Creating a Fixed Asset

Setting up a Fixed Asset in QuickBooks is a simple and straightforward process. Unfortunately, managing that Fixed Asset does result in some complications, even for a small business, because of tax laws requiring proper accounting for depreciation, major repairs, improvements, and retirement. While these instructions show the basics of creating a Fixed Asset and posting a journal entry for straight-line depreciation, it is important for each company to work with its tax professional to determine the appropriate method by which to account for each asset.

To begin, open the Chart of Accounts under the Company heading; this may be done through either the home page or the menus. Click the + sign at the lower-left corner to open the New Account window. From the drop-down Type menu, select **Fixed Asset**, give it a descriptive name, and provide a relevant description. If only individual, rather than mass, Fixed Asset accounts are utilized, then it may be useful to setup the equipment name and model number in the Name field and list the serial number in the Description field.

Some businesses may wish to take a Fixed Asset approach that seems easier, and simply call this account “Property, Plant, & Equipment”, have it contain all purchase and depreciation transactions, and simply click **OK** at this point. This is not the optimal approach and it will result in significantly more time, expense, and hassle, come time to file taxes, modify or retire an asset, or respond to any sort of audit. It is highly recommended to stick with the approach of specifically defining each asset (or mass asset, where appropriate) and click **Next** at this point to follow some additional steps.
After clicking Next, the New Account window will clear to allow entry for another account. Again, Fixed Asset should be selected from the Type drop-down menu – QuickBooks should even assist with this by pre filling the field with Fixed Asset. Unlike before, however, simply type "Original Cost" into the Name field and now check the box next to Subaccount of and select the Fixed Asset created in the previous step using the drop-down menu. Again, click Next at this point, as there is one more account to setup.

The last account will again be a Fixed Asset type and will again be a Subaccount of the asset created in the first step. The only difference this time will be that the Name should be “Accumulated Depreciation”.

There is a very important reason for the setup of each of these assets. The initial asset will represent the Net Book Value for an asset, as it will be the summation of the Original Cost account and the Accumulated Depreciation account. When an asset is first purchased, or if it has already been purchased and the costs need to be reclassified as an asset from existing expenses, the value will go into the Original Cost account. Unless any significant improvements or upgrades are made to the asset, there will probably never be any other transactions in this account. This is different from the Accumulated Depreciation account, which will be utilized every time the asset is depreciated. The Accumulated Depreciation account is actually a contra-account, and should always contain a negative value (i.e. reduction), whereas the Original Cost account should always contain a positive value. By netting the two together, the net value of an asset is determined, as it is calculated by subtracting an asset’s depreciation from its original cost.

For example, assume that an asset was purchased for $6,000.00 ($6K). The original transaction would be to debit Asset: Original Cost for $6K and credit Cash (or a liability account). If monthly straight-line depreciation is utilized and the asset has a five-year life and no salvage value, there will be a transaction each month that debits Depreciation Expense and credits Asset : Accumulated Depreciation for $100.00 ($6K / 60 months = $100.00). Therefore, at the end of two years, the Asset: Original Cost account will still have a balance of $6K, assuming nothing else changed in that time. The Asset: Accumulated Depreciation account would have a negative balance of $2.4K ($100.00 per month x 24 months). The Asset account would show the net value of Original Cost and Accumulated Depreciation, and would thus show a Net Book Value for the asset of $3,600.00 ($6K – $2.4K = $3.6K). Thus, it may be seen why setting up all three accounts is an important process that allows for the whole picture of an asset, and its value, to be identified at any time.

Unlike QuickBooks Mac, where three separate accounts have to be created, QuickBooks Online has a depreciation option that results in the system automatically creating the primary asset, original cost, and depreciation accounts. By default, that depreciation account is simply called Depreciation, and it often serves to identify this as Accumulated Depreciation in order to more specifically identify the account.