

Ninth lecture: Acquisition of tangible and intangible fixed assets

The financial accounting system allocated account 20 for intangible **fixed assets** and account 21 for **tangible fixed assets**.

These accounts are divided into partial or secondary accounts, which are summarized in the following table:

Category	Main account	Partial or secondary accounts
intangible fixed assets	account 20	<p>203 Fixables development expenses</p> <p>204 informatics software and similar</p> <p>205 concessions and similar rights, patents, licenses and trademarks</p> <p>207 acquisition difference (good will)</p> <p>208 other intangible fixed assets</p> <p>237 Intangible fixed assets in progress</p> <p>238 Advances and accounts paid for requesting fixed assets</p> <p>280 intangible fixed assets depreciation</p> <p>290 intangible fixed assets impairment (loss of value)</p>
tangible fixed assets	account 21	<p>211: Lands</p> <p>212: Land arrangement and preparation operations</p> <p>213: Buildings</p> <p>215: Technical installations, industrial equipment and tools</p> <p>218: Other tangible fixed assets, and it is divided into sub-accounts:</p> <p style="padding-left: 20px;">2181: Informatics equipment</p> <p style="padding-left: 20px;">2182: Transport equipment</p> <p style="padding-left: 20px;">2183: Office equipment</p> <p style="padding-left: 20px;">2184: office furniture</p> <p>232: tangible fixed assets in progress</p> <p>238 Advances and accounts paid for requesting fixed assets</p> <p>281 tangible fixed assets depreciation</p> <p>291 tangible fixed assets impairment (loss of value)</p>

All these accounts are debit by nature, i.e. increase in the debit side and decrease in the credit side, except for account 280, account 290, account 281 and account 291 (increase in the credit side and decrease in the debit side).

1-1-Intangibles fixed assets

1-1-1- Intangibles fixed assets definition

An intangible fixed asset is an identifiable, non-monetary and immaterial, controlled and used by the entity in its ordinary activities (commercial, production and service). It consists of the intangible assets mentioned in the table above.

1-1-2- Accounting treatment of intangible fixed assets

- When the intangible fixed asset is acquired directly from the fixed asset suppliers, the registration is as follows:

		Date		
20 4456	404	intangible fixed asset deductible v.a.t Fixed asset suppliers (fixed asset acquisition Invoice no...)	XX X	XXX

- When the intangible fixed asset is produced within the entity, the accounting registration goes through two steps:

The first step: recording the expenses incurred for the production of the intangible asset, according to their nature, in the accounts 6:

		Date		
6xx 4456	3 or 4 or 5	Expenses incurred for the production of intangible fixed asset deductible v.a.t Inventories / third party accounts / financial accounts (Recording the expenses according to their nature in A/6)	XX X	XXX

The second step: when the production of the intangible asset is completed, it is introduced into the assets by the total expenses incurred:

		Date		
20x 4457 731		Intangible fixed assets produced Collected v.a.t. Capitalized production of intangible assets (capitalizing expenses+ Self-delivery)	XX X	XXX

Examples: An entity carried out the following operations (excluding tax), that must be recorded in the journal, noting that v.a.t. rate is 19%.

- Acquisition of computer software on account for 38 000 DZD. 2 000 DZD was paid in cash for the expenses necessary for the operation of the program and 10,000 DA in cash for the expenses of training the users of this program.

Date

204		computer software	40000	
4456		deductible v.a.t	9500	
622		Remuneration of intermediaries and fees	10000	
	404	Fixed asset suppliers		45220
	53	Cashbox (Purchase invoice no...+ cashbox receipt no...)		14280

- The entity's engineers developed a computer program to manage the inventory. This required employees' wages of 90,000 DZD, paid by check, and 10,000 DZD consumable raw materials.

The first step: recording the expenses according to their nature :

		Date		
631		staff remuneration	90000	
601		Raw materials	10000	
	31	Raw materials and supplies		10000
	512	Bank		90000
		(Recording the expenses according to their nature)		

The second step: introduction of the computer program into the assets :

		Date		
204		computer program	119000	
	4457	Collected v.a.t.	19000	
	731	Capitalized production of intangible assets (capitalizing expenses+ Self-delivery)		100000

- Buying a commercial store for 500,000 dinars with a check that includes the following: a building with a value of 150,000 dinars, land with a value of 220,000 dinars, industrial equipment with a value of 70,000 dinars, and the rest represents the acquisition gap (or good-will).

		Date		
207		acquisition gap (or good-will).	60000	
211		lands	220000	
213		building	150000	
215		industrial equipment	70000	
	512	Bank (Commercial shop acquisition contract + check no)		500000

Goodwill or acquisition difference represents the difference between the amount paid and the net amount of the items obtained from the acquisition.

1-2-Tangibles fixed assets

1-2-1- Tangibles fixed assets definition

A tangible fixed asset is a tangible asset held by the entity for production, provision of services, leasing and use for administrative purposes, which is assumed to last for more than one fiscal year. It consists of the tangible assets mentioned in the table above.

1-2-2- Accounting treatment of tangible fixed assets

1-2-2-1- Purchase cost, production cost

Fixed assets are included in the entity's assets at acquisition cost (if purchased), or at production cost (if produced within the entity).

The purchase cost is equal to the purchase price outside tax minus the discounts, plus all necessary operating expenses (all expenses are added to it until the installation becomes operational).

Cost of production is equal to the sum of production costs.

1-2-2-2- Principles of grouping or separating fixed assets

In assembling or separating **fixed assets**, the following principles shall be observed:

- Items with a weak value (less than 30,000 DZD) can be considered as if they were completely consumed in the fiscal year in which they were used, and therefore they are not recorded in their respective accounts in the form of **fixed assets**, but are recorded in account **605” Purchases of equipment and supplies”**.
- Components of an asset are treated as separate items if they have different useful lives or provide economic benefits to the entity at different rates.
- Lands and buildings constitute distinct assets and are treated separately even if they were acquired together because buildings are depreciable assets while lands are non-depreciable assets.

1-2-2-3- Accounting registration of fixed assets received as contributions

- **When forming an individual private enterprise**, the accounting registration is as follows:

		Date		
21x	101	tangible asset received Exploitation funds (Allocate a tangible fixed asset to establish a private enterprise)	x	x

- **When forming a company**, the accounting registration (to implement the promise) is as follows

		Date		
21x	456	tangible fixed asset promised Partners: Operations on Capital (Execution of the Promise) or (Provision the tangible fixed asset Promised)	x	x

1-2-2-4-Accounting entry of fixed assets acquired through purchase

- When a tangible fixed asset is acquired **directly** from fixed asset suppliers, the registration is as follows:

		Date		
21x 4456	404	tangible fixed asset acquired deductible v.a.t Fixed asset suppliers (fixed asset acquisition Invoice no...)	xx x	xxx

- When a tangible fixed asset is acquired **by sending** a fixed asset purchase request to the supplier:

the registration goes through two stages:

The first stage: register the request sent with a check or cash as an advance:

		Date		
238	512 or 53	Advances and accounts paid for requesting fixed assets Bank or Cashbox (check no... or cashbox receipt no...)	x	x

The second stage: when the required fixed asset is received, the supplier remains in credit of the remaining amount and the following is recorded:

Date

21 4456		tangible fixed asset acquired deductible v.a.t	xx x	
	238 404	Advances and accounts paid for requesting fixed assets Fixed asset suppliers (fixed asset acquisition Invoice no...)		x xx

1-2-2-5-Accounting entry of fixed assets produced within the entity

➤ When the tangible fixed asset is **produced** within the entity, the accounting registration goes through two steps:

The first step: recording the expenses incurred for the production of the intangible fixed asset, according to their nature, in the accounts 6:

		Date		
6xx 4456	3 or 4 or 5	Expenses incurred for the production of intangible fixed asset deductible v.a.t Inventories / third party accounts / financial accounts (Recording the expenses according to their nature in A/6)	xx x	xxx

The second step: when the production of the tangible asset is completed, it is **introduced into the assets** by the total expenses incurred:

		Date		
21x 4457 732		tangible fixed assets produced Collected v.a.t. Capitalized production of tangible assets (capitalizing expenses+ Self-delivery)	xxx	x xx

Examples: An entity carried out the following operations(excluding tax), that must be recorded in the journal, noting that v.a.t. rate is 19%.

➤ Acquisition of an advanced production machine on account of 240 000 DZD. A cash of 20,000 DZD was paid for transporting it, and a cash of 40,000 DZD was paid as necessary expenses for its operation, and also a check of 50,000 DZD was paid as the fees of an external engineer who trained the workers on the proper use of the machine.

		Date		
215 4456		Industrial equipment and tools(240000+60000) deductible v.a.t	300000 66500	

622		Remuneration of intermediaries and fees	50000	
	404	Fixed asset suppliers (240000 × 1.19)		285600
	512	Bank (50000 × 1.19)		59500
	53	Cashbox (20000 + 40000) × 1.19 (Purchase invoice no...+ cashbox receipt no...)		71400

- The entity's workers built an administrative building for the entity's needs. This required workers' wages of 900,000 DZD, paid by check, and raw materials 1,500,000 DZD.

Accounting registration goes through two steps:

The first step: recording the expenses according to their nature :

		Date		
631		staff remuneration	900000	
601		Raw materials	1500000	
	31	Raw materials and supplies		1500000
	512	Bank		900000
		(Recording the expenses according to their nature)		

The second step: introduction of the computer program into the assets :

		Date		
213		Building	2856000	
	4457	Collected v.a.t.		456000
	732	Capitalized production of tangible assets (capitalizing expenses+ Self-delivery)		2400000

- A request for acquiring a truck was sent to the suppliers of fixed assets, with a check of 50,000 DZD as an advance. After a month, the truck and the invoice were obtained, noting that the amount of the truck was 500,000 DZD.

Accounting registration goes through two steps:

The first steps: register the order sent with a check as an advance:

		Date		
238		Advances paid for requesting the truck	50000	
	512	Bank (check no...)		50000

The second steps: After one month:

		Date		
2182		transportation equipment (Truck)	500000	
4456		deductible v.a.t	95000	
	238	Advances paid for requesting the truck		50000
	404	Fixed asset suppliers		545000
		(fixed asset acquisition Invoice no...)		