

## **IX. FIXED ASSETS**

In addition to cash and investments, parishes own certain long-lived assets of significant monetary value, known as fixed assets. Fixed assets are any physical property which will provide a benefit and use beyond the current accounting period. Included in fixed assets are land, land improvements, buildings, building improvements, fixtures, vehicles, furniture, computers, maintenance equipment, and office equipment. Excluded from fixed assets are office supplies, cleaning supplies, and routine repairs and maintenance.

Because these assets have an easily determined monetary value, they contribute to the net worth of the parish and should be reflected in the parish's net assets. To ensure the accounting records and Annual Report present an accurate picture of the parish's financial position, it is important to record and report fixed assets accurately. Failure to give accounting recognition to fixed assets result in an understatement of fixed assets, and gives an inaccurate picture of the parish's financial position.

This chapter will outline procedures to record and dispose of fixed assets. It also provides procedures to correct fixed asset balances, if they are determined to be inaccurate.

### Related Documents

Reference Fixed Assets expensed during the fiscal year accounting procedures and journal entries. [IX.A. Fixed Assets-Capital Expenses Quick Guide](#)

### Fixed Asset Inventory

Each parish should have a list of all fixed assets to support the fixed asset balances in the balance sheet. If no such list exists, a physical inventory count of all fixed assets should be performed.

Fixed assets should be listed (see a sample fixed asset listing in Exhibit A) and described with enough detail to make them easily identifiable in future accounting periods. Fixed asset tags having unique identification numbers can be attached to fixed assets for further ease of identification.

## Valuation of Fixed Assets

Fixed Asset values should be based on original cost, if it is known. It is important to keep invoices, contracts, and other documents that support the values recorded for assets. Parishes should establish permanent files to support fixed asset balances. In cases where original cost is unknown and in cases of donated assets, a value should be established based on the market value of similar assets. Special assets such as antique furniture and original works of art may require professional appraisal. The sum of these fixed assets values is the proper balance of fixed assets in the financial statement and Annual Report.

## Maintaining Fixed Asset Records

Fixed Asset acquisitions should be added to the fixed asset listing (noting the date acquired) at original cost or fair market value at the time of acquisition. Acquisitions should also be recorded in the general ledger as an increase in the Fixed Asset account balance. Examples of the basic entries are given below.

The parish purchases new office furniture:

Debit: Furnishings & Equipment (#00.180) XXXXX

Credit: Cash (#00.110)	XXXXX
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The furniture will be added to the inventory and to the general ledger account at the invoice price.

The parish adds new classroom space to the school:

<u>Debit:</u> Buildings & Improvements (#00.173)	XXXXX
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Credit: Cash (#00.110)	XXXXXX
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The classrooms will be added to the inventory and general ledger account at total construction cost.

A parishioner donates a truck to the parish:

Debit: Autos, Trucks, Busses (#00.185) XXXXX

Credit: Donations (#02.409) XXXXX

The truck will be added to the inventory and general ledger account at some reasonable estimate of its market value, such as blue book value.

Fixed asset disposals should be deleted from the fixed asset listing and be recorded in the general ledger as a decrease in the Fixed Asset account balance.

The fixed asset listing should provide accurate support for the Fixed Assets balance recorded in the general ledger. That is, the sum of the values on the fixed asset listing should always equal the Fixed Assets balance recorded in the general ledger. Once the parish has established an accurate listing, it should be compared to the general ledger account balances at least annually, when the Annual Report is prepared, to ensure all fixed asset acquisitions and disposals have been recorded accurately in both records.

When an asset is sold or otherwise disposed of, the cost or other carrying value as reflected in the fixed asset accounts should be removed.

- o Parish sells a vehicle for \$ 6,000. Original cost of vehicle was \$ 10,000.

<u>Debit:</u> Cash (#00.110)	6,000	
Loss on Sale of Fixed Asset (#02.466)	4,000	
<u>Credit:</u> Autos, Trucks, Buses (#00.185)		10,000

- o Parish disposes of a computer with an original cost of \$2,000.

<u>Debit:</u> Loss on Sale of Fixed Assets (# 02.466)	2,000	
<u>Credit:</u> Furnishings & Equipment (#00.180)		2,000

### Correcting the Fixed Asset Balance

If the parish has not kept a fixed asset listing in the past, or if acquisitions and disposals have not been recorded accurately and the general ledger account balances have become inaccurate, the parish will need to adjust the account balances so they agree with the accurate fixed asset listing.

These adjusting entries should be prepared as follows:

Where the general ledger balance is less than the fixed asset record, or where no general ledger balance is recorded:

<u>Debit:</u> Fixed Assets (#00.170 - #00.185)	XXXXX
<u>Credit:</u> Fund Balance (#00.300)	XXXXX

Where the general ledger balance is greater than the fixed asset record:

<u>Debit:</u> Fund Balance (#00.300)	XXXXX
<u>Credit:</u> Fixed Assets (#00.170 - #00.185)	XXXXX

XXXXX in these entries represents the difference between the new balance and the balance recorded in the general ledger.

These adjustments should be made only once, when the fixed asset listing is initiated or updated. If fixed asset acquisitions and disposals are recorded accurately in both the fixed asset listing and the general ledger, such adjustments should be unnecessary.

### Donations

Fixed Asset donations are recorded at fair value when received if the organization has a clearly measurable and objective basis for determining the value. For instance, if the Home and School Association donates new desks to the school, they would be recorded at the invoice price. The parish should ensure the donor provides documentation of the value. If values cannot be reasonably determined, other methods can be used, such as, appraisers, tax experts, blue book value (motor vehicles), or comparison to the purchase price of a similar item.

If the parish does not give accounting recognition to donated assets, the Fixed Asset account balances in the general ledger and Annual Report will be understated, which will result in an understatement of net assets. The following examples should provide the pastor and bookkeeper with an understanding of how to account for donations.

- o The parish receives a donation of a piece of land. Because of the nature of real estate, its value may be difficult to determine. A reasonable fair market value can be supplied by the tax assessor or a real estate appraiser. The property should be recorded at the appraised value. The appraisal serves as support for the amount recorded in the general ledger and fixed asset listing.
- o A small computer is donated. According to a local computer salesman, its value is approximately \$1,500. The parish should add the computer to the fixed asset listing and general ledger at \$1,500.
- o An air conditioning unit is donated to the rectory. Because of the unit's age and its physical condition, it is difficult to estimate a reasonable fair value. According to a heating and air conditioning contractor, the unit is probably worth less than \$500. Therefore, no entry is recorded.

## **CATEGORIES OF FIXED ASSETS**

### **Land and Improvements, Undeveloped Land**

Land should be recorded at its purchase price. If purchase price information is not available, it should be recorded at appraised value. Land improvements include any additions or changes to land, including preparations that make the land suitable for building construction, but not the construction costs. Fees paid to a professional landscaping company for mulching, and planting grass and shrubs would be expensed and recorded in Account # 60.555, Maintenance Agreements.

### **Buildings and Improvements**

Buildings should be valued at their original purchase price or their construction cost. Where these are unknown, a professional appraisal or tax assessment may be necessary. Existing buildings, new construction of buildings, building additions, and major repairs and replacements which are expected to prolong the useful life of the building should be capitalized and recorded here. The cost of new carpeting, paving of parking lots, and the REPLACEMENT of roofs should be capitalized and recorded here as well.

## **Construction in Progress**

Parishes which are constructing new buildings or major additions to existing buildings may choose to record construction costs in Construction in Progress. When the building is completed, all construction costs should be moved by journal entry to Account #00.173, Buildings and Improvements.

## **Furnishings and Equipment**

This fixed asset category includes furniture, office equipment, statues, and fixtures which can be easily removed. Installed fixtures or fixtures of a permanent nature which cannot be easily removed should be recorded as Buildings and Improvements.

## **Automobiles**

Cars, vans, and buses should be listed in a manner similar to that used for other fixed assets. Vehicle serial numbers can be used as unique identifiers in listing these assets.

## Depreciation and Amortization

Although the Financial Accounting Standards Board (FASB) recommends that not-for-profit organizations record depreciation, parishes in the Archdiocese of Washington do not. Many parishes do not have staffs extensive enough to maintain the records necessary to accumulate depreciation. To have some parishes record depreciation and some parishes not record depreciation, would not provide the consistent reporting necessary to prepare combined parish financial statements for the Archbishop's use. The financial statements prepared by parishes in the Archdiocese are designed for internal use only. The users of those statements are sufficiently well-informed about parish accounting that this policy will not produce statements which are misleading to the users. The requirement to record depreciation is considered to be unnecessarily burdensome by the Archdiocese and, subsequently, will not be imposed on the parishes.

## Capitalization Policy

Parishes should capitalize assets with a useful life of 3 years or more and a value of \$1,000 or more.

Pastors may exercise discretion in which assets they choose to capitalize. Since parishes in the Archdiocese of Washington do not record depreciation, old worn-out assets will be carried in the general ledger and in the fixed asset inventory at original cost. If the parish replaces an old asset with a comparable item, the pastor may choose to record the purchase in an expense account, assuming the new asset is worth approximately the old asset's original cost.

Pastors should ensure that the fixed asset balances reported are reasonably reflective of the value of parish assets. Pastors and bookkeepers may consult the Archdiocesan Office of Financial Management for answers to specific questions about recording fixed assets.

### Repairs and Replacements

Repairs and replacements fall into two groups:

- o Ordinary repairs and replacements
- o Extraordinary repairs and replacements

Ordinary repairs and replacements are necessary to maintain an asset in good operating condition. Ordinary repairs and replacements are a current expense and should be recorded in expense accounts in the current income statement.

On the other hand, extraordinary repairs and replacements are major repairs and replacements made not to keep an asset in its normal good state of repair, but to extend its useful life beyond that originally estimated. Extraordinary repairs and replacements should be recorded in the fixed asset accounts in the balance sheet and added to the fixed asset listing.

Some examples of ordinary expenses are: maintenance costs, roof repairs, painting a building, and reconditioning small parts of equipment. Some examples of extraordinary expense are: major construction and improvements that cost more than \$1,000, roof replacement, computers, printers, and photocopiers.

## EXHIBIT A

## FIXED ASSET INVENTORY LIST

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## Revisions

August 2021	<a href="#">Update Fixed Assets Capital Expense Quick Guide Link</a>
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