KEY TERMS

Fixed Asset

Business requires assets which help in producing and selling the goods. Such assets are not sold in the day-to-day operations of the business. Such assets are called fixed assets. Fixed assets are also called long term operating assets.

leasing

Process of acquiring assets through a commitment to pay money over a period of time. Such period is called lease period. During the lease period, the company will have the right to use the asset.

Operating Lease

In the case of the operating lease, assets are not shown in the balance sheet. The lease rent paid is shown as an expense.

Finance lease

Whereas, in the case of financial lease, assets acquired on lease are shown in the balance sheet at the present value of the lease rental payable and a corresponding liability of lease rent payable is shown.

Cost of acquisition

According to the AS 10, the cost of fixed asset comprises its purchase price, including import duties and other non-refundable taxes or levies and any directly attributable cost of bringing the asset to its working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price.Capital goods

Capitalisation of Expenses

Capitalising expenses is the process of including the expenses in the cost of the asset. If the expenses are capitalized, the cost of the assets increases and corresponding item will not be shown in the income statement as an expense.

Depreciation

When the assets are put to use, a portion of the cost is charged against the income for the period. Such charge is called depreciation. According to the matching concept, while determining profit for a period, revenue should be compared with the corresponding expenses.

Straight Line Method (SLM)

Straight-line depreciation spreads the depreciable value evenly over the useful life of an asset. It is the most common method of depreciation.

Reducing Balance Method (RBM)

As the name suggests, depreciation is calculated on the written down value (WDV) of the asset. Written down value of the assets is cost of the assets less depreciation.

Double Declining-Balance Depreciation (DBM)

Double declining balance method is also one type of reducing balance method. Depreciation in the early days will be higher than the later years.

Revaluation of Assets

Assets are shown in the balance sheet at the historical cost less depreciation. However, if situation demands, assets can be revalued. Revaluation is required to make the balance sheet reflect the market value of the fixed assets.

Impairment of Assets

Impairment of asset happens when the book value is more than the market value. Impairment of asset is governed by the Accounting Standard (AS) 28

Intangible Assets

According to the Accounting Standard-26 (AS-26), an intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

Identifiability

The definition of an intangible asset requires that an intangible asset be identifiable. To be identifiable, it is necessary that the intangible asset is clearly distinguished from goodwill.

Control

Controllability is another important criteria for recognizing intangible assets in the books. According to the According to the AS-26 an enterprise controls an asset if the enterprise has the power to obtain the future economic benefits flowing from the underlying resource and also can restrict the access of others to those benefits.

Future Economic Benefits

According to the AS-26, the future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the enterprise

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Amortisation

The cost of intangible assets is charged against the income of a company over a period. The period depends on the period over which the company expects to gets benefit from the intangible assets. Such process of charging the cost of the intangible assets over its life is called amortisation of intangible assets.