

E-NEWSLETTER

THE IMPORTANCE OF FIXED ASSETS MANAGEMENT FOR NGOS



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Fixed Assets Management have always been one of the neglected area by NGOs. Most of the NGOs do not have any organizational policy with respect to procurement, disposal or utilization of assets. Hardly any of them even maintain a Fixed Asset Register. Apart from this, many NGOs have been writing off their assets in the year of purchase, may be because, the Income Tax Act considers the entire cost of fixed assets as an application in the year of acquisition itself. We have found that in most of the cases, especially where the NGOs have spread their presence in various locations, the management is usually unaware of their exact asset base. Although the legal instruments such as Trust Deed or MOA, contains the clauses related to protection and safeguarding of assets but it seems that the same is not adhered to religiously. So through our compilation we have tried to explain the importance of fixed assets management through its key components.

KEY COMPONENTS OF FIXED ASSET MANAGEMENT WITH NEED & IMPORTANCE

DEVELOPING A FIXED ASSETS POLICY

The purpose and aim of such policy is:

- a) To set forth the guidelines for the physical and reporting control of fixed assets.
- b) To establish the definitions for various class of assets, valuation methods, thresholds for capitalization and method of depreciation.
- c) To lay down the methods and procedures for procurement, disposal and utilization of assets in the best interest of the organization.
- d) To identify and implement checks and controls over the maintenance of such assets.
- e) To specify timelines and procedures for periodic physical verification at all locations
- f) To set forth the records to be maintained related to fixed assets.
- g) To ensure measure of safeguard and protection of assets in the possession of the organization.

MAINTAINING A FIXED ASSET REGISTER

Fixed Asset Register is the basic record that contains the details of all assets owned by the organization. It contains the following details such as:

- a) Identification or serial number assigned to the asset
- b) Date of Acquisition and vendor details with invoice no.
- c) Description of the Asset with the model number
- d) Quantity of the Asset purchased
- e) Group or Class of Assets to which it belongs
- f) Location of the Asset
- g) Cost of Acquisition including all incidental costs incurred to bring the assets to its present location & condition
- h) Assets sold or disposed off
- i) Accumulated Depreciation on the Asset
- j) Net Closing Value of the Asset

If the management deems it necessary, it can go further to the extent of recording For Project Assets, it is also highly recommended that the name of the project and the purpose of the asset along with the name of the funding agency should also form part of the asset register.

COMPONENTS OF FIXED ASSET MANAGEMENT (Contd.....)



UNDERSTANDING THE IMPORTANCE AND NEED OF THE FIXED ASSET REGISTER

- a) It serves as an important database for the management to know the asset strength of the organization.
- b) It enables the management to figure out the true and fair value of the asset in the possession of the organization.
- c) It can also serve as an important tool for keeping a check on any unscrupulous activities such as theft, misuse etc., since management becomes aware of the location and existence of all its asset.
- d) It enables the management to decide on the proper allocation of resources for its optimum utilization towards achieving the objects.
- e) It helps in identifying and tracking the assets by site, serial number, department or even the end user currently utilizing the assets.
- f) It comes handy during the audit and other investigations for verifying the assets of the organization.

CONDUCTING PHYSICAL VERIFICATION OF FIXED ASSETS

Only making a policy document or maintaining a register is not enough. They will hold no relevance if the physical verification is not conducted at periodic intervals i.e. at least once or twice a year. The management should develop a mechanism whereby the regular monitoring of the assets can be done to ensure proper utilization for the specified purposes. While verifying, the incharge for each location or department should be asked to prepare the list of the assets in their possession, which should then be subjected to reconciliation with the master asset register. The variations, if any, arising out of such reconciliation should be further investigated.

THE NEED FOR PHYSICAL VERIFICATION OF ASSETS:

- a) It helps the management in identifying the assets lying idle or have become unserviceable and needs to be disposed off.
- b) It enables the management to take decisions related to transfer of assets from one department or location to another as per the requirement and for the optimum usage.
- c) It serves as a monitoring tool to keep a check on any mishandling or improper utilization of the organization's assets.
- d) It ensures the accuracy, completeness and authenticity of records as reflected in the asset register of the organization.

Moreover, with the recent changes in FCRA Annual Return - Form FC-4, where the details of assets purchased, both movable and immovable, such as description, purpose and amount has to be now mentioned, it can be understood how important the fixed asset management has become for NGOs. So, in our view, the NGOs should now go a step further in managing their assets and keeping up-to-date records.