Bookkeeping 101: The Ceterus Way

Fixed Assets are those assets that have a long-term use. These assets cannot be turned into cash quickly. They have a useful life of more than one year. They include assets like buildings, leasehold improvements, equipment, furniture and fixtures, signage and vehicles. Typically there is also a dollar threshold to be considered a fixed asset. Generally a threshold of $2,500 or $5,000 is utilized to determine if an asset should be capitalized or not.

Most fixed assets are depreciated. There are a variety of depreciation methods available to businesses. At Ceterus, we book depreciation based on the depreciation taken on the tax return each year. Changing tax rules can make predicting the amount of depreciation difficult at times. Some businesses will book depreciation monthly, using an average of either what is expected in the current year or an average of the prior year. They will then true up depreciation when the tax return is filed. Others will book depreciation annually, when the tax return is complete.

Ultimately, you should expect any large purchase that will be used for years to come as a fixed asset, which will sit on the balance sheet. You will not see this item hitting the profit and loss statement when it is purchased. The impact on the profit and loss statement comes from the depreciation that is booked each year.

If you see small purchases in your fixed asset accounts or see large purchases on the profit and loss statement you should investigate further to ensure those transactions were recorded properly.