

Frequently Asked Questions on Compilation of Fixed Assets Register

1. What is Accounting Reforms in Government Department/Organizations?

Answer: Government Departments/Organizations primarily maintain their accounts on Cash Basis. Cash based system of accounting does not reflect the true picture of financial position of any Organization. Further, it is become a need of time that Governments are more accountable to the Public.

2. What is a Fixed Asset?

Answer: As per Indian Government Financial Reporting Standard-2 (IGFRS-2), "Property plant and equipments are tangible assets" assets are that:

- *Are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purpose; and*
- *Are expected to be used during more than one reporting period.*

3. Why Fixed Assets Register is prepared?

Answer: Fixed Assets, being a significant portion of the total assets of any organization, the accounting thereof involves proper classification, segregation, recording and presentation for the purpose of reflecting the financial status and determining the level of efficiency of the organization in relation to the cost incurred on the assets. The financial statements of any organization will not show true picture of financial position unless Fixed Assets are shown properly. Therefore, it is essential to record all the assets in the books of accounts and make provision for depreciation not only in a commercial environment, but also for entities that do not operate for profit.

4. Who will prepare this Register?

Answer: In Indian Railways, there are various departments in Division and Workshop as per the nature of working. For instance, Engineering, Signal & Telecom, Operating, Commercial, Carriage, Loco, Electrical, etc. It is advisable that each department should maintain details of all fixed assets owned by it in the prescribed format, e.g., engineering departments should maintain the details of Land, Building, and Bridges in the prescribed format FA-1, FA-2, and FA-3 respectively. However, at the end of each accounting period, accounting department or some other department as designated for preparation of Financial Statements will collect the data from all departments and compile it as a whole for Division/Workshop (as applicable).

5. When will an asset be recognized in the Books?

Answer: An asset should be recognized in the books of account when it is put to use and also when it is probable that the future economic benefits associated with the asset will flow to the organization and the cost of the asset to the organization can be measured reliably. Further, for the purpose of recognition of assets in the books of account the concept of **control** is to be considered. *To determine whether Indian Railways should be reporting an asset, it is necessary to look to the indicators of control. According to AS-26 issued by ICAI, 'control' is identified when the enterprise has the power to obtain future economic benefits flowing from the underlying resources and also can restrict the access of others to those benefits.*

6. Is there any monetary limit for recognition of Fixed Assets?

Answer: IGFRS-2 or Accounting Standard issued by ICAI does not prescribe any monetary limit or unit of measure for recognition of fixed assets, i.e., what constitute an item of property plant and equipment. Thus judgment is required in applying the recognition criteria to an entity's specific circumstances. For example, a fan is also an asset as it has useful life of more than one year and being used in providing services. However, it depends on the entity to fix a threshold limit which may be Rs. 10,000/- or any other amount as deemed appropriate based on the nature of business/service provided. *It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals and small items of equipment, and to apply the criteria to the aggregate value.*

Further, spare parts and servicing equipment are usually carried as inventory and recognized in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period.

7. At which value assets will be shown in a FAR?

Answer: All assets are required to be shown in FAR on their *Historical Cost/Cost of Acquisition*.

8. What is historical cost/cost of acquisition?

Answer: *As per IGFRS- 2 "Historical cost/cost of acquisition is the amount of cash or cash equivalent paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction".*

For Instance: If an asset is purchased on 01.04.2010 at Rs. 1,00,000/- then its historical cost will be Rs. 1,00,000/-. However, if an asset is acquired in exchange of shares or other

securities of the reporting enterprise, the asset is recorded at its fair value, or the fair value of the securities issued, whichever is more clearly evident.

- **Cost of asset if asset is acquired:**

In this case, Cost of Fixed assets comprises its purchase price, import duties and other non-refundable taxes or levies and any other 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.

- **Cost of asset if asset is Self Constructed:**

All the directly attributed costs which are incurred to construct the asset will form part of cost of asset.

9. **If Historical cost of asset is not available then how will the asset be valued?**

Answer: If historical cost of asset is not available, asset will be valued as per the valuation norms prescribed in IGFRS-2. (For more details please refer the Concept paper of Compilation of FAR and Valuation Norms).

10. **Is hypothetical cost/self assessment cost acceptable?**

Answer: No, Hypothetical cost/self assessment cost is not acceptable.

11. **An asset is received as a Gift, whether need to be shown in FAR?**

Answer: Yes, any asset which is received as gift is also required to be shown in FAR. Further, it is prescribed in IGFRS-2, gifted assets should be valued at Nominal value, i.e., at Re. 1/-. *(For more details please refer the Concept paper of Compilation of FAR and Valuation Norms).*

12. **What is the cost of improvement?**

Answer: Any cost incurred for improvement of assets, which results in increasing the life or the utility of asset, is considered as cost of improvement. Expenses of a normal and routine nature incurred for repairs and maintenance of assets should not be considered as an improvement cost. For example: Periodical maintenance services of a vehicle will not be considered as cost of improvement. On the other hand, any replacement of engine or chassis of vehicle which results in increasing life of vehicle will be considered as cost of improvement.

13. **What is date of acquisition/construction?**

Answer: Date of acquisition/construction means that date on which assets is purchased or constructed.

14. What is the date of Commencement?

Answer: The date of commencement is that date on which the assets are put to use or the operations of the assets are started.

15. How will assets be classified according to the Formats?

Answer: Following table shows the illustrative list (not exhaustive) of assets covered in a particular format:

FA. No.	Name of Assets	Illustrations
FA-1	Lands	Details of Land as well as land relating to Buildings, Roads, Bridges, etc., are also covered in this format.
FA-2	Buildings	Residential building, staff quarters, station building, LC gate, water hut, Overhead tank, tube well, open well, etc.
FA-3	Bridge/Flyover/Tunnel/ Subways	All kind of Bridge/Flyover/Tunnel/ Subways like RUB,ROB, etc.
FA-4	Road/Street	Details of all Roads/Streets which pertain to Indian Railway.
FA-5	Railway Tracks	Details of all Railway Tracks.
FA-5A	Track Components	Rails, Sleepers, Ballast, Rubber Pads, etc.
FA-6	Furniture and Fixtures	Fan, UPS, Tables, Cupboards, AC, Coolers, Invertors, etc.
FA-7	Office Equipments	Fax machines, Xerox machines, Typewriter, projector, etc.
FA-8	Vehicles	Truck, Cars, Ambulance, Jeep, etc. (If vehicles are hired for any purpose then they will be not covered here).
FA-9	Plant, Machinery & Equipment	DG set, Solar hot water plant, Lift, escalators, etc.
FA-10	Computers and Peripherals	Computer, Laptop, Printer, Routers, Thin cabinet, Networking equipments, etc.
FA-11	Medical Equipments	X-ray machine, Eye scan Biometer, etc.
FA-12	Loco/Coach/Wagons	Details of all Loco/Coach/Wagons.
FA-13	Capital work in progress	Running civil construction works
FA-14	Plant, Machinery & Equipment (Signal)	Point machines, Signal, Relay room, Track circuits, Panel, etc.
FA-15	Plant, Machinery & Equipment (Telecom)	VHF sets, Display boards, LCD Monitor, etc.
FA-16	Electrical Equipments and Fittings	Transformer, Pump, Battery charger, etc.

FA-17	Intangible assets	Software, Copyrights, Patents, etc.
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16. Whether land detail will also be provided in the formats of Building, Roads, Bridges, etc?

Answer: No, details of all land is required to be provided in the format of land only and not in any other format. For instance, any land on which any Buildings is constructed or Railway Track is laid will be covered in the format of land.

17. How will date of acquisition/construction be determined if it is not available?

Answer: If the cost of acquisition/construction is not available, it will be presumed that useful life of assets has expired.

18. What is useful life/Codal life of assets?

Answer: Useful life/Codal Life is a period of time over which assets is expected to be used by the entity or the number of production or similar units to be obtained from the asset by the entity.

19. Who will assess the Codal life of assets?

Answer: As prescribed in IGFRS-2, in any case if useful life of asset is not available then it is a matter of judgment based on the experience of the entity with the similar assets.

20. What should one do if the Codal life of any assets is not available in Codal Manual?

Answer: If life of any asset is not available in Codal Manual than 'Not Available' is required to be mentioned in relevant column.

21. Whether self assessment of life of any asset is acceptable?

Answer: No, self assessment is not acceptable as it will not provide standardization of life of any assets.

22. If Codal life of asset has expired, whether asset needs to be shown in Fixed Assets Register?

Answer: If the useful life of any asset has expired but the same is in working condition then it is appropriate to record the asset in the fixed assets register at a nominal value, i.e., Re. 1/- for the purpose of control. However, at the time of condemnation, it will be removed from Fixed Asset Register.

23. What is Depreciation?

Answer: Depreciation is a systematic allocation of an asset's cost over its useful life.

24. Which method of depreciation is to be followed for computation of depreciation?

Answer: ICAI-ARF team has already submitted the depreciation policy. However, it is not finalized yet. It is recommended to calculate the depreciation on the basis of **Straight Line Method (SLM)**.

25. How will depreciation rate be calculated?

Answer: Rate of depreciation depends on the method adopted for computing. For Example, if the SLM method is adopted then simply depreciation rate is calculated by dividing 100% with assets Codal life/useful life.

26. Is it necessary to calculate depreciation?

Answer: Yes, it is necessary to compute depreciation.

27. What is Accumulated Depreciation?

Answer: Accumulated depreciation means the depreciation from the date of acquisition/date of commencement of the asset to the balance sheet date.

For Instance: if an asset is acquired on 01.01.2010 for Rs. 1,00,000/- and start using this asset from 01.04.2010 then what is the amount of Accumulated Depreciation on 31.03.2014, if useful life of asset is 10 years?

Calculation of accumulated depreciation is as follows:

Date of Acquisition: 01.01.2010

Date of Commencement: 01.04.2010

Date of Balance sheet: 31.03.2014

Cost of asset: Rs. 1,00,000/-

Useful life: 10 Year

Accumulated Depreciation: $(1,00,000/10) \times 4 \text{ year} = 40,000$, i.e., on the balance sheet date the cost of asset will be Rs. 60,000/-

28. What is Net Book Value/Written down Value (WDV)?

Answer: The value arrived after deducting accumulated depreciation from the cost of asset is known as "Net Book Value/Written down value". Let us take the same example as given in the question no. 28, In this case the Net book value/Written down value will be Cost of asset-Accumulated Depreciation=Net book value/Written down value, i.e., $1,00,000 - 40,000 = 60,000$.

29. What is Intangible asset?

Answer: AS -26 describes *“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”*. Intangible assets include software, patents, copy rights, goodwill, etc.