Fixed assets

The fixed assets create an important part of the enterprise´s property used for its business activities. The definition of fixed assets can be found in edict of Ministry of finance no. 500/2002, the concrete procedures of charging in so called Czech accounting standards published also by Ministry of finance.

In according with the list of accounts defined by edict no. 500/2002 an accounting class 0 – Fixed assets is primarily used for charging about fixed assets.

The fixed assets can be divided into three basic parts:

1. **Intangible assets - assets of an intangible nature with a term of usage longer than 1 year with a value exceeding a limit chosen by an enterprise in according with so called "common traditions". As the "common traditions" it is usually respected the amount 60 000 CZK. But this amount is not obligatory given from the accounting point of view. Assets of an intangible nature with a term of usage longer than 1 year with a value which do not come to a limit chosen by an enterprise are charged as costs immediately in the moment of their acquirement. From the tax point of view the amount 60 000 CZK is defined by law no. 586/1992 and must be obligatorily kept. As examples of intangible assets can be mentioned - valuable rights, licenses, software, know – how, goodwill, etc. For charging of intangible assets an accounting group 01 – Intangible assets is used. In the moment of depreciation of intangible assets it is used an accounting group 07 - Cumulated depreciation to intangible assets.**
2. **Tangible assets - assets of a tangible nature with a term of usage longer than 1 year with a value exceeding a limit chosen by an enterprise in according with so called "common traditions" and buildings and parcels regardless to their value. As the "common traditions" in this case it is usually respected the amount of 40 000 CZK. Again - from the accounting point of view this amount is not obligatory given. But from the tax point of view the amount of 40 000 CZK is obligatory determined by the law no 586/1992 of income taxes. As examples of tangible assets can be mentioned – buildings, parcels, cars, hardware, equipment, machinery, etc. The tangible assets can be next divided into two parts – Tangible assets depreciated (accounting group 02, in the moment of their depreciation accounting group 08 - Cumulated depreciation to tangible assets) and tangible assets non-depreciated (accounting class 03). As tangible assets non-depreciated are defined especially lands and separated artistic works and collections.**

3. **Long-term financial assets – assets of a financial nature with a term of payment or usage longer than 1 year regardless to their value. As examples of long-term assets can be mentioned long-term investment, capital shares, long-term bills of exchange, etc. For charging about long-term financial assets an accounting group 06 - Long-term financial assets is primarily used. The long-term financial assets mustn´t be depreciated!**

Valuation of fixed assets

The valuation of fixed assets is very similar to valuation of other parts of enterprise´s assets. Three basic types of valuation prices are used:

1. **Acquiring costs (used for fixed assets and acquired by purchase). Acquiring costs contain the purchase price including other costs connected with the acquisition (especially assembling costs, transportation costs, provisions, fees, credit interests, etc.). The concrete structure of the connected costs is defined by edict 500/2002.**
2. **Own costs (used for fixed assets acquired by own activity)**
3. **Executant acquiring costs (used for fixed assets and acquired for free – presents, dotations, etc.). This value is calculated as the value common in the market or as an expert estimation.**

Charging about fixed assets

Typical transactions necessary to be charged in connection with the fixed assets are:

1. Acquisition of fixed assets

An accounting group 04 - Incomplete intangible and tangible assets and acquired long-term financial assets is usually used for the primary accounting evidence of acquired fixed assets. The concrete enterprise´s scheme of accounts under accounting group 04 usually contains 3 accounts: 041 – Acquisition of intangible assets, 042 – Acquisition of tangible assets and 043 – Acquisition of long-term financial assets. These accounts are called "calculation" accounts because their purpose is to serve for calculation of so called "entering value" of fixed assets in which the asset can be charged on concrete asset account in accounting groups 01, 02, 03 or 06 and from which value the tangible assets depreciated can be depreciated (we already know similar accounts from accounting class 1 – Inventories, for example accounts 111 – Acquisition of material, 131 – Acquisition of goods). The accounts from accounting group 04 needn´t be used in the moment of acquisition of some fixed asset only under condition that the acquiring costs will be created only by the purchase price (it means there

will be no other acquisition costs connected with the purchase). Only in this case it is possible to charge the acquired property directly on concrete asset account in accounting groups 01, 02, 03 or 06.

Example no. 1: Company Pepe (VAT payer) bought a new accounting software, the value is 100 000 CZK + 19 % VAT, IT firm set up the software on computers, the value of this service was 1 000 CZK + 19 % VAT. Accounting documents were invoice bills. As other accounting item this company built a new administrative building, the construction was made by construction company Stavba, plc., the value of construction was 2 000 000 CZK + 19 % VAT (invocice bill). The supervision of the construction was performed by own employees, the total amount of costs spent on this supervision was 100 000 CZK. The last accounting case was a purchase of stocks held as a share 60 % on common stocks of the company Jose, the purchase price was 10 000 000 CZK, payment from bank account, fee for broker paid from bank account, value 100 000 CZK. Charge all necessary transactions.

Charging about the software:

041 – Acquisition of intangible assets

1a)	100 000		
2a)	1 000	3)	101 000

321 – Trade liabilities

		1)	119 000
		2)	1 190

343 – VAT

1b)	19 000		
2b)	190		

013 - Software

3)	101 000		

Transactions:

1) **Purchase of the software (invoice bill)**
2) **Set up of the software (invoice bill)**
3) **Taking the software into accounting evidence**

Charging about the building:

042 – Acquisition of tangible assets

1a)	2 000 000		
2)	100 000	3)	2 100 000

321 – Trade liabilities

		1)	2 380 000

343 - VAT			
1b)	380 000		

622 –Activation of internal services			
		2)	100 000

021 - Buildings			
3)	2 100 000		

Transactions:

1) Invoice bill for construction of the building
2) Supervision performed by own employees
3) Taking the building into accounting evidence

The moment of taking the asset into accounting evidence is very important, because since this moment the company can start to depreciate the property.

Charging about the stocks:

043 – Acquisition of long-term. FA			
1)	10 000 000		
2)	100 000	3)	10 100 000

221 – Bank account			
		1)	10 000 000
		2)	100 000

061 – Stocks held as a share in companies with major share			
3)	10 100 000		

Transactions:

1) Purchase of stocks (payment from bank account)
2) Fee for broker (payment from bank account)
3) Taking the stocks into accounting evidence

Depreciation of tangible and intangible assets

There are two kinds of depreciation in the Czech Republic:

1) Accounting depreciation

2) **Tax depreciation**

Accounting depreciation

The purpose of accounting depreciation is to determine the real amortization of fixed assets according to their real using in practical activities of enterprise. The accounting depreciation is regulated by law no. 563/1991 of accounting, by edict of Ministry of finance no 500/2002 and by Czech accounting standards. The accounting unit has a right to determine a method of depreciation and a period of a life cycle of the fixed asset according to real using. The obligation in accounting depreciation resulting from legislation is to create a plan of depreciation for all single fixed assets. The fixed assets are depreciated from the "entering value" and the total sum of accumulated depreciation must not exceed this entering value. The calculated accounting depreciation must be charged on accounts. The concrete charging is made indirectly with the help of accounts from accounting groups 07 - Cumulated depreciation to intangible assets and 08 - Cumulated depreciation to tangible assets. It means it is not possible to charge the depreciation directly on the accounts on which the concrete fixed asset was charged. Accounting depreciation is an operating (accounting) cost for enterprise.

Very important: Accounting depreciation <u>is not</u> a tax cost. Only tax depreciation can be declared as a tax cost. On the other hand the tax depreciation does not influence the accounting economic result of enterprise, because the tax depreciation is not charged on accounts in financial accounting of enterprise. The tax depreciation is declared only in tax declaration!!!

Example no. 2: A company DSR has a building in value 1 000 000 CZK. The annual accounting depreciation was calculated in amount 100 000 CZK. Charge the depreciation.

021 - Buildings

OS	1000 000	

551–Depreciation of int. and tan. FA

1)	100 000	
2)	100 000	

081 – Accumul. depr. to buildings

	1)	100 000
	OS	100 000
	2)	100 000

Transactions:

1) Annual accounting depreciation in year 1
2) Annual accounting depreciation in year 2

Methods of accounting depreciation

The concrete method of accounting depreciation should determine the real amortization of the asset. Generally there are two basic possible methods of accounting depreciation – time methods and output methods.

Time methods: Depend on term of using. The time methods of accounting can be:

- **linear – each year of usage it is amortized the same amount (can be used for example for buildings)**
- **degressive – each next year of usage it is amortized less than in previous year (suitable for computers).**
- **progressive - each next year of usage it is amortized more than in previous year**

Example no. 3: An enterprise bought a new car. The entering value was 500 000 CZK and the car was taken into accounting evidence on July 1, 2005. The term of usage was determined by enterprise on 3 years. The method of depreciation is linear. Calculate annual accounting depreciation.

Depreciation in 2005: 6 months / 12 months x 500 000 / 3 years = 83 333,33 CZK, rounded up = 83 334 CZK.

Depreciation in 2006 and 2007 = 500 000 / 3 = 166 666,66, rounded up = 166 667 CZK.

Depreciation in 2008: 6 / 12 x 500 000 / 3 = 83 333,33 CZK, rounded up = 83 334 CZK.

!!! But: Amortized value (difference between entering value and a sum of accumulated depreciation) at the beginning of year 2008 is: 500 000 – 83 334 – 166 667 – 166 667 = 83 332 CZK. The accounting depreciation in year 2008 is only 83 332 CZK. The sum of depreciation must not exceed the entering value!!!! The same situation is in case of tax depreciation.

Output methods: Depend on output achieved by some fixed asset. Used especially for machines.

Example no. 4: The producer of machine declares that the life cycle of the machine is a production of 1 000 000 pieces of the product. The entering value of the machine is 2 000 000 CZK. In year 2005 the machine produced 100 000 pieces of the product. What is the accounting depreciation of the machine in year 2005:

Accounting depreciation in year 2005: 2 000 000 (entering value) / 1 000 000 (life cycle) x 100 000 (real production in year 2005) = 200 000 CZK.

All calculated amounts will be charged on accounts in accounting evidence in according with the explained procedure (operating cost, accumulated depreciation).

Tax depreciation

The purpose of tax depreciation is to determine the part of the entering value, which can be accepted as a tax cost regardless to real amortization of the fixed assets. The tax depreciation is regulated by law no. 586/1992 of income taxes, especially in paragraphs 26 – 33. The tax depreciation is divided on tax depreciation of tangible assets and tax depreciation of intangible assets.

Tax depreciation of tangible assets

All depreciable tangible assets must be included into one of seven groups of tangible assets in according with appendix of law of income taxes. Including into the correct group assigns the period of tax depreciation as the following table shows:

Depreciation group	Period of depreciation
1	3 years
2	5 years
3	10 years
4	20 years
5	30 years
6	50 years

The enterprise can choose from two methods of tax depreciation: linear and degressive.

Linear method:

The equation for calculation is:

$$\text{Entering value x annual depreciation rate / 100}$$

The depreciation rates:

Depreciation group	Annual depreciation rate (%)	
	In 1. year	In next years
1	20	40
2	11	22,25
3	5,5	10,5
4	2,15	5,15
5	1,4	3,4
6	1,02	2,02

The first owner of fixed asset included into groups 1 – 3 can use more advantageous rates:

Depreciation group	Annual depreciation rate (%)	
	In 1. year	In next years
1	30	35
2	21	19,75
3	15,4	9,4

Degressive method:

The equation for calculation is different in the first year of depreciation and in next years:

In the first year:

Annual depreciation: Entering value / C_1

The annual degressive depreciation can be increased about 10 % of the entering value in the case of the first owner in the first year of depreciation.

In next years:

Annual depreciation: 2 x Amortized value / (C_2 – number of years in which the asset was already depreciated)

The coefficients (C) are shown in the following table:

Depreciation group	Coefficients for degressive depreciation	
	In 1. year C_1	In next years C_2
1	3	4
2	5	6
3	10	11
4	20	21
5	30	31
6	50	51

Tax depreciation of intangible assets

Regulated by § 32a of law no. 586/1992 of income taxes. In case of intangible assets used in according with the contract on concretely given point of time, the tax depreciation is calculated as: Entering value / period of usage. In other cases the intangible assets are depreciated by linear method, concretely: audiovisual product for 18 months, software and intangible results of research and development for 36 months, foundation expenses (expenses connected with the foundation of enterprise) for 60 months and other intangible assets for 72 months.

Removing of fixed assets from accounting evidence

1. **Removing of non-depreciable assets.**

Non-depreciable assets are removed from accounting evidence in the moment of their sale or other reason for their removing (donation, damage,

etc.). The concrete procedure of charging depends on the reason for removing. The removing is always charged in entering value.

Example no. 5: An enterprise has an artistic collection of pictures in value 1 000 000 CZK. This collection was: a) sold at selling price 2 000 000 CZK, payment on bank account, b) donated to local museum, c) destroyed by floods. Charge the sale and the removing from accounting evidence in all three situations.

a)

032 – Artistic collections	
OS 1 000 000	2) 1 000 000

221 – Bank account	
1) 2 000 000	

641 – Revenues from sale of FA	
	1) 2 000 000

541 – Fixed assets sold	
2) 1 000 000	

Transactions:

1) Sale
2) Removing of sold collection from accounting evidence

b)

032 – Artistic collections	
OS 1 000 000	1) 1 000 000

543 - Presents	
1) 1 000 000	

Transaction:

1) Removing of donated collection from accounting evidence

c)

032 – Artistic collections	
OS 1 000 000	1) 1 000 000

582 - Damages	
1) 1 000 000	

Transaction:

1) Removing of destroyed collection from accounting evidence

2. Removing of depreciable assets.

The removing of depreciable fixed asset can happen in two situations:

a) The amortized value of the asset is 0

b) The amortized value of the asset is not 0

Variant a)

When the asset is fully depreciated, it can be simply removed from accounting evidence. The removing is always charged in entering value.

Example no. 7: An enterprise owns a computer, the entering value is 80 000 CZK. After 4 years the computer is fully depreciated (accounting depreciation), and accounting amortized value is 0. The enterprise wants to remove it from accounting evidence. Charge it.

022 – Single tangible assets			
OS	80 000	1)	80 000

082 – Acc. depreciation to single TA			
1)	80 000	OS	80 000

Transaction:

1) Removing from accounting evidence

Variant b)

When accounting unit wants to remove depreciable fixed asset whose accounting amortized value is not 0 in the moment of removing, it is necessary to charge so called "one-shot depreciation of the amortized value" as first. The aim of this is to fully depreciate the fixed asset. The concrete charging of the one-shot depreciation depends on the reason why the asset is removed. After this the asset can be removed from accounting evidence.

Example no. 7: An enterprise owns a computer, the entering value is 80 000 CZK. After 2 years of accounting depreciation the amortized value of the computer is 40 000 CZK. In this moment the enterprise wants to remove the computer from its accounting evidence. The reasons are: a) The computer was sold, selling price 50 000 CZK (VAT 19 %), b) The computer was donated to local hospital, c) The computer was stolen, d) The computer was removed because of unrecoverable defect on motherboard, e) The computer was destroyed by fire in the office. Charge all necessary transactions.

Variant a)

022 – Single tangible assets

OS	80 000	3)	80 000

082 – Acc. depreciation to single TA

		OS	40 000
3)	80 000	2)	40 000

541 – Fixed assets sold

2)	40 000		

221 – Bank account

1)	59 500		

343 – VAT

		1a)	9 500

641 – Revenues from sale of FA

		1 b)	50 000

Transactions:

1) Sale
2) One-shot depreciation of amortized value
3) Removing from accounting evidence (in entering value)

Variant b)

022 – Single tangible assets

OS	80 000	2)	80 000

082 – Acc. depreciation to single TA

		OS	40 000
2)	80 000	1)	40 000

543 - Presents

1)	40 000		

Transactions:

1) One-shot depreciation of amortized value
2) Removing from accounting evidence

Variant c)

022 – Single tangible assets

082 – Acc. depreciation to single TA

		OS	40 000

OS	80 000	2)	80 000

2)	80 000	1)	40 000

549 - Deficits

1)	40 000		

Variant d)

022 – Single tangible assets

OS	80 000	2)	80 000

082 – Acc. depreciation to single TA

		OS	40 000
2)	80 000	1)	40 000

551 – Depreciation of int. and tan. FA

1)	40 000		

Variant e)

022 – Single tangible assets

OS	80 000	2)	80 000

082 – Acc. depreciation to single TA

		OS	40 000
2)	80 000	1)	40 000

582 - Damages

1)	40 000		