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7 Min. Read March 20, 2025 In accounting, fixed assets are physical items of value owned by a business. They last a year or more and are used to help a business operate. Examples of fixed assets include tools, computer equipment and vehicles. Fixed assets help a company make money, pay bills in times of financial trouble and get business loans, according to The Balance. Table of Contents Fixed assets are physical (or "tangible") assets that last at least a year or longer. They are purchased with the specific aim to help operate a business. Fixed assets are also known as capital assets, according to The Balance. There are several types of assets. That said, all assets are the same in that they have financial value to a business (or individual). Types of fixed assets common to small businesses include computer hardware, cell phones, equipment, tools and vehicles. For example, a dog walking business owner buys a van to transport her clients' dogs to the park. She reads reviews and buys a business cell phone to stay in touch with her clients while on the road. She has a laptop she uses to invoice her clients, do marketing work and answer client emails. After a few years, she decides to expand her business and buys a building to run a boarding and grooming facility. There are all examples of fixed assets. Fixed assets are different from items you might expense on your taxes. These items may last more than a year, but they are of lower value and are not major investments. For example, the dog walking business owner buys heavy-duty leashes, portable water dishes, a backpack and good shoes to make her job safer and more comfortable. She writes off these items on her taxes. Some industries need more fixed assets than others in order to make products or deliver services. These include the construction, farming, transportation and fishing industries. Fixed assets are important for three reasons: They are used to make money. You use your laptop to do marketing, which generates more business. They can be sold. If a major client disappears and your cash flow is in trouble, you could sell your computer server, for example, to keep your business afloat. They can help you get you a business loan. Fixed assets can act as collateral (or a guarantee of repayment). This means the lender can take your fixed assets if you don't pay them back. Learn how to calculate fixed assets by jumping to the section below. Net fixed assets are your total fixed assets minus any depreciation on your fixed assets and any liabilities, according to Accounting Tools. Simply put, this means that you need to account for any decrease in value of your fixed asset. For example, the car you use for business purposes decreases in value year by year. And you also need to account for any liabilities, like loans you owe on your fixed assets. For example, you took out a loan to buy a tractor for your small farm. Net fixed assets are used by small business owners to figure out how much their total fixed assets are really worth or how much liability they have. For example, a graphic designer has \$5000 in fixed assets but after he accounts for depreciations and loans owing on his fixed assets, he actually has a liability of -\$100. Gross fixed assets, on the other hand, are what we call simply "fixed assets" or fixed assets before taking into account depreciation and liabilities. Find your net fixed assets by looking at your balance sheet in your accounting software. FreshBooks has cloud accounting software that makes finding and understanding your balance sheet simple. People also ask: Fixed assets are tangible assets that last at least a year or longer. Here are a list of items that are considered fixed assets, according to Accounting Tools and the Houston Chronicle: Computer hardware Computer software (only the most expensive types) Cell phones Furniture (filing cabinets, desks, sofas, chairs etc.) Fixtures (sinks, lighting, faucets etc.) Tools Machinery (production line machinery, tractors, lumber cutting etc.) Equipment (wrecking balls, pneumatic drills etc.) Vehicles Boats Buildings (includes trailers and warehouses) Costs incurred to improve a leased space Office equipment (photocopiers, fax machines, postage meter etc.) Land Modular office buildings Company or customer parking lot or garage Warehouses Fixed assets are usually found on a balance sheet in a category called property, plant and equipment, according to Dummies. Use your accounting software to find the balance sheet, one of the major financial statements small businesses use. FreshBooks accounting software simplifies the process of finding and understanding your balance sheet. Below is an example of a balance sheet: Source: Dummies Accumulated depreciation is subtracted from fixed assets to produce the line item: "cost less depreciation." This is also known as net fixed assets. Cost less depreciation shows business owners the true value of their assets or even their total liabilities on fixed assets (if the number's negative thanks to loans etc.). Fixed assets can also simply be listed as "fixed assets" with a line item beneath to account for depreciation, like in the below example: Source: Manager Forum Depreciation is when an asset decreases in value, usually because of normal wear and tear. Most fixed assets decrease in value—a van gets old, a computer slows down, a tool wears out. The IRS decides the rate that different types of assets depreciate. This depreciation then becomes a write off on a business's taxes; there is no tax on depreciation. This IRS article has further information and the forms you need for your taxes to report depreciation properly. A formula is used when calculating net fixed assets, according to My Accounting Course. The net fixed assets formula is: Total Fixed Assets – Accumulated Depreciation = Net Fixed Assets You can refine this formula further to make the result even more accurate: (Total Fixed Asset Purchase Price + Improvements) – (Accumulated Depreciation + Fixed Asset Liabilities) = Net Fixed Assets Improvements include any upgrades you make to an asset. For example, if you lease a space for your business and improve it by installing new lighting and carpets, you can add the cost of those improvements to the price of your lease when calculating next fixed assets. Fixed asset liabilities are any debts owed on fixed assets. For example, if you take out a loan to pay for the new laptop for your business, this is considered a liability The ratio of total fixed assets to depreciation is also useful. A higher number of depreciation means that a business hasn't replaced their fixed assets in a while. An owner could look at this number and decide if they need to replace anything to improve their operations. For example, \$10,000 : \$2000 vs. \$10,000 : \$7000 (equipment may be outdated) Investors also use this ratio to decide when a company may be purchasing major new fixed assets. RELATED ARTICLES \$499 \$499 \$399 \$299 \$499 \$499 \$39 \$39 \$39 \$99 In parts 1 and 2, we discussed conducting the baseline physical inventory of fixed assets and addressed automatic data capture technologies. In this post, we will discuss (at a high level) putting it all together with Fixed Asset Management Policies and Procedures. Policies and procedures essentially encompass all aspects of the asset tracking and management program. Many of our clients come to us with a specific need or problem, such as reconciliation of their fixed asset register. Upon further discovery, it becomes apparent that while this will resolve their immediate requirement (and is a necessity), without implementing some fundamental changes to their asset management program, they will likely end up in the same position and with the same problem in a years' time. Getting a baseline physical inventory and tagging your assets is a great start (and also a necessity). Reconciling the fixed asset register keeps you compliant with regulatory requirements. However, if you don't make some fundamental changes in the way you are managing your assets on an ongoing basis, these snapshots in time will eventually become outdated and you will wind up right back where you are. This isn't to say that there won't be a need for physical inventory and reconciliation next year, but it will likely be a much cleaner, simpler, and more cost-effective process. To establish a useful set of policies and procedures, you must first look closely at how things are currently done. There are a number of diverse roles that have a direct impact on how an asset is managed and tracked throughout its useful lifecycle. While there is no one size fits all process for management of assets, there are common trends and typical process flows amongst most organizations. DISCOVERY The process should begin with an asset lifecycle assessment and discovery phase. The assessment should look at all of the processes that impact fixed assets across their useful lifecycle. Here are some high-level steps that we take with our clients: Stakeholders and gatekeepers are identified. There are various individuals/roles that will have an impact on an asset at different stages throughout its useful life. This will vary from one organization to the next depending on the internal resources available, but often include: procurement, finance, receiving, operations, custodians, and more. Each role represents a point of control. What will happen when the asset is first purchased? What about when it is received? When will the asset be tagged and entered into the asset tracking system? Who will take cyclical physical inventory audits? What is the process for disposal? These (and many more) are all considerations that need to be addressed, documented (formally), and followed through. Conduct a review existing checks and balances you have in place. There are likely gaps in this area. Identify sources of information. Leverage all available databases and data sources, including: ERP systems, IT/Help Desk, CMMS, facilities, and financial records. This is also a good time to consider implementing technology where it will be useful. We talked about automation in Part 2. Having access to bar coding and or RFID technology will greatly enhance your asset tracking program. CONTROL POINTS Once discovery is completed, establish control and integration points. We talked about roles. Set additional definition to the controls and points of integration exist throughout the asset lifecycle? This ranges from processes involving physically touching an asset to integrating information about the asset across different systems. Refine information flows. Integration and automation of data flow between systems and departments can reduce redundancies and help keep disparate systems up-to-date. Establish reliable monitoring of the program. PLOTTING YOUR MATURITY PATH Plot your current position into a model. Are you in a proactive or a reactive state? Plot your future position with desired milestones and timelines. Where do you want to be and how long will it take you to get there? Compile established process adjustments and associated schedules. Prioritize implementation stages and IMPLEMENT. DOCUMENT When the review and assessment has been completed, you have established the various roles, technologies, processes, and timeline, create a formal Policies and Procedures document to ensure alignment of the program. Be sure to include: Approach and findings of the assessment Identify established standards and conventions Refined process flow at control points Information sources, dependencies, and key points of integration Internal controls Roles and responsibilities Schedules Contact us to learn more about developing best practice Asset Management Policies and Procedures in your organization. Donate The Policy and Procedures for Fixed Asset Management provides information on the recording, use, security, control, maintenance, disposal, and theft of all UNFPA-owned and -controlled assets, whether purchased by UNFPA or obtained through a donation in-kind. Loading related content... What are Fixed Assets in Accounting?In accounting, fixed assets, often used interchangeably with the term "Non-Current Assets", are assets expected to be utilized over the long term (>12 months).Since the potential benefits are not fully realized in twelve months, non-current assets are considered long-term investments for the company.Companies purchase non-current assets – resources that provide positive economic benefits – to generate revenue as part of their core operations.Moreover, assets are categorized as either current or non-current assets on the balance sheet.Within the PP&E line item, various types of fixed assets are included, such as the following: Buildings and Property Land Equipment Machinery Vehicles (Cars, Trucks) What are Common Examples of Fixed Assets?The most common examples of non-current assets found on the balance sheet include the following: Non-Current Assets Property, Plant and Equipment (PP&E) PP&E are long-term assets like land, vehicles, buildings, machinery, and equipment used either to manufacture products or support the services provided to customers. Intangible Assets Intangible assets consist of non-physical assets, such as patents, trademarks, copyrights, and intellectual property (IP), with values not recorded until after an acquisition. Goodwill Goodwill falls under the intangible asset category and is created to capture the excess of the purchase price above an acquired asset's fair value. Why are Fixed Assets Capitalized?Under U.S. GAAP reporting, fixed assets are typically capitalized and expensed across their useful life assumption on the income statement.Tangible non-current assets (i.e. PP&E) are recognized on the income statement through depreciation, which is the concept of allocating the original purchase amount (i.e. capital expenditure) across the estimated useful life of the asset.The rationale behind depreciating non-current assets stems from the matching principle, as depreciation attempts to match the expense from the purchase of the fixed asset in the same period when the corresponding revenue was generated.The accounting treatment of "depreciating" certain intangible assets is conceptually identical to depreciating tangible assets. However, the "depreciation" expense is called amortization.However, under U.S. GAAP, not all non-current assets are depreciated or amortized. Land: Land is categorized as a long-term asset on the balance sheet, yet land is assumed to have an indefinite useful life under accrual accounting, so depreciation of land is prohibited. Goodwill: Goodwill is an intangible asset that captures the premium paid over the fair value of an asset – and rather than being amortized, the carrying value of goodwill for public companies is tested for impairment on an annual basis. Fixed Asset vs. Inventory: What is the Difference? Inventory and PP&E are both considered tangible assets, meaning that they can be physically "touched".Yet, inventory is classified as a current asset, whereas PP&E is treated as a non-current asset.Unlike current assets, non-current assets are typically illiquid and cannot be converted into cash within twelve months. Inventory: The distinction between inventory and PP&E is that once a company purchases inventory, they are cycled out/sold rather quickly (