Best Practices for Implementing and Maintaining

Fixed Asset & Capitalized Equipment Inventories

Whitepaper

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1. Purpose

The purpose of this whitepaper is to illustrate how to effectively manage a fixed asset inventory and the importance of having professional fixed asset inventory performed on an annual basis. This information will assist companies in determining if the current method of tracking and reporting fixed assets is satisfactory, or if it is necessary to have a professional fixed asset inventory. This document also provides detailed information on Asset Services and its fixed asset inventory solution.

2. Definition of a Fixed Asset Inventory

A fixed asset inventory should be performed on an annual basis to assist businesses in maintaining accurate financial records pertaining to fixed and moveable assets within its facilities. Fixed assets usually pertain to items with a cost more than $1,000 with a life expectancy greater than one year. The items are non-consumable and typically fall under the following asset classes:

- Furniture & Fixtures
- Information Technology
- Audio Visual Equipment
- Office Equipment
- Health & Fitness Equipment
- Kitchen Equipment
- Manufacturing Equipment

In addition to the fixed asset classes listed, controlled items that cost less than the determined threshold, are typically inventoried as well. Those controlled assets include, but are not limited to, serialized items such as:

- Monitors
- Laptops
- Personal Computers
- Cameras
- DVD Player

3. How to Implement & Maintain a Fixed Asset Inventory

Maintaining an accurate inventory of fixed assets and capitalized equipment is critical to organizations of all sizes. Organizations, as a whole, realize significant savings and benefits through the maintenance of an accurate inventory. Furthermore certain departments may see benefits as well, for example, the facilities and IT departments will benefit through increased control and accountability of assets, as well as savings in budgets from reallocated existing assets and minimizing shrinkage. While finance departments often see benefits through tax and insurance savings, as well as compliance with grant and regulatory requirements.

The following steps have been established to assist organizations in maintaining the investment in fixed assets and capitalized equipment.

A. Obtain Executive Commitment

The first step in asset inventory management is to identify two critical roles, a program sponsor and a program champion. Executive level commitment is essential for the ongoing success of an asset inventory management program and the program sponsor provides the executive level commitment to the program. For most organizations, the equivalent of a "C" level executive is appropriate, and often the CFO of an organization will be the program sponsor. The program champion is responsible for implementing and maintaining the program strategy.

Executive level support will be facilitated by presenting a compelling business case for the importance of asset management. Section four of this whitepaper, "Importance of Having a Professional Inventory" contains several strong justifications as to why an organization should perform and maintain a fixed asset inventory, and is a good resource for building the business case. In addition, calculating the return on investment (ROI) for an asset inventory program will provide strong support for the business case. Utilize the Asset Services ROI Calculator, available on the Asset Services website, to quickly determine the organization's anticipated return.

B. Develop a Strategy for Maintaining an Inventory

The following is a list of items that should be considered when developing a fixed asset and capital equipment inventory maintenance strategy.

a. Method for Physical Inventory – How will the baseline inventory be established?

b. Process for Updating the Asset Ledger – Who is responsible for reporting additions, moves, and liquidations to the inventory? How will the changes be communicated to the asset management team? A sample Fixed Asset Policy & Procedures Manual and a sample Transfer or Disposition Form are available in the Asset Services Resource Library.

c. Measuring – How will the accuracy of the inventory be measured and maintained? Periodic physical inventories are the most efficient way to measure the accuracy of the inventory. Larger organizations (more than 20,000 assets) may also benefit by performing periodic physical audits of assets in addition to the physical inventory.

d. Accountability and Remediation – Who is responsible for, and what are the remediation strategies for not meeting appropriate inventory measurements?

C. Perform a Physical Inventory

Very small organizations may be able to deploy a "paper and pen" methodology for performing a physical inventory. This method requires printing out a list of assets from the asset ledger, and searching for each asset on the list. The "paper and pen" method may be a cost effective approach for small organizations with a single, one or two story building. However, organizations with multiple locations or floors limit the practicality and effectiveness of this method.

Utilizing a barcode methodology to inventory is recommended for larger organizations. Although the physical inventory may be performed utilizing internal resources, consider partnering with a company that specializes in providing asset management solutions.

Organizations often find that the advantages of outsourcing your inventory needs greatly outweigh the cost of the service. A few of the advantages seen from outsourcing inventory needs include, accurate and efficient inventory results, the ability to leverage the expertise and knowledge of the specialists, and also allow your employees to focus on their existing responsibilities.

D. Implement the Fixed Asset Inventory Management Solution

4. The Importance of a Professional Inventory

The following are justifications why an organization should perform an annual fixed asset inventory:

- **Financial Reporting Accuracy** – Business are required to provide accurate financial reports on an annual basis. An accurate fixed asset ledger is an integral part of that financial report, as it identifies current assets and determines the worth.

- **Financial Reporting Compliance** – Businesses, whether publicly or privately owned, still have financial requirements that need to be met. An accurate accounting of all assets owned by the organization assists in ensuring compliance with accounting regulations such as FASB and Sarbanes-Oxley (SOX).

- **Capital Budgeting** – Accurate knowledge of current assets is critical in planning for purchasing requirements. An annual inventory may identify equipment that has been lost or stolen, and therefore require replacements be purchased. An inventory may also uncover equipment believed to have been disposed of, stored in an undisclosed location, therefore nullifying the need to purchase replacements.

- **Accurate Asset Listing** – Some organizations never inventory. Instead, they receive assets through the materials management department, where the assets may be tagged, and then the asset information is sent to the financial department. The financial department then enters the assets in the FA ledger and sets up the depreciation of the item. Then, on an annual basis, depreciation is calculated, and the item is <u>assumed</u> to still be owned and in use by the organization, when in fact it may have been lost or stolen. If an organization assumes, from year-to-year that all items are still accounted for and in-use, the FA ledger becomes more and more inaccurate as each year passes. This is known as the snowball effect.

- **Locate Missing Assets** – An annual inventory will assist a business in locating assets that are assumed missing, or may verify that the assets are in fact, lost.

- **Identify Surplus Equipment** – After a thorough inventory has been completed and a review of the fixed asset ledger is performed, surplus equipment may be identified that can be sold on the open market.

- **Decreased Tax Payments** – An accurate inventory ensures the organization is only paying taxes on equipment that it actually owns. If an organization is still carrying equipment on its books, that may have been lost, stolen, or inadvertently disposed, it would be paying unneeded taxes on that equipment.

- **Accurate Insurance Premiums** – A business insures the equipment that it currently owns. An accurate inventory ensures the organization is only paying insurance premiums on equipment that it has in its possession, yet is adequately insured.

- **Disaster Preparedness** – If a disaster were to occur, does the business have an accurate picture of what it owns? This is critical on two accounts: a) insurance claims, and b) the ability to recover. Being able to provide insurance carriers with an accurate listing and value of items lost in a disaster ensures faster and more accurate reimbursement.

  Just as critical, if not more, is the ability to recover from the disaster and rebuild. An accurate inventory identifies not only what assets were lost, but where the assets were located in the facility. This provides the organization with a virtual plan for rebuilding the damaged area.

- **Accurate and Efficient Inventory** – The use of barcode technology ensures that annual inventories are accurate because all of the information is loaded onto handheld readers and can validate data as it is entered. The efficiency of an inventory is tremendous due to the fact that on an annual rescan, the asset is verified with nothing more than a scan of the barcode using a handheld reader – no clumsy lists to scan through in order to find the asset. The user will know immediately if the equipment has been moved, and can quickly update the data.

- **Standardized Inventory Across Departments** – The standardization of data ensures a more accurate FA Ledger. If there are numerous people across several departments performing the inventory, the data will lack standardized results, and require more time being spent “cleaning” the data.

- **Return on Investment (ROI) and Cost Savings** – The return on investment realized by a company may be enormous based on the low cost of having an inventory completed and the savings the organization may realize through reduced taxes and insurance premiums. The cost of an inventory is far less expensive than what organizations may believe.

- **Inventory Professionals Prevent Lost Man-Hours by Company Personnel** – If administrative personnel are performing the inventories, they are being taken away from their primary responsibilities.

5. Ramifications of Not Having a Professional Inventory

The following are possible implications an organization could face if annual inventories are not completed:

- **Noncompliance of Annual Financial Reporting** – Often times, organizations are required to submit accurate annual financial reports in order to comply with financial accounting requirements. An important part of this financial report is to properly account for all equipment owned by the company and to report the value of those assets. Without performing an inventory, the report is based on the assumed accuracy of the fixed asset ledger and the possibility of inaccurate financial reports is greatly enhanced.

- **Inaccurate Tax Payments & Insurance Premiums** – Organizations pay taxes and insurance premiums based on actual asset value. If the company does not have an accurate account of its equipment, it may be inaccurately paying taxes and insurance premiums.

- **Snowball Effect of an Inaccurate Fixed Asset Ledger** – After performing inventories for clients who have not regularly inventoried their facilities, we have seen fixed asset ledgers that are less than 60% accurate. Meaning 40% or more of the items on the asset ledger cannot be located, or there are items identified during the inventory that are not on the asset ledger prior to the inventory. Once an organization decides not to validate their asset ledger on an annual basis, the inaccuracy of the ledger multiplies each year.

- **Items that may be Lost or Stolen** – When equipment is needed in the routine activity of the organization, and it gets lost, stolen, or wrongly disposed of, the non-availability of that equipment may not be realized until it is too late. It then takes time to replace the item. Annual inventories may identify missing items as well as identifying items that may be misplaced in another location in the facility.

- **Efficient Capital Budgeting**– Without an accurate inventory and fixed asset ledger, capital budgeting is more difficult. Having an accurate fixed asset ledger identifies equipment that needs to be purchased therefore maximizing the organization's budget to purchase necessary equipment.

- **Unable to Recover from a Disaster** – It is said that an organization that does not recover from a disaster within a few months, will never reopen. Having an accurate fixed asset ledger that identifies the equipment owned by the company, and ensures that insurance claims are recouped quickly and for the correct amount. It also acts as a virtual floor plan for identifying equipment (by room) for recovering from a disaster.

6. Contact Asset Services

Please feel free to contact us with any questions pertaining to our asset management solution, or if you would like an estimate for completing an inventory for your organization.

For additional information, please visit our website at: www.assetservices.com

Or contact us at:
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