The term capital assets is used to describe assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Tangible capital assets include land, buildings, building improvements, vehicles, machinery, equipment, and infrastructure. Capital assets are usually the largest class of assets, by value, on a government’s financial statements, and therefore it is important to ensure that capital assets are recorded and accounted for accurately. It is essential that governments establish and maintain appropriate inventory systems for their tangible capital assets. Such systems are needed to protect tangible capital assets from the danger of loss or misuse.

Many governments have installed "perpetual" inventory systems to maintain effective control over their tangible capital assets. Perpetual inventory systems are constantly updated to reflect additions and deletions of tangible capital assets, thus providing managers with direct access throughout the year to reliable information on current balances in tangible capital asset accounts.

One advantage of establishing and maintaining a sound perpetual inventory system for tangible capital assets is that such a system can relieve a government of the burden of performing an annual inventory of its tangible capital assets. Such a system, however, still requires periodic verification to ensure that it is continuing to function properly as designed.

GFOA recommends that every state and local government periodically inventory its tangible capital assets so that all such assets are accounted for, at least on a test basis, no less often than once every five years. While well-designed and properly maintained perpetual inventory systems can eliminate the need for an annual inventory of a government’s tangible capital assets, no inventory system is so reliable as to eliminate completely the need for a periodic physical inventory.