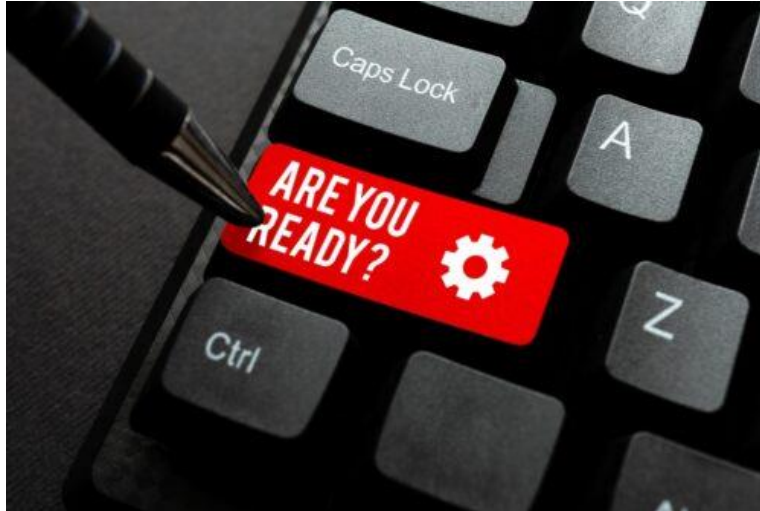


Tips to Have Your Capital Asset Schedules Ready for Your Audit

by Cristina Oropeza, Senior Associate

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Capital assets are usually a significant account balance on your financial statements. That means capital assets are material and your auditors will want to review your capital asset schedules to ensure your financial statements are free from material misstatements. It is very common for this area to be put on the backburner until after year-end as you are busy with normal operations and have other non-audit related deadlines. Preparing and updating capital asset schedules can be stressful and a lot of work; however, below are a few tips to help alleviate some of that stress when it comes time to provide the schedules to your auditors.

Review your capital asset policy – A good first step is to review your capital asset policy. Ensure it has all the relevant components such as defining capitalization criteria, information required to be included in the asset listing for efficient asset tracking, useful lives by type of asset, method of depreciation, procedures for approving asset acquisitions and disposals, inventory procedures, and year-end reconciliation procedures to ensure that all capital expenditures are captured on the listing. Your policy is not limited to the components listed above and should include all relevant information to help guide you in updating your capital asset schedules.

Update the listing periodically – Updating capital asset schedules are probably not on your to-do list until your auditors have made the request to see them. There are benefits for updating your schedules periodically rather than all at once after year-end as it removes the need to review a whole year's worth of capital purchases to determine what needs to be captured as a capital asset addition. Procedures can be implemented to update listings as capital purchases and asset disposals are being approved. For example, at the time of a purchase as part of your regular

accounts payable approval process, an employee can evaluate whether a purchase should be a capital asset addition. The employee who maintains the capital asset schedules can then be notified to add the purchase to the capital asset listing. Depending on what is more efficient for you, this can be done on a periodic basis (monthly or quarterly) rather than at the time of purchase.

Conduct periodic physical counts of capital assets – Physical inventories should be performed on a regular basis (at a minimum every three years) and reconciled to the capital asset listings. Keep in mind that if assets were purchased with federal monies, physical inventory should be performed every two years. The listings should be updated timely based on the results of those inventories. Strong inventory procedures will help ensure assets are still in the location originally reported on the listing or identify assets that have been disposed of or are no longer in service.

Reconcile capital expenditures to capital additions – A reconciliation of capital expenditures to capital asset additions will help catch asset additions that may have been missed during the year and ensure that your capital asset schedules are complete. You will need to identify expenditures that are coded to capital object codes and compare those dollar amounts to the dollar amounts of all your capital asset additions. It is common to have differences between the two as there can be capital purchases that don't exceed your capitalization threshold and therefore are not capitalized. Another common explanation could be that an asset was donated. It is important to account for all differences to determine if a capital asset may have been omitted from the listing.

The main take away is to try to update your capital asset schedules periodically rather than all at once at year-end. Year-end is a busy time, and if you spend some time implementing the above recommendations, it will help lighten the load of your year-end tasks. It will also help bring you and your auditors some comfort as it will result in more accurate capital asset reporting in your financial statements.

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