Audit of Fixed Assets

By

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16th September, 2017
Objective of today’s session

- What is a Fixed Asset?
- Objective of Audit
- Documents to be obtained from client
- Process of verification
  - Acquisitions
  - Disposals
  - Depreciation/Amortization
  - Disclosure requirements
- Major differences between old AS 10, AS 6 and New AS 10
What is a fixed asset?

- Asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.
- Expected to be used for more than 1 accounting period.
- Some of the Examples are:
  - Buildings
  - Furniture
  - Machinery & Equipment
  - Computer
  - Vehicles
Objectives of audit

- Ensure Proper records relating to Fixed Assets are being maintained
- Ensure that only capital Expenses are capitalized
- Validate the correctness, accuracy and completeness of depreciation calculated and Compliance of Schedule II of Companies Act, 2013.
- Compliance of relevant Accounting Standards/IND AS applicable.
- Compliance of Disclosure requirements as per schedule III of Companies Act, 2013
Details of internal Policies regarding Fixed Assets and depreciation.

Fixed asset register maintained by the client.

Details of Fixed Assets budgets.

Copies of supporting documents like purchase requisitions, Request for quotations, Quotations, comparative statements, POs, Invoices etc for the samples selected.

Obtain the list of authorized people who can authorize the purchase/disposal of fixed Assets at different stages of purchase/disposal process.

Physical verification register of Fixed Assets maintained by the client.
Verification

- Examine the internal policies of the client and analyse if they are in line with the statutory requirements.
- Verify whether all the opening balances reflected in Financials and FAR are same as the closing balances as per previous year audited Financials.
- Verify the FAR for its completeness and accuracy and its compliance with Companies Act 2013.(CARO 2016 requirements)
- In case if the assets are revalued , ensure that entire class of such assets are revalued
- Ensure revaluation increase/decrease is adjusted against revaluation reserve/profit & loss a/c.
Conduct physical verification of fixed Assets to ensure the following:

- Physical existence of the Asset.
- Fixed Assets are properly labelled with the respective Asset number for identification.
- Ensure that assets are in working condition.
- Details regarding quantity of fixed Assets are properly captured in FAR.
- There prevails proper controls to restrict unauthorised access to Fixed assets.
- Physical verification of fixed Assets are done at regular intervals by the management.
Acquisitions

- Ensure compliance with internal policies for acquisitions.
- Ensure that Actual expenditure incurred is within the estimated budget.
- Check the entire process of purchase of fixed Assets for the samples selected with the Documentary evidences available for such purchase.
- Compliance of AS 10, AS 26, AS 16 and AS 12 while accounting the fixed asset in books of accounts.
Disposals

- Compliance of internal policies for disposal of assets.
- In case if any substantial part of fixed asset is disposed off ensure that it doesn’t effect the going concern status of the enterprise.
- Ensure that any profit/loss arising from such disposal is correctly calculated and recorded in the books.
- Depreciation on such assets disposed off are adjusted accordingly.
- Fixed assets which are retired from active use and held for sale Should be recorded at lower of net book value & net realisable value
Depreciation is the measure of wearing out, Consumption and other loss in the value of the depreciable asset arising from the use, effluxion of time or obsolescence through technology or market changes.

- Ensure compliance of AS 6, AS 26 for calculating depreciation.
- Depreciation for acquisitions are calculated on pro-rata basis.
- Ensure the compliance of Schedule II of companies act 2013 while calculating depreciation.
- In case of any deviation from schedule II requirements, the same has to be disclosed in notes to accounts.
Disclosure requirements

- Ensure that Fixed assets are classified under the classifications mentioned in schedule III of companies act 2013.
- As per Schedule III of companies act 2013 the following details regarding fixed assets are to be disclosed in notes to accounts.
  - Gross value of each class of fixed Assets at the beginning and end of the reporting period.
  - Useful life of the fixed asset
  - Accumulated depreciation of such class till date
  - Depreciation charge during the year
  - Details of acquisitions and disposals during the year if any
  - Depreciation relating to such acquisition/disposal separately.
  - Net block of each class of fixed assets at the beginning and end of the reporting period
- Depreciation method followed for charging depreciation and details of change in method if any during the year.
Cont’d..

- Deviation in schedule II of companies act 2013 has to be disclosed as a part of notes to accounts.
- In case of revaluation
  - Particulars of assets revalued
  - Amount of revaluation shall be shown for a period of 5 years from the date of revaluation by way of a note in financials.
- Change in accounting policy if any
- In case if any intangible asset is amortised for a period exceeding 10 years, the reasons and factors for determining the asset’s useful life beyond 10 years has to be disclosed in Financial statements.
What are the differences between old AS10,6 & new AS 10
## Major Differences in old AS10 & new AS 10

<table>
<thead>
<tr>
<th>Particulars</th>
<th>AS 10-Plant, Property &amp; equipment (New)</th>
<th>AS 10-Accounting for Fixed Assets AS 6-Depreciation (old)</th>
</tr>
</thead>
</table>
| Recognition criteria                 | • It is probable that future economic benefits will flow to the enterprise  
• Cost of the item can be measured reliably.                                                    | • Doesn’t have any specific recognition criteria.  
• It has to fulfil the definition of Fixed Asset to recognise as Fixed Asset.                                                  |
<p>| Cost of spare parts                  | • Capitalised if they meet the recognition criteria of fixed assets or else classified as inventory    | Spare parts are capitalised only when they are used in connection with fixed assets.                                         |
| Cost of decommissioning &amp; restoration(estimate) | Included in the cost of fixed Asset at a discounted rate.                               | No concept of including such cost in fixed assets.                                                                                  |
| Cost of major inspection             | Should be capitalized if recognition criteria is met                                                 | No such provision                                                                                                               |
| Review of Useful life and residual value | Has to be reviewed at least at each financial year end.                                           | Has to be reviewed periodically                                                                                              |</p>
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| Review of Depreciation method   | Has to be reviewed at least at each financial year end. | Change in method of depreciation is done only if  
• It is required by the statute  
• Compliance with an Accounting standard or  
• For better preparation and presentation of financial statements. |
| Effect of change in method of depreciation | Prospectively | Retrospectively |
| Component Accounting            | Mandates component Accounting i.e, each component of PPE with a cost significant in relation to total cost of the asset has to be depreciated separately. | Doesn’t mandate component accounting. |
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