

**KAMPALA INTERNATIONAL UNIVERSITY**  
**SCHOOL OF BUSINESS AND MANAGEMENT**

**AN ASSESSMENT OF MANAGEMENT OF FIXED ASSET**

**CASE STUDY: COOPERATIVE AND RULAR DEVELOPMENT  
BANK(CRDB)IN DAR-ES-SALAAM.**

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A dissertational submitted impartial fulfillment of the award of degree of  
Bachelor of Business Administration (Accounting Optional) in  
Kampala International University

## DECLARATION

I JANET KUYANGANA do hereby declare to the best of my knowledge that this dissertation is my original work and that it has never been submitted for any Bachelor of Business Administration (Accounting) or any other professional award in any University or institution of learning.

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## **DEDICATION**

This work is dedicated to my parents Mr and Mrs Kuyangana, my brothers and sisters for showing me their love encouragement, and to all my friends who have made an endless effort in supporting my study.

Thank you for your inspiration and may God bless you.

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## **ABBREVIATIONS**

CRDB \_Cooperative and Rural Development Bank

BBA \_Bachelor of Business Administration

TFAS –Tanzania Financial Accounting Standards

IFRS \_International Financial Reporting Standards

IT \_Information Technology

IASB \_International Accounting Standard Board



## **ACKNOWLEDGMENT**

I would like to render my sincere thanks to the God almighty for his mercy and love in my life. Many people played different roles for this report to be successful; be directly or indirectly. I would like to declare that their support to this report is highly treasured. It is difficult to mention all names, but it is true that some people should have special appreciation. Special gratitude goes to Mr. Nalela Kizito for the time he spent for supervision, from its preliminary stage to its completion . It is criticisms and corrections helped to make this report successful.

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## **ABSTRACT**

Fixed Assets management has been a focus of many research studies because of its important to business entity. To meet the current competition in this globalized economy it is important for organizations to know how they can manage their capital resources in their possession. Because the organization continually searches for ways to increase possession. Because the organization continually searches for ways to increase provision of quality service to its customers, it is hoped that this study may offer some general insights.

The purpose of this research project was to investigate the overall system of fixed assets management at the cooperative and rural development Bank (CRDB). The case study method was used. The data collection method comprised of structured and unstructured interview. 12 employees were randomly selected as a sample to represent the whole employees. The research questions were posted, and from which analysis carried out to arrive at a correct and meaningful conclusion.

The result from interview acknowledged that assets are properly and affectively managed. The fact is that, there are some weaknesses on the capitalization of small items, effectiveness of disposal and storage of used assets.

Several suggestions have been made to enhance the organization management of fixed assets at CRDB. These include, increase in budget allocation for capital investment, adjust capitalization modality; improve assets storage and security: maintain regular maintenance and repairs of fixed assets and ensure timely and cost affective disposal of fixed assets.

## **CHAPTER ONE.**

### **Introduction**

#### **1.1.0 Historical Background of the Organization**

CRDB BANK LIMITED is a private commercial bank. The Bank was established on July 1st 1996 to succeed the former Cooperative and Rural Development Bank (CRDB), which was a public institution with majority of shares held by the Government of the United Republic of Tanzania. The succession was a result of the liberalization of the banking industry in Tanzania.

The liberalization which followed the enactment of the Banking and Financial Institutions act (BFIA) of 1991 and Government's policy to divest its interest in the sector, prompted a recapitalisation

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CRDB has been blessed with an invaluable partnership from the Danish International Development Agency (DANIDA). DANIDA's commitment and support in technical, managerial and financial areas of the Bank's operations has been instrumental for the success of CRDB BANK LIMITED.

DANIDA therefore was fundamentally involved in CRDB's restructuring as demanded by the BFIA (1991). The restructuring, which started in 1992, aimed at a more efficient organizational system, better returns to shareholders and overall improvement in the financial performance of the Bank, with the following objectives:

- Organizational restructuring where the organizational structure was comprehensively decentralized and designed to make the Bank more customer oriented, more accountable and with ability to compete in the free market economy
- Operational restructuring where operational policies and procedures were streamlined to make the Bank more efficient and customer oriented in its operations.
- Financial restructuring where the Bank was to start operating on sound financial basis and fulfilled conditions and measures of financial soundness mainly as outlined by BFIA (1996).
- Human resource management where requirements for human resources were established and manpower downsizing was effected. To have optimum number of employees with respect to customers and bank profitability, 600 employees had to be retrenched. Measures were taken to ensure that jobs restructuring would stimulate employees to work be more productive and aim higher.
- Cultural change where new corporate culture attributes stressing on customer service and ability to compete were introduced to Bank staff

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- Cultural change where new corporate culture attributes stressing on customer service and ability to compete were introduced to Bank staff.

We aspire to be a local leading profitable retail bank, which is customer-need driven with high quality products and services offering competitive returns to shareholders.

We will have a wide, fully linked outreach in Tanzania with strong, effective management, competent, professional and motivated staff.

## **1.2 Background to the problem**

The historical background of the effective management of fixed assets is based on the experience that, the liability of fixed assets management has been deteriorating. This deterioration has been largely contributed by lack of clear objectives of asset management.

Management of fixed asset is very important in organization. The importance arises from the fact that, fixed asset play a significance role in running operation

of the business. But it has been a tendency of some manager to ignore the significance of assets management.

### **1.3.Statement of the problem**

Fixed asset are the main components of any balance sheet of any going concern organization, be in a commercial entity

They are a local leading Tanzanian bank providing quality financial services with a strong focus on retail clients and customized corporate services while ensuring a competitive return to shareholders.

Through their wide linked branch network and dedicated staff, the offer convenient access throughout the country.

### **1.4 Objectives of the Study**

- i) The research is meant among other things to:
- ii) Asset and highlight how the process of decision making fail to apply the principles of fixed asset management and accounting effectively;
- iii) Examine the policy and procedures of fixed assets procurement;
- iv) Assess whether the record mechanism used are sufficient and complete in such away that all fixed assets acquired are reflected in the books of accounts of the organization for proper control of the fixed assets.
- v) Assess how the process of repairs and maintenance to fixed assets is effectively carried out.
- vi) Examine and ensure that proper and adequate methods of depreciation are applied in arriving at actual depreciation expenses.
- vii) Examining how the process of disposal of retired asset is effectively managed.

### **1.5 The Significance of the study**

The study is significant in the following ways:

- To portray the weakness in the general management of Fixed Asset and highlighting causative factors;
- Suggestions and recommendations obtain from findings will assist the management of Cooperative and Rural Development Bank (CRBB) to formulate or adjust the policies and guidelines relating to capital budgeting, repairs and maintenance, proper recording, timely disposal of fixed assets in order to achieve the objectives of business;
- Their are trustworthy, honest and loyal. We take pride in and uphold the Bank's reputation for integrity and confidentiality in customer dealings.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Fixes Assets overview**

Fixed Assets management is a very important subject to any organization as it pervades all levels of decision-making. It involves function from Boardrooms downward and covering many aspects of material management and accounting from (Purchasing) acquisition, storage to disposal. In between, many challenges to the professionals are met and one is supposed to apply knowledge acquired for solving those problems.

#### **2.2 Meaning of Fixed Assets**

Concise English dictionary, defines word Assets as “useful or valuable resources”. Therefore Fixed Asset management is then, how these useful or valuable resources are managed in the organization. The given definition however, fails to give a wider meaning in business term. A full definition of the words Fixed Assets in the one given in the International Accounting Standards, as those assets, which:

- a) Are held by an enterprise for use in the production or supply of goods or services for rental to others or for administrative purposes; and
- b) Are expected to be used during more than one year.

It is therefore, fixed assets are those assets, which are intended for use in a continuing basis by the entity in the process of earning revenue or support of the activities of the entity, rather than for sale in the ordinary course of the business.

Fixed Assets are those useful and valuable tangible and/or intangible resources, which could be either movable or immovable resources, owned by an organization that has future claim on the business.

Unlike other forms of Assets, Fixed Assets have a definite life, useful economic life that is “the period over which the entity will derive economic benefit from its use” and the second distinct feature is they are used in operations rather than for resale. The process of depreciation affects this economic life.

### **2.3 Classes of Fixed Assets**

Fixed Assets are usually classed as either tangible or intangible. Tangible Fixed Assets are characterized by physical existence: they include Land, Wasting Assets, Property improvements, buildings, and equipments, etc. While intangible Fixed Assets are rights privileges, and competitive advantages to the owner of long-term assets that have no physical substance and are used in operation; examples are copyright, patents, leasehold, leasehold improvement, goodwill. Davidson and Weil (1977) p.19<sub>2</sub>.

Needle B.E (1989) Defines intangible fixed assets as long term assets that do not have physical substance and in most cases have to do with legal rights or advantages held.

For the purpose of this paper, only tangible Fixed Assets will be dealt.

#### **2.4.0 Acquisition and Recording of Fixed Assets**

As Fixed Assets being tangible long lived assets, as such they need long run planning careful and well arranged purchasing procedures; existence of pre-arranged policies on their acquisition maintenance and repairs, optimal utilization of acquired assets, proper recording of all fixed assets, identification by purposeful coding and all other means and modes to be found in a better run business or service organization.

After being clear with concept and terms of Fixed Assets and Fixed Assets Management it is important to highlight how the concept plays great role in the field of Accounting. It is obvious that Fixed Assets to any organization have to be planned, acquired, recorded, maintained and finally disposed. All these processes fall under Accounting and management.

#### **2.4.1 Planning Capital Expenditure**

Fixed Assets normally acquired through capital expenditure, itself as a result of capital budgeting.

**Davidson and Weil (1977) p.19-3**, Portrays that; the result of decision regarding capital expenditures are generally far reaching and has significant effects on the success or failure of an enterprise. It may not be possible to dispose to ill-advised capital expenditure without substantial loss. The incurrence of indebtedness to finance capital expenditure commits future earnings. If sufficiently increased earnings failed to result from capital additions, the ability of the enterprise to service its financial obligations could be seriously impair (weaken) and may be economically disastrous. By the same token failure to engage in desirable capital expenditure programs could deprive an enterprise of valuable opportunities for profitable growth.

Long range planning should be related to the present programs and activities of the enterprise. In effect it provides the bridge between the current situation and longer- term objectives. Capital budgeting is the entire process of planning expenditures whose returns are expected to extend beyond one year.

**Nyamsogoro G.D. (2002)**, The Financial Management Instruction Manual; defines Capital Budgeting “ is the process of identifying, analyzing, and

selecting investment projects whose returns (cash flows) are expected to extend beyond one year". Obvious example of capital outlays are expenditure for Land, Buildings, and Equipment, and for permanent additions to working capital associated with plant expansion.

According to Nyamsogoro, capital budgeting involves the following:

- Generating investment projects proposals consisting with the firm's strategic objectives,
- Estimating after-tax incremental operating cash flows for the investment projects.
- Evaluating project incremental cash flows
- Selecting projects based on a value-maximizing, acceptance criterion,
- Re-evaluating implemented investment projects continually and performing post-audits for completed projects.

#### **2.4.2 Importance of Capital Budgeting**

In many organizations, the process of Capital Budgeting is completely ignored or less emphasized despite the significant role the Capital Budgeting plays. To give the importance of capital budgeting Nyamsogoro pin pointed the number of factors that combine to make capital budgeting as the important decision.

These are:

- **Long term effect**

It is a commitment into a future; it represents a decision whose returns continue over an extended period. An erroneous forecast of assets requirements can result in serious consequences,

- **Timing and availability of capital assets**

Good capital budgeting will improve the timing of assets acquisition and the quality of assets purchased.

- **Raising funds**

Assets expansion involves substantial expenditures and large amount of funds are not available automatically, therefore the requisite financing must be arranged in advance.

- Failure occurs both because of too much capital investment and because of the under delay in replacing the old equipment with modern equipment.

Administration of capital budgeting involves the approval of the capital expenditure, planning horizon, and preparing payment schedules and post audit. In approval stage, typically large amounts require higher level of approval. In that case, the review and approval of major outlays is an important function of boards of directors. The planning schedule varies with a nature of industry.

#### **2.4.3 Acquisition of Fixed Assets**

The commercial implications of capital purchases are very important, which requires different parties to be involved for effective purchase. Especially when a technical property is to be acquired. Not only purchasing department is to involve in the whole process but also the user department must play part in the acquisition, for it is the only part than can verify the capacity and efficiency of the Asset(s). At the same time user department should not by their own deal with the process of ordering instead purchasing department.

**David Farmer (1985)p.18.** Highlights the following, to ensure that purchasing policies are tenable and have degree of permanence with reasonable time frame it would be appropriate to use expert advice in their formulation. This expert advice may stem from, for example the legal department and could readily cover such issues as reciprocity, ethical standards, commitments, etc. Financial advice would be sought in respect of policies on credit periods for suppliers,

buying of currency, limitations on signing purchase orders etc. Technical input could come from manufacturing, quality control design engineering. From that, then therefore it is important to include both expatriates on purchase of fixed assets (capital assets).

#### **2.4.4 Recording of Fixed Assets**

It is important for each company to have an asset manual with written policies. The determination of appropriate base units and other policies unique to a company must be described and documented. Without written policies, asset accounting will not be consistent over a period of time.

It is difficult to exaggerate the importance of maintaining adequate records for effective control and reliable accounting in regard to fixed assets. The purposes served by these records are as follows:

- i. To form the basis for necessary management reports and financial statements,
- ii. To supply the information in sufficient detail for normal internal control procedures, primarily the audit and inventory of tangible fixed assets,
- iii. To provide the required information for preparation of insurance claims for assets that have been damaged or destroyed or stolen.
- iv. To show the location and to some extent support the valuation of assets for the purposes of real and personal property tax assessment.

#### **2.4.5 Chart of accounts**

The cost and other details of buildings, plant, and equipment (fixed assets) should be classified according to logical fixed assets chart of accounts. This classification may be based on depreciation type and rate, function or use, life, location, cost center, date of acquisition, tax group and amount capitalized.

#### **2.4.6 Fixed Asset ledger**

The fixed asset ledger contains detailed records and functions as a subsidiary ledger controlled by general ledger should maintained to record the fixed assets. The ledger contains the individual accounts for individual fixed assets or assets group. Asset ledger should be well coded to facilitate the posting of the asset entries to appropriate accounts. Account codes are the individual account addresses; therefore fixed asset code enables easy identification for an asset. In computerized systems, fixed asset cards may be replaced with equivalent electronic records.

The cards are usually prepared from property (fixed asset) acquisition reports. Such reports usually provide for physical control procedures by requiring tagging (labeling) of assets with serial number identification. Te separate fixed asset card is to be kept for each unit. In addition to that, also a separate fixed asset record sheet should be kept including register of fixed assets.

#### **2.4.7 Accounting issues with fixed assets**

The accounting issues with fixed assets are as highlighted below:

- Computing the cost of assets
- Allocating the cost of fixed assets revenues for the periods the benefit
- Accounting for expenditures such as repairs and improvements to fixed assets
- Recording the disposal of fixed assets.

#### **2.4.8 Cost of fixed assets**

An item of property, plant and equipment, which qualifies for recognition, as an asset should be initially, be measured at its cost. **IAS (2003).**

Cost of fixed asset purchased/acquired comprises the purchase price including irrecoverable taxes, and any direct attributable costs of bringing the assets to its

location and working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price. Example of attributable costs are, site preparation delivery and handling costs, installation costs, such as special foundation for plant and test runs at commissioning stage, professional fee, (legal engineering services etc.)

#### **2.4.9 Capitalization of fixed assets**

An item should be recognized as fixed asset when:

- It is probable that future economic benefits associated with the asset will flow to the enterprise
- The cost of the asset to the enterprise can be measured reliably.

It is usual for enterprise to have a significant in small assets such as tools, dies, jigs, scientific instruments, eating utensils, and other small items. Detailed accounting for these is difficult by virtue of their high mobility, generally short life and usually low unit cost.

**Davidson and Weil (1977)** Suggests that, small items of relatively high value or long service may charged to an appropriate asset account as a group and depreciated at a composite rate sufficiently in maintaining control over them.. It is desirable for periodic inventories to be taken so the records can be verified or adjusted as the case may be.

Often such items with relatively low value are not capitalized, and the minimum in small items is considerable, such a procedure can materially understate reported assets and income.

#### **2.5 Repair and Maintenance**

Effective and proper management of fixed assets does not end with only proper capital budgeting, scientific purchase and proper recording; but beyond that. Repairs and maintenance is also the most important part of fixed assets



management, which should be emphasized. It is then, therefore necessary for every organization whether public or private owned, or whether trading to non-trading to have well arranged and planned policies in regard to repairs and maintenance. Repairs and maintenance bring an asset to its normal operating capacities. Therefore, to overlook the significance of repairs and maintenance will bring the organization to the serious problem in its daily operations and thus the future survival of such organization will be under insecurity.

**Kohler** as quoted by **Davidson and Weil (1977)p.19-29** Defines maintenance as “ the keeping of the property at a standard of operating condition” and repairs as “the restoration of a capital asset to its full productive capacity after damage, accident or prolonged use, without increase in previously estimated service life or period”.

While in theory, maintenance, and repairs do not extend prior estimates of service life or capacity in practice this principle can be difficult to apply unequivocally. A relative low level of expenditure on maintenance and repairs may significant curtail asset service life or capacity, while a relatively large expenditure may accomplish the opposite. Therefore any estimate of expected service life or capacity assumes a given level of maintenance and repairs. For this reason a distinction is usually should be made between ordinary repairs and extra ordinary repairs.

The above paragraphs greatly show how the concept of repairs and maintenance for fixed assets is so important in the daily operations of any institution. Contrary to the importance shown above, the need for repairs and maintenance it is odd that many government institutions lack coherent policy to cover it. At the same time no or insufficient fund are allocated to cater for owned fixed assets' repairs and maintenance.

## **2.6 Accounting for repairs and maintenance**

Expenditure on repairs or maintenance on property, plant and equipment (assets) is made to restore or maintain the future economic benefits that an enterprise can expect from the originally assessed standard performance of the asset.

Normal repairs should be charged to expense when incurred, thus it is to be posted to profit and loss account; however, extraordinary repairs that extend the life, increase the capability, or increase efficiency of the item should be capitalized during its life, the historical cost increased, and depreciation recalculated from that date forward.

## **2.7 Depreciation and accounting for**

As an asset is used overtime, the bundle of future service benefit available from it becomes smaller and smaller. The part of original cost of the asset that is assigned to the bundle of service benefit that has been used is called depreciation.

The term depreciation is defined in the International Accounting Standards as ‘the allocation of the depreciable amount of an asset over its estimated useful life’.

The depreciable amount of an item of fixed assets should be allocated on a systemic basis over its useful life. The depreciation method used should reflect the pattern in which the Asset’s economic benefits are consumed by the enterprise. The depreciation charge for each period should be recognized as an expense.

The financial standards require the provision for depreciation to be made. As it states “where fixed assets have a finite useful economic life, provision shall made for depreciation by allocation the cost (or the revalued amount ) less estimated residue value of the asses fairly as possible to the periods expected to benefits from their use”.

### **2.7.1 Causes of Depreciation**

The common causes of depreciation are physical wear and tear and obsolescence due to technology change.

### **2.7.2 methods of depreciation**

The depreciation methods used should be the most appropriate regards to the types of asset and their use in the business of the entity. The following are some of the depreciation methods:

- Straight line method
- Diminishing balance method
- Sum of the year digit method
- Sinking fund method.

The depreciation method applied to property, plant and equipment should be reviewed periodically and, if there has been a significant change in the expected pattern of economic benefits from those assets, the method should be changed to reflect the change pattern. When such a change in depreciation estimate and the depreciation charge for current and future periods should be adjusted. (The International Accounting Standards 2003.)

Therefore a change from one method of providing depreciation is permissible only on the ground that the new method will give fairer presentation of the result and of the financial position. The change in the method of providing depreciation shall be disclosed in financial statements together with the reason for the change as well as quantification of the impact of the change on the reported result.

### **2.7.3 Accounting Treatment**

The depreciation charge for each period should be recognized as an expense and the accounting treatment in the profit and loss account should be consistent with that used in the balance sheet. Hence, the depreciation charge in the profit

and loss account should be based on the carrying amount of the asset in the balance sheet.

## **2.8 Disposal of fixed assets**

All machines tools and equipment at some point in their life become surplus for one of the two reasons; they wear out, they become technologically obsolete. Competent management makes every practical effort to prolong the life of the firm's capital equipment as long as possible, but ultimately, because of obsolescence, breakdowns, the introduction of new products or new methods of production, replacement of capital assets even building becomes necessary.

As assets wear out, become obsolete or are no longer needed, the management may decide to sell them or trade them in on new one. Management therefore needs to make appropriate procedures to ensure that a profitable disposable arrangement is made.

Disposal of surplus and scrap items has vital importance as management of fixed assets is concerned.

Dobler (1984) advocates that, : there material cycle is not complete until all materials are disposed of in the most productive manner, to meet this, therefore, the professional and managerial skills required for a successful disposal operation are the identical skills found in the competent purchasing department". The department's decision to dispose of an asset should be based on the comparison between increasing repair and maintenance costs for older assets, and the acquisition and operating costs for new assets Departments should have formal replacement policies for various types of assets.

Assets may be scrapped, upgraded, or sold. The most appropriate option depends upon the cost of alternatives, the type of equipment, and whether there

is a ready market for the asset. Factors to consider include the cost of disposal, upgrading refurbishing replacement. As asset proposal will be needed if the cost upgrading or refurbishing would affect the value of the asset, to it the replacement option is chosen. If plan or vehicles must be disposed of, there are various ways of finding a market: private sale through newspaper advertisements, sale to staff, public or private auctions, sale by tender, and so forth. Someone in the department may have the expertise organize the disposal, or it may be more efficient to contract someone to perform this service.

[www.treasury.govt.nz/publisector/fixedassets/chapterthree](http://www.treasury.govt.nz/publisector/fixedassets/chapterthree)

**Dobler** also insists the formation of Salvage and Reclamation (S&R) department with change of disposing surplus with optimum profitability.

Many firms, regrettably, fail to establish salvage department or any other department authority to deal with salvage materials including fixed assets primarily because they believe their volume of surplus does not justify a full time operation. As a result industries and other institutions loose millions of shillings annually by neglecting salvage and reclamation programs

**Dobler** suggests that, whether big or small manufacturing or non-manufacturing firms should have salvage and reclamation department. This department can operate full or part time depending on frequency of quantity and value of salvage materials involved.

### **2.8.1 Method of disposal**

After officials responsible for disposal certifies the need for disposing such item(s) and approval from executive director or any other officer or body of committee authorized is received, the supervisory committee may use the already laid down methods if any or use the method(s) they prove to be appropriate and effective.

It is not necessary for all firm's to apply the similar method(s) of fixed assets disposal; instead a particular firm should choose method(s), which deemed fit to such firm. Some possible methods are:

- i. Inviting offers from public through tender,
- ii. Annual contract, and
- iii. Public auction.

**Dobler;** in his book, identifies the following methods of disposal:

- i. Use within the firm,
- ii. Return to supplier,
- iii. Direct sale to another firm,
- iv. Sale to dealer or broker,
- v. Sale to employees,
- vi. Donations to educational institutions,

**2.8.2 Problems associated with disposals in the Government ministries and institutions.** There are several problems in implementing policies in regard to fixed asset disposal in government institutions, which may be as a result of lack of commitment by responsible employees and other as identified by **Muhizi S.G (2001)** in his research paper. Muhizi identified the following problems:

- i. It takes long time disposal to take place,
- ii. Value of plant are not included in the inspection sheet,
- iii. Acute shortage of qualified personnel, and
- iv. Government bureaucracy.

As NBC being among of the government institutions may be possible to face similar problems in implementation of disposal of surplus materials policies.

Obsolete and surplus items have to be disposed off as soon as practicable. It should be noted that delays in disposing of redundant materials and fixed assets not only increase carrying costs, but also creates the risk of deterioration and loss of sale value of such assets.

## **2.9 Accounting for disposal**

Proper recoding of all firm's should be more emphasized, in case of assets, proper recording must be done effectively from when an asset is acquired to the date of disposal.

Any thing-taking place in relation to the respective asset should clearly be shown in the books of accounts.

After approval to dispose an asset from the official vested with such activity, after its disposal official responsible in recoding (accounting department) should post the respective transaction in the books of accounts. On the date of disposal an item should be eliminated from the accounting records. When disposal is affected it is necessary to bring the depreciation up to the date of disposal and remove both the cost and the accumulated depreciation from the respective accounts. This step is accomplished by debiting the accumulated depreciation account from the total depreciation to the date of disposal and crediting the asset account for the cost of the asset.

Also an account called disposal for fixed asset should be opened and be debited by the cost of the item disposed and credited by amount realized from disposal, together with the amount of accumulated depreciation. A gain or Loss on disposal is recognized in this account depending on the fact of the situation. In addition an asset should not be written off until it is actually disposed off. Needle, (1986)p.419.

Gains or losses arising from the retirement or disposal should be determined as the difference between the estimated net disposal proceeds and the carrying

amount of the asset and should be recognized as income or expenses in the income statement.

## **2.10 Key Internal Control over Fixed Assets**

The controls over fixed assets include the following:

a) Authorization

Acquisition and disposal should be authorized, usually by board minutes or designates officer with specified limits. Also depreciation method to be adopted should be authorized.

b) Nominal ledger account should be kept for cost and provision for depreciation for each type of asset.

c) Fixed assets register should be maintained. For each asset it should show:

- Full description including identification number
- Location in the institute's premises
- Date of acquisition, suppliers name, cost depreciation provided

d). Physical security and maintenance of title records

Tangible assets should periodically be verified to confirm existence of assets show in records.

## **2.11 Risk management**

organizations are responsible for managing the risks associated with their activities. This means that they will need to consider whether to insure, carry their own insurance (bear all the risk and cost themselves), or partially insure assets. If departments do decide to insure, there are a number of factors, which they should consider. These factors include the amount of excess they are prepared to carry, and the types of accidents they insure against. May wish to consider insuring against the short-term costs of becoming operational after a major disaster, such as a fire or earthquake. They need also to consider their



liability to a landlord in the case of a fire or other damage to a building, which they lease.

Motor vehicles are more prone to theft or damage than other assets. They may also cause considerable damage to third parties, such as may occur in an automobile accident. In addition to cover for loss or damage, it may be prudent to cover against damage to third parties.

In addition to having formal insurance policies, there are other ways of managing the risk associated with plant and vehicles. Departmental regulations or “operating policies” can also reduce risks. Not all of the following examples will be appropriate for every organization, but they may help departments to develop their own policies.

- Only authorized personnel should be allowed in areas where expensive machinery is kept;
- Only authorized personnel should be allowed to operate plant or vehicles;
- The keys for office vehicles should be held in a central office during the day, and employees should leave their names when they take the keys;
- Employees should be encouraged to attend defensive driving courses;
- A check should be made to ensure that drivers or operators have
- Employees should be told that they will incur personal liability if they drive while under the influence of alcohol, drugs, medication, and so forth; or if they leave the vehicle unattended and unlocked;
- Physical access to buildings, or areas within buildings, should be restricted especially after hours. [www.treasury.govt.nz/publsector/fixedassets](http://www.treasury.govt.nz/publsector/fixedassets)

## **CHAPTER THREE**

### **Research methodology and data analysis**

#### **3.1 introduction**

This chapter describes how the study is designed and how it was conducted. It also gives the sampling procedures, data collection methods and data analysis

#### **3.2 Research design**

A case study design was adopted for the study to focus an assessment for effective management of fixed assets.

#### **3.3 Unit of Inquiry**

This is an element or aggregation of elements from which information is collected. And an element is that unit about which information is collected and which provides the basis of analysis.

In this study, unit of inquiry includes 'one selected bank, which is Cooperative and Rural Development Bank(CRDB) From this unit of inquiry an element was established. The element is individual whom stakeholders of CRDB These are employees and management of CRDB.

#### **3.4 Sampling procedure**

The studied population consists of one (1) Organisation. The sampling method was simple random sampling and also judgmental is inclusive. From sample institution, an element was established which was individuals who are employees of CRDB. These gave sample size, which was interviewed.

#### **3.5 Methods of data collection**

To obtain information relating to the investigation of the study both primary and secondary sources of data were used. Interviews and observation were mainly used to obtain primary data while documentation method was employed to acquire secondary data for comparative purposes.

#### **i. Primary Data Collection Method**

This is data collection method for which the researcher obtained data through observation (participative ) and interview.

##### **a) Observation (participation) method**

This included the researcher participating physically in the system of recording, repairs, and other calculation such as depreciation.

##### **b) Interview method**

This involved face –to-face discussion with respondents including staff from directorate of technical services; workshop department; automation; theatre department and supplier and accounts department.

#### **ii. Secondary data collection method**

In this method, the researcher used various document of the institute's including previous financial statements, fixed assets manual, director's and auditor's report, etc.

### **3.6 Methods of data analysis**

The data collected is carefully organized and analyzed before so as to make them meet the objectives of the study in terms of drawing up study's conclusions and recommendations.

S/NO	Bank Name	Official Contact	Currency	Account No.
1.	Deutsche Bank AG London 6 Bishops Gate LONDON EC 2N 4DA UNITED KINGDOM	Telex No: 88333341 Z BANT G SWIFT CODE: DEUTGB2L WEBSITE: www.deutsche-bank.com	USD	0298488 0000 USD 000LDN M Tag 29848800
2.	Lloyds TSB Bank PLC Overseas Division P. O. Box 19 6 Eastcheap LONDON EC 3P 3AB	Telex No. 888301 & 883474 SWIFT CODE: LOYDGB2L WEBSITE: www.lloydstsb.com	GBP EUR	1181646 86019572
3.	Citibank, N. A 112, Wall Street 16th floor Zone 4 NEW YORK NY 10043 UNITED STATES OF AMERICA	Telex No. 669720 SWIFT CODE: CITIUS33 WEBSITE: www.citibank.com	USD	36072436
4.	DZ Bank Postfach 2628 D-6000 Frankfurt 1 GERMANY	Telex No. 41299 DG D SWIFT CODE: GENODEFF WEBSITE: www.dzbank.de	EUR	0003 013282
5.	Danske Bank, 12 Halmene Kanal, DK-1092 Copenhagen K DENMARK	Telex No. 27000 daba dk SWIFT ID: DABA DK KK WEBSITE: www.danskebank.com	DKK	3007500106
6.	Kenya Commercial Bank Moi Branch Moi Avenue - Kencom House NAIROBI	Telex: 22231 KENCOM SWIFT ID: KCBLKENX WEBSITE: www.kcb.co.ke	KES	231820134
7.	Algemene Bank Nederland N.V. (ABN AMRO) P. O. Box 669 32 Vijzelst reat 1017, HL, AMSTERDAM NETHERLANDS	Telex No. 11417 ABAM NL SWIFT ID: ABNA NL2A WEBSITE: www.abnamro.nl	EUR	54-04-28-701

## **CHAPTER FOUR**

### **Research findings, data analysis and discussion.**

In this chapter the researcher explains what was discovered during the study about an assessment for effective management of fixed assets.

#### **4.1 What items are the CRDB's fixed assets?**

The correct identification and allocation of fixed assets is essential, as this provides the basis from which depreciation calculations are made. As per CRDB's accounting manual, the fixed assets are classified under the following categories:

##### **i. Buildings**

Are structures the company uses to carry on its business.

##### **ii. Equipments**

CRDB has the following categories of equipments:

###### **a) Office equipment**

Items which fall under this category are air conditioner, telephone receivers; photocopy machines; a fax machines; moping machines; water heater; etc.

###### **(b) Computer equipment**

Computer equipment consist of computer screens/ monitors, computer processor computer keyboard, uninterrupted power supply, printers, and hub for Internet which it will enable the employee easy to use the equipments when they are working.

## **4.2 Capital budgeting**

Users are able to explore various funding strategies for restoring and maintaining a targeted level of asset condition. By varying levels of funding, timing and project content, the impact on facilities/ infrastructure condition over time can be viewed. By graphically combining current and proposed strategies, users are able to compare and communicate the results of each alternative.

All CRDB's fixed assets are acquired as a result of capital budgeting; which is commonly known by CRDB as development expenditure budgeting. This includes mediums and longer-terms investment. Development expenditure includes expenditure for constructing buildings; purchase of motor vehicles; office equipment; furniture and IT (hardware & software).

## **4.3 Acquisition of assets**

The financial institution acquires fixed assets either from its own fund or as a grant from Government and other donor countries and outside of the country CRDB has good laid down procedures of acquisition of fixed assets. For the assets purchased from own fund the modes of purchases are either direct purchases or through tender.

User departments have their part to play in all sorts of fixed assets acquisition, for they are the only part, which knows what to be purchased as per their requirement. The officials from user departments give specifications for required item and hand to the stores and supplies unit for order replacement and other related procedures. On the arrival, the asset is assessed by both the purchasing officials to prove whether the cargo is delivered as per order and the officials from user department is to certify whether item meet the

specifications and quality. In short CRDB has a good and up to date procurement procedures about financial.

#### **4.4 Capitalization basis**

Expenditure on capital assets should be capitalized. In practice, strict observance of capitalization principles would require intolerable attention to detail in regard to minor items. Minimum capitalization amount must be established based on the significance of amount and its effect in the accounting records.

CRDB has its capitalization policy. This has been outlined in the CRDB Accounting , as “ direct expenditure by CRDB on acquisition of a tangible asset will be capitalized and classified as a fixed asset, provided that it yields benefits to CRDB and the services it provides are for a period

The researcher has discovered that, small items of high value, which have useful economic life of more than five years, are ignored from the list of fixed assets, but they are expensed. These items can be grouped together depending on their nature and type and be capitalized. Most of these items are surgical (theatre) instruments like, tibia universal nail, retractors, rush rods and others.

#### **4.5 Storage and issuing of assets.**

In order that no unnecessary loss to be incurred as a result of improper storage or case of assets, management of CRDB has made sure that all assets are delivered to users as soon as delivered, for it orders assets when actually needed by user department(s). The researcher observed that, the user departments have organized and effective methods in safeguarding the assets, which are in their sections. But sometimes some equipments are not in use and thus, they should be stored until they are required

#### 4.6 Disclosures

The mechanism for recording fixed assets must ensure all fixed assets are promptly recorded at the point of delivery, properly coded and safely located. Identification for any item of fixed assets should not be a problem at all.

The financial statement should disclose, for each class of fixed asset:

- The measurement bases used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed.
- The depreciation method used.
- The gross carrying amount and the accumulated depreciation at the beginning and end of the period,
- The details of the acquisition during the period; disposal during the period should be disclosed. Also revisions in carrying amounts due to revaluations during the period and adjustment in depreciation provisions resulting from disposal or any other reason.
- Interest on borrowed capital included in the cost of fixed assets:
- Exchange losses included in cost of fixed assets acquired on credit terms dischargeable in foreign currency.

Findings revealed that, fixed assets are promptly recorded and properly coded. Assets register is maintained; and details of assets like date of service, useful economic life and asset code number are indicated. Also asset depreciable amount/ cost; depreciation for the year; accumulated depreciation and book value of an asset, in addition to the asset condition are shown. All fixed assets are reflected in the books of accounts at historical costs; and from that depreciation is calculated. In short, there is full disclosure of assets in the financial statements and all necessary information needed is clearly disclosed. But there some delays



in coding: to the extent that some assets are delivered to users while are not coded.

#### **4.7 Depreciation**

Depreciation is calculated on the straight-line basis, at the annual rates estimated to write off the assets over their expected useful lives. The annual rates used are:

- Building at 4% per annum,
- Motor vehicle 20% per annum,
- Offices and other equipment 12.5% per annum.
- Furniture and fittings 12.5% per annum
- IT (software and hardware) 33.3 per annum.

#### **4.8 Repairs and Maintenance**

Being aware of the significance of the repairs and maintenance, CRDB has established a department of Financial Services to deal with all matters relating to repairs and maintenance of fixed assets of the Bank (CRDB). The department has technicians who keep an eye on the working of the items and being assisted by users.

All CRDB assets especially machines like generators, Computers, Photocopying machines, Fax machines and Telephones are regularly serviced as per suppliers' directions. To avoid inconveniences which may arise, the duty of servicing these machines is tendered.

#### **4.9 Risk and loss awareness and management**

It is obvious that life is full of uncertainties, which are beyond human control. Resources, both capital and non-capital are exposed to risks that if precautions are not taken, the business entity will experience severe loss. Natural calamities, fire and theft are some of the cause of the losses of properties. Steps should be taken to minimize the risk and its loss.

In order to minimize losses, which can be inspired by the risk of fire, accidents, or otherwise management has an insurance cover on all major fixed assets (like buildings, motor vehicles, etc) owned by the Bank. Training also is made once per year to all employees on the ways to fight against Losses.

Loss cannot be caused only by fire or theft. Sometimes staffs may cause damages to an item during normal use. Ignorance on the use and handling of the item(s) evidently may cause unintentional destruction. To ensure that such kind of damages is minimized, if not eliminated, training of workers usually done immediately when the new machine or equipment is installed.

#### **4.10 Assets revaluation**

Revaluation should be made with sufficient regularity such that the carrying amount does not differ materially from which would be determined using fair value at the balance sheet date. The frequency of revaluation depends upon the movements in fair values of the assets being revalued. Some items of property and equipment (fixed assets) may experience significant and volatile movements in fair value necessitating annual revaluation. Such frequent revaluation is unnecessary for item of assets with only insignificant movement in fair value. Instead, revaluation every three or five years may be sufficient.

CRDB like other entities has well established assets revaluation procedures and guidelines. The asset revaluation has been detailed in page 78 of CRDB

Accounting Manual of 2004. During the year 2001, the Bank engaged a professional value to revalue office equipment and furniture and fittings on the basis of market value.

#### **4.11 Assets Disposal**

When items of fixed assets are no longer useful in a business because they are worn out or obsolete they may be discarded, sold or traded in one the purchase of new asset. Management of CRDB has not left behind in regard to asset disposal.

At the end of each financial year, directors of the various directorates should carry out an inventory of fixed assets to ascertain the existence and condition of individual assets.

Fixed Assets, which are no longer serviceable or not required, should be identified and reported to the Executive Director, who then appoints board of survey to certify directors claims. Report should be submitted to Board to Trustees so that a decision can be made on how to dispose them. Before disposal action is completed the advice should be submitted to the Executive Director for authorization.

There is implementation of asset disposal policy. The last disposal took place in 2003, where some assets were auctioned and those, which were beyond use, were destroyed. The researcher discovered that, there is some delay in deciding the disposal of assets.

Proper storage of these assets is also ignored. During research, the researcher noticed some obsolete and broken assets positioned in the places that in one way or another their deterioration or damage is accelerated. Consequently total loss will be realized, that is not enough, and hazardous items may cause disasters to employer and employees.

#### **4.12 Overview of overall internal control over fixed assets**

Basing on the findings obtained, the researcher revealed that the internal control over fixed assets in the organization is fairly good despite some minor weaknesses, which the researcher discovered. Key internal control over fixed assets factors are not overlooked.

##### **a) Authorization**

Acquisition and disposal of fixed assets is authorized, usually by board minutes; for the large purchases which is above Tshs 10,000,000 (Tanzanian Shillings Ten Millions), but for small procurement to the maximum value of ten millions Tanzanian shillings, the executive director has given power to authorize purchases.

But for the case disposal, the final decision is vested to Board to Trustees.

##### **b) Nominal ledger.**

Nominal ledger account is kept for cost and provision for depreciation for each type of asset.

##### **c) Maintenance of fixed assets register**

Fixed assets register is maintained and full information of a particular fixed asset is disclosed. For each asset the following is shown:

- Full description including identification number;
- Location in the Bank's premises;
- Date of acquisition, supplier's name, acquisition cost, rate of depreciation and depreciation provided.

#### **d) Physical security and maintenance of title records**

Tangible assets are periodically verified to confirm existence of assets shown in the records. Also all title records (deeds) of the assets are maintained at maximum security.

#### **4.13 Summary**

Good fixed asset management procedures can greatly enhance the efficiency with which the organization produces outputs. Procedures should be established to evaluate screen asset proposals. Those developing these procedures need to consider the budgeting and expenditure control systems operated by the organization. In particular, clear financial investment criteria should be established.

As part of the evaluation process, financing options and lease or buy alternative should be considered.

Once the purchase or construction of an asset has been approved, the acquisition needs to be carefully planned and managed. This includes detailed specifications and cost monitoring.

The attention paid to the ongoing use of fixed assets is another important aspect of asset management. Responsibility for day- to-day asset management should be assigned to those who are able to influence the level of usage. These responsibilities include training, asset maintenance and servicing , and risk management. Maintaining an appropriate management information system will help minimize costs associated with this phase of an asset's life.

Finally, policies for the replacement and disposal of fixed assets must be established and enforced. The aim is to maximize the return from the asset while minimizing the operating costs.

## **CHAPTER FIVE**

### **Recommendations and conclusion**

The research has been dealing with the assessment of management of fixed assets. The main purpose was to find out whether the institute (CRDB) is managing its fixed assets effectively.

#### **5.1 Recommendations**

Recommendations given here under are based on the statement of the problem. Literature review and practical aspects as described under chapter four.

##### **5.1. Increase in budgetary allocation for capital investment**

Fixed assets have a definite life cycle. This calls for immediate replacement of worn out items through purchase of new ones. Extreme technological changes force certain items to be obsolete hence unfit in the modern world of technology. The Bank and the Government should strive to allocate more funds for periodic equipment of new and modern machines and other equipments in order to keep pace with advancements.

##### **5.1.2 Adjustment on capitalization modality**

Findings show that small items (loose tools) of high value; with useful economic life of more than five years are expensed. These items have implication in reported figures of the total fixed assets and expenses. It is therefore capitalization criterion should be checked in order that all these items to be disclosed/ reported as fixed assets and not expenses.

### **5.1.3 Proper storage of assets which are not in use**

Findings show that some assets are improperly stored. The most affected ones are those assets, which are not currently used. This includes a few new ones which are waiting to be used and many of those old ones, which are to be disposed of. These assets are improperly stored in containers and they are almost scrapped in such a way that even those new ones cannot be used.

Therefore, officials responsible should establish a well-organized system to enhance proper storage for survival of the Bank. And for those items, which proof is made that cannot be used by CRDB (especially donated items) but can be used by other banks, it is wise to provide them with these assets that for CRDB seem to be of no use.

### **5.1.4 Well-organized fixed assets records**

Regimented recording of fixed assets established should be maintained. The mechanism for recording fixed assets must be reviewed regularly in order to discover weaknesses in the system so that prompt action can be taken for immediate modification. The assets should be coded before they are issued to users; this will help easy identification and control.

### **5.1.5 Maintenance**

Regular maintenance can prevent unplanned and expensive breakdowns. The costs of servicing may mean that it is cheaper to replace equipment than to maintain it. The most sensible time for replacement depends upon the use the equipment receives and the cost to the organization of lost time caused by breakdown.

Employees who operate equipment should be responsible for reporting when the equipment is due for regular maintenance, for example, when a vehicle has



traveled 10,000 kilometers. Responsibilities for equipment maintenance should be clearly specified, and could, if appropriate, form part of a job description.

#### **5.1.6 Timely and cost effective disposal**

Annual physical stocktaking must be planned in such a way that obsolete, surplus or redundant items of fixed assets are identified at the earliest possible time .

Means of disposal devices have to be timely and cost effective.

### **5.2 Conclusions**

Overall research findings indicate that the system of fixed assets management is fairly good budget for capital expenditure is professionally carried out in long run basis; neither acquisition nor disposal of assets is effected without the approval of the board reflected in the books of accounts; nominal ledger accounts and register of fixed assets are maintained. Depreciation is calculated in accordance with International Financial Reporting Standards No. 16. However there are some weaknesses on the storage of the assets, especially idle ones; in addition, the disposal of redundant assets is delayed.

Therefore the management and the employees responsible should make improvement on storage of assets. Also improve fixed assets disposal.

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## APPENDIX

### RESEARCH INTERVIEW GUIDE ON THE ASSESSMENT OF MANAGEMENT OF FIXED ASSET IN CRDB.

Please kindly fill these forms completely. They are for academic purposes only

#### PART 1 PERSONAL PROFILE

Tick the suitable alternative

1. Gender of the respondents

Female

☐

Male

☐

2. Occupation of the respondents .....

3. Department(specify).....

4. Position held in the department.....

5. Your rank in the department.....

#### PART II GENERAL DATA

6. What services are offered by CRDB?

Current account

☐

Joint account

☐

Savings account

☐

Domiciliary account

☐

Cheque handling

☐

Salary payment

☐

Others specify .....

7. What services have you utilized

Salary payment

☐

Joint account

☐

Domiciliary account

☐

Cheque handling

☐

Money transfer

Current account

Saving account

Others specify.....

8. For how long have you been a client of CRDB

1-3 years  3-6 years  6-9 years

9-12 years

9. Basing on the level of Fixed Asset in CRDB, rate efficiency of the facilities in delivering the various services

10. It is believed that Fixed Assets effects customer service and satisfaction, do you agree?

Strongly agree  Agree

Strongly agree  Not sure

11. What effect has Fixed Asset had on customer service and satisfaction had on customer service and satisfaction in CRDB?

Effect	Strongly agree	Slightly agree	Not sure
Enhanced service, reliability, availability and utilization			
Speedy and accurate transaction dealings			
Improved safety of the company data and information of fixed Assets			

12. What are the possible challenges facing CRDB Administration of management of Fixed Asset?

***Thank you for your cooperation.***