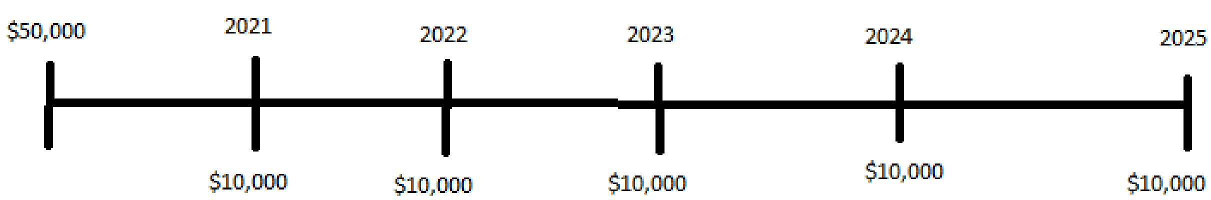
In this resource, we'll discuss depreciation and write-offs to gain more clarity as to how these items work once the project execution is completed. When project execution is completed, that is the end of the project but not necessarily the end of charges hitting the project budget. Two of the most common charges that still hit the project budget after the project is completed are depreciation and asset write-offs.

Depreciation

Depreciation takes the original value of the asset and gradually records the reduction in this value over its useful life. The purpose of depreciation is to spread expense realization over the period of time the business will leverage this asset.

An example would be the purchases of new laptops so that users will have upgraded systems to leverage our new PMO solution for the project we're working on for this course.

For our project, we will buy new laptops at a total price of $50,000 in June of 2020 and Tech Company, Inc. expects to use these laptops for the next 5 years. We will leverage the "straight-line" method of depreciation as we will charge the expense of the laptops evenly over these 5 years. Therefore, there will be a $10,000 depreciation expense starting from 2021 and extending through 2025. This is represented by the number line below.



What this means for us is that the Depreciation account in the Operating section of our budget plan will still be active even when our project is over. During the execution of the project the project manager is responsible to ensure the budget plan realizes depreciation. However, when the project has concluded, that project manager must be released to work on other projects. Therefore, another business rep or someone from Finance needs to step in and enter the depreciation values from 2022 through 2025 per the budget plan established.

Asset Write Offs

Fixed assets are written off when there is no further use for them. Another scenario for a write off is when the asset is sold or disposed of. The reason that write offs are done is so that the related asset and depreciation accounts are properly reduced.

Below are examples of write off scenarios:

Scenario 1

The first write off example involves laptops that are obsolete or no longer in use and the organization will not receive any payment because there is no resale value. This equipment has been fully depreciated. Originally, the laptops were purchased in 2020 for $50,000 and $10,000 was realized over the following 5 years. At the end of 5 years, this equipment is either given away or sent off to be recycled.

Scenario 2

The second example involves laptops that have not been fully depreciated. In the 5-year depreciation model mentioned on the previous page, these laptops are given away after 3 years. The result is that $10,000 of depreciation is realized in the years 2021 through 2023 for a total of $30,000 of depreciation. In the years 2024 and 2025 $20,000 worth of depreciation will not be realized. Instead, the final $20,000 for the years 2024 and 2025 are considered a write-off. Since no money was received in return, you'd write off the $20k to a loss account on the accounting books. Depending on the organization you work for, the legal or finance teams have processes in place to record these types of write offs.

Scenario 3

The third scenario is when you sell the equipment and receive cash or some other asset in return. Depending on the remaining depreciation not realized, this can turn out to be a loss or gain for the organization.

For example, the equipment is disposed of after 3 years (2021 through 2023) with $20,000 worth of depreciation not realized on the last 2 years of the depreciation cycle (2024 and 2025). However, the organization receives $25,000 cash for selling the equipment in 2024. If you subtract the $20,000 of unrealized depreciation from the $25,000 cash received, you'll have what's called "gain on asset disposal" of $5,000. Again, check with your organizations legal or finance teams for proper accounting of this type of transaction.

