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Tangible Fixed Assets, their recording, accounting and verification

FRS15 Tangible Fixed Assets sets out the principles of accounting for fixed assets. The objective of the Standard is to ensure that tangible fixed assets are accounted for consistently. This includes concepts such as measurement, valuation and depreciation.

Businesses dispose of fixed assets either prior to the end of their useful economic life or at the end of that period.

When an asset is sold or scrapped, the proceeds of the sale need to be compared with the book value of the asset and a profit or loss on disposal is determined. This net book value is defined as the cost of the asset less the cumulative depreciation on the asset to date.

FRS15 states that assets should be depreciated over their useful economic life. It is common practice to depreciate an asset in the year of purchase but not in the year of sale.

At the end of an accounting period, whether a business is a Limited Company subject to audit, one under the audit threshold or unincorporated as a partnership or sole trader, there are set procedures to follow to verify the existence and Net Book Value of the Tangible Fixed Assets.

Audit and verification objectives are underpinned by financial statement assertions and include:

- completeness
- accuracy
- valuation
- existence
- beneficial ownership
- presentation and disclosure

These assertions related directly to the objectives and the table below highlights how each relevant assertion would match the objectives in the audit and/or verification of fixed assets.

OBJECTIVE	ASSERTION
Ensure that the fixed assets figure include all those owned by the client, and ensure that the asset physically exists.	Completeness
Ensure those fixed assets purchased are included in the period and those sold are excluded.	Accuracy
Ensure that the values stated are correct and based on either cost less depreciation or revaluation (current value).	Valuation
Ensure the client owns the assets detailed in the fixed asset schedule and included on the balance sheet, or if leased they have the rights of ownership ie: finance lease.	Beneficial ownership
Ensure all the fixed assets are shown in the financial statements so that any relevant user would have a clear perception of the financial position.	Presentation and disclosure

Financial statements comprise the primary statements:

- Balance Sheet
- Profit and Loss Account
- Cash Flow Statement (Ltd Company)

This information must be relevant and reliable, which are primary characteristics along with materiality. Others relating to presentation include comparability and understandability.

This assumes further basic assertions subject of FRS18 Accounting Policies and includes:

- matching
- going concern
- prudence
- consistency
- true and fair

The following case study illustrates the procedures for accounting for Tangible Fixed Assets and those records subject to the verification of the assets.

Shezad Malik is the proprietor of a taxi business in a NE, coastal town. He commenced his business on 1 January 2007 and purchased four London-style black cabs at £32000 each.

He decided to depreciate these at 25% per annum straight line, depreciating the assets in the year of purchase but not in the year of sale.

On 31 December 2009 he disposed of one vehicle and the proceeds of sale were £15000.

On 1 January 2010 he purchased a further vehicle for £33500.

For each vehicle an entry would be made in the fixed asset register.

Extract from Fixed Asset Register
(This record is for the vehicle disposed in 2009)

Motor Vehicles – Method of Depreciation 25% Straight Line						
Date Purchased	**Description**	**Cost £**	**Depreciation £**	**NBV £**	**Disposal Proceeds**	**Disposal Date**
1 January 2007	Asset register no: LCAB1 Reg No: P9 DUN	32000				
31 December 2007	Depreciation		8000	24000		
31 December 2008	Depreciation		8000	16000		
31 December 2009	Disposal				15000	31/12/09

NB: The vehicle is not depreciated in the year of disposal. Each asset in the register would be physically verified each year end.

The records in the general ledger to record the acquisition of the vehicles and their subsequent reduction in value would show:

Motor Vehicles at Cost

1/1/07	Bank	128000	31/12/07	Balance C/D	128000
		£128000			£128000
1/1/08	Balance B/D	128000	31/12/08	Balance C/D	128000
		£128000			£128000
1/1/09	Balance B/D	128000	31/12/09	Disposal account	32000
			31/12/09	Balance C/D	96000
		£128000			£128000
1/1/10	Balance B/D	96000			
1/1/10	Bank	33500			

Depreciation Provision on Motor Vehicles

31/12/07	Balance C/D	32000	31/12/07	P&L a/c	32000
		£32000			£32000
31/12/08	Balance C/D	64000	1/1/08	Balance B/D	32000
			31/12/08	P&L a/c	32000
		£64000			£64000
31/12/09	Disposal a/c	16000	1/1/09	Balance B/D	64000
31/12/09	Balance C/D	72000	31/12/09	P&L a/c	24000*
		£88000			£88000
			1/1/10	Balance B/D	72000

***NB:** The vehicle disposed in 2009 is not depreciated in the year of disposal. The £16000 is the accumulated depreciation to date on the vehicle disposed.

Disposal Account

31/12/09	Motor vehicles at cost	32000	31/12/09	Proceeds	15000
			31/12/09	Depreciation provision	16000
			31/12/09	P&L a/c (loss on disposal)	1000
		£32000			£32000

Extract from the Balance Sheet as at 31 December 2009

Fixed Assets	Cost	Accumulated Depreciation	NBV
Motor Vehicles	96000	72000	24000

We must be assured that the client owns these assets and ensure that they physically exist.