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# Can we visualize a proper Fixed Asset Record?



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on 30 July 2019

## Fixed Asset Record (FAR)

'Is an FA register available? Does it contain individual asset level details? Can we track the original purchase records like Purchase Order and vendor Invoice with the help of the register? Does it contain Gross Block Value of the asset and the date of addition? Does the sum of Gross Block Value of all assets in a category match with corresponding value in the Fixed Asset Schedule, as included in the Financials? How up to date is the FA register? Is the location of each asset recorded somewhere in the system, and inter location movements are captured? How up to date is the data? Can we conduct a random verification of assets? How is depreciation calculated? Can we verify the authenticity of the workings?'

In my decades of experience in different organizations in different roles, I rarely found an FAR which satisfied many of the above requirements, if not all. I also realized that the structure of

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FAR, the method of updating it and the manner in which information is extracted from FAR, needs significant efforts to satisfactorily respond to the above queries.

Just to recapitulate the fixed asset process, in any organization, once a fixed asset requirement (say a desktop or a group of desktops) arises, there could be some indenting or Capex Approval process, through which users specify requirements and obtain necessary approvals. This is followed by the purchase department floating enquiries with vendors, obtains quotations, evaluates, finalizes and releases the purchase order and receives the material. A Goods Receipt Note (GRN) or equivalent is prepared, items are taken into the store, and issued for installation at the respective locations of the users. At this time the assets are capitalized in the books, which means the assets enter the Fixed Asset Record.

Since the utility of fixed assets extends to more than one year, the organization is required to maintain proper record of its fixed assets like asset description, date of purchase, cost of acquisition, location where the asset is placed or individual to whom the asset is issued, and so on. Each asset needs to have a distinct number which we call the Asset Id, prepare a tag with this number, usually barcoded, and fix it on the asset.

Since the Companies Act requires fixed assets to be classified under different categories like Land, Buildings, Plant & Machinery, Office Equipment, Motor Vehicles and so on, Fixed Asset Record is structured under these categories. These categories carry different rates of depreciation, such that the cost of acquisition is recovered over the useful life of the

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particular category of assets. Accumulated depreciation and Written Down Value (WDV) of the assets is also required to be preserved. In case an asset is scrapped, written off or disposed of, it is necessary to retire the asset from the books, such that FAR is always updated to contain only the assets which are in use.

Keeping these points at the back of our mind, let us visualize how the FAR columns could look like:

**FAR (as on.....)**

1	2	3	4	5	6	7	8
Sl. Nbr	Asset ID	Asset Description	Date of Purchase	Purchase Order Nbr	Original Cost - Rs.	Depreciation To date	WDV

These days FARs are invariably computerized. Let us say, in a mid sized software services company, 35 desktops, each costing Rs 50,000/- were purchased. They were received in two lots of 20, and 15, on 1st July 2019 and 1st August 2019, respectively.

There can be one entry in the FAR, on 1st July 2019 for the 20 desktops, at the Original Cost of Rs 10 lacs, and one more entry on 1st August 2019, for the second lot of 15, at the Original Cost of Rs 7.50 lacs.

Keeping only two line items for the two receipts is correct? No. When the assets are installed at different locations, say workstations, we need to record that information as well, which means that these two transactions would become 35 line items.

Let us look at one more dimension. Say on 31st March 2020, the financial yearend, depreciation is computed for 9 months for the first lot and for 8 months for the second lot. Accumulated depreciation and WDV are recorded in the FAR and a printout of FAR is



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submitted for statutory audit. Let me say one more year passes by. This record becomes obsolete, as Accumulated Depreciation and WDV have changed.

In software companies, desktops are moved from location to location on need basis. This also needs to be updated in the FAR, to show current location of each asset.

This kind of updates make it difficult for organizations to maintain proper up to date FAR.

Splitting the FAR into two. A simple solution to this complex problem:

You would realize that FAR contains two types of information. They are:

- Permanent information like asset description, Purchase Order details, Original Cost and date of Capitalization.
- Dynamic information like Accumulated Depreciation and WDV, which change with mere elapse of time, and location changes as and when assets are shifted from place to place.

Where are Original Cost, Accumulated Depreciation and WDV required?

When financials are prepared Asset category-wise details on these lines need to be reported in the Fixed Asset Schedule. Individual asset level Original Cost, Accumulated Depreciation and WDV are required when an asset is being written off or disposed of to record profit or loss on such disposal. We also need to retire such assets from the books, which means necessary edits to the FAR. Since this is not a day to day activity, information relating to WDV need not be reported all the time, but should be preserved in the system, to be available when required.

Keeping the above in mind, we could split the FAR into two, as FAR 1 and FAR 2 on the following lines.

**FAR 1**

1	2	3	4	5	6	7
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Sl.	Unique	Asset	Date	Purchase	Original	Number
Nbr	Capitalization	Description	Of	Order	Cost	Of
	Number		Purchase	Number		Assets

Unique Capitalization Number (UCN):

This is a system generated number, through which it would know Asset Category, Date of Capitalization, Original Cost and the number of uniform assets procured. If the assets have different individual purchase cost, they would have different UCNs. In the above example of 35 desktops purchased, there would be two UCNs and consequently two line items in FAR 1.

## FAR 2

1	2	3	4	5	6
Sl.	Unique	Asset	Asset	Asset	Remarks
Nbr	Capitalization	Description	ID	Location	
	Number				

In FAR 2, 35 desktops will have 35 line items, each carrying a distinct Asset ID. As and when an asset moves from one location to another, FAR 2 gets updated and FAR 1 is not touched. If an asset is written off or disposed of, FAR 2 gets updated. System will pick up the details through UCN, and necessary edits to Original Cost, Accumulated Depreciation and WDV are carried out in FAR 1.

FAR 2 could be conveniently used for physical verification. We could also plan random verification of some assets at a location, to assess the quality of FAR.

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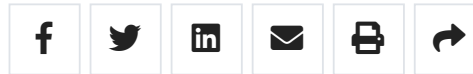
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Possible steps for changing depreciation method from WDV to SLM and vice versa: 1. Let us presume that you are maintaining your FAR as suggested in this article as FAR1 and FAR2. 2. FAR1 contains all the details required for computing depreciation like Asset Category, Original Cost, Date of Capitalization, and number of assets with individual uniform cost under each line item. 3. As and when an asset is retired, it gets removed from FAR2, and through the link of Unique Capitalization Number, FAR1 gets updated in terms of Original Cost and number of assets in the corresponding line item. 4. This information in FAR1 is good enough for calculating depreciation under either of the methods. Just do it!


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