold for fixed assets of £10K are dealt with on an individual basis within the Integrated Project Teams' (IPT) accounts.

INITIAL STAGES

2. Where possible, IPTs should advise the DSA two years prior to an asset's OSD supplying:

- a. An accurate description of material condition that identifies any known hazards or legal obligations with regards Duty of Care.
- b. Details of funding available for disposal.

3. Exceptions to the notification two years prior to OSD only apply when the asset is being made surplus due to an Option as described in JSP 472 – Resource Accounting Policy Manual.

4. When the IPT is ready for the asset to be disposed of, the Disposals Declaration Form should be submitted to DSA. The electronic form can be found at www.dsa.dii.r.mil.uk. Upon receipt of the Declaration Form the DSA will supply a declaration number to the IPT for reference.

5. Except for Capital Spares and Consumable Stock, DSA will establish the NRV and advise the IPT of this at the same time as supplying the declaration number, this needs to be communicated to the Single Balance Sheet Owner (SBSO) and the Fixed Assets Processing Centre (FAPC) to enable any adjustments, or impairments, to the asset value that are required to be posted into the accounts by SBSO.

6. Once the asset has been declared to the DSA the IPT should raise an Asset Change Notification (ACN) copied at [Annex A](#). The declaration number is to be recorded within the remarks box, to enable appropriate accounting transactions to be carried out against the surplus asset. The ACN should also be forwarded to the FAPC and the DSA.

7. For vehicles held on the MERLIN system an ACN is not passed to the FAPC as MERLIN feeds the relevant data direct to the FAPC. The IPT/Basic level Budget (BLB) holder must ensure that declaration numbers are matched to vehicles registration numbers in order for DSA to verify transfer from the SBSO.

SBSO DUTIES

8. SBSO will raise a GL10 in the form of a journal, which will transfer the surplus assets from the main Asset Register to DSA accounts. Only those that have been declared as

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surplus will be transferred. Accurate information along with the recording of the declaration number is essential to this process otherwise DSA will be prevented from taking ownership of the assets. From the point of transfer from SBSO, the assets are dealt with solely by DSA.

9. DSA will calculate the NRV, SBSO will however continue to account for any impairment.

ACCOUNTING FOR DISPOSALS

10. Assets that are still in use during the disposal process will remain on the SBSO Fixed Asset Register until the actual date of disposal when the monetary values will be transferred to DSA.

11. DSA are to ensure all relevant costs and income for the asset are recorded.

12. Separate project accounts for those disposals with an individual value of over £1M will be implemented by DSA. All other disposals are accounted for on a pooled basis.

13. When final disposal of the asset takes place DSA will undertake all necessary accounting treatment and ensure that accurate data is held on the final value total irrespective of whether this is a positive or negative balance. All information regarding the financial accounting treatment of the disposed assets will be retained by DSA for audit purposes.

14. A simplified disposal process map for non-property fixed assets (other than Capital Spares or Consumable Stock) is shown at [Annex B](#).

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ANNEX A - ASSET CHANGE NOTIFICATION

(Introduced at [Paragraph 6](#))

ASSET CHANGE NOTIFICATION - RETIREMENT (All Categories)							
Type of Retirement (Select from drop down list)					ACN No (to be completed by)		
<input type="text"/>					DRAc Year	<input type="text" value="0607"/>	<input type="text"/>
Parent/Child relationship - Link to Asset <input style="width: 100%;" type="text"/>							
Asset Details				BSUID	<input type="text"/>		
Asset No	<input type="text"/>			Tag No	<input type="text"/>		
Description	<input type="text"/>						
Units Retired	<input type="text"/>	AP Retired	<input type="text"/>	Major Cat	<input type="text"/>		
Location TLB	<input type="text"/>	Location UIN	<input type="text"/>	Sub Location	<input type="text"/>		
Historic Cost	<input type="text"/>	MHCA Cost	<input type="text"/>	Total Dep'n	<input type="text"/>	NBV	<input type="text"/>
Gross Rev Res	<input type="text"/>	Backlog	<input type="text"/>	Net Rev Res	<input type="text"/>		
Sale Details							
Costs of Disposal	<input type="text"/>			Proceeds from Sale (NRV)	<input type="text"/>		
Transfer Out							
Importing TLB Name	<input type="text"/>						
Importing MG Name	<input type="text"/>			Importing MG Code	<input type="text"/>		
Importing MG Contact Name	<input type="text"/>			Importing MG Tel No	<input type="text"/>		
Importing BLB Contact Name	<input type="text"/>			Importing BLB Tel No	<input type="text"/>		
Remarks (Add any remarks required)							
<input type="text"/>							
Originator Details							
Contact Name	<input type="text"/>			Telephone	<input type="text"/>		
Address	<input type="text"/>			E-mail	<input type="text"/>		
				Date	<input type="text"/>		
SBSO Authorisation (If Required)							
Name	<input type="text"/>			Telephone	<input type="text"/>		
				Fax No	<input type="text"/>		
				E-Mail	<input type="text"/>		
SSC CHECKED	<input type="text"/>			Date	<input type="text"/>		
SSC ENTERED	<input type="text"/>			Date	<input type="text"/>	AP Actioned	<input type="text"/>

ACN Pack Version 2.5

ANNEX B - DISPOSAL PROCESS MAP

(Introduced at [Paragraph 14](#))

