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REPUBLIKA NG PILIPINAS
 PAMBANSANG PANGASIWAAN NG PATUBIG
 (NATIONAL IRRIGATION ADMINISTRATION)
 LUNGSOD NG QUEZON

MC # 4, S. 1985

MEMORANDUM CIRCULAR

T O : ALL MEMBERS OF APPRAISAL COMMITTEES
 AND OTHERS CONCERNED
 NATIONAL IRRIGATION ADMINISTRATION

 SUBJECT : STANDARD PROCEDURE IN THE APPRAISAL OF
UNSERVICEABLE VEHICLES/EQUIPMENT

ADOPTION OF A STANDARD PROCEDURE IN THE APPRAISAL OF UNSERVICEABLE EQUIPMENT IS HEREBY PRESCRIBED TO FACILITATE APPRAISAL WORK. THE PROCEDURE IS DESCRIBED BELOW.

THEORETICAL APPRAISED VALUE

THE THEORETICAL APPRAISED VALUE (TAV) IS DETERMINED BY THE FORMULA:

$$TAV = 10\% RC \times AF \times OF \times CF$$

WHERE, RC = REPLACEMENT COST
 AF = AGE FACTOR
 OF = OBSOLESCENCE FACTOR
 CF = COMPONENT CONDITION FACTOR

REPLACEMENT COST

THIS IS THE COST OF A SIMILAR, BRAND NEW EQUIPMENT IF PURCHASED AT CURRENT PRICES DURING THE TIME OF APPRAISAL. MANUFACTURERS OF SIMILAR EQUIPMENT SHOULD BE CONTACTED FOR CURRENT PRICES TO DETERMINE REPLACEMENT COST.

10% REPLACEMENT COST

THIS IS THE ASSUMED VALUE OF THE EQUIPMENT AT THE END OF ITS ECONOMIC LIFE. IT IS ADJUSTED BY MULTIPLYING SAME WITH THE AGE FACTOR, OBSOLESCENCE FACTOR, AND THE COMPONENT CONDITION FACTOR.

AGE FACTOR

THE VALUE OF THIS FACTOR DEPENDS ON THE NUMBER OF YEARS THE EQUIPMENT HAS EXCEEDED ITS ECONOMIC LIFE:

	<u>No. of YEARS ECONOMIC LIFE IS EXCEEDED</u>						
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7 & ABOVE</u>
FACTOR	1.00	0.95	0.90	0.85	0.80	0.75	0.70

OBSOLESCENCE FACTOR

THE VALUE OF THIS FACTOR IS ALSO RELATED WITH THE NUMBER OF YEARS THE EQUIPMENT HAS EXCEEDED ITS ECONOMIC LIFE.

	<u>No. of YEARS ECONOMIC LIFE IS EXCEEDED</u>		
	<u>0</u>	<u>1 TO 5</u>	<u>6 AND ABOVE</u>
FACTOR	0.90	0.85	0.80

COMPONENT CONDITION FACTOR

THE EQUIPMENT COMPONENTS ARE GIVEN ASSIGNED WEIGHTS AS FOLLOWS:

<u>COMPONENT</u>	<u>WEIGHT</u>
ENGINE	23%
TRANSMISSION	7%
DIFFERENTIAL	5%
BODY/CHASSIS	30%
OTHERS	<u>35%</u>
TOTAL	<u>100%</u>

THE COMPONENTS ARE THEN CLASSIFIED ACCORDING TO WHETHER THEIR PHYSICAL CONDITIONS ARE GOOD, FAIR, POOR OR VERY POOR WITH THE CORRESPONDING ASSIGNED FACTOR VALUES.

<u>CONDITION</u>	<u>FACTOR</u>
GOOD	1.5
FAIR	1.4
POOR	1.2
VERY POOR	1.0
MISSING	0

ADJUSTED APPRAISED VALUE

EVEN WITH THE USE OF THE PROCEDURE DESCRIBED ABOVE THERE WILL BE CASES WHERE THE TAV WILL BE VERY LOW. THIS IS DUE TO ASSUMPTIONS AND JUDGEMENTS WHICH ENTER IN THE CALCULATION (EXAMPLE: THE ASSUMPTION THAT AT THE END OF ITS ECONOMIC LIFE THE VALUE OF AN EQUIPMENT IS 10% RC; THE DETERMINATION OF THE COMPONENT CONDITION WHICH IS PURELY JUDGMENTAL). WHERE THE TAV IS OBVIOUSLY VERY LOW, THEREFORE, ADJUSTMENTS SHOULD BE MADE TO CONFORM WITH WHAT IS PERCEIVED TO BE THE ACTUAL CURRENT MARKET VALUE OF THE UNSERVICEABLE EQUIPMENT.

SUMMARY

1. USE THE PROCEDURE DESCRIBED ABOVE TO OBTAIN THE THEORITICAL APPRAISED VALUE OF UNSERVICEABLE EQUIPMENTS.
2. TAV SHOULD BE ADJUSTED IF OBVIOUSLY VERY LOW TO CONFORM WITH CURRENT MARKET VALUES.
3. THE ADJUSTED APPRAISED VALUE SHALL BE THE AVERAGE OF THE INDIVIDUAL RECOMMENDATIONS OF THE MEMBERS OF THE APPRAISAL COMMITTEE.

EXAMPLE

GIVEN : A TOYOTA LAND CRUISER WITH AN ECONOMIC LIFE OF 7 YEARS IS 10 YEARS OLD. ITS REPLACEMENT COST WAS DETERMINED TO BE ₱180,000. FIND THE THEORETICAL APPRAISED VALUE.

SOLUTION : $10\% \text{ RC} = 10\% (\text{₱}180,000) = \text{₱}18,000$
 $AF = 0.90$ (ECONOMIC LIFE EXCEEDED BY 3 YEARS)
 $OF = 0.85$ (ECONOMIC LIFE EXCEEDED BY 3 YEARS WHICH FALLS WITHIN 1 TO 5 BRACKET)

$$\begin{aligned} \text{TAV} &= 10\% \text{ RC} \times AF \times OF \times CF \\ &= \text{₱}18,000 \times 0.90 \times 0.85 \times CF \\ &= \text{₱}13,770 \text{ CF} \end{aligned}$$

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<u>COMPONENT</u>	<u>WEIGHT</u>	<u>CONDITION</u> ^{1/}	<u>FACTOR</u>	<u>WEIGHTED VALUE</u>	<u>TAV</u> ^{2/}
ENGINE	23%	GOOD	1.5	P3,167.10	P4,750.65
TRANSMISSION	7%	GOOD	1.5	963.90	1,445.85
DIFFERENTIAL	5%	MISSING	0	688.50	-
BODY/CHASSIS	30%	VERY POOR	1.0	4,131.00	4,131.00
OTHERS	<u>35%</u>	VERY POOR	1.0	<u>4,819.50</u>	<u>4,819.50</u>
TOTAL	<u>100%</u>			<u>P13,770.00</u>	<u>P15,147.00</u>

1/ AS DETERMINED BY APPRAISAL COMMITTEE

2/ FACTOR MULTIPLIED BY CORRESPONDING WEIGHTED VALUE.

THUS, THE THEORETICAL APPRAISED VALUE IS P15,147.00 WHICH MAY OR MAY NOT BE ADJUSTED DEPENDING ON THE DECISION OF THE APPRAISAL COMMITTEE AFTER CONSIDERING THE OVERALL CONDITION OF THE EQUIPMENT AND CURRENT MARKET VALUES.

THIS MEMORANDUM CIRCULAR TAKES EFFECT IMMEDIATELY.

(SGD.) CESAR L. TECH
ADMINISTRATOR

JANUARY 23, 1985

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