

# The least you need to know about Fixed assets Management

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## INTRODUCTION

Sixty-eight percent of today's business leaders are feeling more financial pressure than they did two years ago, but most are unaware of legitimate money-saving options available to them.

Studies such as Fixed asset study are beneficial to companies looking for immediate cash flow creating a win-win situation for all.

By implementing a Fixed Asset Study, businesses immediately generate additional depreciation / deductions that can reduce or eliminate taxable income producing increased current cash flow. Many businesses are unaware that their assets are eligible to be reclassified into shorter asset lives. The results of a Fixed Asset Study can reveal the opportunities that are not currently being utilized.

Tax incentives are an easy way for companies to save money in today's economy, and by taking advantage of these incentives, companies can legally reduce their tax obligations.

One such opportunity available to qualified companies is the Fixed Asset Study.

### Why Perform a Fixed Asset Study?

Every business is comprised of unique assets, however, many businesses do not realize that many of their assets are eligible to be reclassified into shorter "tax lives."

A Fixed Asset Study can typically reallocate between 25 and 40 percent of a company's depreciable asset base to shorter tax lives. **Shorter tax lives translate into increased depreciation deductions, which can generate an increase in cash flow through current tax savings.**

For example, a Rs.10, 00,000 asset being reclassified from a 39 year life to a five year life will generate over 1300 percent more depreciation deductions in the first two years.

Reclassification Procedure now provides for an automatic change in accounting that permits taxpayers to identify asset costs that were not properly classified and to reclassify them to their proper life.

A Fixed Asset Study provides a detailed analysis of the capital assets placed in service. Assets are classified based on recent favorable laws that permit assets to be reclassified to a shorter tax life, thereby triggering larger depreciation deductions. An added benefit is that the Fixed Asset Study requires little time of company personnel.

### Benefits of a Fixed Asset Study

The benefits of obtaining fixed asset management expertise include:

- ▶ Additional current year deductions, which reduce taxable income and can immediately increase cash flow
- ▶ Development of an implementation process for capitalizing future asset additions
- ▶ Detailed account listing of a company's assets
- ▶ Allows you to maintain two sets of depreciation schedules for internal and taxation purposes
- ▶ All of this with only a minimal time requirement of company personnel

## **What Business Will Qualify?**

A prime candidate for a Fixed Asset Study is any company with a plethora of assets. A Fixed Asset Study provides the greatest benefit to a profitable business that has, or is expecting, to pay Central and multiple state taxes.

When a business decides to move forward with a Fixed Asset Study, it is important to choose a qualified firm that has the practical experience and a proven track record in Fixed Asset Studies. This will ensure effective identification and classification of your company's assets and in turn help you drive down costs and maximize savings. Additionally, as with any favorable tax incentive, the authorities will verify that the additional deductions are both proper and fully documented and in compliance. Thus anyone who wants to pursue a Fixed Asset Study needs to approach the study with the viewpoint that proper documentation that is included in a professional study is necessary to support the deduction.

### **Fixed assets in an enterprise are:**

- ▶ The machines,
- ▶ Equipment,
- ▶ Furniture
- ▶ Buildings,
- ▶ structures, and
- ▶ Facilities.

They constitute the vital physical plant and infrastructure of an enterprise and of the economy. It is through this physical plant that raw materials are transformed into finished, commercial merchandise and services are delivered to customers. The deployment and upkeep of fixed capital assets is a critical function to obtaining profit, growth, and rising productivity in the individual enterprise and in the economy as a whole.

[The phrase 'asset management' is also used to mean 'investment management'. Asset or fund managers work within the financial services industry, to select, monitor and manage stocks and shares and other investments. This type of asset management is not discussed here.]

## **An Executive Overview / Background:**

The Strategic Management of Fixed Assets in Industrial Firms is Fundamentally Different from Purchasing.

It is Supplies Capitalized vs. Expensed Expenditures.

The ROI Considerations is Criticality to Operations and the Supply Chain Management.

It is Objectives Captive vs. Commodity Suppliers -Supplier/Operator Dynamics.

Fixed Asset Management has effects on Operations by Increasing Sales & Reducing Costs.

The Effects on Investment and Financing can be gauged from the Business Trends Impinging upon Fixed Asset Management Strategies.

In Industries Where Capital Asset Management is Key, the Requirements for today's Asset Management Solution finds recommendations from CFOs for solutions that EXHIBITS Powerful information and dynamic reporting system that complies with the requirements of the laws of the land.

The Utility Expenses and Asset Charges as a Percent of Sales show the inherent power of the asset management solution.

Even the Expenses and Asset Charges as a percent of Sales to Fixed Assets Versus Other Operational Inputs, brings out the ROI clearly and justifies the investment decision.

The Basic Business Decisions and the Process of Value Creation can be seen in the Financial Statements, in a Decisional Context.

There is no need for creation of extra IT Functional Requirements.

And many more.....

The above are just representative of the myriads of department in any organization.

## **The Least you need to Know about Asset Management**

### **The Basics**

The very least you need to know is - what it means!

**An "asset" is something which is owned that has some value.**

A business has two different kinds of assets:

1. Tangible assets (also called fixed or capital assets) are those that have a physical form. Examples are land, buildings, office furniture, plant and machinery.
2. Intangible assets cannot be seen or touched. Examples are goodwill, patents, trademarks and copyrights.

Intangible assets do not usually appear in company balance sheets.

To "manage" means to take charge of, direct the use of, or control in action or use.

So, "asset management" means controlling and taking charge of the things that you own that are worth something.

### **Why would you want to do that?**

Because you have to! If you're running a business, it is a statutory requirement to record the value of your fixed assets on your Balance Sheet. In today's 'knowledge economy', many companies are becoming increasingly intangible asset rich. There is currently much discussion about valuing and managing intangible. Further in this era of M&A's, a verifiable and trustworthy assessment of Assets is highly essential.

But there are other good reasons for asset management. The least you need to know is about the bottom-line benefits of good asset management

### **What does asset management mean in practice?**

It means knowing

- ▶What you own
- ▶Where it is situated
- ▶How much it is worth
- ▶Who authorized it
- ▶Who supplied it
- ▶Is it being used
- ▶Who uses it
- ▶Who manages it
- ▶Who services / repairs it
- ▶Is it under warranty or AMC
- ▶Who moved it & where
- ▶What is its present value
- ▶What is the ROI
- ▶And many more details affecting the decision making

Knowing what you've got and where it is situated comes under the general heading of physical asset management.

### **Financial Asset Management**

In the India and internationally, there is a statutory (legal) requirement to include a monetary value for fixed assets on the Balance Sheet.

## **How do you calculate this value?**

It's not simple! You can't just add up the cost of what you've bought and use that as your fixed asset value. Instead, the cost must be 'written off' or depreciated over the life of the asset.

Accountants use a variety of conventions to approximate and standardize the depreciation process. There are different methods of depreciation – straight line, declining balance and others.

## **You also need to know**

- ▶ Which assets can be depreciated?
- ▶ Which assets can be expensed (written off) in the first year?
- ▶ How the timing of your purchase affects depreciation
- ▶ How you depreciate assets that are not expensed
- ▶ What special rules apply to cars and other listed property
- ▶ When depreciation ends
- ▶ What happens when you sell a capital asset?
- ▶ What to do about assets that are leased and not purchased
- ▶ How does one account for the reimbursed government aids?

## **And you have to**

- ▶ Record any new assets you acquire
- ▶ Keep track of which assets have been disposed of
- ▶ Keep an audit trail
- ▶ Make sure the correct information from the asset register goes into the nominal ledger
- ▶ Produce statutory reports
- ...and more

As we said, it's not simple!

## **A few words about the spreadsheet:**

Many companies start off by using spreadsheets for financial Asset management.

## **But spreadsheets have some major disadvantages.**

- ▶ They quickly become complex and difficult to verify.
- ▶ Often undocumented, they are error-prone and hard to Change reliably.
- ▶ There is no built-in reporting – even standard statutory reports.
- ▶ Reports must be built from scratch.
- ▶ Spreadsheet systems also make it very difficult to track and control changes or to produce a clear audit trail.

A much better solution is to use a specialist asset management system.

## Physical Asset Management

How do you keep track of what you've got, when it keeps changing? You acquire new assets, or dispose of old ones. Assets get moved to a different location, and it's an unfortunate fact of life that the more desirable ones (laptops etc.) sometimes 'walk'.

Even companies with good financial asset management systems find that, over time, the data on their asset register becomes so out of date that they really don't know what they have. And you can't know the true value of your assets (i.e. manage them financially) unless you know what you've got.

The solution is physical asset management.

This means getting your asset register accurate, complete and up-to-date, and then making sure it stays that way, even when your asset base changes.

### How do I do that?

You get your asset register up-to-date by carrying out a physical asset audit. You make a list of all your assets, including IT assets, and then reconcile this information with the data on your asset register.

There are various ways of carrying out a physical asset audit. The simplest is to do it manually – literally walk round with a clipboard and pen and write down everything you find.

This may be simple but it's not easy. Here are just some of the issues you will almost certainly come across

### How much detail do you go into?

For example, do you record 'desk' or break it down into 'pedestal', 'rear up-stand', 'desk top'?

Do you record 'PC' or break it down into 'screen, keyboard, memory, hard disk'?

How much information do you record?

What is the Color? Who is the Supplier? What is the Size? What is the Capacity? Date acquired? Etc.  
etc

### How do you record a 'moving target'?

Is it feasible to 'freeze' all acquisitions, disposals and movements while the audit is carried out? If not, how do you make sure that you don't miss things out or alternatively count them more than once?

## **Who should do the audit?**

It needs to be someone with the authority to go into all parts of the company, but it's not exactly a suitable task for a middle or high-level manager.

You also need to find someone, or more than one person, who can be spared from their normal tasks for the days or weeks it takes to carry out the asset audit.

Sounds difficult – What if I can't do that?

Many companies find that the best way of carrying out a physical asset audit is to outsource the task to specialist asset auditors.

They will carry out the asset audit correctly, in the minimum time and with the minimum disruption to the everyday work of your company.

## **What next?**

Once the physical asset audit has been completed, the next task is to reconcile the information from the asset audit with the data on the asset register. If you are using specialist asset auditors, this task will be part of their service.

If these tasks are done correctly, you will have an asset register that is complete, accurate and up-to-date – a true record of all your assets. But how do you keep it that way?

## **Keeping your asset register correct**

Many companies find they need to do a physical asset audit once a year to keep their asset register correct.

It's much easier to do your annual asset audit if your assets are bar-coded. The audit then simply means walking round with a barcode reader and handheld computer and 'swiping' the bar-coded assets.

The data from the handheld computer / recorder is then uploaded to the computer that holds your asset register which is automatically updated.

If you used specialist asset auditors for your original asset audit, they can barcode your assets as part of their service. You can then call them back once a year for your annual asset audit, or you can decide to do it yourself.

## **Why bother?**

It all seems like a lot of trouble. Why is it so important to keep your asset register in line with the reality of your assets?

Because you will save money – often a lot of money!

Unless you know what you've got and where it is, you will be overspending in ways that might never occur to you –

- ▶Paying insurance premiums on non-existent items
- ▶Buying things you don't need because you already have them
- ▶Losing equipment without even realizing it
- ▶And more.

**Many companies find that the cost of an asset audit is more than recouped within a few months by the cost savings which result.**

## **A few words about IT assets...**

Your IT assets consist of your hardware (PC's, laptops, servers, printers, scanners etc) and all the software (programs) installed on this hardware. For most companies, their IT assets are amongst the most valuable and essential of all their assets. They are also the hardest to manage.

This is because IT assets are:

- ▶relatively cheap to buy - so their purchase is often not tightly controlled
- ▶changeable – frequently get upgraded or replaced
- ▶mobile – so are easily and frequently moved from one part of the company to another
- ▶desirable – so are very liable to be 'borrowed'
- ▶One of the most valuable tools for managing IT assets is “auto discovery softwares”.

This resides on the network, continuously monitors all parts of the IT installation and records full details of hardware and software. It also automatically tracks and records all changes.

## **Asset management - The Benefits**

There are real bottom-line benefits to fixed asset management.

Independent research has estimated that many companies are overspending by at least 20% because of:

- ▶under-utilization,
- ▶inefficient maintenance and
- ▶Petty theft of their assets.

Asset management is also an important part of compliance.

There has been a lot of news in recent years about high-profile accounting irregularities (like ENRON etc.). Most companies now understand the importance of accurate financial management and reporting.

With a good asset management system, you can be sure you are: Keeping within the law.

The law requires you to keep accurate accounts and to produce a Balance Sheet and P&L at least annually, especially in India under the CARO compliance.

This means you must have some way of working out the value of your fixed assets -their cost and their depreciation...

You also have to show a clear audit trail – this is an important part of recent corporate governance legislation and international accounting standards.

Keeping within the law is a major benefit of asset management.

### **Cutting costs**

Most people would agree that minimizing expenditure is essential to running a successful business.

The best way to cut costs is to stop spending money that you don't need to spend.

Here are some of the ways in which you may be spending money unnecessarily:

- ▶ buying things you don't need because you already have them
- ▶ paying insurance premiums on non-existent items
- ▶ 'losing' equipment because of lax security
- ▶ paying maintenance and licensing charges on software which is no longer installed
- ▶ paying lease penalties because leased equipment is not properly controlled

### **Asset management is the key to expenditure control**

#### **Making informed decisions**

Lack of accurate information means lack of transparency and inability to manage risks. If,

- A. You know what you've got,
- B. What it is being used for,
- C. How much it's worth and
- D. What it's costing you,

#### **Then you are in a position to:**

- a. Anticipate,
- b. Weigh up options, and
- c. Proactively make informed business decisions based on real information.

### **Asset management supports informed business decision**

#### **Controlling your IT assets**

Most organizations are dependent for their day to day running on their IT assets – the hardware, software and systems which make up their IT infrastructure. But IT equipment can easily get out of control.

### **Controlling your IT assets means that you can:**

- ▶ Identify the physical location of your IT assets - no matter how many times they are moved around.
- ▶ Identify all hardware and software changes over the life of a PC.
- ▶ Ensure that your organisation is legally compliant with software licensing.
- ▶ Verify maintenance contracts and insurance.
- ▶ Monitor and record IT equipment which has been scrapped or replaced.
- ▶ Determine if you have the appropriate hardware configuration to support new software upgrades.
- ▶ Maintain a comprehensive audit trail.

IT asset management substantially lowers the costs of your IT installation and makes sure it runs efficiently.

### **And finally**

It makes a lot of sense to start to take charge of all your valuable assets.

You bought them for a reason, you've paid good money for them, and you can get real bottom-line benefits from controlling and managing them.

Knowledge is power.

Plus...

Our expert asset auditing consultants can provide exactly the level of service you need, from feasibility and support (including a FREE initial consultancy session), to a one-off asset audit (including bar-coding assets if required), to a complete 'turnkey' service, including an annual asset audit. For management of your Physical assets, we provide award-winning software.

In this brief interlude 'The Least You Need to Know about Asset

Management' we've highlighted the basics of good asset management in order to underline how their implementation may benefit and empower you and your company.

If you'd like to know more, please contact us! Just as you have a great deal of knowledge relating to your business and your profession, we have a great deal of knowledge about asset management.

We'd be very happy to come and talk to you about the asset management issues that are important to you – no charge, no obligation.

We hope you have found this interlude helpful and informative. If you have any queries or need any more information about any of the issues we have covered, please don't hesitate to contact us on +91-44-42126266

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