Accounting Checklist for Fixed Assets

The following list of procedures can be used to ensure thorough and compliant recording and management of fixed assets in a client's books and aid in the finalisation of fixed asset accounts for financial statements.

1. Recording Fixed Assets

Acquisition Details:

- Verify purchase invoices and payment receipts.
- Ensure costs are correctly classified between capital and expense.
- Check for inclusion of all directly attributable costs (installation, delivery, legal fees, etc.).

Gifts or Donations:

- Document fair market value at the time of receipt.
- Record any related donor restrictions or conditions.

Constructed Assets:

- Accumulate all costs related to construction, including materials, labor, and overhead.
- Determine the point at which construction is completed and capitalization should commence.

Leased Assets:

- Evaluate lease agreements to determine if they are finance or operating leases.
- For finance leases, capitalize the present value of future lease payments.

Government Grants:

- Identify if the acquisition was subsidized by a government grant.
- Determine the accounting treatment for the grant (deduct from asset cost or recognize in income).

Exchange of Assets:

- Record at fair value unless the transaction lacks commercial substance.

2. Valuation and Classification

Initial Measurement:

- Calculate the initial cost of the asset including purchase price, taxes, and any directly attributable expenses.

Component Approach:

- Break down the asset into components if they have different useful lives for depreciation purposes.

Classification:

- Classify assets under proper categories (e.g., buildings, machinery, vehicles).

3. Depreciation

Depreciation Method:

- Choose an appropriate depreciation method (straight-line, diminishing balance, units of production).
- Ensure the method reflects the pattern in which economic benefits are consumed.

Useful Life and Salvage Value:

- Estimate useful life and salvage value based on industry standards and asset usage.
- Review and adjust these estimates annually.

Calculation and Recording:

- Calculate periodic depreciation.
- Make appropriate journal entries for depreciation expense.

4. Maintenance and Improvements

Routine Maintenance:

- Record as expenses.

Improvements and Major Overhauls:

- Capitalize costs that extend the asset's life or enhance its value.
- Adjust the asset's depreciation schedule if necessary.

5. Impairment

Impairment Reviews:

- Conduct impairment tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

- Prepare and document the calculations for recoverable amount.

6. Disposal

Disposal of Assets:

- Record the removal of the asset and any related accumulated depreciation from the books.
- Recognize any gain or loss on disposal.

7. Revaluation

Revaluation (if applicable):

- Determine if revaluation is applicable under company policy or relevant accounting standards.
- Document the basis for revaluation and the impact on depreciation.

8. Documentation and Compliance

Documentation:

- Maintain complete files for each asset, including purchase contracts, lease agreements, receipts, tax invoices, and records of costs incurred.
- Ensure proper documentation for audits, including asset registers and schedules.

Compliance with Standards:

- Ensure compliance with local GAAP, IFRS, or IFRS for SMEs depending on the regulatory framework applicable.
- Update practices for any changes in accounting standards.

9. Year-End Review

Asset Register Reconciliation:

- Reconcile the results of physical asset counts with the asset register.
- Reconcile the figures in the asset register to the final balances in the general ledger, including cost price, depreciation, accumulated depreciation, profit and loss etc.
- Investigate and resolve discrepancies.

Review of Useful Lives and Methods:

- Reassess the appropriateness of the depreciation method, useful lives, and salvage values annually.