



VARZA SCHOOL · THE FOUNDATIONAL 100

Fixed Assets from Purchase to Disposal: Capitalization, Depreciation, Maintenance, and Impairment

Chapter 60 · Track 6 — Purchasing, Suppliers, Inventory, and Assets

THE QUESTION IT ANSWERS

How should a long-lived asset be controlled and measured from authorization and acquisition through use, maintenance, impairment, and final disposal?

CONCEPTS DEFINED

Fixed asset · Capitalization · Depreciation · Useful life · Residual value · Maintenance · Impairment · Asset disposal

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Varza promise: clear enough for a first-time learner, exact enough for a professional conversation, and practical enough to support a real decision.

Why this chapter matters

This track follows resources from supplier selection to purchase, receipt, storage, consumption, and long-term use. The central discipline is custody: knowing what was ordered, what arrived, what is owned, what it cost, where it is, and whether it can still create value.

Central question: How should a long-lived asset be controlled and measured from authorization and acquisition through use, maintenance, impairment, and final disposal?

A fixed asset is a continuing system of cost, component, location, custodian, useful life, condition, maintenance, benefit, and risk. Capitalization establishes eligible cost; depreciation allocates consumption; impairment responds to reduced recoverability; disposal closes custody and accounting.

Varza approaches the subject from life to ledger and from ledger to decision. We begin with what actually happened, identify the rights, obligations, resources, timing, and uncertainty, and only then choose the correct term, calculation, document, or account. This order protects the learner from a common error: learning a label without understanding the economic reality that the label is supposed to describe.

Learning outcomes

- Define and distinguish fixed asset in plain and professional language.
- Define and distinguish capitalization in plain and professional language.
- Define and distinguish depreciation in plain and professional language.
- Define and distinguish useful life in plain and professional language.
- Apply the concepts to a numerical case and explain the result rather than only calculate it.
- Identify evidence, workflow, controls, and Varza entities required for reliable use.
- Recognize when jurisdiction-specific or licensed professional advice is required.

The Varza mental model

A financial concept becomes decision-ready when six questions have answers: **what, who, when, how much, based on what evidence**, and **under which assumption or rule**. A seventh question—**what should happen next**—turns knowledge into management.

This chapter uses internationally recognized terminology, but it remains jurisdiction-neutral unless explicitly stated. Accounting standards, tax rules, contract law, consumer protection, labor

requirements, and investment regulation can produce different legal outcomes in different countries. The global foundation gives the learner a stable map; local collections must add the binding rules.

Core concepts

1. Fixed asset

Working definition. Fixed asset is a tangible resource held for use in production, supply, rental, or administration and expected to provide benefit beyond one period.

The asset record should follow component, location, custodian, cost, useful life, maintenance, impairment, and disposal. In Varza language, the concept becomes useful when it changes a decision.

Simple example. A production machine is controlled and used over several years rather than held for resale.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

2. Capitalization

Working definition. Capitalization is recognition of eligible expenditure as part of an asset rather than immediate expense.

Capitalization follows recognition criteria and attributable cost, not management's desire to improve profit. Establish a consistent threshold and project controls. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. Installation necessary to bring equipment into use may form part of cost, while staff training is generally considered separately.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

3. Depreciation

Working definition. Depreciation is the systematic allocation of a depreciable asset amount over its useful life.

Depreciation reflects consumption pattern and estimate; it is not a cash reserve, market valuation, or automatic tax deduction. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. A machine's cost less residual value is allocated over expected productive years.

Decision test. Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

4. Useful life

Working definition. Useful life is the period or production units over which an asset is expected to be available for use by the entity.

Useful life reflects entity-specific use, maintenance, technology, legal limits, and replacement strategy and should be reviewed when expectations change. The concept should be measured at the smallest level that still supports a real action.

Simple example. A vehicle used intensively for delivery may have a shorter useful life than an identical lightly used vehicle.

Decision test. How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

5. Residual value

Working definition. Residual value is the estimated amount obtainable from disposal at the end of useful life after disposal costs, expressed under the applicable measurement assumptions.

Residual value is reviewed, evidence-based, and not necessarily the current resale price. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. A machine may retain recoverable scrap or resale value after planned use.

Decision test. Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

6. Maintenance

Working definition. Maintenance is activities performed to preserve or restore an asset's condition, availability, safety, or performance.

Routine maintenance is normally distinguished from expenditure that creates a new or enhanced future benefit. Record work history to support reliability and cost decisions. This is where operational activity and financial reporting meet.

Simple example. Replacing a worn filter maintains the machine; installing a capacity-expanding unit may require separate analysis.

Decision test. Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

7. Impairment

Working definition. Impairment is a reduction recognized when an asset's carrying amount exceeds the amount recoverable under the applicable framework.

Impairment is triggered by evidence and measurement, not by routine depreciation. Preserve assumptions, cash-generating boundaries, and approvals. In Varza language, the concept becomes useful when it changes a decision.

Simple example. A damaged machine with lower expected cash generation is tested for impairment.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

8. Asset disposal

Working definition. Asset disposal is the sale, retirement, abandonment, transfer, or other derecognition of an asset.

Disposal requires authorization, custody evidence, proceeds, tax, removal from asset records, and calculation of gain or loss. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. A vehicle sold for CU 15,000 with CU 12,000 carrying amount produces a CU 3,000 accounting gain before related costs and tax.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

How the concepts connect

The concepts in this chapter are a system, not a vocabulary list. Fixed asset, Capitalization, Depreciation, Useful life, Residual value, Maintenance, Impairment, and Asset disposal describe different parts of the same decision. Confusing them usually creates one of three failures: the wrong amount is measured, the right amount is assigned to the wrong period or person, or a correct report is used for a decision it was never designed to support.

A useful analysis therefore preserves both **classification** and **relationship**. Classification tells us what an item is. Relationship tells us what caused it, what it affects, and what could change it. Varza should store both. A report that shows only totals may be suitable for orientation; a controlled decision requires traceability to the underlying relationships.

Formulas and quantitative relationships

Straight-line depreciation

Annual depreciation = (Cost – Residual value) ÷ Useful life

The method allocates depreciable amount evenly when that pattern reflects consumption.

Boundary: Review life, residual value, componentization, available-for-use date, and impairment.

Disposal gain or loss

Gain or loss = Net disposal proceeds – Carrying amount at disposal

The result compares what is received with the remaining recorded amount.

Boundary: Include disposal costs, tax, derecognition timing, and related obligations as required.

Worked case — A machine from acquisition to disposal

A machine costs CU 120,000 plus CU 10,000 eligible installation. It has five-year useful life and CU 5,000 residual value. After three years it is sold for CU 48,000 with CU 2,000 selling cost.

Item	Amount or observation
Capitalized cost	CU 130,000
Depreciable amount	CU 125,000
Annual straight-line depreciation	CU 25,000
Carrying amount after 3 years	CU 55,000
Net proceeds	CU 46,000
Disposal loss	CU 9,000

Calculation and reasoning

1. Capitalized cost is CU 130,000 if installation is necessary to bring the machine to use and otherwise eligible.
2. Annual depreciation is $(130,000 - 5,000) \div 5 = \text{CU } 25,000$.
3. After three full years, accumulated depreciation is CU 75,000 and carrying amount CU 55,000, assuming no impairment or estimate change.
4. Net proceeds are $\text{CU } 48,000 - \text{CU } 2,000 = \text{CU } 46,000$.
5. The illustrative disposal loss is CU 9,000; remove the asset, accumulated depreciation, and custody record.

What the result means

The final gain or loss is one moment in a controlled lifecycle. Reliable asset management also asks whether the machine existed, was maintained, generated benefit, and was disposed of under authority.

The case is deliberately compact. In practice, Varza would preserve the supporting documents, currency, dates, counterparty, project or cost center, approvals, and links to the resulting records. The lesson is not merely to reach a number; it is to make the path to that number reviewable.

Practical workflow

1. **Define the decision, responsible person, economic unit, period, and acceptable uncertainty.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
2. **Authorize the investment with purpose, budget, ownership, useful capacity, and alternatives.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
3. **Capture eligible acquisition and preparation cost by component and place the asset in service at the correct date.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
4. **Depreciate, maintain, verify location, and review life, residual value, and impairment indicators.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
5. **Authorize sale, retirement, or transfer; remove custody and calculate proceeds and gain or loss.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
6. **Reconcile the result to source evidence and investigate exceptions rather than forcing agreement.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
7. **Approve the decision or record at the authority level required by value, risk, and legal consequence.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
8. **Monitor the outcome, compare it with the original assumption, and retain the learning for the next cycle.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.

How this concept should appear in Varza

The minimum Varza data model for this chapter includes `capital_request`, `purchase_order`, `asset_record`, `component`, `location`, `custodian`, `depreciation_schedule`, `maintenance_order`, `impairment_test`, `disposal_record`. These names are not merely interface labels. Each entity

should have a stable identifier, status history, responsible owner, applicable currency or unit, effective dates, evidence links, and access controls.

A useful Varza screen should answer four questions without forcing the user to reconstruct the story manually:

1. **What happened or is expected to happen?** Show the operational event, obligation, or decision in plain language.
2. **What changed financially?** Show cash, asset, liability, equity, income, expense, commitment, or risk effects.
3. **Why should the user trust it?** Show source documents, calculations, approvals, and revision history.
4. **What requires attention now?** Show exceptions, due dates, thresholds, and the next responsible action.

The Varza design principles most relevant here are:

- Begin with the real event, not the accounting label.
- Keep value, cash, profit, and ownership distinct until their relationship is proven.
- Attach every important number to a source, period, currency, entity, and responsible person.

Varza AI may explain, classify, compare, simulate, and prepare a proposed action. It should not silently change a legal record, post a material transaction, close a period, release a payment, or make an investment decision on the user's behalf. Material actions require visible evidence, permissions, validation rules, and an accountable human approval path.

Controls and professional boundaries

1. **Asset tagging and periodic physical verification.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
2. **Capital-project and invoice reconciliation.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
3. **No disposal without independent authorization and evidence of proceeds or destruction.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
4. **Useful-life and impairment review for idle, damaged, or technologically obsolete assets.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
5. **Stable definitions, versioned assumptions, and consistent units across plans, records, and reports.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

6. **Traceability from every material total to evidence, calculation, owner, and change history.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
7. **Access and approval rights aligned with responsibility and the possible consequence of error or misuse.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

A control is effective only when it operates in practice. A policy that everyone can bypass is a statement of hope, not a control. Likewise, a control that blocks ordinary work without distinguishing low-risk and high-risk cases encourages hidden workarounds.

Common mistakes and better responses

Mistake 1: Capitalizing training, startup loss, or routine repair merely to improve profit

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 2: Starting depreciation on payment date instead of when available for use

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 3: Keeping fully depreciated missing assets in the register

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 4: Treating depreciation as a cash reserve or market valuation

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 5: Using a technically correct number outside the period, entity, currency, or decision boundary for which it was calculated

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 6: Accepting an automated result without reviewing the evidence, assumptions, exceptions, and required professional judgment

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Decision checklist

- ☐ Can I explain fixed asset in plain language and in professional terms?
- ☐ Can I explain capitalization in plain language and in professional terms?
- ☐ Can I explain depreciation in plain language and in professional terms?
- ☐ Can I explain useful life in plain language and in professional terms?
- ☐ Have I stated the entity, currency or unit, date or period, and decision boundary?
- ☐ Can another person reproduce the number from retained evidence?
- ☐ Have I separated actuals, estimates, commitments, and scenarios?
- ☐ Have I tested timing, liquidity, risk, and at least one adverse outcome?
- ☐ Is the required approval proportional to the possible loss or legal consequence?
- ☐ Does the final output lead to a specific action, owner, and review date?

Practice lab

1. **Explain it.** Describe Fixed asset to a person who has never studied finance. Then add the professional definition and identify one boundary your simple explanation omitted.
2. **Classify it.** Create five examples from your household or a small business and classify each using Capitalization. State any assumptions.
3. **Calculate it.** Rebuild the worked case with amounts 20% higher. Identify which conclusions change and which remain structurally true.
4. **Challenge it.** Describe a situation in which Depreciation could be measured correctly but still lead to a poor decision because timing, risk, or incentives were ignored.
5. **Design it.** Sketch a Varza screen or report for this chapter. Include fields, evidence links, status, owner, exceptions, and one AI-assisted action.

Answer guidance

A strong answer uses consistent definitions, reveals assumptions, distinguishes fact from estimate, and connects the result to an action. More than one conclusion may be reasonable when the learner clearly states the decision objective and uncertainty. The worked-case recalculation should preserve the method even when the numbers change.

Varza AI knowledge capsule

This capsule is intentionally explicit so that a retrieval system can distinguish canonical teaching points from examples and commentary.

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    "Depreciation: the systematic allocation of a depreciable asset amount over its useful life.",
    "Useful life: the period or production units over which an asset is expected to be available for use by the entity.",
    "Residual value: the estimated amount obtainable from disposal at the end of useful life after disposal costs, expressed under the applicable measurement assumptions.",
    "Maintenance: activities performed to preserve or restore an asset's condition, availability, safety, or performance.",
    "Impairment: a reduction recognized when an asset's carrying amount exceeds the amount recoverable under the applicable framework.",
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Suggested questions for Varza AI

- Explain this chapter using an example from a household, a shop, and a service business.
- Ask me five diagnostic questions before applying this concept to my situation.
- Show the difference between cash effect, accounting effect, and decision effect.
- Recalculate the worked case using my currency and assumptions, but preserve the original definitions.
- Identify which parts require local accounting, tax, legal, labor, or investment rules.

Sources and standards horizon

This chapter is original Varza educational content. It paraphrases and synthesizes concepts; it does not reproduce a standard or third-party article. The following sources were used to establish terminology, scope, and current professional context:

- **S105 — IFRS Foundation, *IAS 16 Property, Plant and Equipment*.** 2026 standards set. Recognition, measurement, depreciation and disposal of tangible fixed assets. Source: <https://www.ifrs.org/issued-standards/list-of-standards/ias-16-property-plant-and-equipment/>
- **S108 — IFRS Foundation, *IAS 36 Impairment of Assets*.** 2026 standards set. Impairment indicators and recoverable-amount discipline. Source: <https://www.ifrs.org/issued-standards/list-of-standards/ias-36-impairment-of-assets/>
- **S117 — IFRS Foundation, *IFRS for SMEs Accounting Standard*.** third edition 2025; effective 2027. Simplified global reporting framework for eligible small and medium-sized entities. Source: <https://www.ifrs.org/issued-standards/ifrs-for-smes/>
- **S118 — IFRS Foundation, *IFRS Accounting Standards—Required 2026*.** 2026-01-29. Standards and amendments effective from 1 January 2026. Source: <https://www.ifrs.org/news-and-events/news/2026/01/now-available-ifrs-accounting-standards-required-2026-two-editions/>
- **S203 — Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework*.** 2013 framework; accessed 2026-08-31. Control environment, risk assessment, control activities, information and monitoring. Source: <https://www.coso.org/internal-control>

Standards horizon. Reviewed through 2026-08-31. IFRS 18 and the third edition of the IFRS for SMEs Accounting Standard are included as transition knowledge where relevant; both have mandatory effective dates beginning in 2027, with early application permitted under their respective requirements.

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