Standard Operating Procedures for Fixed Assets Management
Purpose:

- This Policy document establishes policy & procedures for accounting of Fixed Assets as per relevant Accounting Standards.
- It standardizes the procurement of Fixed Assets in accordance with the Capital Purchase Budget.
- It emphasizes on the identification of Fixed Assets and its recording in Fixed Assets Register & its periodical physical verification.

SCOPE:

- This policy document will apply to the assets managed by the company at all its units.
- It would also emphasize on the additions and deletions made to the fixed assets.
- It also focuses on the proper documentation of these assets.
Fixed Assets Budget Procedure:

**Budget:**
1. Modification
2. Acquisition

**Asset Classification:**
1) Land
2) Building
3) Plant & Machinery
4) Furniture & Fixtures
5) Office Equipment
6) Vehicles
7) Others
8) Intangibles

**Budget Planning**
- Cost Benefit Analysis
- Budget Preparation
- Budget Approval by:
  - MD
  - ED
  - CFO
  - Unit Head
  - Technical Head
  - Power Deptt. Head

**Post Budget Activity:**
Comparison with Actual
Acquisition Process of Capital Assets:

1.) **Indenting**:

- Unit
- Specific Deptt.
- Raises Indent to Stores
- Authorized by respective Deptt Head
- Stores check availability & ensures that indent is within capital budget
- Nett Req. sent to Centralized Purchase Deptt.

2.) **Purchasing**:

- Analysis of Indent
- Invite Quotations (at least three)
- Prepare Comparative Chart
- Selection of Vendor
- In case of Single Quotation
  - check reasonability of terms
- Raise PO

3.) **Receipt**:

- Receipt at Unit
- Gate Officials verify Asset as per documents & make Entry in Gate Inward Register
- Stores Receive Asset, verifies Bill & arrange for inspection of Asset by the User
- Inspection of Asset by the User
- Preparation of MRN
- MRN along with PO & Invoice sent to Accounts
- Posting in Accounts Deptt.
### Accounting Treatment:

#### 1. Acquisition

<table>
<thead>
<tr>
<th>DATE</th>
<th>VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset does not require Installation/Inspection</td>
<td>1) Purchase Price</td>
</tr>
<tr>
<td>□ Capitalization &amp; Accounting Entry on the Date of Receipt of Asset</td>
<td>2) Duties &amp; Taxes (non-recoverable)</td>
</tr>
<tr>
<td></td>
<td>3) Freight</td>
</tr>
<tr>
<td>Asset requires Installation/Inspection</td>
<td>4) Borrowing Cost (As per AS – 16)</td>
</tr>
<tr>
<td>□ Capitalization &amp; Accounting Entry on the Date of Receipt of Asset</td>
<td>5) Installation Charges</td>
</tr>
<tr>
<td></td>
<td>6) Insurance Exp.</td>
</tr>
<tr>
<td></td>
<td>7) Forex Fluctuations (As per AS – 11)</td>
</tr>
<tr>
<td>□ Capitalization &amp; Accounting Entry on the Date of Receipt of</td>
<td>8) Less Govt Grants (as per AS – 12)</td>
</tr>
<tr>
<td>Commissioning Certificate from the Technical Deptt.</td>
<td>9) Less Trade Discounts &amp; Rebate, if any</td>
</tr>
<tr>
<td>□ Till such date, asset shown as Capital Work In Progress (CWIP)</td>
<td></td>
</tr>
<tr>
<td></td>
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</tr>
</tbody>
</table>
2.) Depreciation

- **Definition**: As per AS-6, it is a measure of loss in value of an asset arising from use, passage of time, obsolescence due to change in technology & market conditions.

- **Depreciation depends upon**:
  - Historical Value or Revalued Value
  - Useful Life of the Asset
  - Estimated Residual Value

- **Depreciable Amount = Historical Value or Revalued Value - Expected Residual Value**

- **Addition/Extension of Asset**:
  - Asset forms an integral part of the main asset: Addition/Extension to be depreciated as per same rate & over same life
  - No: Addition/Extension to be depreciated separately

- Where the historical cost undergoes a change due to fluctuation in exchange rate, price adjustment etc., depreciation on the revised unamortized amount should be provided over the balance useful life of the asset.

- Useful life may be reviewed periodically after taking into consideration the expected physical wear and tear, obsolescence and legal or other limits on the use of the asset. In case of change in useful life, depreciation should be provided taking into consideration the revised useful life over the remaining no. of years.
Depreciation as per Sch. 14 of Companies Act:

- As per Sec. 350 of the Companies Act, a company is required to provide depreciation as per rates specified in Sch. 14 given below. However in case the management expects the useful life of the asset to be higher, depreciation at lower rates can be provided with proper justification for the same. Although Higher Rates can be provided.

<table>
<thead>
<tr>
<th>Asset Block</th>
<th>WDV Rate</th>
<th>SLM Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factory Building</td>
<td>10%</td>
<td>3.34%</td>
</tr>
<tr>
<td>Non Factory Buildings (Offices, Godowns, Employees Quarters Etc.)</td>
<td>5%</td>
<td>1.63%</td>
</tr>
<tr>
<td>Plant &amp; Machinery (continuous process plants)</td>
<td>15.33%</td>
<td>5.28%</td>
</tr>
<tr>
<td>Motor-cars, motor cycles, scooters &amp; other mopeds</td>
<td>25.89%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Motor Buses</td>
<td>30%</td>
<td>11.31%</td>
</tr>
<tr>
<td>Data processing machines including computers</td>
<td>40%</td>
<td>16.21%</td>
</tr>
<tr>
<td>Furniture &amp; Fittings</td>
<td>18.1%</td>
<td>6.33%</td>
</tr>
</tbody>
</table>

- Notwithstanding anything mentioned in this Schedule depreciation on assets, whose actual cost does not exceed five thousand rupees, shall be provided depreciation at the rate of hundred per cent. However, if the aggregate value of assets purchased exceeds 10% of the existing value of its block than such assets should be capitalized.

- Intangibles should be amortized as per AS – 26.
3.) Sale & Discard of Fixed Asset:

**SALE**
- Date
- Value
  - Invoice Value
  - Profit & Loss to be routed through P/L

**Discard**
- Date
- Value
  - Date on which the asset is retired from its active use
  - Asset to be valued at lesser of Net Book Value or Net Realizable Value
  - Profit & Loss to be routed through P/L

4.) Capital Work In Progress (CWIP):

- It is an asset which is not completed to be used. All expenses in relation to the CWIP should be debited to CWIP A/c. When the asset is completed & ready to be used then Amount should be transferred to the Respective Asset A/c. Quarterly review should be done in order to ensure that expense in relation to CWIP is debited to CWIP A/c & not in the respective expense A/c.
5.) Revaluation of an Asset:

- Assets are valued at Historical Cost in the books of accounts. In the subsequent years the value of asset could be higher or lower than its present book value due to the inflationary conditions of the economy.

Net Book Value

UPWARD

Related to previous decrease

NO

YES

Related to previous increase

NO

YES

Downward

Debit to Revaluation Reserve to the extent available & charge the balance to P/L A/c

Charge the difference to P/L A/c

Credit to P/L A/c to the extent already charged to P/L A/c & the excess if any, to Revaluation Reserve

Credit the difference to Revaluation Reserve

Note: “No” means first time revaluation. “Yes” means second and subsequent revaluations
6.) Impairment of an Asset:

- As per AS – 28, an organization should make an assessment of the recoverable value of all its fixed assets at every balance sheet date to find whether an asset needs to be impaired based on the factors given below:

  **Factors causing Impairment**

  **Internal**
  - Physical Damage to an Asset
  - Earlier Disposal of an Asset
  - Decline in the Economic Performance of Asset

  **External**
  - Significant Decline in Market Value
  - Change in Market Interest Rate
  - Carrying Amt of Assets > Market Capitalization of Organization

- As per AS - 28, if the Recoverable Value of an Asset is less than its Carrying Value than the asset should be revalued at the Recoverable amount by charging the difference to P & L Account known as Impairment Loss.

\[
\text{Carrying Amount: Net Book Value of an Asset}
\]

\[
\text{Recoverable Amount: Higher of Net Selling Price or Value in Use}
\]

\[
\text{Impairment Loss: To be debited to P & L A/c}
\]
Fixed Assets Tagging & Coding Process:

The process of scientifically numbering fixed assets is called tagging. The purpose of Tagging assets is to track the movement of assets from one place to another place. A tag (bar code or unique number) helps in verification of 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 / scrapping. All fixed assets must be tagged except land, building etc.
Fixed Assets Register (FAR) :

What is FAR ?

It is a register showing all the permanent assets owned by the company. It shows the qty, value & location of these assets. Any deletion and addition to/of assets are also recorded in this register.

FAR V/s Stock Register

<table>
<thead>
<tr>
<th>Stock Register</th>
<th>FAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>To keep record of goods received &amp; issued</td>
<td>To exercise effective control over the Fixed Assets held by the company</td>
</tr>
<tr>
<td>Used for items which are not permanent</td>
<td>Used for assets which are permanent in nature</td>
</tr>
<tr>
<td>Contains low value items</td>
<td>Contains relatively high value items</td>
</tr>
</tbody>
</table>

Significance :

- Effective Control
- CARO Compliance
- Provides final Value of FA for financial statements
<table>
<thead>
<tr>
<th>Asset Code</th>
<th>Asset Description</th>
<th>Asset Category</th>
<th>Cost</th>
<th>Depreciation</th>
<th>Location</th>
<th>Quantity</th>
<th>Invoice No.</th>
<th>Supplier’s Name</th>
<th>Duties &amp; Taxes</th>
<th>Freight</th>
<th>Installation Charges</th>
<th>Insurance</th>
<th>Forex Fluctuations</th>
<th>Interest Cost</th>
</tr>
</thead>
<tbody>
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Contents of FAR
FAR Alteration

**FAR** will be updated once in a *quarter or six months* if it is maintained manually or simultaneously if it is system generated. It will be updated for the following reasons:

- **Addition of an Asset:**
  - All Fields

- **Sale, Discarding, Demolition of Asset:**
  - All Fields

- **Providing Depreciation:**
  - Depreciation Rate
  - Depreciation Amt.

- **Inter Unit Asset Transfer:**
  - Location
  - Additional duty & taxes

FAR must be Yearly reviewed for ensuring its accuracy by an appropriate authority in the Finance Deptt.
Physical Verification:

- **Objective:** To verify the actual existence of the book assets, check their condition & provide for adjustments (short/excess, if any) of fixed assets found during physical.

**Physical Verification Policy**

**Team Members:**
- Stores Personnel
- Expert from Technical Deptt
- Personnel from User Deptt
- Personnel from Accounts Deptt
- Finance Personnel from HO
- Internal Auditor

**Tenure:** Once in three years

**Physical Verification Report signed by Team Members & Unit Head**

**Adjustments relating to Excess/Shortage by the Finance Head**
Physical Verification Process

Intimation by HO personnel to unit head via mail regarding Phy. Verification Program showing its date, team members, procedure etc.

GM forwards the mail to stores & engg deptt.

Physical Verification conducted on the decided date by the respective team

Based on the Physical, a Taking Report must be prepared signed by the team members and unit head

Such Report must be compared with the FAR and differences noted along with reasons

Based on differences a Reconciliation Statement must be prepared

Such Statement must be presented before higher authority like CFO & ED

After their approval necessary actions to be taken & adjustments to be made in books
Differences in FAR & Physical Verification:

- **Found in FAR but not in Physical**
  - Misappropriation of Asset
  - Wrong Entry or Double Entry In FAR
  - Asset has been Scrapped
  - Sale/Transfer entry omitted in FAR

- **Found in Physical but not in FAR**
  - Acquisition entry not done in FAR
  - Asset sent out on returnable basis
  - Asset recd. Through inappropriate procedure
  - Asset recd via inter unit transfer

- **Installation/Inspection Pending**
Accounting Standards related to Fixed Assets

- AS 6 – Accounting for Depreciation
- AS 10 – Accounting for Fixed Assets
- AS 11 – Accounting for effects of change in Foreign Exchange Rates
- AS 16 – Borrowing Cost
- AS 26 – Intangible Assets
- AS 28 – Impairment of Assets
As per paragraph 4(I) of this order, an auditor is required to comment on proper maintenance, physical verification and major disposal in relation to fixed assets during the financial year. Therefore CARO 2003, requires a Company to:

- **Maintenance of proper records showing:**
  - Description of Asset
  - Categorization & Location of Asset
  - Purchase Details
  - Depreciation Details
  - Revaluation/Impairment Details
  - Details regards Sale, Discarding & Destruction of Asset

- **Physical verification**
  1. At Regular Intervals (at least once in three years)
  2. Report preparation showing material discrepancies
  3. Proper adjustment of these in the books

- **Major Disposal of Fixed Assets**
  1. Proper Accounting
  2. As per AS – 1, if this affects going concern then its proper expression in financial statements is necessary.
## Activity Wise Responsibility Chart

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Budget Preparation</td>
<td>Refer Slide No. 4</td>
<td>Finance Deptt</td>
<td>Chief Financial Officer (CFO)</td>
<td>Executive Director</td>
<td>Once in Three Years</td>
</tr>
<tr>
<td>Budget v/s Actual Comparison</td>
<td>Refer Slide No. 4</td>
<td>Finance Deptt</td>
<td>Chief Financial Officer (CFO)</td>
<td>Executive Director</td>
<td>At the end of year</td>
</tr>
<tr>
<td>Acquisition</td>
<td>Refer Slide No. 5</td>
<td>Purchase Deptt</td>
<td>Chief Financial Officer (CFO)</td>
<td>Executive Director</td>
<td>Yearly</td>
</tr>
<tr>
<td>Accounting</td>
<td>Refer Slides 6 – 11</td>
<td>Unit Accounts Deptt</td>
<td>Deptt. Head</td>
<td>Unit Head (GM)</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Asset Tagging &amp; Coding</td>
<td>Refer Slide No. 12</td>
<td>Unit Accounts Deptt</td>
<td>Deptt. Head</td>
<td>Unit Head (GM)</td>
<td>Yearly</td>
</tr>
<tr>
<td>FAR Updating</td>
<td>Refer Slides 13-15</td>
<td>Unit Accounts Deptt</td>
<td>Deptt. Head</td>
<td>Finance Manager</td>
<td>Yearly</td>
</tr>
<tr>
<td>Physical Verification</td>
<td>Refer Slides 16-18</td>
<td>Physical Verification Team</td>
<td>Unit Head</td>
<td>Chief Financial Officer (CFO)</td>
<td>Once in Three Years</td>
</tr>
<tr>
<td>CARO &amp; AS Compliance</td>
<td>Refer Slide 19 &amp; 20</td>
<td>Accounts Deptt</td>
<td>HO Accounts Deptt</td>
<td>Chief Financial Officer (CFO)</td>
<td>Yearly</td>
</tr>
</tbody>
</table>