

## CAPITAL PURCHASES PROCESS

Any tangible assets (land, buildings (including improvements), equipment, furniture & fixtures, vehicles, liturgical appointments, etc.) **in excess of \$1,000** must be recorded on the books as an asset. Although these items should generally be depreciated over their useful lives, in an effort to simplify record keeping we have developed a process that fully depreciates the asset in the year of purchase. In order to accomplish this, four accounts are required – checking or payable account (102 or 200), a fixed asset account (160-179), a capital expenditure account (800's) and the “less assets expensed” account (180). An example of how the four accounts work together is as follows:

Assume you buy a \$2,000 computer. The transaction to record this (through Enter Bills, Write Checks or Enter Credit Card Charges) is as follows:

<i>Debit 0017300 Furniture Fixtures &amp; Equipment</i>	<i>\$2,000</i>
<i>Debit 9980300 Furniture Fixtures &amp; Equipment</i>	<i>\$2,000</i>
<i>    Credit 0018000 Less Assets Expensed</i>	<i>\$2,000</i>
<i>    Credit 0010200 Checking</i>	<i>\$2,000</i>

*Note: Had you received the asset as a donation, you would credit XX44200 Donations (if restricted for a ministry) or 9664200 DonationsRestricted/9664300 Donations Unrestricted instead of crediting account 0010200 Checking. With a donation, the transaction would be recorded through a journal entry.*

### **Fixed Asset Listing**

In addition to reporting your tangible assets as an asset on your general ledger, a detailed asset listing should also be maintained (sometimes referred to as a Fixed Asset subsidiary ledger). The use of QuickBooks Pro 2006 helps simplify maintaining this list by creating fixed asset items.

The simplest way to create a fixed asset item is while you are entering the transaction used to purchase it. Sometimes you may want to create a fixed asset item directly from the Fixed Asset Item list. For example:

- You intend to purchase or have already purchased several items that you want to track as fixed assets, such as a suite of office machines
- You pay for a fixed asset with cash.
- You transfer a personal asset to your business.
- You pay for a business asset with personal funds.
- You receive a fixed asset through a donation/bequest.

### **To create a new fixed asset item directly from the Fixed Asset Item list:**

1. Go to the Lists menu and click Fixed Asset Item List.
2. Click Item at the bottom of the list and click New to open the New Item window. Fixed Asset is preselected as the item type. Continue with step 4. through 8. below and then follow up by recording the asset via a journal entry as described above.

### **To create a fixed asset item from a transaction used to purchase it:**

You can record information about your asset as you pay for it from any one of the following:

- Items tab of the Enter Bills window
- Items tab of the Write Checks window
- Items tab of the Enter Credit Card Charges window
- Item column of the Purchase Order window

To create the fixed asset:

1. Enter bill, write check, etc.
2. If available, click the Items tab.
3. Select <Add New> in the Item column (using drop down) and select Fixed Asset as the item type.
4. In the Asset Name/Number field enter an identifying name or number for your fixed asset.

What you enter here appears on fixed asset item reports. Enter a name or number that will help you distinguish this item from all others on the list.

5. Enter the asset account number (i.e. 0017300) at prompt for Asset Account
6. Enter purchase information:
  - **Purchase Description:** Enter a brief description of the purchase of your fixed asset.
  - **New/Used:** Select whether your asset is new or used.
  - **Date:** Enter the date you purchased your fixed asset, or click the pop-up calendar icon to the right of the field and select one. Today's date is selected by default.
  - **Cost:** Enter the cost of your fixed asset.
  - **Vendor/Payee:** Enter the vendor name.

The Vendor/Payee name is not saved to your Vendor list when you save this transaction.

7. (Optional) Enter asset information
  - **Asset Description:** Enter a brief description of your fixed asset.
  - **Location:** Enter a location; for example, if your asset is real estate, enter an address. If your business has more than one location, enter where your asset has been placed into service.
  - **PO Number:** Enter the number of the purchase order you used to purchase your asset, if applicable.
  - **Serial Number:** Enter the serial number of your asset.
  - **Warranty Expires:** Enter the date the warranty for your asset expires.
  - **Notes:** Enter any notes concerning your asset that you want to track.
8. Leave the sales information blank and click OK.
9. Select the “Expenses” tab
10. Debit the 9980000 account associated with your asset purchase (i.e. 9980100 = Land, 9980400 = Vehicles, etc) for the cost of the item purchased
11. Drop down to next line and credit 0018000 “Less Assets Expensed” for the cost of the item purchased (enter as a negative \$ amount – the system should have automatically entered it in as a negative amount).
12. It will prompt you to enter fixed asset item – click NO (the fixed asset item was already entered via the above steps).
13. Save & Close/Save & New

### Disposal of Assets

When assets are sold or disposed, the following journal entry should be prepared (assume disposed of a computer with an original cost of \$2,000):

<i>Debit</i>	<i>0018000 Less Assets Expensed</i>	<i>\$2,000</i>
	<i>Credit 0017300 Furniture Fixtures &amp; Equipment</i>	<i>\$2,000</i>

*Please note: If funds are received for the asset sale, the following entry through “Banking – Deposits” would occur (assume sold for \$500):*

<i>Debit</i>	<i>0010200 Checking (automatic)</i>	<i>\$ 500</i>
<i>Debit</i>	<i>0018000 Less Assets Expensed</i>	<i>\$2000</i>
	<i>Credit 0017300 Furniture Fixtures &amp; Equipment</i>	<i>\$2000</i>
	<i>Credit 9665000 Gain on Sale of Assets</i>	<i>\$ 500</i>

In addition to recording the disposal on the general ledger, the fixed asset listing needs to be updated as follows:

1. If necessary, go to the Lists menu and click Fixed Asset Item List.
2. Select the fixed asset item you want to mark as sold.
3. Click Item at the bottom of the list and click Edit Item.
4. Click the “Item is sold” checkbox.
5. Click “Item is inactive.”

When you make a fixed asset item inactive, QuickBooks keeps the information associated with it but hides it on the list and removes it from any drop-down lists that use items. You can make an item active again at any time.

6. Enter the Sales/Disposed of Date.
7. Enter the Sales Price (\$0 if disposed).
8. Enter any Sales Expense.
9. Add any other information you want to record; for example, a note about the sale in the Notes field.
10. When you're finished, click OK.

### **Reconciling Fixed Assets**

The total of accounts 161 through 179 (fixed asset accounts) should offset the total of account 180 (less assets expensed account) at all times. In addition, this total should also equal the total of your fixed items listing – any discrepancies should be researched and corrected immediately. In addition to monthly, quarterly or no later than an annual reconciliation, a good technique to help ensure the accounts are in balance is to reconcile them any time a transaction involves an asset account.