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

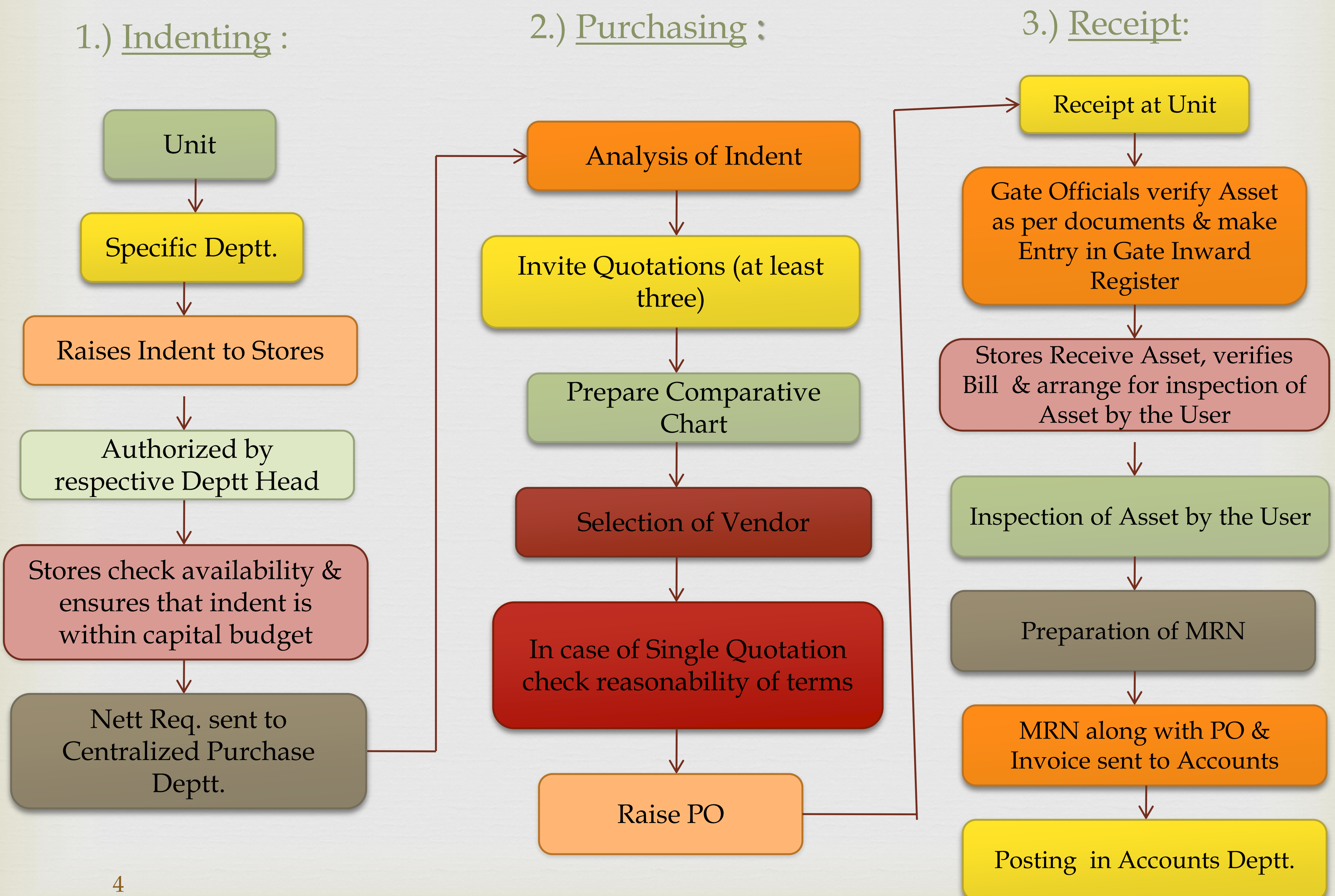
Activity Wise

Budget Approval by :

- MD
- ED
- CFO
- Unit Head
- Technical Head
- Power Deptt. Head

Post Budget Activity:
Comparison with Actual

Acquisition Process of Capital Assets:



Accounting Treatment :

1.) Acquisition

DATE

- **Asset does not require Installation/Inspectio n**
  - ❑ Capitalization & Accounting Entry on the Date of Receipt of Asset
- **Asset requires Installation/Inspection**
  - ❑ Capitalization & Accounting Entry on the Date of Receipt of Commissioning Certificate from the Technical Deptt.
  - ❑ Till such date, asset shown as Capital Work In Progress (CWIP)

VALUE

1) Purchase Price
2) Duties & Taxes (non-recoverable)
3) Freight
4) Borrowing Cost (As per AS – 16)
5) Installation Charges
6) Insurance Exp.
7) Forex Fluctuations (As per AS – 11)
8) Less Govt Grants (as per AS – 12)
9) Less Trade Discounts & Rebate, if any

2.) Depreciation

❑ <u>Definition</u> : 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

- No → Addition/Extension to be depreciated separately
- Yes → Addition/Extension to be depreciated as per same rate & over same life

❑ 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.

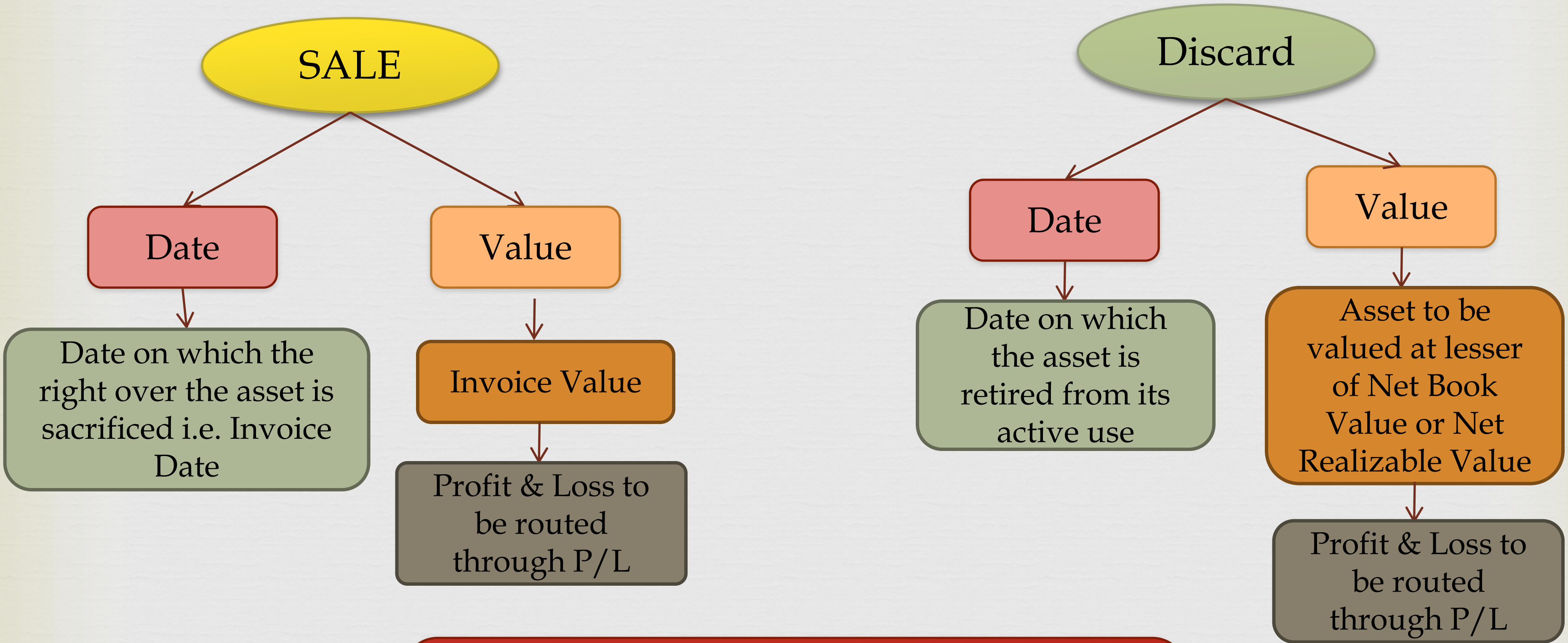
General Rates

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

➢ 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 :

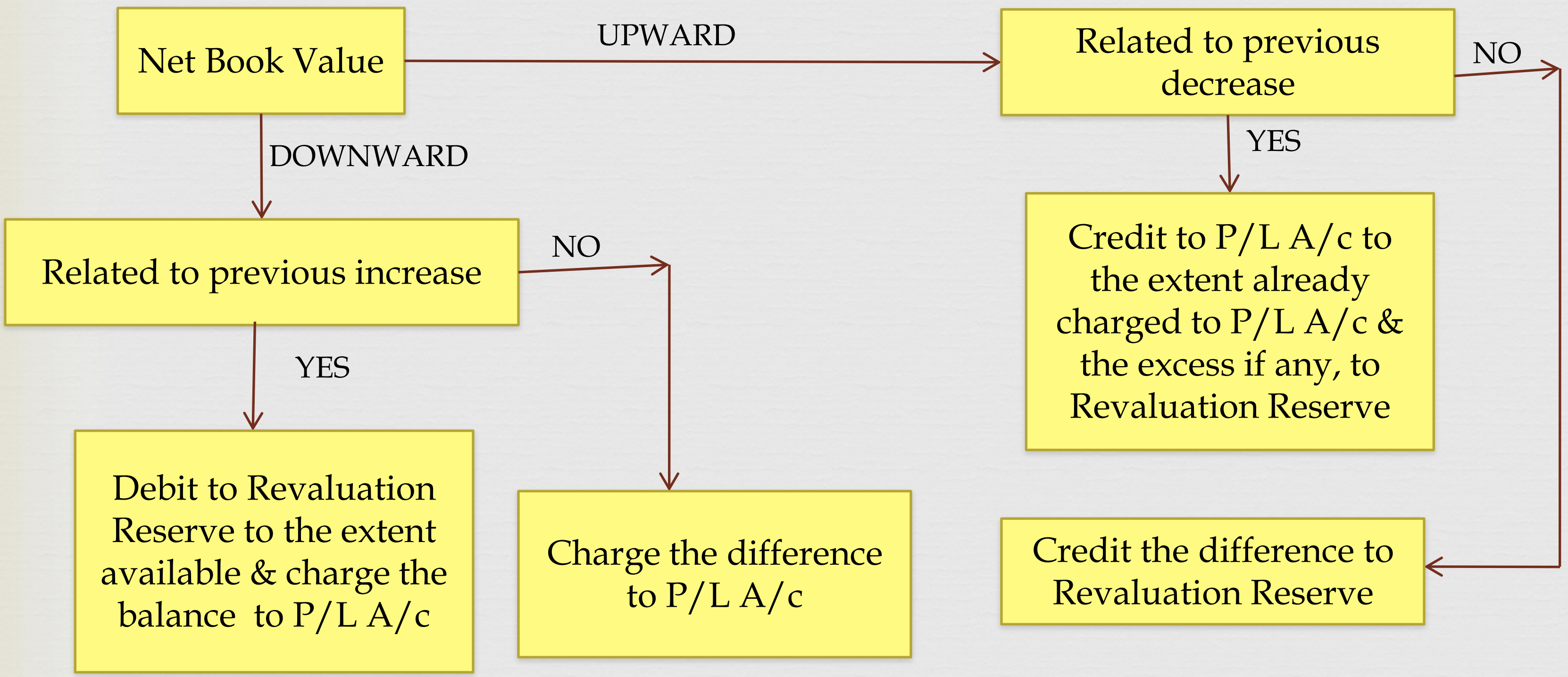


4.) Capital Work In Progress (CWIP) :

- 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.



<u>Note</u>: "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

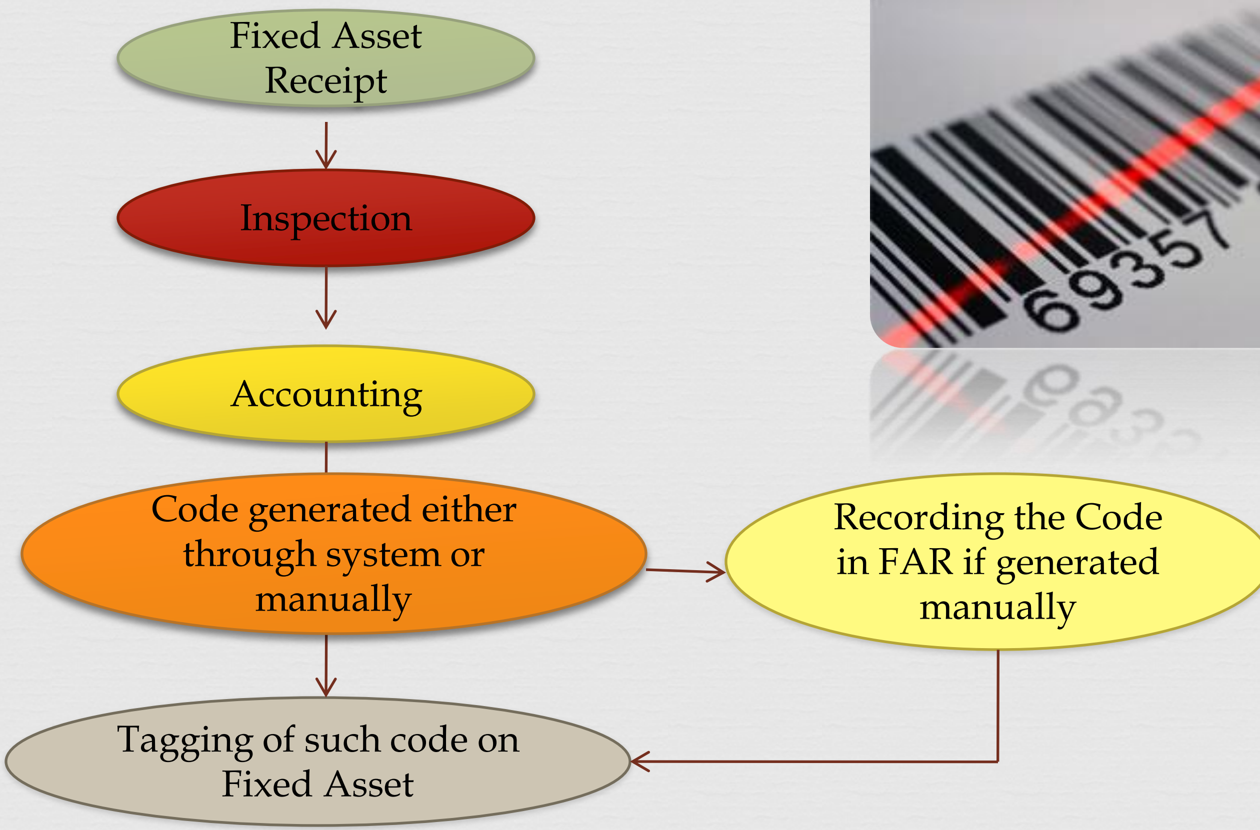
- **Internal**
  - Physical Damage to an Asset
  - Earlier Disposal of an Asset
  - Decline in the Economic Performance of Asset
- **External**
  - Significant Decline in Market Value
  - Change in Market Interest Rate
  - Carrying Amt of Assets > Market Capitalization of Organization

❑ 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.

Carrying Amount :		Recoverable Amount :		Impairment Loss :
Net Book Value of an Asset	LESS	Higher of Net Selling Price or Value in Use	=	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 ?

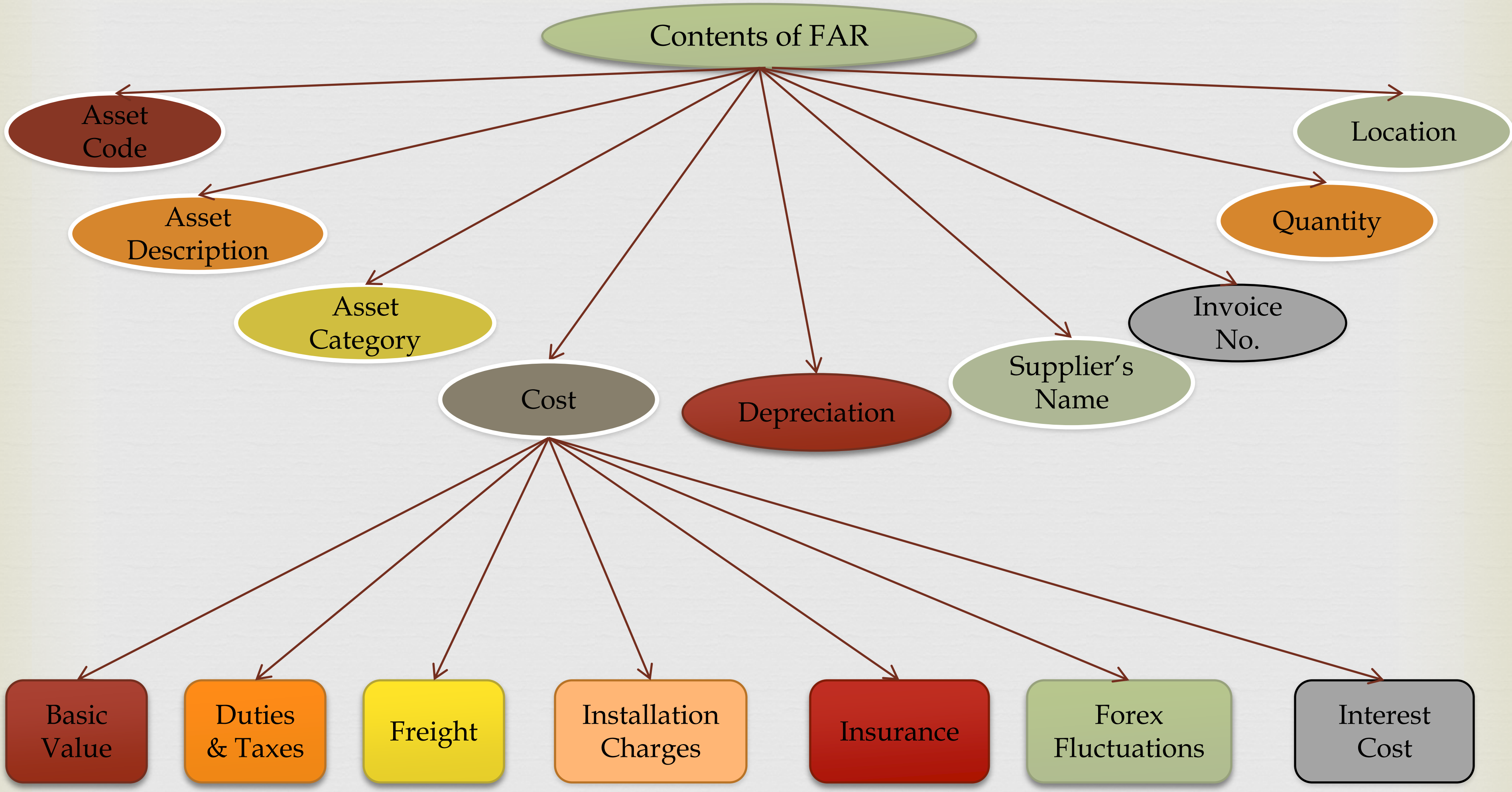
It is a register showing all the permanent assets owned by the company. It shows the qty, value & location of these assets. Any deletion and addition to/of assets are also recorded in this register.

FAR V/s Stock Register

Stock Register	FAR
To keep record of goods received & issued	To exercise effective control over the Fixed Assets held by the company
Used for items which are not permanent	Used for assets which are permanent in nature
Contains low value items	Contains relatively high value items

Significance :

- Effective Control
- CARO Compliance
- Provides final Value of FA for financial statements



Contents of FAR
Asset Code
Asset Description
Asset Category
Cost
Depreciation
Supplier's Name
Invoice No.
Quantity
Location
Basic Value
Duties & Taxes
Freight
Installation Charges
Insurance
Forex Fluctuations
Interest Cost

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

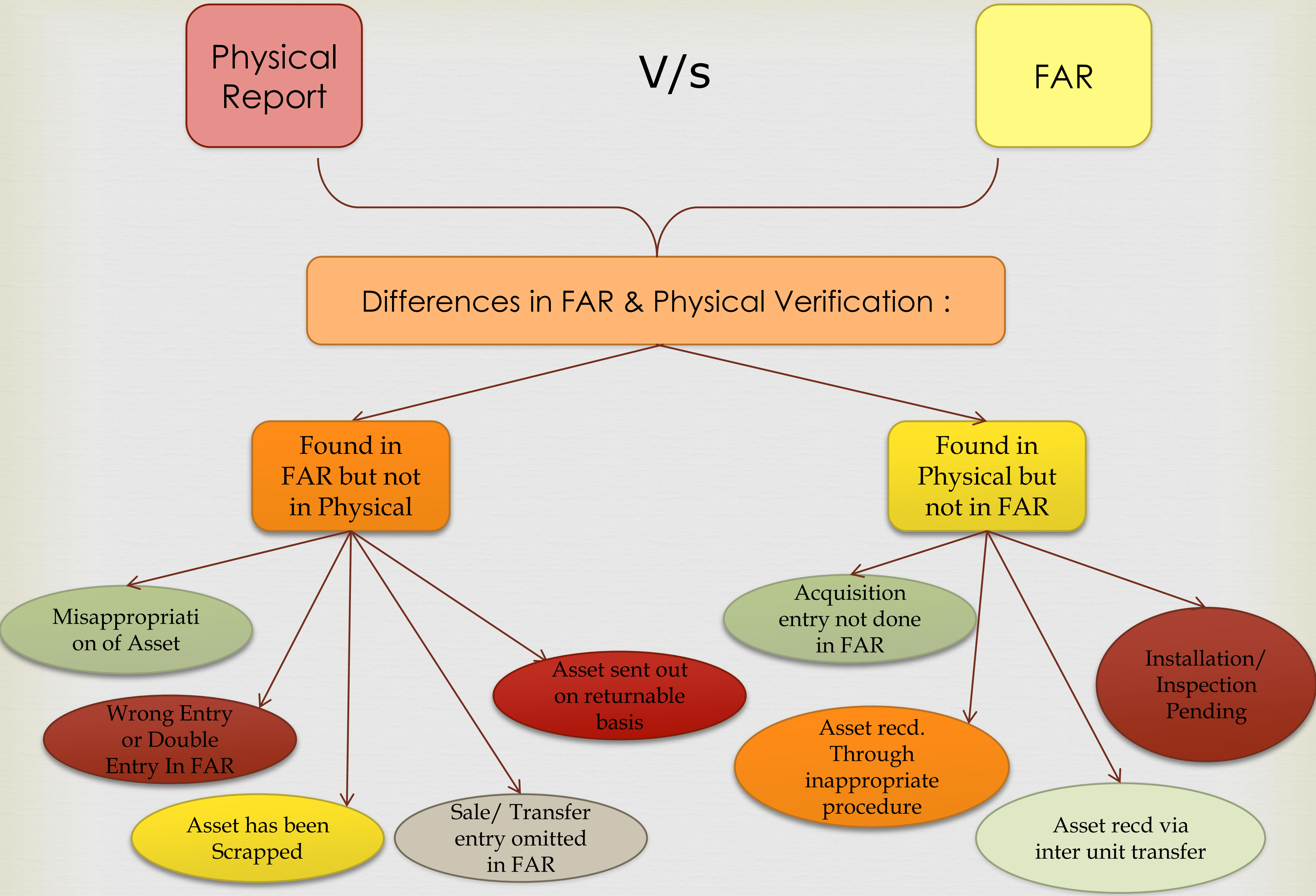
Tenure:
Once in three years

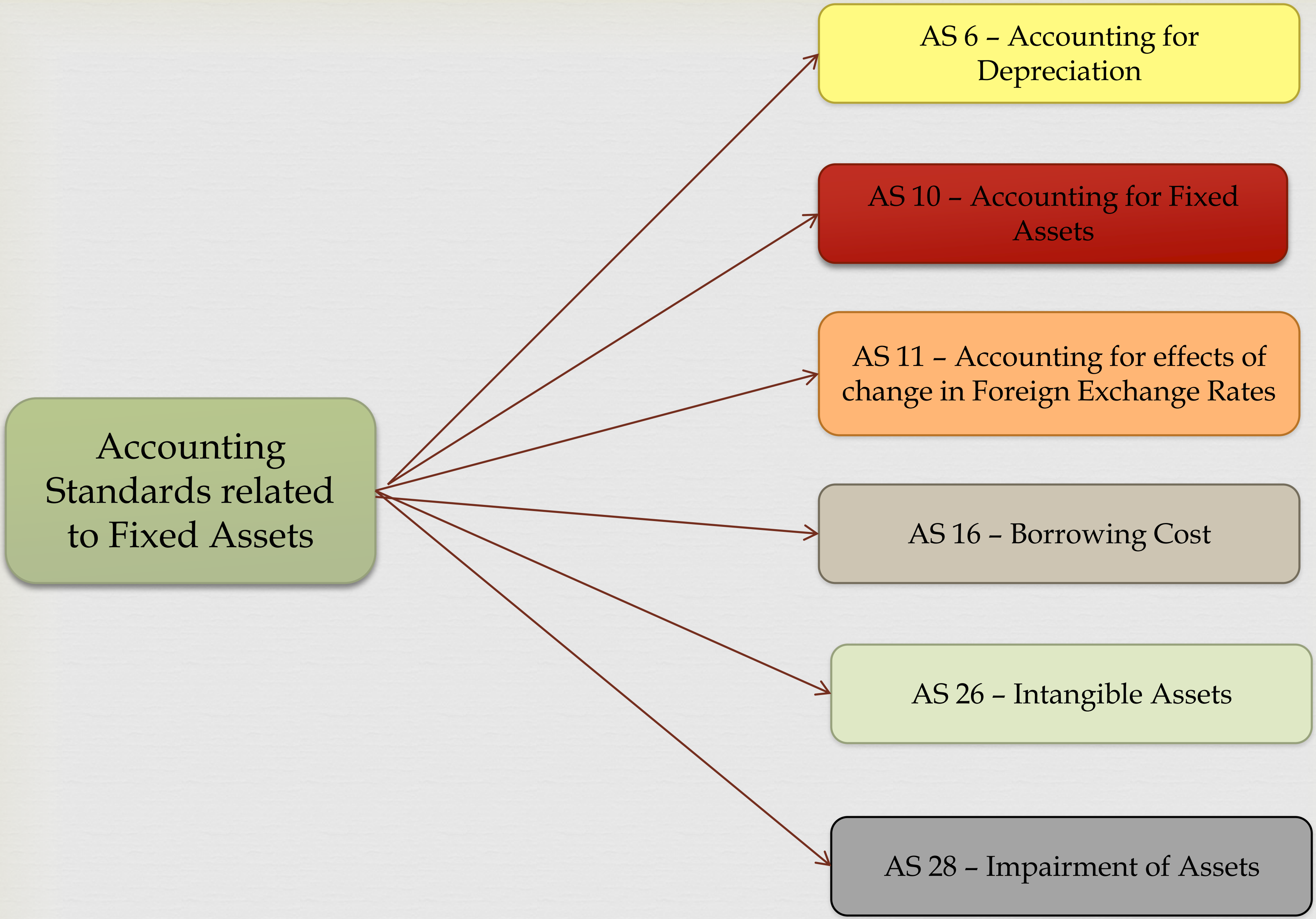
Physical Verification Report signed by Team Members & Unit Head

Adjustments relating to Excess/Shortage by the Finance Head

Physical Verification Process

1. Intimation by HO personnel to unit head via mail regarding Phy. Verification Program showing its date, team members, procedure etc.
2. GM forwards the mail to stores & engg deptt.
3. Physical Verification conducted on the decided date by the respective team
4. Based on the Physical, a Taking Report must be prepared signed by the team members and unit head
5. Such Report must be compared with the FAR and differences noted along with reasons
6. Based on differences a Reconciliation Statement must be prepared
7. Such Statement must be presented before higher authority like CFO & ED
8. After their approval necessary actions to be taken & adjustments to be made in books


Physical Report
V/s
FAR
Differences in FAR & Physical Verification :
Found in FAR but not in Physical
Found in Physical but not in FAR
Misappropriation of Asset
Wrong Entry or Double Entry In FAR
Asset has been Scrapped
Sale/ Transfer entry omitted in FAR
Asset sent out on returnable basis
Acquisition entry not done in FAR
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

Companies (Auditor's Report) Order (CARO), 2003

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

What ?	How ?	Who ?	Authorized By ?	Reviewed By?	Review Period ?
Budget Preparation	Refer Slide No. 4	Finance Deptt	Chief Financial Officer (CFO)	Executive Director	Once in Three Years
Budget v/s Actual Comparison	Refer Slide No. 4	Finance Deptt	Chief Financial Officer (CFO)	Executive Director	At the end of year
Acquisition	Refer Slide No. 5	Purchase Deptt.	Chief Financial Officer (CFO)	Executive Director	Yearly
Accounting	Refer Slides 6 –11	Unit Accounts Deptt	Deptt. Head	Unit Head (GM)	Quarterly
Asset Tagging & Coding	Refer Slide No. 12	Unit Accounts Deptt	Deptt. Head	Unit Head (GM)	Yearly
FAR Updating	Refer Slides 13-15	Unit Accounts Deptt	Deptt. Head	Finance Manager	Yearly
Physical Verification	Refer Slides 16-18	Physical Verification Team	Unit Head	Chief Financial Officer (CFO)	Once in Three Years
CARO & AS Compliance	Refer Slide 19 & 20	Accounts Deptt.	HO Accounts Deptt.	Chief Financial Officer (CFO)	Yearly