



FIXED ASSET MANAGEMENT: OPTIMIZE YOUR BUSINESS RETURNS



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Executive Summary

Implementing a fixed asset inventory solution is vital for businesses for many reasons. A proper accounting of assets can save time and money, reduce theft, improve planning and budgeting, eliminate “ghost assets” and help an organization recover after a disaster. Many times, however, the importance of tracking and managing fixed assets is overlooked in an organization.

Yet assets such as land, buildings, transportation and manufacturing equipment represent the largest investment most companies make.

Many companies are unsure of how or where to start in this process, and the challenge can be daunting. Establishing the highest standards of inventory accuracy and best practice in fixed asset management will pay off in savings and efficiency whether you are a:-

- Corporate accountant managing fixed assets
- CFO striving to optimize business efficiencies and plan capital budgets
- Government asset manager complying with Regulatory standards
- Nonprofit executives seeking to gain maximum leverage from already-strained resources

Our goal is to help our client learn about best practice for fixed assets management and suggest tips for implementing a successful inventory process.

The suggestions will guide you on how to:-

- Create the asset inventory process
- Implement a label and scanning solution for tracking of assets
- Get trained on the system you employ
- Establish an accurate baseline of fixed assets
- Design a “go forward” strategy for maintaining your asset inventory

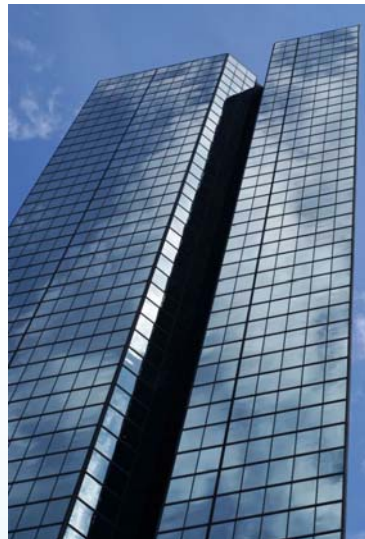
The Importance of Fixed Asset Inventories

Many companies are not aware of the importance of maintaining an accurate asset inventory, and have not established regular procedures for managing this process. Unfortunately, when it comes to the fixed asset inventory of your organization, what you do not know could cost untold amounts of money, reduce efficiencies, and could even lead to the end of operations. Too often, entities do not pay attention to their fixed asset inventory, do not stop to think how much they are paying in insurance or property taxes on the items the organization does or does not have, and are ill-prepared in the event of a disaster.

“To manage a profitable business, the management must have information regarding the current location, use, state of repair, and usefulness of its productive assets. The chief financial officer has a duty to ensure a system is in place to provide this information”

The only way an organization can accomplish this is to implement a best practice inventory process, document, and continuously monitor any changes. Challenges to controlling fixed assets include the lack of accurate physical asset inventories and inadequate tools and resources for maintaining accurate inventories going forward. By implementing a detailed inventory process, organization can:-

- Save time and money
- Reduce theft
- Improve planning and budgeting
- Eliminate “ghost assets”
- Recover in the event of a disaster



Save Time and Money

By implementing a fixed asset inventory process that includes documenting, labeling, a best of breed of software solution, and continuously monitoring and updating the inventory, organizations can reduce the time it takes to evaluate the assets on hand reducing costs and helping to archive profitability. By properly tracking fixed assets, a company can ensure that it does not spend money on items it already has and reduce the employee cost of performing audits.

Reduce Theft

Employee theft is a serious problem in business. An estimated “one third of all bankruptcies are caused by employee theft and it takes approximately \$20 in sales to offset every \$1 lost to theft.” The less information an organization has about its asset inventory, the easier it is for an opportunistic employee to take advantage. Implementing a structured inventory process and maintaining a detailed inventory can save an organization substantial amounts of money by reducing employee theft. “Most successful embezzlement schemes would have failed if inventory and accounting records were organized and up to date. If records are always behind and work is sloppy, theft will be much harder to detect”

Improving Planning and Budgeting

By knowing what assets an organization has, when it was purchased, and where it is located, a company will have a clear picture of what may need to be replaced in the next fiscal year, and will not overspend by purchasing items it already has in the first place. Without an accurate inventory, capital budgets are rendered inadequate because management is unaware of critical assets needing replacement.

Eliminating “Ghost Assets”



A “ghost asset” is property that is lost, stolen, or unusable, but is still listed as an active fixed asset on the books. According to Asset Management Resources (AMR), a leading provider of asset inventory and reconciliation services in the US, “After 14 years of experience, AMR has repeatedly found that 65% of fixed asset data is incomplete, inaccurate, or altogether missing, while 10% to 30% of fixed assets are no longer owned ”

Fixed assets hold a large presence on corporate balance sheets and represent the bulk of investment for many companies. If 10-30% of fixed asset on the books are “ghost assets”, an organization might be overpaying taxes and insurance on those assets by up to 30%. In addition to negative impact to the bottom line, large inaccuracies in fixed asset reporting risks cause flaws in the overall accuracy of corporate financials, posing a threat to executives responsible for ensuring regulatory compliance.

If “ghost assets” are not identified, the results can be lost productivity due to the unavailability of missing or unusable assets which are believed to exist. If assets that are no longer in service are not properly disposed of in accounting records, companies can continue to pay property taxes and insurance on them. Companies on average overpay taxes and insurance by approximately 12% of the fixed assets on the books. Even mistakes in the amount of depreciation calculated can result in overpayment as insurance premiums are usually based on a percentage of the total current value of fixed assets.

Recover After a Disaster

Organization don’t plan to fail, they fail to plan. Most entities do not contemplate the consequences of a disaster, natural or manmade, striking their business. A study conducted by the National Federation of Independent Business in the US reports that 10% of companies are affected by natural disasters. Too many companies do not have the adequate documentation that would allow them to recover from a disaster, and are unable to justify replacement from their insurance companies or support from the government. “The US Department of Labor estimates over 40% of business never reopen following a disaster. Of the remaining companies, at least 25% close within two years.” By having an accurate inventory, and storing backups offsite, companies can be up and running again quickly.

The Asset Inventory Process

It is clear that there are significant reasons for an organization to implement a fixed asset inventory solution. But where does an organization start this process? What is involved in implementing a fixed asset inventory asset solution that will provide the benefits listed? The following will detail a step-by-step process to establish and maintain quality inventory management.

1. **Set capitalization threshold:** It vital to set the threshold of which assets are to be included in the inventory records. Typically, these items are capitalized and not expensed. Organizations typically set a minimum numerical value of assets that are to be capitalized, whether it is KSh 5,000/= or KSh 50,000/=. That decision is typically made by the accounting department or senior management
2. **Document the inventory process and procedure:** By putting the policies and procedures in writing, it will be easy to determine why certain items were included in the inventory while others were not. This document will serve as a clear guide to anyone needing to know the process. This should include: the procedures for entering new items into the asset inventory, the details about the asset being recorded and tracked, how to dispose items from the inventory and accompanying documentation that should be scanned and attached to the asset file.
3. **Involve all departments:** While it may not seem like the task of anyone but the accounting department, accurate inventory requires the involvement of every department. It is quite likely that someone with an accounting background may not know the intricacies of a piece of equipment or all of its components. A person who is familiar with the particular device will know that it's actually comprised of several assets that should be tracked separately.
4. **Implement a "Best of Breed" Asset Inventory Solution:** There are many different software packages on the market that provide some functionality for recording and tracking data for your organization's fixed assets .The most common application used is a spreadsheet. However, there are many limitations to spreadsheet when it comes to ensuring data is accurate and thorough. One "miss – sort" and all the assets inventory records are destroyed. Additionally, important documents cannot be scanned and attached to the asset record.

When selecting a fixed asset inventory solution make certain the package supports a variety of hardware choices that are cost-effective for your business. Inventory software should have the ability to support both baseline inventories to add new assets and dynamic inventories to update and verify data on existing assets. If your organization has multiple locations you will want the software to provide the ability to conduct concurrent inventories while centralizing the results. Other selection criteria might include the ability to create groups and lists for identification during property tax and a check-in/check-out feature that creates a history trail to prevent loss or theft of mobile assets.

The Asset Inventory Process

When added to your fixed asset depreciation software, an integrated fixed asset inventory will save time through automatic reconciliation of latest inventory data. Such software dramatically reduces time and errors because inventory data does not have to be manually re-entered into the fixed asset accounting system. For the inventory solution to be effective, it should easily integrate with your existing fixed asset depreciation software and your general ledger system.

5. **Selecting a Labeling Solution:** To improve the inventory process going forward, it is important to mark each asset with a unique identifying number so any similar items can be distinguished. This will assist in keeping track of items for accounting and management purposes, and when used in conjunction with a bar code scanner, will dramatically reduce the time it takes to perform physical inventory.

Selecting the proper bar code label material depends on the type of asset to be labeled, as well as the environment in which the assets are deployed. If the asset will be exposed to high temperatures, humidity, water, sunlight or harsh chemicals, a more durable foil label is recommended. Assets exposed to typical day-to-day use in an office environment will not require the same sturdiness, and vinyl labels can be used. Other considerations include utilizing labels that provide an indication if anyone has attempted to tamper or remove the asset. These labels can be preprinted to meet an organization's specifications, eliminating the need to implement an onsite solution. Examples of different labels include:

- Tamper evident
- Foil
- Polyester
- Destructible vinyl

Barcode scanners provide increased efficiency, effectiveness and accuracy in the asset inventory process. Hardware should be selected to meet the needs of your business and should be appropriate for the environment in which they will be used. There are many types of handheld devices available, including traditional bar code scanners, a variety of PDA's and pocket PC's that support bar code scanning

Each type of barcode hardware has distinct advantages. Dedicated barcode scanners are extremely durable, reliable and efficient, providing greater scanning accuracy on the first try than any other type of hardware. Multiuse devices such as PDA's and pocket PC devices are less costly and can be used for a variety of functions, including e-mail access, address books, notepads, and other personal applications in addition to barcode scanning and inventory software.



The Asset Inventory Process

Choose hardware that is effective for your business based on:

- Amount of fixed assets to be inventoried.
 - Number of inventories conducted annually.
 - Conditions under which inventories are conducted.
 - Other uses you may expect from the barcode reader devices.
 - Available hardware budget.
6. **Train the Employees:** Once the inventory process has been documented, train all employees on the procedures so that they know their involvement in the fixed asset process, and can understand the impact this process has on the business.
7. **Enter the Asset Information You Have:** By entering the asset information you already have into the asset inventory software, you can perform a verification audit and know the current status of the assets believed to be in possession. This will be the beginning of the “baseline” inventory process. When the physical examination of the assets is performed, the data that has been entered can be verified against what is actually on-hand. It is important that a standard naming scheme for assets be defined ahead of time to ensure similar types of assets are tracked in the same manner. The information that should be recorded includes:
- Asset Category
 - Asset Sub-Category
 - Location (Room/Floor)
 - Asset Label Number
 - Department
 - Custodian
 - Manufacturer
 - Acquisition Date
 - Acquisition Price
 - Condition
 - Description

It is imperative that a unique asset record be created for each individual asset. This will ensure that the assets can be tracked individually, and will eliminate problems that could arise if an item is disposed of or stolen. For example, if a purchase is made for twelve chairs, each chair

The Asset Inventory Process

should have its own record. If the acquisition is entered as one purchase of twelve chairs, and two of the chairs are destroyed, it will be impossible to properly account for each asset. By implementing an asset inventory software solution that has asset templates, the task of creating individual asset records is simplified, and proper accounting can be performed. This is true of large items that are comprised of multiple components. Each component may have different anticipated useful life, and each can be properly tracked.

8. **Perform a “Paper to Asset” Inventory:** Take the data entered, detailing the assets that are believed to exist, and verify it with what is actually on-hand. As each asset is located, enter the additional information, such as its location and condition, into the handheld barcode scanner, and affix the asset label with unique identifying barcode number. This data can then be uploaded to the asset inventory database, and records can be reconciled.
9. **Perform an “Asset to Paper” Inventory:** now that the majority of the assets have been labeled and entered into the handheld scanner for later upload to the database.
10. **Establish an Ongoing Inventory Process:** Once all assets have been identified and entered into the fixed asset inventory database, and the “baseline” inventory has been completed, a regular process for verifying the asset inventory must be established.

There are several methods for performing asset inventory audits, including “Wall-to-Wall” and “Cyclical” inventorying. A “Wall-to-Wall” inventory is just like it sounds, where all the assets are counted in one process, and the records are reconciled with the fixed asset inventory database.

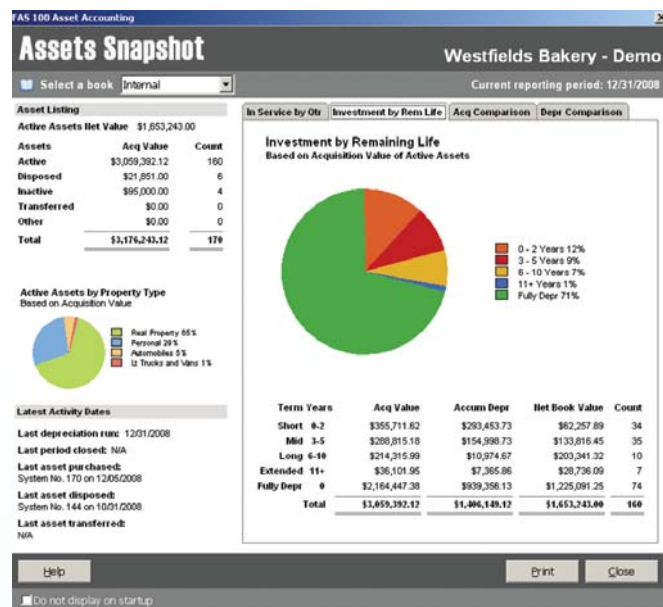
A “Cyclical” inventory is a process where the assets are verified in phases. The number of assets and the geographical dispersion of the assets are verified in phases. The number of assets and the geographical dispersion of the assets may provide a clue as to which method is the most feasible.

It is important that inventories be performed regularly to ensure the most accurate tracking of an organization’s assets. Performing an inventory only once a year is vital for the accounting records, but will not allow an organization to prevent theft, or maintain an accurate operating budget.

FAS Asset Inventory [Recommended Software]

Using state-of-the-art barcode technology, including Windows Mobile® devices, FAS Asset Inventory creates and tracks multiple physical inventories of assets quickly and efficiently—so you achieve tighter control of your fixed assets. FAS Asset Inventory is seamlessly integrated to provide automated reconciliation with any FAS Asset Accounting solution.

- Conduct multiple inventories concurrently at various sites and reconcile data at one central location.
- Supports Baseline Inventories to add new assets and Dynamic Inventories to verify existing asset data.
- “Check-In/Check-Out” feature with a “Check-Out History” monitors mobile assets.
- Inventories can be conducted at remote locations by exchanging data via email.
- Fifty-one fully customizable fields with the ability to control data entry and notes, plus images to describe each asset record.
- “Groups,” “Templates,” “SmartLists,” and “Search-and-Replace” features provide powerful asset management tools and streamline inventory methodologies.
- “Detail View” provides complete information including property type, class, acquisition date, supplier location, GL asset account, accumulated and expense account numbers, custodian, and more
- Prepaid barcode label solutions
- Many compatible handheld computers with barcodes scanners
- PDAs and pocket PCs
- Extensive selection of pre-printed barcode labels.
- Wall-to-wall inventory services



Conclusion



Implementing an optimized asset management solution prevents overpayment of property taxes and insurance, reduces the risk of regulatory non-compliance with legislation, reduces theft, saves time and money and helps companies improve planning and budgeting. By properly implementing a fixed asset inventory system, companies can eliminate the needless purchase of duplicate assets.

Fixed asset managers can implement best practices by selecting appropriate software solutions for the organizations. Among the tools to consider for total control of the asset lifecycle are fixed asset accounting software, inventory solutions, custom reporting, and project accounting solutions. In evaluating software solutions, particular attention should be paid to integration between fixed asset applications as well as with other financial solutions, such as the General Ledger, in order to save additional time and eliminate the possibility of data re-entry errors. With the right software solutions in place fixed asset managers can efficiently track, manage, and report on fixed assets throughout their useful lives and their ultimate removal from service. When this form of fixed asset management is implemented, it is possible to ensure the efficient use of the assets currently owned and enable better planning for the assets an organization needs.

THE BLUEBOX INVENTORY SERVICE:

BLUE SERVICE

1. Fixed Asset Management Appraisal and Quotation [free]
2. Document the Inventory Process and Procedures
3. Barcode, inventory and record fixed assets on site
4. Update and validate your general ledger
5. Perform data conversion services
6. Supply asset labels and scanners
7. Train your Employees
8. Periodic update service

WHITE SERVICE

1. Fixed Asset Management Appraisal and Quotation [free]
2. Perform data conversion services
3. Conduct inventory reconciliation
4. Provide Report

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