



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City, Philippines

**CIRCULAR**

No. : 2015-008

Date: November 23, 2015

**TO:** All Heads of Local Government Units; Chief Accountants, General Service Officers, Provincial/City/Municipal Engineers; and All Others Concerned

**SUBJECT:** Accounting and Reporting Guidelines on the Local Roads Asset Management System

**I. Rationale**

As the country moves towards development, roads are constructed and road networks, developed. The contribution of infrastructure development to economic advancement of any country could not be denied. As the number of roads and road network increases, there arises a need for efficient management systems given the growing complexities of infrastructure development and the challenges that characterize a growing economy. These include ageing infrastructure, limited budgets for capital outlays, reduced staff resources in the midst of increasing public expectations and demand for good governance. Thus, the need for an accounting and reporting guideline for the local road networks construction and maintenance system.

The Manual on the New Government Accounting System for Local Government Units provides that public infrastructures which include roads shall be recorded in the Registry of Public Infrastructure and disclosed in the Notes to Financial Statements. Moreover, under the same Manual, Public infrastructures are not charged any depreciation. With the adoption of the Philippine Public Sector Accounting Standards (PPSAS), infrastructure assets which include road networks shall be taken up as Property, Plant and Equipment. The annual consumption of their service potential and loss of value through depreciation and impairment shall also be recognised.

There is therefore a need for updated accounting and reporting guidelines for the local road network construction and maintenance system primarily for the fair presentation of the account Infrastructure assets in the financial statements.

**II. Coverage**

This covers the accounting guidelines for local road and road network system on initial recognition, subsequent measurement and derecognition to ensure that all roads are properly valued and recorded, and also the transitory provisions for the transfer of the local roads accounts from the Registry of Public Infrastructures to the books of accounts of the LGU responsible for the management of these roads.

**III. Definition of Terms.** When used in this guideline, the following terms shall mean:


1. Property, Plant and Equipment– are tangible assets that are purchased, constructed, developed or otherwise acquired; are held for use in the production or supply of goods or services or to produce program outputs; for rental to others; for administrative purposes; have a useful life extending beyond one fiscal year and are intended to be used on a continuing basis; and are not intended for resale in the ordinary course of operations.
2. Infrastructure assets are assets that usually display some or all of the following characteristics:
  - a. Part of a system or network;
  - b. Specialized in nature and do not have alternative uses;
  - c. Immovable; and
  - d. Subject to constraints on disposal.
3. Road is a thoroughfare, route, or way on land between two places that has been paved or otherwise improved to allow travel by some conveyance, including a horse, cart, bicycle, or motor vehicle. Roads that are available for use by the public are referred to as public roads or as highways.
4. Road Asset Components – are the sub-components of a road which, having different useful life spans, need to be booked and depreciated separately. They include: road lot, road pavement, drainage and slope protection structures, and other miscellaneous structures.
5. Cost – is the amount of cash or cash equivalents paid or the fair value (FV) of the consideration given to acquire an asset at the time of its acquisition or construction.
6. Carrying Amount – is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.
7. Fair Value – is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
8. Depreciation – is the systematic allocation of the depreciable amount of an asset over its useful life.
9. Useful Life – is the period over which an asset is expected to be available for use by an LGU or the number of production or similar units expected to be obtained from the asset by an LGU.
10. Depreciable Amount – is the cost of an asset, or other amount substituted for cost, less its residual value.
11. Residual Value – is equivalent to at least five percent of the cost of an asset that would currently be obtained from disposal of the asset, after deducting the estimated costs of disposal, if the asset is already of the age and in the condition

expected at the end of its useful life, unless a more appropriate percentage is determined by an LGU based on their operation.

12. Non-exchange Transactions – are transaction where an LGU either receives value from another LGU without directly giving approximately equal value in exchange, or gives value to another LGU without directly receiving approximately equal value in exchange.
13. Impairment-- is the amount by which the carrying amount of an asset exceeds its recoverable service amount.
14. Recoverable Service Amount – is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.
15. Value-in-use – is the net present value (NPV) of a cash flow or other benefits that an asset generates for an LGU under a specific use.
16. Depreciated replacement cost – is the present value of the remaining service potential of an asset. The replacement cost of an asset is the cost to replace the asset's gross service potential depreciated to reflect the asset in its used condition.

#### IV. Accounting Policies

1. Public Infrastructures shall form part of and be recorded in the books as Property, Plant and Equipment.
2. Public infrastructures include among others the road network system. This may be composed of: a) road lot, b) road pavement, c) drainage and slope protection structures and d) other miscellaneous structures.
3. The cost of a component of a road network system shall be recognized as an asset when:
  - a. it is probable that the future economic benefits or service potential associated with the item will flow to the LGU;
  - b. the cost or fair value of the item can be measured reliably;
4. The road lot component of the road network system shall not be subject to depreciation.
5. Initial costs for road networks shall include all costs initially incurred in acquiring the asset and other cost items necessary to bring the asset into use.
6. Where a road network asset is acquired through non-exchange, its cost shall be measured at its fair value as at the date of acquisition.
7. Regular maintenance necessary for the upkeep of the road network system such as regravelling, asphalt overlay, patching etc. shall be recognized as repairs and maintenance.

8. Replacements or betterments of parts of the road network system such as re-blocking, which qualifies under the recognition principle of assets shall be recognized in the carrying amount of roads. The carrying amount of the asset replaced shall be derecognized.
9. If it is not practicable to determine the carrying amount of the replaced part to be derecognized, the entity may estimate this amount having regard to cost of the replacement asset adjusted for the age and condition of the replaced asset.
10. An item of the road network system which qualifies for recognition as an asset shall be measured at its cost. In case a road network component has no available cost, the depreciated replacement cost shall be used.
11. The cost of an item of property, plant and equipment comprises:
  - a. Purchase price
  - b. Costs directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management
  - c. Initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an LGU incurs either when the item is acquired, or as a consequence of having used the item during a particular period
12. After recognition, road networks shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.
13. Each depreciable component of the road network shall be depreciated separately following the straight line method of depreciation.
14. No residual value shall be provided for the depreciable components of the road network system.
15. Components of the road network system shall be regularly assessed for impairment.
16. Impairment shall be recognized when the carrying value of the asset is higher than its recoverable service amount or recoverable amount of an asset. 
17. The carrying amount of an item of the road network component shall be derecognized on disposal or when no future economic benefits or service potential is expected from its use or disposal.
18. Road networks covered by a service concession agreement shall be reclassified as service concession asset.
19. Road networks carried in the Registry shall be transferred to the books of accounts.

**V. Accounting and Reporting Procedures**

1. Conduct an inventory of the local roads under the LGU's jurisdiction.

2. Reconcile the list of inventory per local road inventory report and road map with those recorded in the Registry of Public Infrastructure.
3. Segregate and recognize the cost of each component of the local roads with identified cost.
4. Determine the components of local roads identified in the inventory without corresponding cost and recognize the cost of each component at its fair value.
5. Depreciate the carrying amount of existing roads and its components to reflect the asset in its used condition and shall serve as the basis for recording in the general ledger.
6. Determine the life of the local roads within the range prescribed by COA taking into consideration the following factors:
  - a. Design
  - b. Users
  - c. Volume of users
7. Compute separately the depreciation for the road components taking into consideration the following factors:
  - a. Initial cost, and
  - b. Useful life
8. Maintain separate subsidiary ledgers for the road and its components namely: a) road lot, b) road pavement, c) drainage and slope protection structures and d) other miscellaneous structures.
9. Provide complete description of the road and its components in the subsidiary ledger and reconcile with the Local Road Inventory and Road Map to ensure completeness.
10. Assess the local road at every reporting date, whether there is any indication that a component of the local road may be impaired.
11. Reverse the recognized impairment loss when there is an increase in the estimated recoverable service amount of the asset from use.

## VI. Reporting Guidelines

1. The General Services Officer shall at the end of the accounting period render a Report on Local Road Network of the local government unit concerned. (Annex A)
2. The total road network system shall be disclosed in the Notes to the Financial Statements of the Agency. (Annex B)

3. The Inventory Committee shall prepare the Report on the Physical Count of the Road Network System of the local government unit. (Annex C)

## **VII. Duties and Responsibilities**

### a. Local Accountant

1. Prepare the Journal Voucher to record the beginning balance of the local road network and its components in the general ledger and the Local Road Network Ledger Card (Annex D), respectively;
2. Support the JV with the Registry of Public Infrastructures for Roads, working paper on the distribution of costs for the road components, and working paper on the determination of the depreciated replacement cost for road components with no available cost per registry;
3. Keep and maintain subsidiary records for roads and road components for every road network; and
4. Prepare a lapsing schedule for the computation of the depreciation for each component at the end of the year.

### b. General Services Officer

1. Maintain a Local Road Inventory and Road Map;
2. Keep a complete Local Road Network Property Card for all roads and its components. (Annex E).

### c. Provincial/City/Municipal Engineer

1. Provide the local accountant and the general services officer with the complete description and cost segregation of road components for road projects.

### d. Local Chief Executive

1. Enjoin the department heads' compliance with the requirements of the circular.

## **VIII. Accounting Entries**

The detailed accounting entries is presented in Annex F.



## **IX. Transitory Provision**

The complete recognition of the account Local Road Network in the books of accounts shall be made within the period of four years, at the following targets:

1. End of 2016– 25%
2. End of 2017– 50%
3. End of 2018 – 75%
4. End of 2019 – 100%

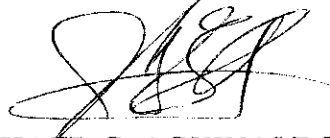


**X. Repealing Clause**

All Circulars, memoranda, or other issuances inconsistent with this Circular are hereby repealed and/or modified accordingly.

**XI. Effectivity**

This Circular shall take effect fifteen (15) days after publication in newspapers of general circulation.



**MICHAEL G. AGUINALDO**  
Chairperson



**HEIDI L. MENDOZA**  
Commissioner



**JOSEFA FABIA**  
Commissioner

**Report of the Local Road Network**  
**As of December 31, 20\_\_**

ROAD ID/PIN	ROAD NAME	COMPONENTS	DESCRIPTION	COST

Certified Correct by:

\_\_\_\_\_  
Signature over Printed Name  
GSO



**REPORT OF LOCAL ROAD NETWORK  
(RLRN)**

*INSTRUCTIONS*

A. The RPCLRN is the form used to report on the physical count of Local Road Network (LRN) which are owned by the LGU to be presented by road and its component. It shall be prepared yearly.

B. This form shall be accomplished as follows:

1. **Road Network ID No.** – ID No. assigned to road network component
2. **Road Name** – name of the road
3. **Component** – road component such as pavement, drainage and slope protection structures and others miscellaneous structures
4. **Cost** – cost of the asset recognized (constructions cost or in its absence the or fair market value)

C. The report shall be certified correct by the GSO.



Notes to the Financial Statements

Road Network System


The LGU has a total of \_\_\_\_\_ kilometers of roads with a total cost of Php\_\_\_\_\_. For the year ended, the agency spent a total of Php\_\_\_\_\_ for local road additions, Php \_\_\_\_\_ for major repairs and Php \_\_\_\_\_ for the regular maintenance. Reductions in the amount of Php \_\_\_\_\_ were recorded due to derecognition, Php \_\_\_\_\_ for impairment and Php \_\_\_\_\_ impairment were reversed.



## REPORT ON THE PHYSICAL COUNT OF LOCAL ROAD NETWORK

As at \_\_\_\_\_

For which           (Name of Accountable Officer)          ,           (Official Designation)          ,           (LGU Name)           is accountable, having assumed such accountability on           (Date of Assumption)          .

ROAD NETWORK ID NO	ROAD NAME	COMPONENTS	DESCRIPTION	DATE CONSTRUCTED	COST	CONDITIDN	REMAKS
		A. Road Lot  B. Pavement  C. Drainage and Slope Protection Structures  E. Others Miscellaneous Structures (specify)					

Certified Correct by:



Verified by:

Signature over Printed Name of Local  
Chief Executive/Authorized  
Representative



Signature over Printed Name of  
Inventory Committee Chair and  
Members

Signature over Printed Name of COA  
Representative

**REPORT ON THE PHYSICAL COUNT OF LOCAL ROAD NETWORK  
(RPCLRN)**

*INSTRUCTIONS*

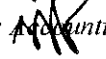
A. The RPCLRN is the form used to report on the physical count of road network owned by the LGU. It shall be prepared yearly.

B. This form shall be accomplished as follows:

1. **As at** \_\_\_\_\_ – date of the report
2. **Name of Accountable Officer** – name of the accountable officer
3. **Official Designation** – official designation of the accountable officer
4. **Local Government Unit:** – name of the Local Government Unit
5. **Date of Assumption** – first day of assumption of the duties and responsibilities as accountable officer
6. **Road Network ID No.** – ID No. assigned to road network component
7. **Road Name** – name of the road network
8. **Component** – road component such as pavement, drainage and slope protection structures and others miscellaneous structures
9. **Description** – description of the road network component
10. **Date Constructed** – date of completion of the construction of the road network component
11. **Cost** – cost of the asset recognized (construction cost or fair market value)
12. **Condition** – condition of the road component as of inventory date
13. **Remarks** – other relevant information relative to road network component

C. The report shall be certified correct by the Inventory Committee Chair and Members, approved by the Head of LGU or his/her Authorized Representative, and verified by the COA Representative.

D. This shall be prepared in four (4) copies distributed as follows:

- Original - COA Auditor, through the  Accounting Division/Unit*  
*Copy 2 - Accounting Division/Unit*  
*Copy 3 - Supply and/or Property Division/Unit*  
*Copy 4 - Inventory Officer/Committee*



E. It shall be submitted to the Auditor concerned and Accounting Division/Unit not later than January 31 of each year.



**PROPERTY, PLANT AND EQUIPMENT  
Local Road Network Ledger Card**

Local Government Unit: \_\_\_\_\_



Road Network ID No. \_\_\_\_\_

Name of Road Network: _____ Description: Type of Road (PCPP/Asphalt/Gravel): _____ Location: _____ Length: _____ Width: _____ Thickness (Pavement): _____										Object Account Code: _____ Rate of Depreciation: _____	
Components	Estimated Useful Life	Date	Reference • JEV No. • Check No.	Description	Cost	Accumulated Depreciation	Accumulated Impairment Losses	Adjustment/s	Carrying Amount	Maintenance History	
										Nature of Maintenance	Amount
A. Road Lot											
B. Pavement											
C. Drainage and Slope											
Protection Structures											
E. Others Miscellaneous											
Structures (specify)											




**PROPERTY, PLANT AND EQUIPMENT LEDGER CARD**  
**Local Road Network Ledger Card (LRNLC)**

*INSTRUCTIONS*

- A. The LRNLC shall be kept in the Accounting Division/Unit and shall be maintained for each local road.
- B. This ledger shall be accomplished as follows:
1. **Local Government Unit:** – name of the Local Government Unit
  2. **Road Network ID No.** – ID No. assignec to road network component
  3. **Description** – description of the road network ( type of road (PCPP/Asphalt/Gravel, location, length, width, thickness (pavement)
  4. **Object Account Code** – object account code in accordance with the RCA
  5. **Estimated Useful Life** – estimated useful life of PPE
  6. **Rate of Depreciation** – rate of depreciation per month to be recorded in the books of accounts starting on the 2<sup>nd</sup> month following the date of completion of road. It shall be computed using the straight-line method of depreciation.
  7. **Date** – date of the source document
  8. **Reference** – reference documents used as the bases in recording the transactions such as JEV
  9. **Description** – description of the road network component
  10. **Cost** – cost of the asset recognized (constructions cost or fair market value)
  11. **Accumulated Depreciation** – the amount of depreciation charged to the PPE
  12. **Accumulated Impairment Losses** – the amount of impairment losses charged to the PPE
  13. **Adjustment/s** – the amount of adjustment/s made through JEV
  14. **Carrying Amount** -- the difference between the total cost of the asset less the accumulated depreciation, accumulated impairment losses, and adjustments, 
  15. **Repair History-Nature of Repair/Amount** – the nature of repair (specify nature of minor or major repair, i.e., change tire, rewiring, engine overhaul, etc.) and the cost of repair
- C. Transactions shall be posted from the source documents.
- D. The PPELC for road network shall be reconciled with the LRNLC and the Report on the Physical Count of Local Road Network. 

**PROPERTY, PLANT AND EQUIPMENT  
Local Road Network Property Card**

Road Network ID No. \_\_\_\_\_

Local Government Unit: \_\_\_\_\_

Name of Road Network: _____ Description : _____ Type of Road (PCPP/Asphalt/Gravel): _____ Location: _____ Length: _____ Width: _____ Thickness (Pavement): _____							Object Account Code: _____ Rate of Depreciation: _____	
Components	Date	Reference	Description	Cost	Adjustment/s	Adjusted Cost	Maintenance History	
							Nature of Maintenance	Amount
A. Road Lot								
B. Pavement								
C. Drainage and Slope Protection Structures								
E Others Miscellaneous Structures (specify)								

*[Handwritten Signature]*

**PROPERTY, PLANT AND EQUIPMENT  
Local Road Network Property Card (LRNPC)**

*INSTRUCTIONS*

- A. The LRNPC shall be kept in the General Services Office for each local road.
- B. This ledger shall be accomplished as follows:
1. **Local Government Unit:** – name of the Local Government Unit
  2. **Road Network ID No. – ID No. assignee to road network component**
  3. **Description** – description of the road network ( type of road (PCPP/Asphalt/Gravel, location, length, width, thickness (pavement))
  4. **Object Account Code** – object account code in accordance with the RCA
  5. **Estimated Useful Life** – estimated useful life of PPE
  6. **Rate of Depreciation** – rate of depreciation per month to be recorded in the books of accounts starting on the 2<sup>nd</sup> month following the date of completion of road. It shall be computed using the straight-line method of depreciation.
  7. **Date** – date of the source document
  8. **Reference** – reference documents used as the bases in recording the transactions such as JEV
  9. **Description** -- description of the road network component
  10. **Cost** – cost of the asset recognized (constructions cost or fair market value)
  11. **Adjustment/s** – the amount of adjustment/s made through JEV
  12. **Repair History-Nature of Repair/Amount** – the nature of repair (specify nature of minor or major repair, i.e., change tire, rewiring, engine overhaul, etc.) and the cost of repair
- C. Transactions shall be posted from the source documents.
- D. The LRNPC shall be reconciled with the LRNIC and the report on the physical count of local roads.





**ILLUSTRATIVE ACCOUNTING ENTRIES:****I. Recognition of Road and Roadwork in the Books of Accounts****a. Road Network posted in the Registry reported in the Report on the Physical Count of Local Road Net Work with data on construction cost**

Example: XXX Road

Location : West Zone, Straight Section

Type: PCCP

Length : 500 lin. Mtr

Width :

Construction Cost	5,000,000.00
Construction date	December 31, 2005
Estimated Useful Life	15 years
Replacement cost	6,000,000.00

**Computation of Depreciated Replacement Cost**

Replacement Cost	6,000,000.00
Depreciation from 2005-2014 (P6,000,000/15 x 10)	4,000,000.00
Depreciated Replacement Cost	<u>2,000,000.00</u>

Breakdown:

Pavement	1,400,000.00
Drainage and Slope Protection Structures	400,000.00
Walkway	200,000.00
<b>Total</b>	<u>2,000,000.00</u>

	<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Transfer from registry XXX Road located at West Zone, Straight Section, recognized at depreciated replace cost	Road Network	10603010	2,000,000.00	
-Post to Road Net work Property Card - GSO	Government Equity	<i>MT</i>		2,000,000.00
-Post to Road Network Ledger Card _ Accounting Office				

**b. Road Network posted in the Registry reported in the Report on the Physical Count of Local Road Net Work with no data on construction cost and road found counted included in the Inventory Report but not recorded in Registry of Public Infrastructure****1. With data in the Registry Without Cost**

Example: YYY Road

Location : South Zone, Straight Section

Type: PCCP

Length : 600 lin. Mtr

Width :

Construction Cost

Construction date  
 Remaining Useful Life 5 years  
 Fair Market Value 2,500,000.00

Breakdown:

Pavement 1,500,000.00  
 Drainage and Slope Protection Structures 750,000.00  
 Culvert 250,000.00  
**Total** 2,500,000.00

	<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Transfer from registry YYY Road, recognized at fair value	Road Network	10603010	2,500,000.00	
	Government Equity	30101010		2,500,000.00

-Post to Road Network Property Card - GSO  
 -Post to Road Network Ledger Card- Accounting Office

**2. Included in the Inventory Report but not recorded in Registry of Public Infrastructure**

Example: ZZZ Road  
 Location : South Zone, Straight Section  
 Type: PCCP  
 Length : 600 lin. Mtr  
 Width :  
 Construction Cost -  
 Construction date  
 Remaining Life 8 years  
 Fair Market Value 4,000,000.00



Breakdown:

Pavement 2,000,000.00  
 Drainage and Slope Protection Structures 1,250,000.00  
 Culvert 750,000.00  
**Total** 4,000,000.00

	<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Recognized ZZZ Road, at fair value	Road Network	10603010	4,000,000.00	
	Government Equity			4,000,000.00

-Post to Road Network Property Card - GSO  
 -Post to Road Network Ledger Card- Accounting Office



**II. Provision of Depreciation and Impairment Losses shall follow same procedure with other PPE items**