

# Sage Fixed Assets | White Paper

## Fixed Asset Inventory: A Guide to Getting Started

Discover how an optimized fixed asset management solution pays off in savings and efficiency



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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 natural 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 investments 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 practices in fixed asset management will pay off in savings and efficiency for:

- Corporate accountants managing fixed assets.
- CFOs striving to optimize business efficiencies and plan capital budgets.
- Government asset managers complying with GASB 34/35 standards.
- Nonprofit executives seeking to gain maximum leverage from already strained resources.

The goal of this white paper is to help you learn about best practices for fixed asset inventory management and suggest tips for implementing a successful inventory process.

This white paper will cover how to:

- Create an 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 practices inventory process, document, and continuously monitor any changes.

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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, organizations 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 software solution, and continual tracking, organizations can reduce the time it takes to evaluate the assets on hand—reducing costs and helping to achieve 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 costs of performing audits.

### Reduce Theft

Employee theft is a serious problem in U.S. businesses. 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.<sup>2</sup> 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 the work is sloppy, theft will be much harder to detect.<sup>3</sup>

### Improve 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 that need replacement.

### Eliminate “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, “After 14 years of experience, AMR has repeatedly found that 65 percent of fixed asset data is incomplete, inaccurate, or altogether missing, while 10 percent to 30 percent of fixed assets are no longer owned.”<sup>4</sup>

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## Sage Fixed Assets

Fixed assets hold a large presence on corporate balance sheets and represent the bulk of investments for many companies. If 10-30 percent of fixed assets on the books are “ghost assets,” an organization might be overpaying taxes and insurance on those assets by up to 30 percent. In addition to this 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 result can be lost productivity. 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. 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.

By implementing a detailed asset inventory process, companies can see a real return on investment that will show an immediate impact on the bottom line. It is easy to estimate the potential overpayments of a company. The following is an example of the effects a 2 percent overpayment of federal and state income tax, personal property tax, and insurance can have on a company's bottom line:

Number of Fixed Assets	500
Total Cost of Depreciable Fixed Assets	\$2,000,000
Average Value of Each Asset	\$4,000
Percentage of Ghost Assets	15%
Total Cost of Ghost Assets	\$300,000
Tax Rate	36%
Average Remaining Asset Life	40%
Personal Property Tax	3.4%
Insurance Rate	\$0.01 per \$1
Potential Overpayment—Federal and State Income Tax	\$43,200
Potential Overpayment—Personal Property Tax	\$4,080
Potential Overpayment—Insurance	\$3,000
<b>Total Potential Annual Overpayments</b>	<b>\$50,200</b>

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## Recover After a Disaster

Organizations don't plan to fail, they fail to plan. Most entities do not contemplate the consequences of a disaster, natural or man-made, striking their business. A study conducted by the National Federation of Independent Businesses reports that 10 percent of companies are affected by man-made disasters, and another 29.7 percent of companies are affected by natural disasters.<sup>5</sup> Too many times 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 U.S. Department of Labor estimates over 40 percent of businesses never reopen following a disaster. Of the remaining companies, at least 25 percent close within two years."<sup>6</sup> By having an accurate inventory, and storing back-ups off site, companies can be up and running again quickly.

## The Asset Inventory Process

It is clear 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 solution that will provide the benefits listed? The following details a step-by-step process to establish and maintain quality inventory management.

- 1. Set Capitalization Threshold:** It is vital to set the threshold at 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 \$100 or \$1,000. That decision is typically made by the accounting department or senior management.
- 2. Document the Inventory Process and Procedures:** 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 any 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, an 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 a particular device will know that it is 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 spreadsheets when it comes to ensuring data is accurate and thorough. One "mis-sort" and all the asset 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 want the software to provide the ability to conduct concurrent inventories while centralizing the results.

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Other selection criteria might include the ability to create groups and lists for identification during property tax preparation and a check-in/check-out feature that creates a history trail to prevent loss or theft of mobile assets.

When added to your fixed asset depreciation software, an integrated fixed asset inventory solution saves time through automatic reconciliation of the latest inventory data. Such software dramatically reduces time and errors because inventory data does not have to be manually reentered 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. Select 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 assists in keeping track of items for accounting and management purposes and, when used in conjunction with a barcode scanner, dramatically reduces the time it takes to perform physical inventories.

Selecting the proper barcode label material depends on the type of assets 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 do 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 environments in which they will be used. There are many types of handheld devices available, including traditional barcode scanners, a variety of smart phones and devices that support barcode 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 smart phones are less costly and can be used for a variety of functions, including email access, address books, notepads, and other personal applications in addition to barcode scanning and inventory software.

Choose hardware that is effective for your business based on:

- Number 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 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:** 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 is 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 Subcategory
- Location (Room/Floor)
- Asset Label Number
- Department
- Custodian or Owner
- Manufacturer
- Acquisition Date
- Acquisition Value
- Condition
- Description

It is imperative that a unique asset record be created for each individual asset. This ensures that the assets can be tracked individually and eliminates problems that could arise if an item is disposed of or stolen. For example, if a purchase is made for 12 chairs, each chair should have its own record. If the acquisition is entered as one purchase of 12 chairs, and two of the chairs are destroyed, it is 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 a 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 the 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 in the fixed asset inventory database, those items that have not been identified can be labeled, and the data can be 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.



## Sage Fixed Assets

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 may provide a clue as to which method is more 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 does not allow an organization to prevent theft or maintain an accurate operating budget.

### Sage Fixed Assets—Tracking

Using state-of-the-art barcode technology, Sage Fixed Assets—Tracking creates and tracks multiple physical inventories of assets quickly and efficiently—so you achieve tighter control of your fixed assets. Sage Fixed Assets—Tracking is seamlessly integrated to provide automated reconciliation with any Sage Fixed Assets—Depreciation solution. Sage Fixed Assets—Tracking can help you:

- Conduct multiple inventories concurrently at various sites and reconcile data at one central location
- Conduct Baseline Inventories to add new assets and Dynamic Inventories to verify existing asset data
- “Check-In/Check-Out” assets with a “Check-Out History” monitoring of mobile assets
- Conduct inventories at remote locations by exchanging data over email
- Perform a test inventory with an on-screen “Virtual Reader”—and even add assets—before you invest in hardware
- Customize fields with the ability to control data entry and notes, plus images to describe each asset record
- Use “Groups,” “Templates,” “SmartLists,” and “Search-and-Replace” features to provide powerful asset management tools and streamline inventory methodologies
- See complete information including property type, class, acquisition date, supplier location, GL asset account, accumulated and expense account numbers, custodian or owner, and more

### Sage: Everything you need to conduct physical fixed asset inventories!

- Sage Fixed Assets—Tracking
- Many compatible handheld computers with barcode scanners
- Extensive selection of preprinted barcode labels
- Wall-to-wall inventory services (provided by Sage Inventory Services partners)

*“When we first implemented Sage Fixed Assets, the accounting staff conducted a full-blown audit, tagging all of the organization’s assets. Now, each location can perform its own inventory with handheld scanners, and we’ve significantly reduced our travel expenses.”*

—Ryan Schipper  
Senior Accountant  
Endries International

## Conclusion

Implementing an optimized fixed asset management solution prevents overpayment of property taxes and insurance, reduces the risk of regulatory noncompliance with legislation such as the Sarbanes-Oxley Act, 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 their 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 reentry 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.

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