

**SOLUTIONS FOR COMMON ERRORS IN FIXED ASSETS ACCOUNTING PRACTICE****Trần Văn Thuận***National Economics University**Email: tranthuan19@gmail.com*

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**ABSTRACT**

Fixed assets accounting is an indispensable content in entities' accounting activities. Fixed assets accounting provides information relating to fixed assets changes; depreciation and repairing in order to make decisions of investment, selling, disposal and repairing for upgrading fixed assets. However, for subjective and objective reasons, fixed assets accounting in entities still makes certain errors. These errors exert impact on entities' internal management as well as control, inspection and auditing of state organs. This article discusses common errors in fixed assets accounting in entities and puts forward the correlative solutions.

Keywords: Fixed assets accounting, accounting entities, errors.

**Giải pháp khắc phục sai sót thường gặp  
trong kế toán tài sản cố định tại các đơn vị kế toán**

**TÓM TẮT**

Kế toán tài sản cố định (TSCĐ) là một phần hành không thể thiếu trong tổ chức kế toán của các đơn vị kế toán. Kế toán TSCĐ cung cấp thông tin về tình hình biến động TSCĐ, hao mòn và khấu hao TSCĐ, tình hình sửa chữa TSCĐ phục vụ cho nhà quản lý ra các quyết định đầu tư, điều chuyển, thanh lý, nhượng bán, sửa chữa TSCĐ nhằm nâng cao hiệu quả sử dụng TSCĐ. Tuy nhiên, hiện nay vì những lý do khách quan và chủ quan, kế toán TSCĐ trong các đơn vị kế toán còn có những sai sót nhất định. Những sai sót trong kế toán TSCĐ tại các đơn vị kế toán ảnh hưởng đến việc cung cấp thông tin cho quản lý nội bộ đơn vị và việc kiểm tra, thanh tra, kiểm toán của các cơ quan chức năng. Bài viết này trình bày, phân tích về những sai sót thường gặp trong kế toán TSCĐ tại các đơn vị kế toán và giải pháp khắc phục sai sót.

Từ khóa: Đơn vị kế toán, kế toán tài sản cố định, sai sót.

**1. INTRODUCTION**

In practicing accounting activities in entities, accountants cannot completely avoid certain errors because of objective and subjective reasons. The important matter for managers and accountants is to identify and overcome accounting errors. For state agencies, recognizing and appraising accounting errors in the process of implementing financial policies and accounting regulations will help them suggest supplementation and modification in order to improve the system of economic management

policies of the state. For managers, realizing accounting errors will help them adjust and use accounting information for decisions making. For auditors, auditing agencies and auditing companies, detecting accounting errors will facilitate them to exactly issue conclusions, auditing reports and management letters. For accountants, identifying accounting errors plays an important role in finding reasons and overcoming errors.

In Vietnam, fixed asset accounting is a topic that is paid attention to by several researchers. Nguyen Tuan Duy (1999)

presented, assessed and analyzed actual situation of fixed asset accounting in Vietnam trading enterprises and put forward solutions to improve fixed asset accounting in those enterprises. Tran Van Thuan (2008) generalized fixed asset accounting in enterprises, analyzed fixed asset accounting in construction enterprises and raised solutions to improve fixed asset accounting in order to enhance fixed asset management in Vietnam construction enterprises. Nguyen Thi Thu Lien (2009) presented and appraised systems of Vietnam accounting standards and regulations in relation to tangible fixed assets, and proposed solutions to improve tangible fixed asset accounting in Vietnam enterprises in the context of international economic integration. However, the above studies mainly dealt with changes in accounting of fixed assets in enterprises, but rarely referred to financial aspect relating to fixed assets. On the other hand, nowadays, economic management policies of the state in general and financial regulations on fixed assets in particular have many modifications. It is necessary to examine, analyze and overcome common errors in fixed assets accounting practice.

## 2. COMMON ERRORS IN FIXED ASSETS ACCOUNTING AND CORRELATIVE SOLUTIONS

Fixed asset accounting is an indispensable content in accounting practice of any entity. Fixed asset accounting provides information relating to purchase, selling, disposal, depreciation, and repair for managers to make decisions. The exactness of information provided by fixed asset accounting clearly impacts on information users' decisions. Common errors in fixed assets accounting in entities and correlative solutions are presented below:

*Firstly*, accounting entities do not have full legal and regulatory papers for identifying costs of fixed assets. One of four conditions acknowledging fixed assets in accordance with

Vietnamese Accounting Standards issued by the Ministry of Finance (MOF) is that the costs of fixed assets must be identified reliably (MOF, 2001). Legal foundation for identifying and acknowledging costs of fixed assets is that accounting entities must have papers justifying transactions that generate fixed assets. In accordance with Law on Corporate Income Tax, enterprises only depreciate fixed assets that have sufficient papers proving enterprises' ownership. Current financial regulations define documentation of one fixed asset consisting of acceptance certificate, contract, value added tax (VAT) invoice and other related papers (MOF, 2013). If enterprises do not submit documentation of fixed assets to the state agencies, depreciation expense will not be recognized when balancing corporate income tax. One common case in which enterprises do not submit documentation of fixed assets proving enterprises' ownership is the purchase of used fixed assets from individuals without invoice. If individuals sell assets for enterprises, individuals can be provided invoice by tax agencies without charge, however, for economic benefit (tax payment obligation) enterprises do not receive invoice. If fixed assets do not have complete invoice and papers in order to depreciate, enterprises' fixed asset depreciation will create eternal variance between accounting profit and tax profit when balancing corporate income tax. In this case, enterprise's economic benefit is affected because of not being recognized their depreciation expense.

The solution for enterprises in this case is asking asset provider for issuing invoice or stopping asset buying transactions. In the future, the state should regulate tax number code for individuals and all economic transactions must issue and receive invoice.

*Secondly*, accounting entities enumerate and deduct input VAT when investing fixed assets although they do not have enough condition to be deducted. Deducted VAT enumeration without enough conditions leads to incorrect ascertainment of costs, depreciation

and impact on expenses, operation result as well as state payment obligation of accounting entities. According to current state regulations, accounting entities will be only deducted VAT when buying assets, services in general, and fixed assets in particular if they have simultaneously four conditions: 1) Accounting entities register with the state that they assess VAT according to deducting method; 2) When buying assets and services, accounting entities must receive VAT invoice (GTKT model); 3) Purchased assets and services are used for operations that are liable for VAT; and 4) Accounting entities must have payment papers through bank if transactions are valid from VND20 million (MOF, 2012). Failure of any of above four conditions, accounting entities will not be deducted input VAT and input VAT is charged to costs of fixed assets.

In that case, the accounting entities should grasp sufficiently those conditions to avoid suffering damage when buying assets.

*Thirdly*, enterprises do not abide current financial regulations on fixed assets depreciation. Current financial regulations stipulate that depreciation or non-depreciation is carried out from the day in which fixed assets are used or not used (MOF, 2013). However, many enterprises still depreciate or do not depreciate under full month convention. The full month convention in fixed assets depreciation is defined by the Decision 166/1999/QĐ-BTC dated 30 December 1999 and this Decision expired at 31 December 2003. For the duration of fixed assets usage, day or month depreciation is not a major error. However, depreciation or non-depreciation from the day in which fixed assets are used or not used will affect enterprises' costs and profit in the accounting period of fixed assets.

For this error, enterprises should carry out correctly the state's current depreciation regulations in order to create data unification in balancing with state agencies.

*Fourthly*, accumulated depreciation to time of fixed assets disposal and selling. Nowadays, fixed assets depletion in career administration units is carried out by The Finance Ministry's Decision 32/2008/QĐ-BTC dated 29 May 2008; fixed assets depreciation in enterprises abides by The Finance Ministry's Circular 45/2013/TT-BTC dated 25 April 2013. Fixed assets depletion in career administration units is calculated by straight-line depreciation method, once every year in December with full year convention (MOF, 2008). Fixed assets depreciation in enterprises can be calculated by three methods (straight-line depreciation method, adjusted declining-balance depreciation method and units-of-production depreciation method) and depreciation or non-depreciation is carried out from the day when fixed assets are used or not used (MOF, 2013). However, many accounting entities do not calculate additional depletion or depreciation from the end of previous accounting period to the time of fixed assets disposal and selling. This error leads to misleading information about accumulated depreciation and residual value of sold and disposed fixed assets. For example, a company sells a transportation facility in June 19<sup>th</sup> then depreciation value of the transportation facility is calculated by summing of accumulated depreciation at the end of May and depreciation of 18 days in June. Incorrect calculation of depletion and depreciation of fixed assets to the time of disposing and selling leads to both error in computation of fixed assets disposing and selling result and error in profit calculation.

In this case, accounting entities must calculate additionally depletion and depreciation of fixed assets from the end of previous accounting period to the time of fixed assets disposal and selling.

*Fifthly*, many enterprises change method of calculating fixed assets depreciation without enough conditions. According to current regulations, enterprises can calculate fixed assets depreciation by three methods: straight-

line depreciation method, adjusted declining-balance depreciation method and units-of-production depreciation method (MOF, 2013). For each fixed asset, enterprises decide the method of depreciation calculation based on satisfying ability of application conditions stipulated for each method. Fixed asset depreciation method that enterprises selected and registered with tax agency must apply consistently for the duration of using fixed assets. Financial regulations allow enterprises to change selected fixed asset depreciation method if enterprises have changes in the way of using fixed assets to bring about economic benefit or in the way of estimating to call in economic benefit for enterprises.

Therefore, if there are not enough conditions to change fixed assets depreciation method then enterprises must consistently apply selected and registered depreciation method. Changing depreciation method without enough conditions affects enterprises' expenses and profit. When changing fixed asset depreciation method, enterprises must clearly explain changes in the way of using fixed assets to bring about economic benefit or in the way of estimating to call in economic benefit for enterprises and tax agencies agree by documents.

*Sixthly*, defining and recording value of trade mark as invisible fixed assets in enterprises. In many cases of capitalizing state-owned enterprises, corporation fix value of trade mark in their total assets in member companies or one company determines its value of trade mark when it joins capital to establish its subsidiary companies. In that case, value of trade mark is recorded as invisible fixed asset in balance sheet and is depreciated, impacting on assets, equity capital, expenses and profit of companies. According to accounting standard on invisible fixed assets (VAS 04), trade mark that is created internally in enterprises is not recorded as invisible fixed asset because of following reasons: 1) Trade mark is not a determinable resource, 2) Trade mark is not

valued reliably, and 3) Enterprises cannot control trade mark (MOF, 2001).

In this case, enterprises should grasp thoroughly VAS 04's regulations-if an invisible resource does not satisfy the definition of invisible fixed assets then incurred costs creating that resource must be recorded as business expenses or prepaid expenses.

*Seventhly*, many enterprises balance fixed asset upgrading to fixed asset major repair. Expenses of fixed asset upgrading are recorded into fixed asset costs and impact on depreciation. Expenses of fixed assets major repair (including planned and unplanned major repair) are balanced into business expenses, do not influence on depreciation. The purpose of balancing fixed assets upgrading to major repair is fast recapture of upgrading costs instead of gradual deduction through depreciation. Fixed assets upgrading or major repair do not depend on the amount of repairing costs but depend on repairing result or operating ability of fixed assets after repairing. According to the current financial regulations, fixed asset repair is work of maintaining and replacing fixed asset parts in order to rehabilitate operating ability in accordance with standard operating condition as initially designed; fixed asset upgrading is work of improving, constructing and additionally investing for fixed assets in order to enhance capacity, product quality, and functions of fixed assets versus initial design or lengthen time of use or reduce operating expenses of fixed assets versus pre-upgrade (MOF, 2001).

Enterprises should base on repair nature and result to identify exactly type of repairs then resolve reasonably in terms of finance and accounting. For fixed asset upgrading, some accounting entities commit mistake fixed asset costs after upgrading for fixed asset depreciation value after upgrading. Fixed asset costs after upgrading are equal to initial costs summing actual upgrading expenses; fixed asset depreciation value after upgrading is equal to upgraded fixed asset residual value summing actual upgrading expenses.

### 3. CONCLUSIONS

The article presented and analyzed common errors in fixed assets accounting in accounting entities and proposed the correlative solutions. Common errors in fixed asset accounting relate to seven matters: Papers for identifying costs of fixed assets; Enumerating, deducting input VAT of fixed assets; Abiding by current financial regulations on fixed assets depreciation; Calculating accumulated depreciation to the time of fixed assets disposal and selling; Changing method of calculating fixed asset depreciation; Defining and recording value of trade mark and Balancing fixed asset repair expenses. For each error, the author analyzed the impact of error on entities' accounting information as well as put forward solutions for that error. In order to minimize accounting errors in general and errors in fixed assets accounting in particular, accounting entities' accountants must have a thorough knowledge of the law system, accounting standards, accounting system, current financial regulations of the state as well as grasp accounting entities' management and operation characteristics.

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