CHAPTER 5: MAINTAINING BUSINESS ASSETS AND LIABILITIES

Unit of learning code BUS/BM/CR/04/5

Related Unit of Competency in Occupational Standard Maintain Business Assets and Liabilities

5.1 INTRODUCTION TO THE UNIT OF LEARNING

This unit specifies the competencies required to maintain business assets and liabilities. It involves preparing business assets and liabilities requirement plan, carrying out internal control, maintaining asset and liabilities inventory and preparing business assets and liabilities report Assets represent a heavy investment of funds and therefore proper planning, control and maintenance of assets and liabilities is essential for effectiveness and efficiency of the operations of the business

5.2 SUMMARY OF LEARNING OUTCOMES

1. Prepare business assets and liabilities plan
2. Carry out assets internal control
3. Maintain assets inventory
4. Prepare business assets report

5.2.1 LEARNING OUTCOME 1: PREPARE BUSINESS ASSETS AND LIABILITIES PLAN

Introduction to the learning outcome

This learning outcome specifies the content of competencies required to prepare business assets and liabilities plan. It includes definition of terms related to business assets and liabilities, assessing assets requirement, analyzing records of existing assets and liabilities, establishing asset usage, establishing acquisition and settlement of liabilities and preparing business assets and liabilities plan and budget. A business should be able to assess, plan and budget for its assets, which will require acquisition of certain liabilities. The business should strive to reduce the asset running costs and ensure the assets are used to achieve efficiency as well as maximize profits.

Performance Standard

1.1 Assets requirement are assessed according to user needs

1.2 Records of existing assets and liabilities are analyzed as per company policy

1.3 Asset usage is established in accordance with asset policies and procedure

1.4 Asset acquisition and settlement of liabilities is established based on finance policy and Procedures

1.5 Business asset and liabilities plan and budget is prepared according to strategic plan and finance policy

Information Sheet

Definition of terms

Assets are items which have value and are resources owed by a person, business or organization

Business Assets Items and property owned by a business in monetary value. They can be tangible or intangible.

Liabilities- amounts a business owes suppliers of goods and services, and for advances and loans acquired. They are business obligations which are expected to be settled from the business assets. In the process of carrying out business operations, liabilities will arise.

Balance Sheet -A statement showing assets, liabilities and capital of a business as at a given date

Life cycle cost –The total cost of an asset from the time of purchase to disposal

Asset tags - labels with bar codes that contain information about each asset.

Policy - is a set of rules or guidelines for a business and its employees followed in order to achieve the goal.

Procedures- is order of the steps to be taken to carry out activity or task.

Strategic plan- is a document that establishes the direction of a business. It communicates the business goals, and how they will be achieve in the long term

Depreciation is defined as the expensing of an **asset** involved in producing revenues throughout its useful life.

Residual value: also known as scrap or salvage value, this is the value of the asset once it reaches the end of its useful life.

Utility is a term in economics that refers to the total satisfaction received from consuming a good or service.

The term "fiscal year-end" refers to the completion of any one-year or 12-month accounting period other than a typical calendar year.

A **fiscal year** (or **financial year**, or sometimes **budget year**) is used in government accounting

Dividend is a share of profits and retained earnings that a company pays out to its shareholders.

Categories of Business Assets

A business requires assets which are economic resources. Assets enables a business to manufacture goods, sell products or provide services. The following are two major types of classification of Assets

- Fixed Assets
- Current Assets

Non-current Assets (Fixed assets)

Fixed Assets are the assets purchased for use in carrying out business operations and last for more than one financial year. Fixed assets include; buildings, tools, equipment, machinery and vehicles.

Characteristics of Fixed Assets

- The business owns the asset or has bought it under a hire purchase agreement or leased under a long term arrangement
- Assets last for long periods mostly more than one year
- Assets are for use in the business operations
- They are depreciated annually (except land) because their value reduces over time. Most of fixed assets will lose value over time.

Types of fixed assets of a business

- **Tangible Assets**- Assets with physical form and is the common general definition of fixed assets. They have a useful life in the business and they are depreciated (except land with infinite life).
- **Intangible Assets**- Assets with no physical form and includes business reputation, business know-how, recognized name and industry knowledge. These assets are not recorded on the balance sheet, but their value adds to the good reputation of the business.
- **Intellectual Assets** - These assets include trademarks, patents, brand names, formulae, and inventions. These properties are generally covered under copyright law to protect them from imitation.

Current assets

The Current Assets are assets that are easily convertible to cash or in cash form. These assets are continuously changing from one form to the other. Types of current assets are as follows

1. Cash in Hand- money held in the in cash box, safe or drawer of a business
2. Cash at Bank - money held in the business bank account
3. Accounts Receivable/Debtors - money which other people or businesses owe to the business.
4. Short term bank deposits or investments- amount deposited by the business on short term basis as reserve and to earn interest

5. Stock/Inventory – goods purchased for the purpose of selling or raw materials for manufacturing products. The value of the stock is the value which was counted in the business or at the production plant when closing of the accounts for the year.

Characteristics of current asset:

- It is easily be converted to cash.
- It is expected to be used, or change its form and value within one year

Total assets

This is the value of the Current Assets plus the value of the fixed assets

Figure 45: Current Assets

Importance of assets to a business

- Assets enable a business to generate sales and income
- The more assets a business has the more the value of the business increases
- Assets can be used as securities to secure Loans

- Assets improve the efficiency of operations in a business
- Assets are used to pay liabilities
- Assets bring about cost savings in the long run, bringing savings to the business in future

Assessing asset requirement in a business

- Identify the specific need for the new or replacement asset
- Outline the purpose for which the asset is required is in line with the objectives of the business
- Determine how the asset will provide significant benefit to the business
- Analyze other viable alternatives to purchase for example upgrading
- Determine whether the asset is appropriate to its task or function and that it is cost effective over the useful life of the asset.
- Check whether the asset is compatible with existing assets and will not bring about additional expenses on other assets or resources
- Confirm that the facilities have the space to accommodate the asset in its place of use and storage
- Select the most appropriate type, brand, and model among the various alternatives of assets

Developing an Asset requirement plan for a business

1. Establishing the status of existing assets

- Carry out a total count of assets
- Establish where the assets are located
- Determine the value of each asset
- Establish when the assets were acquired
- Establish expected life cycles of the assets

2. Determine the life cycle cost of the asset. These are:

- **Purchase cost**- the price paid when the asset was purchased
- **Maintenance cost**- the cost of keeping the asset in efficient working condition
- **Disposal cost-** the estimated cost of selling the asset after its useful life

3. Establish the utility of the asset

- The use of asset
- The quantity of service
- The asset capacity

4. Determine the asset requirement based on:

- The Strategic Plan
- Annual requirement
- Asset priority
- Useful life of the Asset

Liabilities

Liabilities are debts or obligations of a business. They are the amounts the business owes outsiders. There are two types of liabilities

- **Non-current liabilities**- These are amounts the business owes other parties (persons, business, government or organizations etc) payable after more than one financial year.

- **Current liabilities**- These are amounts the business owes other parties payable within the financial year

Figure 46: Types of Liabilities

1. Accounts payable (creditors)

Amounts the business owes suppliers for goods and services received but not yet paid for. An invoice is received from the suppliers indicating the amount payable.

2. Accrued liabilities

Expense incurred by the business but not yet paid for. E.g

- Outstanding electricity bill
- Accrued rent

Unearned revenue

Revenue paid to the business in advance of the service to be rendered by the business eg rent paid in advance by a tenant of a business.

- Rent paid in advance by tenant
- Payments for subscriptions services

Salaries payable

This is the amount owed to employees that they haven't been paid yet at the end date of the financial year. Also known as accrued salaries

Bank account overdrafts

These are amounts overdrawn from the business bank account. They are considered as small advances made by a bank to the business when the amount in the account falls below the required amount needed. The overdraft are paid for as deposits when they made into the bank account.

Dividends payable

Dividends declared by the business but not yet paid to shareholders.

Employee income tax withheld

Employees' income tax amount withheld at the end of the financial period by the employer before remitting to the Income tax department of the government.

Accounting Records

Managing business asset and liabilities accounting is an important function of a business in order to keep track of purchase and utilization of assets as well as scheduling and settlements of liabilities.

Business assets are itemized and valued in the business records. They are listed at purchase cost. Fixed assets are depreciated which is the process of spreading the cost of an asset over time over the estimated useful life. Assets of smaller values are treated as expenses.

Fixed assets can be revalued to a value either upwards or downwards. Many tangible assets, such as vehicles, computers and machinery equipment tend to decrease in value and some may even become obsolete as modern technologies are introduced.

Depreciation

There several methods applicable in depreciating fixed assts the two commonly used are:

Straight line method calculated by subtracting the asset's salvage or resale value from its original cost. The difference between the cost of the asset and salvage value is divided by the useful life of the asset. For example If a machine has a useful life of 5 years, costs sh200, 000, and has a salvage value of Sh 50,000, the depreciation expense is calculated as:

Depreciation per annum: $\frac{\text{Sh } 200{,}000 - \text{Sh}50{,}000}{5}$ = Sh 30,000 per annum

. Instead of writing off the entire amount of sh 200,000, only sh 30,000 is an expense each year.

Reducing balance method--

The reducing balance method of depreciation results in declining depreciation expenses with each accounting period. In other words, more depreciation is charged at the beginning of an asset's lifetime and less is charged towards the end.

Reducing balance depreciation is also known as declining balance depreciation or diminishing balance depreciation.

There are four main factors to consider when calculating depreciation expense:

1. The cost of the asset
2. The estimated salvage value of the asset. Salvage value (or residual value) is the amount of money the company expects to recover, less disposal costs, on the date the asset is scrapped, sold, or traded in.
3. Estimated useful life of the asset. Useful life refers to the window of time that a company plans to use an asset. Useful life can be expressed in years, months, working hours, or units produced.
4. Obsolescence should be considered when determining an asset's useful life and will affect the calculation of depreciation. For example, a machine capable of producing units for 20 years may be obsolete in six years; therefore, the asset's useful life is six years.

Example of reducing balance depreciation

A company purchases a van for £5,000. The company estimates that the van will lose 40% of its value each year and will have a scrap value of £1,000. Following the reducing balance method, the first five years of depreciation calculations would look like this:

Year 1	(£5000 - £1000)	x 40% =	£1600
Year 2	((£5000 - £1600) - £1000)	x 40% =	£960
Year 3	((£5000 - £1600 - £960) - £1000)	x 40% =	£576
Year 4	((£5000 - £1600 - £960 - £576) - £1000)	x 40% =	£345.60
Year 5	((£5000 - £1600 - £960 - £576 - £345.60) - £1000)	x 40% =	£207.36

How book keeping records are kept

Paper based method

This refers to the use of paper books to keep business records. The paper based method works well if the business is small and simple and requires just a few record books.

Computer Based method

If the business is large and requires using several record books, a computer can simplify and improve your record keeping.

The advantages of this method are:

- It is easy to correct an inaccurate entry
- You can quickly find recorded information when needed •
- All calculations are made automatically. The business can use excel worksheets for keeping records.
- An accounting software may be used. Many simple and inexpensive accounting software programs are available and suitable for both small and large entities
- All information on the computer should can have a back up

Asset recording requires the following to be considered:

- The Finance Department advises on the minimum value of individual assets be recorded in the Fixed Asset Register. These assets are depreciated over their useful life.
- Assets costing less than the value are treated as are expenses at the time of purchase.
- The business must establish an account code used for all assets purchased
- An Asset Acquisition Form should be used for recording of Donated Assets , Leased Assets , Additions/upgrades to existing assets and Constructed Assets

Asset usage

This entails continuous monitoring of asset utilization, records and inventory

Importance of proper control of assets of a business

1. to keep track on all of the assets

The management should know where the assets are located, how they are being put to use, and whether there are changes made to them.

2. Helps guarantee the accuracy of amortization rates

Since assets are checked on a regular basis, the process of asset management ensures that the financial statements associated with them are kept updated.

3. Helps identify and manage risks

Asset management encompasses the identification and management of risks that arise from the utilization and ownership of certain assets. This means that a firm will always be prepared to counter any risk that comes its way.

4. Enables adjustments to be made on assets inventory

Assets, damaged, stolen or pilfered should be removed from the book records to reflect proper inventory figures in line with actual inventory.

Controlling usage of non-current assets

1. This is done in order to keep track, protect, and preserve value the business assets by curbing misuse and theft
2. The use of serial numbered asset tags is necessary to manage fixed assets.
3. Businesses also keep track of their assets by using a mobile bar code reader and creating reports.
4. Keeping track each fixed asset's depreciation status to know what to report on business tax.

Responsibility for person in charge of fixed asset of a firm should include

- Determining new assets and tagging for identification
- Performing annual and continuous inventory audits
- Monitoring the movement of assets.

Record keeping of assets and liabilities

The continuous process of storing information and data relating to assets and liabilities

Objectives of recordkeeping are:

- To maintain current accurate data.
- To ensure that the data and information is readily accessible to the users.
- To enable comparison with physical items and reference documents.

Some reference relating to assets and liabilities which may be kept by a business

- Log books for vehicles
- Contracts
- Title deeds
- List of Assets
- List of Supplies
- Maintenance schedules
- Inspection reports

- Service agreements
- Certificates
- List of Tags
- Purchasing Agreements
- Lease documents
- Warranties

Acquisition and settlement of liabilities

Current liabilities will usually arise in the course of business operation and are settled within the year.

Non-current liabilities are planned for by the management or shareholders for a certain purpose. They may be under agreement or under deed. Many businesses use bank loans in addition to capital. .The bank will first check if the business is creditworthy or profitable before they give loans to businesses to make sure the business will be able to repay the loan and interest

Records kept for current liabilities

The business will keep suppliers invoices and invoices or bills for unpaid services rendered. Liability accounts to maintain a record of unpaid balances to vendors, customers or employees.

Figure 47: Invoice

Records kept for non-current liabilities

For every Loan acquired by the business the records must show the Principal, annual interest rate, interest amount repayment period in years or months, monthly repayment amount and balance

Table 17: Loan Repayment Schedule

Table 1. Even Principal Payment Schedule

($10,000 loan, 7% annual interest, 20 annual payments)

Year	Total Payment	Principal	Interest [a]	Unpaid Balance
0				$ 10,000
1	$ 1,200	$ 500	$ 700	$ 9,500
2	$ 1,165	$ 500	$ 665	$ 9,000
3	$ 1,130	$ 500	$ 630	$ 8,500
4	$ 1,095	$ 500	$ 595	$ 8,000
5	$ 1,060	$ 500	$ 560	$ 7,500
6	$ 1,025	$ 500	$ 525	$ 7,000
7	$ 990	$ 500	$ 490	$ 6,500
8	$ 955	$ 500	$ 455	$ 6,000
9	$ 920	$ 500	$ 420	$ 5,500
10	$ 885	$ 500	$ 385	$ 5,000
11	$ 850	$ 500	$ 350	$ 4,500
12	$ 815	$ 500	$ 315	$ 4,000
13	$ 780	$ 500	$ 280	$ 3,500
14	$ 745	$ 500	$ 245	$ 3,000
15	$ 710	$ 500	$ 210	$ 2,500
16	$ 675	$ 500	$ 175	$ 2,000
17	$ 640	$ 500	$ 140	$ 1,500
18	$ 605	$ 500	$ 105	$ 1,000
19	$ 570	$ 500	$ 70	$ 500
20	$ 535	$ 500	$ 35	$ 0
Total	$ 17,350	$ 10,000	$ 7,350	

[a] interest = unpaid balance times 7 percent.

Financial Statement items

The assets and liabilities of a business are reflected in a statement called a Balance Sheet at the end of a financial period. It shows the resources that are left at financial year end and available in the next financial year. It also shows the claims to those resources that remain unpaid at the end of the period. The difference is capital.

How to monitor fixed assets usage

The business must keep track of key details about your business assets. These details include the following items.

Asset location

The management must know where all tangible non-current assets are located both within the business or outside the business .there should be a system to track the movement or borrowing of an asset.

Non-current Asset inventory

Keep track of how the number and specifications of the non-current assets of the business. Fixed assets you have. This will enable proper planning and purchasing decisions to be made

Asset Condition

There should be a continuous inspection of condition of the assets of a business. This will enable the assets to be utilized efficiently and effectively.

Asset Maintenance Schedules

Adherence to maintenance schedules to prolong the efficient use of assets. Prepare a planned maintenance schedule for the assets. Undertake unplanned maintenance when it arises, and record it.

The advantages of proper utilization of assets

1. Enables accurate analysis of assets maintenance, repair, and replacement records.

2. Increases time available of asset use.

3. Fewer failures of assets, resulting in fewer unplanned outages.

4. Improves the quality of product and a reduction in costs related to losing or repeat production.

5. Lower costs for maintenance, spare parts inventory, and asset replacement.

6. Improves morale of employees workforce as they use the assets

7. Improves capacity as assets can operate at efficiently for sustained periods without stalling unnecessarily

8. Reduced costs bring about higher profits and increase in production efficiency of assets

Asset financial planning

Non- current assets require long-term financial planning. The financial plan financial plan should determine the priority of assets in line with the objectives of the business in the strategic plan.

Factors to consider when planning for non-current assets

1. Analyze the internal and external operating environment
2. Assess the technical requirements of the asset
3. Analyze the improvements necessary
4. Check on compliance requirements
5. Project the capacity in the future
6. Apply decision making techniques in selecting the asset
7. Prioritize the assets to the needs of the business

Benefits of proper planning of assets

1. Economy in purchasing of assets capable of appropriate use and achieve desired results
2. Access to all current information about the assets of a business; including acquisition, utilization and disposal
3. Enable smooth operation of the business as the assets are available when required and in good condition
4. Identifies assets to be purchased and disposed in a given period and keeping track of asset levels and efficiency
5. Ensures proper records are kept and easily retrieved, for planning and decision making

Capital Budget for non-current assets

Capital budgeting is a plan for the large expenses in a business. Capital budgeting includes the fixed assets that the business forecasts to meet asset needs to invest in form of vehicles, machines or furniture or buildings. It is the process of estimating the costs to obtain, expand, and replace fixed assets. Such a budget is for large, expensive assets with longer useful life and huge amount of money. This are falls under capital budgeting decisions and appraisal carried out by finance department which generates a budget for the business assets in form of a Balance Sheet. (Read more: https://www.referenceforbusiness.com/small/Bo-Co/Budgets-and-Budgeting.html#ixzz6d7EsLaVS)

Settlement of liabilities

Current liabilities are amounts;

- Settled within the business' normal operating cycle.
- held for the purpose of trading eg buying goods on credit
- settled within twelve months of the financial year
- Part of which are authorized over withdrawal in the bank account. This is settled automatically on depositing funds into the account

Non-current liabilities are amounts;

- referred to as long-terms debts, that is, not due to be paid within twelve months
- Which represent a source of funds, which is usually associated with purchase of a fixed asset.eg bank loans,debentures leases etc

1.2.1.3 Learning Activities

1. **What are the names of the non- current assets shown in the below?**

Figure 48: Fixed Assets (Non-current assets)

2. Visit two shops in a shopping centre(Take a photograph of shop). From the owner of each business, identify the Asset requirements of the shop. Fill in the table below given.

Table 18: Asset Requirements

Business 1Name…………………..Location………………………………..Date					
S. No.	**Asset**	**Specification/size/make/No**	**Appx Unit cost(Sh)**	**Total Cost Sh**	**Priority 1st ,2nd 3rd**
1.					
2					
3					
TOTAL ESTIMATED COST					
Business 2 Name…………………..Location………………………………..Date…………..					
S. No.	**Asset**	**Specification/size/make/No**	**Appx Unit cost(sh)**	**Total Cost Sh**	**Priority 1st ,2nd 3rd**
1.					
2					
3					
TOTAL ESTIMATED COST					
Report on the Business 1 and Business 2 **Conclusion**					

1.2.1.4 Self-Assessment

1. Which six intangible assets may be found in a multinational manufacturing company?

2. Which of the following items are current assets?

- Cash, overdrawn by the business from the bank accounts
- Undeposited cheques from customers
- Petty cash
- Office equipment
- short-term investments
- Inventory for resale
- Accounts payable
- Raw materials

3. Daudi's business is a fast growing one which is manufacturing soaps, detergents and sanitizers and the demand has increased due to a global pandemic. His assets and liabilities records are still in manual form. You have advised him to changes to computerized record keeping. What advantages of this recordkeeping system?
4. Why does a business require assets for running its operations

1.2.1.5 Tools, Equipment, Supplies and Materials

- Stationery
- Computers
- Scanners
- Printers
- Format templates
- Calculators
- Cameras/moble phones
- Shredding machines
- Printing papers

1.2.1.6 References

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1.2.1.7 Self-Assessment Responses

1. What are the Intangible Assets?
2. Which of the following items are current assets?
3. Why isn't important to computerized recordkeeping system?
4. Why a business requires assets

References

Responses to self-assessment questions

1. What are the Intangible Assets?
    - Patents

- Trade marks
- Copyrights
- Designs
- Secret formulas or processes
- Other types of intellectual property
- Purchased customer lists
- Goodwill, or the benefit of a business' good name and reputation

2. Which of the following items are current assets?

- Cash, overdrawn by the business from the bank accounts
- Undeposited cheques from customers
- Petty cash
- short-term investments
- Inventory for resale
- Raw materials

3. why isn't important to computerized recordkeeping system

- It is easy to correct an inaccurate entry
- You can quickly find recorded information when needed •
- All calculations are made automatically. The business can use excel worksheets for keeping records.
- An accounting software may be used. Many simple and inexpensive accounting software programs are available and suitable for both small and large entities
- All information on the computer should can have a back up

4. Why a business requires assets

- Assets enable a business to generate sales and income
- The more assets a business has the more the value of the business increases
- Assets can be used as securities to secure Loans
- Assets improve the efficiency of operations in a business
- Assets are used to pay liabilities
- Assets bring about cost savings in the long run, bringing savings to the business in future

5.2.2 LEARNING OUTCOME 2: CARRY OUT ASSETS AND LIABILITIES INTERNAL CONTROL

Introduction to the learning outcome

This learning outcome specifies the competencies required to carry out assets and liabilities internal control. It involves implementing internal control system on asset and liabilities, undertaking asset requisition , performing asset maintenance , carrying out physical controls and financial controls , undertaking disposal of assets , carrying out debtors' management and undertaking liabilities management. Internal control process is designed to ensure, efficient and effective operations and reliable financial reporting. It brings about compliance with policies and procedures of a business as well as applicable laws and regulations.

Performance Standard

2.1 Internal control system on assets and liabilities is implemented according to policies and procedures of the business

2.2 Asset requisition is undertaken according to asset procedures.

2.3 Asset maintenance is performed as per SOPs

2.4 Physical controls on assets are done according to SOPs

2.5 The disposal of assets is made according to disposal procedures and regulations

2.6 Financial controls are made according to accounting systems

2.7 Debtors management is carried out based on credit control policy

Information Sheet

Definition of Terms

Financial controls- control over cash receipts, payments, raising finance, receivables and payables

Non-financial controls -control of operations, non-cash assets, human resource, policies and procedures

A Purchase Requisition Form is an document used by a user department employee to request for purchase of items, goods or services.

Misuse of assets

Internal control system

All systems of control, financial or non-financial, instituted by a business to ensure that the business is conducted in an orderly manner, and establish safeguards on assets in order to promote economical and efficient use of business resources.

High customer concentration - doing a large proportion of your business with any one customer

Bad debt is an expense that a business incurs once the repayment of credit previously extended to a customer is estimated to be uncollectible.

BIN Card is a table that records the status of a good held in stock. A typical retailing business with a large stock warehouse will use a **BIN card** to record

Objectives of Internal Control system

1. To safeguard assets against misuse
2. To ensure that the business operation are running in an orderly manner
3. To ensure that the documented records are reliable for planning and decision making
4. To ensure compliance with business policies and procedures and regulations

Physical control

These are controls which relate to the safety and custody of business assets. The access to assets is limited to certain persons and there may be time specification. The following are some of the physical controls found in businesses;

1. Security related;

- Security guards,
- CCTV,
- Alarm systems,
- Strong rooms and safe,
- Electric fences,
- Security lights,
- Bullet proof devices,
- Metal detectors,
- Sniffer dogs

1. Motor vehicle related:

  - Physical asset,
  - Asset specifications,
  - Asset location –
  - GPS tracking,
  - Asset inspection,
  - Insurance,

- usage and authorization

Objectives of internal control for assets

- To ensure that proper records are maintained for the assets with an asset register in use
- To ensure that the purchase of the non-current asset is authorized
- To safeguard assets against theft or misuse
- To confirm that the assets have a realistic rates applied for depreciation over their useful life.
  - To ensure that the assets disposed are authorized and the records done for proceeds, profits or losses

Internal control for non-current assets (fixed assets)

- Their purchases should be authorized by top management or AGM
- A Fixed Asset register should be maintained showing details of the assets
- There should be adequate security over the non-current assets. For some assets, there should be limited accessibility
- There should be regular independent checks on the existence of the non-current assets
- The disposals should be check for approval and authorization

Fixed Asset Register

FAR is a list of fixed assets owned by a business including a record of key information about each item?

The following are some examples of fixed assets shown on a register:

- Office equipment
- Computers
- Furniture
- Buildings
- Machinery
- Motor vehicle

Case Study

Wali Ltd bought a photocopier and a printer for Sh 400,000 and sh 55,000 on on 24/2/2020 and 13/3/2020 respectively. The Asset No. for the photocopier is 47227 and for the printer 7469216 with Accounts code of FA 0041 and FA0112. The photocopier is at the Reception, while the printer is for the accounts office. The firm’s policy is to depreciate Equipment at 20% per annum on straight line basis.

a) Fill in the above details in the template below
b) What would be the calculated depreciation in the first year of use
c) What measures would you take to ensure that the photocopier is not open to misuse?

Table 19: Fixed Asset Register

Company name ….. Fixed asset register Date ……Prepared………..

Asset no.	Description	Location	Purchase date	Purchase price	a/c cord	Depreciation method	Depreciation Rate	Reemarks

Internal control for liabilities

Accounts payable

- A proper system of requisitioning, purchase order approval, receiving of goods, invoicing should be established
- A check on arithmetical accuracy of suppliers invoice should be done before recording
- Any adjustments made on accounts payable should be approved
- Debit balances in accounts payable should be reviewed and followed up

Non- current liabilities

- Non- current liabilities obligations should be approved by top management or shareholders
- Proper records of the obligation, showing details of loan, outstanding or cleared
- Proper control should be exercised over interest payment

Undertaking Asset Requisition

A requisition refers to the process of formally requesting a service or item, typically using a purchase requisition form or other standardized document.

The requisition process is a standardized way of keeping track of and accounting for all requisitions made within a business

A purchase requisition form is an internal document that employees use to request the purchase of a specific item and the person describes the product and why it is needed.

This form is then sent to heads of departments within the business for review and approval.

These purchases may be for business operations (such as office supplies), inventory, or manufacturing inputs

Steps of a procurement process of assets

1. Identify goods or assets needed
2. Consider a list of Suppliers/ Tender process
3. Negotiate contract terms with selected supplier
4. Finalize the purchase order
5. Receive invoice and delivery
6. Process payment
7. Maintain accurate record of invoices

ONE MARINA PROPERTY SERVICES PTE LTD

FIXED ASSET REQUISITION FORM

Department	:			**Date**	:

(1) Asset Description and Cost :

Qty	Description	Unit Price	Total Amount

(2) Location of Asset Purchased :-

(3) Reason(s) for Purchase :-

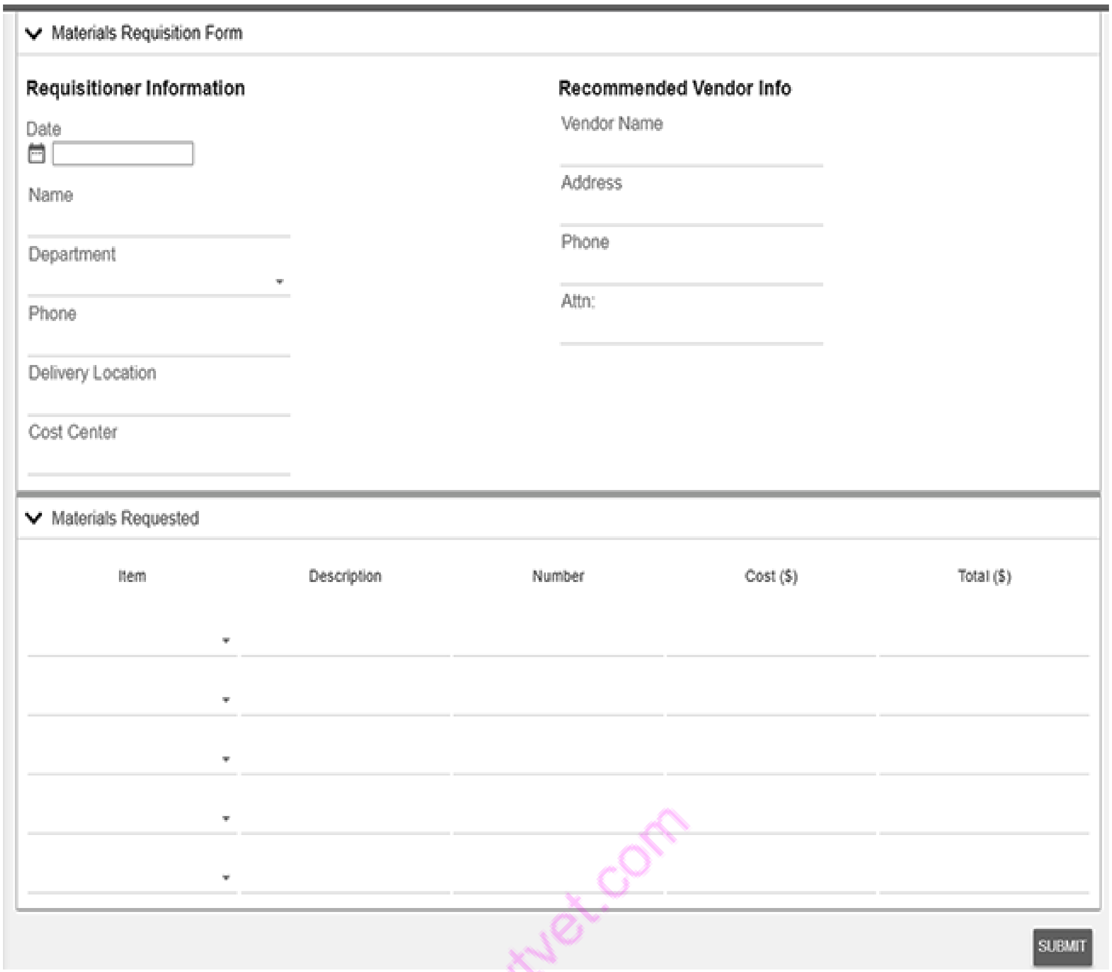
(4) Is this Asset ☐ **New** ☐ **Addition** ☐ **Replacement**

If Replacement, how is replaced asset to be disposed off ?

(a)	☐	**Scrap**	**Net Book Value of Existing Asset to be written off :**	
(b)	☐	**Trade In**	**Year of Purchase :**	
(c)	☐	**Relocated, where**	**Present Condition :**	

Figure 49: Purchase Requisition Form- Fixed Asset

Figure 50: Material Requisition form


Materials Requisition Form

Requisitioner Information

Date

Name

Department

Phone

Delivery Location

Cost Center

Recommended Vendor Info

Vendor Name

Address

Phone

Attn:

Materials Requested

Item	Description	Number	Cost ($)	Total ($)

SUBMIT

Asset Maintenance

The business should ensure complete and compliant maintenance is carried out in accordance with asset maintenance manuals or schedules, and statutory or regulatory requirements.

Asset Maintenance will occur in accordance with the following principles:

1. All fixed assets should be maintained in good working order by care and servicing as recommended in manufacturer's manuals
2. The most efficient repair and maintenance strategy needs to be established and adopted
3. An operation and maintenance plan establishing responsibility and standards for the level of use, condition, servicing and performance should be developed
4. Supplier Maintenance Contracts should be obtained where considered to provide the most economic servicing and repair;
5. A record of such contracts should be maintained to avoid needless expenditure on non-contracted repairers

6. There should be accurate recording of all warranties.

Undertaking Disposal of assets

1. The management has authority to trade-in, sell, dispose or destroy assets.
2. An Asset Disposal Form is available for use when a disposal is needed
3. Fixed Assets disposal is coordinated through the manager in charge of assets disposal process.
4. The following are disposal methods which may be used:

- Tender (Procurement procedure)
- Private Sale- only one customer
- Donation- to organizations or to charities where no market sale exists
- Destruction & removal- a last option, done under supervision
- Transfer to other organizations

Procedure for disposing assets

The following are the procedures to be considered while disposing off the asset:

1. Try to dispose the assets within the organization after making necessary communications within the circles of businesses asking whether any other businesses would like to purchase the asset.
2. If the asset has very little or no value, it can be recycled through e-waste, or sold as scrap.
3. If the assets to be disposed have value below or above the particular threshold, required permission has been obtained from the authorize person in the business to dispose of the assets. This is to make sure that the disposed assets are not take advantages by anyone in the company.
4. Where an asset is sold, a sales invoice shall be raised to record the sales
5. A form for disposal shall be filled while disposing off the assets. It shall contain the details such as:

- Description of the asset disposed off
- Reason for disposal
- Financial year originally acquired
- Method of disposal i.e. sale/scrap/part exchange/other
- Value received for disposed asset

A fixed asset may be disposed of for the following reasons:

• The performance of the asset is below the required standard

• Repair and service are no longer cost effective.

• The requirements of the job exceed the capabilities of the asset

• The asset is obsolete or non-functional

Figure 51: Fixed Asset Disposal Form (to customize)

Adams County/Ohio Valley School District **FIXED ASSET DISPOSAL FORM**	
Section I (To be completed by Principal/Department Heads)	
Item:	
Tag Number:	Serial Number:
Location Taken From -	Building:
Department:	Room:
Condition: ☐ Excellent ☐ Good ☐ Fair ☐ Poor Estimated Value: $________	
Recommended Method of Disposal: ☐ Donate to other government ☐ Sale (Under $2,000) ☐ Auction (Over $2,000) ☐ Trade - In ☐ Junk	Treasurer's Use Only: (Computer Codes) ☐ Destroyed (D) ☐ Auction (AUC) ☐ Stolen (ST) ☐ Trade – In (I)
Signature	Date
Section II (To be completed by Superintendent/Designee)	
Items having a Fair market Value of under $2,000 must be approved by the Superintendent/Designee	
☐ Approved	☐ Disapproved
Superintendent/Designee Signature	Date
Items having a Fair market Value of over $2,000 must be approved by the Board of Education and auctioned.	
Date of Approval:	Resolution Number:
Section III (To be completed by Treasurer)	
Receipt Number	Date

Carrying out physical controls

. Physical controls are designed to verify existence, condition and custody of the respective asset

1. There must be a register or ledger of fixed assets to identify a particular asset, the date of purchase, model number, serial number, acquisition cost, expected life and assignment to any debt instrument.

2. At a minimum, assets must be accounted for annually.

3. A physical inspection should be carried out for those assets that have a high exposure to damage like vehicles, site development equipment and tools to identify any possible valuation adjustments.

4. Good management teams should periodically review their insurance policies related to the particular assets that have exposure to damage and loss

Carrying out financial controls

The two key financial controls are proper acquisition cost calculation with recording; and the second is the selection of the appropriate depreciation method to properly determine asset value over time.

There are other financial controls but these have less impact on the value as recorded on the financial statements. The following are the basic set of financial controls:

1. The management must initiate and/or approve of requests for fixed asset purchases
2. There should be a policy in place that sets the requirements for capitalization of an asset,
3. There should be a policy and a corresponding set of procedures to follow to determine the depreciation formula.
4. An inventory should be conducted of all fixed assets annually.
5. Disposals of assets should be approved by management and then properly recorded in the books
6. The fixed asset ledgers should be segregated from non-fixed asset purchases account

Effective way of carrying out debtors' management

Many businesses sell goods and services on credit basis. It is important to have clear credit terms in order to reduce and preventing bad debts.

1. Develop a credit policy and terms of credit - Check on customers credit history, references before advancing goods on credit and set limits

2. Provide the right information on quotations, invoices and statements- in order to be paid on time. Clearly indicate the amount owed and the payment due date

3. Ensure the systems are up to date and monitored- by use of software on credit management

.

4. Implement robust accounts receivable processes with set timelines for the various stages of communication in form of letters, emails and phone calls. Invoice as early as possible, as late invoices encourages customers to delay payment.

- Automatically send 30, 60, and 90 days reminder letters
- Regularly follow up on all slow payers to encourage payment
- In the event of debtor disputes payment should be made of the undisputed amounts while the issue is being resolved

5. Credit limit should not be exceeded -regularly review the credit limits for each o customers. Look out for warning signs that they are experiencing financial difficulties. Be cautious of high customer concentration to avoid risk of huge losses.

6. Create a provision for doubtful debts- safeguarding your profitability, by making provisions for doubtful debts in annual accounts or ongoing budgeting process.

Undertaking liabilities management

1. Check on the existence of the liabilities through the records and the financial statement that the figures are disclosed as the liability
2. Ascertain ownership of liability by checking on the documentation
3. Confirm the value of the liability
4. Check payment schedule and due dates

Accounting Book – bookkeeping, principles, and statements

https://corporatefinanceinstitute.com/resources/ebooks/principles-accounting-book-pdf/

Learning Activities

1. In groups of 3 or 4 persons discuss how misuse of assets occur in an organization. How can these be prevented? Make a presentation.

2. Visit a road transport passenger business offices. Find out how they carry physical control on their fleet of vehicles. Write a report.
3. Elegant Shop trades in electric household goods and is a one roomed business. The goods are kept the large room. You have carried out a stock take and encountered discrepancies in the stock. What are the possible causes of the discrepancies? What measures would you advise him to take?

Self-Assessment

1. What are the various disposal methods available for assets of a business?

2. The manager of the business where you work has received a call that the business had obtained a loan early in the year and had only made two payments and the status is five months in arrears. How would you investigate the information given by the bank?

3. The production manager of Chozi Textiles has proposed that the weaving machine be disposed. What would be the reason for the suggestion?

Tools, Equipment, Supplies and Materials

- Computers
- Scanners
- Printers
- Template formats
- Documents
- Calculators
- Cameras
- Shredding machines
- Paper punch
- Procurement Act and regulations

References

Manase,P.N. (1990). *A Textbook of Principles of Auditing,* McMore Accounting Books,Nairobi

Nickles L. (2010). *Fixed Assets Inventory Policy*, WCU, North Carolina

Mohammad, A Store and Storekeeping Materials: Inventory Control pdf
https://www.academia.edu/31688314/Store_and_Storekeeping_Materials_Inventory_Control

Response to Self-Assessment

1. Disposal methods
    - Tender (Procurement procedure)
    - Private Sale- only one customer
    - Donation- to organizations or to charities where no market sale exists
    - Destruction & removal- a last option, done under supervision
    - Transfer to other organizations

2. Investigate the loan liability
    - Check on the existence of the liabilities through the records and the financial statement that the figures are disclosed as the liability
    - Ascertain ownership of liability by checking on the documentation
    - Confirm the value of the liability
    - Check payment schedule and due dates

3. Why an equipment may be disposed

: • The performance of the equipment is no longer reliable.

• Repair and service are no longer cost effective.

• The requirements of the job exceed the capabilities of the equipment.

• The equipment is obsolete or non-functional

5.2.3 Learning Outcome 3: Maintain assets and liabilities records

Introduction to the learning outcome

This learning outcome specifies the content of competencies required to maintain assets and liabilities records. It involves formulating inventory and liabilities policy identifying organizations inventory and liabilities, tagging inventory items, updating inventory transactions and liabilities, carrying out stock taking and preparing discrepancies report. Proper records and documents enable a firm to have accurate and up-to-date record and supporting documents.

Performance Standard

1.1 Assets and liabilities policy is formulated according to finance policy and procedure

1.2 Organization assets and liabilities are identified according to operational requirements

1.3 Inventory items are tagged according inventory maintenance procedures

1.4 Inventory transactions and liabilities records are updated according to standard operating and accounting procedures.

1.5 Stock taking is carried out according to store's procedures.

1.6 Discrepancies report is prepared according to store's procedures

Information Sheet

Definition of terms

Stock taking -Physical counting and checking of goods or items on hand ready for sale, use or in storage.

Fixed Assets register -A register held within the business showing the non-current assets owned. It shows details of costs of assets, the date of purchase, serial number, reference number, and depreciation rate and method.

Policy- serves as the governing document that regulates the accountability of various functions within a business

Inventory discrepancy- this is when the actual stock in a warehouse of a retail store does not match the recorded inventory stock count

Stock out - when a business run out of products to sell

Overstocking – when a business has excess products or goods in hand

Dead stock -when the products/goods become obsolete/outdated before they are sold/used

Objectives of fixed asset policy

1. Precise identification of the assets
2. Proper use of assets
3. Periodic taking of physical inventory of the asset
4. Effective maintenance of the assets
5. Proper Disposal of asset
6. Replacement of the asset when required.
7. Up to date records of asset

An Inventory policy requires:

1. Establishment of a process for the recording, identification, and accountability of all business assets lasting more than a specified period in years.
2. A person responsible of maintaining a system of asset control to provide a safeguard against loss and to facilitate effective utilization
3. An asset control system with detailed information as to particular identification of the asset.
4. A person to conduct the annual inventory of all assets assigned to each department or unit location.
5. The responsibility for asset accountability to be assigned to the appropriate department or unit head.

Fixed asset inventory

- The purpose of the inventory check is the physical monitoring of the assets belonging to a project.
- The physical monitoring makes it possible to detect differences between information about asset in the records and the actual state of assets/its existence.
- Physical check is usually done once a year and is the responsibility of the finance division.

Identifying organization inventory

Fixed Assets record check

- type of item
- description of item
- identification code

- service user or name of manager
- assigned location
- previous replacement of item
- notes on condition of item
- record updates (cost, depreciation, valuation)
- minutes of physical inventory

Tagging of Assets

Asset tagging is the process of fixing identification tags or labels to assets. It provides a way of identifying each fixed asset, fixed or movable over its useful life. These tags are generally adhesive labels that are put on each asset item. Tags contain unique code or identification numbers and details about asset. These tags can be scanned to produce additional asset information. This improves security and monitoring of assets. It also allows ease of cross sharing assets within department and tracking assets.

Figure 52: Asset Tags

Figure 53: Tracking type of Asset Tags

Tag assets appropriately

1. When a business owns multiple fixed assets that are nearly identical, the easiest

solution is to tag each asset with a unique identifier in the form of bar code labels.

2. The use of technology that can scan and record each bar code in seconds.
3. Labels of fixed asset should be selected from a variety of labels that can be printed on demand and meet specifications.
4. Choosing the type of bar code labels for assets depends on an assessment of the type of assets to be labeled as well as the environment in which the assets operate.
5. For high visibility, foil labels stand out and are easy to read.
6. Purchase labels that break when removal is attempted to prevent labels from being tampered with or moved to another asset.
7. Machinery and equipment in some operating environments need unique labels that can endure extremely high temperatures, such as 250° and up.
8. Some samples of specific label types include the following: Tamper Evident, Foil, Polyester, Destructible Vinyl

(Further reading: Fixed Assets Best practices for fixed asset managers. www.SageFixedAssets.com)

Updating Inventory transactions of goods/consumable stores is recorded in a:

- **Stores Bin Card**- this shown the physical movement of stock items. It is maintained in the stores department, and
- **Stores Ledger account**- It shows the book movement of goods in the stores in terms of quantities and amounts. The recording in this ledger csn be:
    - **First In First Out**- It is assumes that the prices of items which were purchases first will be used first in making issues out of stores.
    - **Last in First Out** – It is assumes that the prices of items which were purchases last will be used first in making issues out of stores.

Figure 54: Bin Card

Company Name
Bin Card

Material Nam:
Material Code:
Location

Maximum Stock level
Minimum Stock Level
Reorder Level

Date	Receipt		Issue		Balance	Name
	GRN #	Qty	Request #	Qty		

Figure 55: Stores Ledger

Stores Ledger

Material Code:
Bin No.:
Material Description:
Location:

Maximum Qty:
Minimum Qty:
Ordering Qty:

Date	Receipts				Issues				Balance		
	GR No	Qty	Rate	Amount	SR No	Qty	Rate	Amount	Qty	Rate	Amount

Stock taking

Stock taking is the physical checking of inventory/stock items while counting and recording the entire inventory in hand. It is part of inventory control. The process of stocktaking will vary from one business to another. Stock taking sheets displays a list of all or selected range of stock with a designated column for the stock count figure to enter into the system after a stock taking is done.

Carrying out stock taking

There are three general stages of stocktaking:

- Before the stocktaking
- During the stocktaking
- After the stocktaking

Before the stock taking

- Decide on a date and time preferably when there are no distractions
- Assign everyone a role Confirm the process to all staff involved.
- Cut off all your purchases and sales to avoid mix-up of figures.
- Prepare the area where the stock taking will take place to avoid unnecessary disruptions

During the stock taking

Include everything and take time to check everything properly for all stock items by recording the stock that is actually on the shelf and noting the figure in the system or books

After the stocktaking

- Value all the stock correctly.
- Check the figures again
- Record everything into the inventory system
- Note the items of stock with stockout, overstocking or dead stock
- Pay particular attention to discrepancies between the figures from the stocktaking and the system.

Dealing with stock discrepancies

Any stock discrepancy is bad for the business, whether stock figure is higher or lower. They indicate symptoms of larger problems in stock control. When you encounter a discrepancy, the first thing to do is to uncover its cause. It might be a simple human error like placing something in the wrong place or entering a wrong figure into the system). Alternatively, it might be a serious problem such as theft, pilferage or supplier issues.

Once the cause of the discrepancy is known, it is reported and steps are taken s to ensure that it does not occur again.

Causes of stock discrepancies

- Incorrect unit of measurement was counted
- Stock loss due to damage
- Stock is in the incorrect location
- Human error during stocktake process
- Stock loss due to theft
- Stock is labelled with incorrect identification
- Stock mistaken for similar product
- Inbound stock not recorded accurately
- Faulty inventory

Resolving discrepancies in stock

- Re-count the stock in question
- Check if the stock exists in another location
- Make sure the correct unit of measurement was used.
- Verify that the SKU or product identification number is correct.
- Ensure the product has not been mistaken for a similar product.
- Scan your inventory records for errors
- Confirm that there is no missing paperwork.
- Investigate whether employees or customers have been stealing stock
- Speak to your warehouse/storeroom managers.

(Furtherreading:https://www.unleashedsoftware.com/inventory-management-guide/stocktaking)

Learning Activities

1. Visit a reasonably large institution in your community
   a) Write the name of the institution and Location Details
   b) List the assets availed to you

Use the format given below.

Table 20: Asset Listing Table Compiled by……….Date…………………

Asset no.	Asset description	Asset location	Asset clss	Asset cord	Functional area	Asset a/c	a/c administrator	Administrative expense a/c	

2. Visit a store in any institution or business and carry out a stock taking exercise of at least three items use the following form.

Table 21: Stock Taking Form

Stock Taking Form

Name of Business/Organization…….. Prepared by…………………..Date………..							
S. No	**Item Code**	**Item Name**	**Unit cost**	**Counted Quantity**	**Record card/book Quantity**	**Difference**	**Remarks**
1							
2							
3							
Conclusion							

3. Kleva Manufacturers has a wide range of assets, high value, movable, stationary, borrowed by staff. The management has approached you and they are considering tagging the fixed assets. What advantages will they gain from this exercise?

Self-Assessment

1. What are the possible causes of inventory discrepancies revealed in stock taking?
2. The following are inventory transactions of a consumable stores PT 43 of Bettax Ltd 2020

August 1	Balance in hand	400 units at sh 20 per unit
3	Purchased	1,500 units at sh 22 per unit, GRN 490
15	Issued	700 units, MRF 107
20	Purchased	2,700 units at sh 18 per unit GRN 567
30	Issued	1,900 units, MRF 236

3. Complete the stores Ledger Form given below using First in First out (FIFO) Method

Table 22: Stores Ledger Account

Bettax Ltd Stores Ledger Account

Material: PT43									Method: FIFO		
Date	**RECEIPTS**				**ISSUES**				**BALANCE**		
	GRN	**Qty**	**c/u**	**Amt**	**MRF**	**Qty**	**c/u**	**Amt**	**Qty**	**c/u**	**Amt**
2020		units	Sh	Sh		units	Sh	Sh	units	Sh	Sh

Juma has a business with various assets and is having challenges in managing the fixed assets How would a fixed asset policy be beneficial to his business?

Tools, Equipment, Supplies and Materials

- Computers
- Stock taking manuals
- Stock sheets
- Scanners
- Printers
- Template formats
- Documents
- Calculators
- Cameras
- Printing papers
- Paper punch

References

Din, N. U. (1998), Cost Accounting and Budgeting made simple, Standard Accounting Publications Company, Nairobi

Lucey, T. (2000) Costing, 7th ed. pdf

Answers to Self-Assessment

1. Causes of inventory discrepancies

- Incorrect unit of measurement was counted
- Stock loss due to damage
- Stock is in the incorrect location
- Human error during stocktaking process
- Stock loss due to theft
- Stock is labeled with incorrect identification
- Stock mistaken for similar product
- Inbound stock not recorded accurately
- Faulty inventory

Table 23: Stores Ledger Account Solution

Bettax Ltd

Stores Ledger Account

Material: PT43 **Method: FIFO**

Date	**RECEIPTS**				**ISSUES**				**BALANCE**		
	GRN	**Qty**	**c/u**	**Amt**	**MRF**	**Qty**	**c/u**	**Amt**	**Qty**	**c/u**	**Amt**
2020		units	Sh	Sh		units	Sh	Sh	units	Sh	Sh
Aug 1									400	20	8,000
3	490	1,500	22	33,000					1,900	20/22	41,000

15					107	700	20/2 2	14,60 0	1,20 0	22	24,60 0
20	567	2,70 0	18	48,60 0					3,90 0	22/1 8	73,20 0
30					236	1,90 0	22/1 8	37,20 0	2,00 0	22	36,00 0

A fixed asset policy will ensure that the business will have:

- Precise identification of the assets
- Proper use of assets
- Periodic taking of physical inventory of the asset
- Effective maintenance of the assets
- Proper Disposal of asset
- Replacement of the asset when required.
- Up to date records of asset

5.2.4 LEARNING OUTCOME 4: PREPARE BUSINESS ASSETS AND LIABILITIES REPORT

Introduction to the learning outcome

This learning outcome specifies the content of competencies required to prepare business assets and liabilities report. It includes definition of terms related to business assets and liabilities report, obtaining asset usage feedback and liabilities management feedback, identifying asset discrepancies, obtaining asset maintenance feedback and asset requirements and preparing and sharing business asset report. Feedback and reports on assets and liabilities enable the management to plan and make decisions concerning the operations and investments of the business.

1.2.4.2 Performance Standard

4.1 Asset usage feedback is obtained according to SOPs

4.2 Liabilities management feedback is obtained based on finance procedures

4.3 Asset discrepancies are identified according to SOPs

4.4 Asset maintenance feedback is obtained according to maintenance procedures.

4.5 Asset requirements are obtained according to user department needs.

4.6 Business asset/liability report is prepared and shared according to organization procedures

1.2.4.3 Information Sheet

Definition of terms

Ghost asset -an asset which is lost, stolen, but is still recorded as fixed asset in the system

Report - a document that presents information in an organized form for a specified purpose or purpose

Feedback report - a summary of results and additional comments and recommendations giving ways of improvement or addressing situations

Data- figures and items collected together to be analyzed

Software – has programs and other operating information used by a computer. It contains a set of instructions, data or programs used to operate computers and execute specific tasks.

Fixed Asset Usage

Monitoring asset usage also includes checking on repairs and maintenance schedules, asset condition and depreciation schedules. If assets are issued to staff it is important to track where they are and when they should be returned. Fixed assets usage needs to be properly monitored throughout their useful life until they are disposed off.

The use of barcode technology and related software, it has become easier to track the location of each asset at any time. Fixed asset software could be used on maintenance schedules, repairs, and warranties, which will enable the firm to capture the status of each of their asset. By keying in a few report details, it is possible to generate accurate and detailed reports.

Further Reading : <u>8 Evergreen Asset Tracking Software Benefits That Helps Business</u>

Case Study

The following chart relates to assets of Tonny Ltd for the current year.

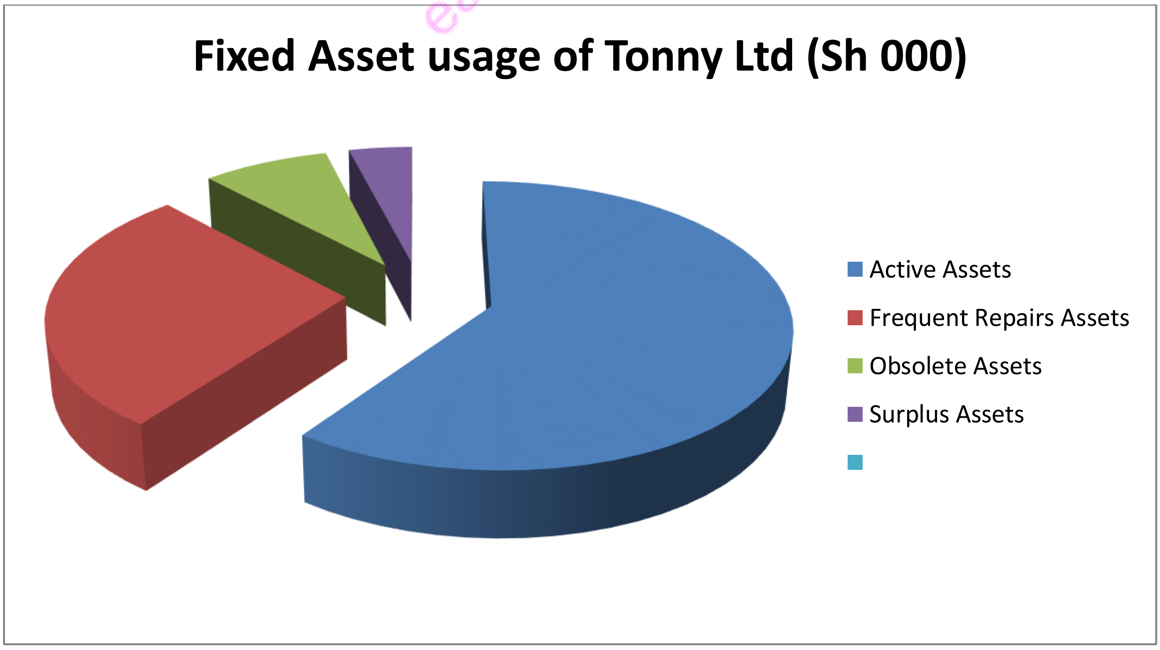


Figure 56: Fixed Asset Usage

You are a newly employed supervisor in Tonny Ltd. You have obtained feedback on the analyzed status of fixed assets. You are to make a report addressing each of the following:

a) What is the meaning of each of the four current status of the assets?
b) What could have caused the current status?
c) How would you deal with each of the asset status?
d) Present the report to the Management

Identifying asset discrepancies

Ghost assets that are not identified can cause lost productivity. Fixed assets should be inventoried on a regular basis using. The two methods of conducting physical stock taking inventories:

- Full inventory verification- all inventory is verified at the same time in all departments
- Cyclical inventory verification- multiple partial inventories within different departments, possibly at different times of year

Business asset report

Business assets reports are in many forms depending on the end user. The report forms part of management reporting. The reports could be routine reports or special reports requested by the management, or the donor, or the government, or the industry.

At the end of every financial year or otherwise dictated by the management polcy the status report of assets and liabilities should be prepare .

An illustration of end year asset report on vehicles

Asset name	Physical state	Recommendation
Lorry KCE 241 J	Worn out tires, won out paint,	Needs new tires ,and painting

Labilities

Type of liability	How much	When due for payment	Recommendation
Accrued salaries	Ksh 120,000	End of month	To be paid

Case StudyAT

Tenax Industries manufactures a product for domestic market. An assessment on its fixed assets was carried out by an independent party and the report had the following findings:

The firm has relatively new assets which undergo maintenance as and when funds are available. The firm has ten new generators. Only one is used when there is a power blackout. The old assets are not in use and occupy a quarter of the premises. The delivery vans are recorded under the drivers' name and are used on working and non-working days by them. Laptops are purchased and issued to the users on an annual basis. When assets are purchased, they are recorded in a book which shows the date, description and amount. No other record is maintained.

Write a recommendation report on what measures should be taken on the following findings.

Table 10 Fixed Asset Report Form

S. No.	Findings on	What is not done right?	What should be done?(Recommendation)
1	New assets maintenance		
2	Generators		
3	Delivery vans		
4	Laptops		

5	Recording of assets purchased		

Also Read: <u>Everything you need to know about Equipment Maintenance</u>

Obtaining liabilities management feedback

It is importance for the management of a business to monitor repayment of all loans to find out if they were cleared at the scheduled projected time. In case of unforeseen events, the business can renegotiate the re-scheduling of the loan. The decision of obtaining long term loans is left to the management, depending on the strategic objectives of the firm. The management should ensure that the long term loans are used for capital expenditure, unless for specified emergencies. The finance office will provide a feedback of the loans status.

Learning Activities

1. Form a group of two or three trainees. You have been asked to complete the form below relating to asset requisitions of Seema Ltd.

Table 24: Departmental Asset Requirements Analysis

ASSET	**USER DEPARTMENTS**			**TOTAL Shs**	**Percentage %**
	Administration Shs	**Warehouse Shs**	**Marketing Shs**		
Motor Vehicles					
Furniture and fittings					
Computers and laptops					
Office Equipment					
Weighing / Packing equipment					
Total					

Report: Analysis of the Results

a) Discuss and insert the values(yours) of the assets for each department
b) Compute the total asset values
c) Determine the percentage proportion of each asset
d) Analyze the results in a brief report in the space provided.

2. Kola Enterprise's fixed assets were inspected in a physical inventory exercise. The findings revealed that some assets had no tags, others had tags but the old tag number was indicated in the records, some had unreadable tags, and some had handwritten tags. This resulted in high level of discrepancy of assets.

Discuss and write a report on how assets should be maintained with proper tagging system to avoid discrepancies.

Self-Assessment

1. You are in charge of Assets of Maali Enterprises. You have been asked to give a report of the usage of assets in the business. Which areas would you consider in your report?
2. What information would be required about a liabilities in writing a report at the end of the year?
3. What measures would you take to prevent discrepancies in consumable inventories in the stores

Tools, Equipment, Supplies and Materials

- Laptops
- Projector
- Extension cables
- Manila papers
- Printing papers
- Printers

- Template formats
- Documents
- Calculators
- Cameras
- Binder

References

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https://www.freshbooks.com/hub/accounting/assets-and-liabilities

Answers to self-Assessment

1.Report on asset usage

- Current number, type, and value of assets
- Purchases made of assets
- Depreciation rates
- Control of assets
- Stocktaking of assets
- Disposal of assets

1. **Information required for liabilities report**
   a) Types of liabilities
   b) Amounts of liabilities
   c) Interest rates of the liabilities
   d) Repayment period of liabilities
   e) Discrepancies' of liability figures if any
   f) Liabilities rescheduled

2. How to prevent discrepancies in consumable inventories in the stores
   - Keep a record of inventory and where they are located.

- Ensure that similar inventory items are placed together placed in the same location
- Establish procedures to handle inventory.
- Employ properly trained stores.
- Ensure that the record all stock movements is always updated
- Undertake investigation of causes of discrepancies in stock items always