Fixed Assets Register

A Fixed Asset Register (FAR) is an accounting method used for major assets of an organisation.

Fixed Assets are assets include: land, machines, office equipments, buildings, patents, trademarks, copyrights, etc. held for the purpose of production of goods or rendering of services and are not held for the purpose of sale in the ordinary operation of business.

Fixed assets constitute a major chunk of the total assets in the case of all manufacturing entities. Even in the case of service entities such as hotels, banks, financial institutions, insurers, mobile / telephone service providers etc. it has become imperative to invest heavily in furnishing, equipment, and technology to attract, and retain customers.

Just as it is important for a person investing on the NASDAQ to know those investments, so it is important for a business entity to have a list of its fixed assets. A Fixed Asset Register is that list of assets.

Reasons for maintaining a Fixed Asset Register (FAR)

A FAR must be kept in order to be in compliance with legislation governing corporations, companies, etc. It allows a company to keep track of details of each fixed asset, ensuring control and preventing misappropriation of assets. It also keeps track of the correct value of assets, which allows for computation of depreciation and for tax and insurance purposes. The FAR generates accurate, complete, and customized reports that suits the needs of management.

A FAR also allows a company to keep track of fixed assets that are not under simple, direct control of the company. This means owned and leased assets, assets under construction, and imported assets.

Making entries in the FAR

Not all assets are capitalized. Keeping in view the concept of materiality, a company may have a policy to capitalize only those assets which cost more than a specified amount. In the US, government agencies are required to expense all equipment whose value is below a threshold limit. Similarly, fixed assets which have a useful life of less than one year are not capitalized.

In some companies, improvements or alterations made to an asset are capitalized separately in the FAR. This is not correct. If such mistakes are made, it is highly probable that the auditors while undertaking physical verification of assets will notice irreconcilable differences. Where improvements or alterations made to an existing asset justifying capitalization, such additions should be made to the cost of the original asset.

How FAR should look

The format / details to be provided in a FAR generally depends upon the following factors:

a. Nature of assets.
    i. If moveable assets constitute a significant portion of total fixed assets, details will be necessary on their movement from one department, cost center or people to another.
    ii. Cost of assets. Greater control and security is required for costly equipment.
b. Customised Reports on fixed assets required by management.
c. Disclosure norms / regulatory compliances as per statutory laws applicable to the entity.
d. Extent of owned, and assets taken on lease / hire purchase.
e. Requirements for insurance purposes

f. Location of fixed assets. If fixed assets are located at numerous locations, greater details will have to be given. In the case of a construction company, the assets are located at different work sites. These work sites maybe in different cities, countries, continents.
g. Maintenance costs. Some fixed assets require regular servicing to keep them running in an efficient and satisfactory manner. It would be necessary to keep a tab on the maintenance costs, dates of servicing etc. during a stated period.

Maintenance of a FAR in a Multi-National Corporation (MNC) can be onerous and complex due to different regulatory and compliance requirements in each country and different currencies.

Generally, an MNC sets up a subsidiary in the country in which it intends to start operations. Maintenance of FAR is decentralized. The FAR is maintained per the company's policy, and regulatory requirements which are country specific. If consolidation of holding company and its subsidiaries (whether domestic or foreign) is required by the law applicable to companies, and relevant Accounting Standards, the task may become a bit complex. The crucial point is related to selection of exchange rate for conversion of fixed assets. Most companies either use average annual rate or year-end exchange rate.

Identification of a fixed asset

In a large corporation, the task of identifying and locating a specific fixed asset can be difficult unless numbering is scientific, systematic, and up-to-date. A common problem in most companies is the improper maintenance of the FAR. Physical verification of fixed assets becomes a futile exercise unless the FAR is properly maintained.

It would be advisable to use a scientific numbering technique to identify fixed assets. The process of numbering fixed assets is called tagging. An identification number (combination of alphabets, and numbers) is written on the asset. Engraving the identification number on the asset is advisable in the case of Plant and Machinery where there is heavy wear and tear.

A tag verifies the existence of assets and their location, aids in maintenance, provides a common ground for communication between the Accounts Department and the end-users and recording the net book value of asset in case of sale or scrapping.

It is not necessary to tag all fixed assets. Land, buildings and vehicles all have independent systems of tracking in registration papers and survey numbers.

Fixed Asset

Non-current asset, also known as property, plant, and equipment (PP&E), is a term used in accountancy for assets and property which cannot easily be converted into cash. This can be compared with current assets such as cash or bank accounts, which are described as liquid assets. In most cases, only tangible assets are referred to as fixed.

Fixed assets normally include items such as land and buildings, motor vehicles, furniture, office equipment, computers, fixtures and fittings, and plant and machinery. These often receive favorable tax treatment (depreciation allowance) over short-term assets.

The question above would not be best answered without giving consideration to the meaning of Fixed Asset. Fixed Assets are items of property, plant and equipment engaged by a business entity in the generation and expansion of revenue. According to International Accounting Standard (IAS) 16, Fixed Assets are assets whose future economic benefit is probable to flow into the entity, whose cost can be measured reliably.

It is pertinent to note that the cost of a fixed asset is its purchase price, including import duties and other deductible trade discounts and rebates. In addition, cost attributable to bringing and installing the asset in its needed location and the initial estimate of dismantling and removing the item if they are eventually no longer needed on the location.

Depreciation is simply put to be the expense generated by the use of an asset. It is the wear and tear of an asset or diminution in the historical value owing to usage. Further to this; it is the cost of the asset less any salvage value over its estimated useful life. It is an expense because it is matched against the revenue generated through the use of the same asset. Depreciation is usually spread over the economic useful life of an asset because it is regarded as the cost of an asset absorbed over its useful life. Invariably the depreciation expense is charged against the revenue generated through the use of the asset. The method of depreciation to be adopted is best left for the management to decide in consideration to the peculiarity of the business, prevailing economic condition of the assets and existing accounting guideline and principles as implied in the organizational policies.

The primary objective of a business entity is to make profit and increase the wealth of its owners. In the attainment of this objective it is required that the management will exercise due care and diligence in applying the basic accounting concept of "Matching Concept". Matching concept is simply matching the expenses of a period against the revenues of the same period.

The use of assets in the generation of revenue is usually more than a year- that is long term. It is therefore obligatory that in order to accurately determine the net income or profit for a period depreciation is charged on the total value of asset that contributed to the revenue for the period in consideration and charge against the same revenue of the same period. This is essential in the prudent reporting of the net revenue for the entity in the period.

Net book value of an asset is basically the difference between the historical cost of that asset and it associated depreciation. From the foregoing, it is apparent that in order to report a true and fair position of the financial jurisprudence of an entity it is relatable to record and report the value of fixed assets at its net book value. Apart from the fact that it is enshrined in Standard Accounting Statement (SAS) 3 and IAS 16 that value of asset should be carry at the net book value, it is the best way of consciously presenting the value of assets to the owners of the business and potential investor.

Source: Wikipedia

For further information, please contact us.