

The benefits of a fixed asset management solution

Overcome risks and accelerate
returns *Greg Cline*



80% of Fortune 500 firms list fixed assets as the largest line item on their balance sheet



Across every industry, organizations are challenged to efficiently account for and track fixed assets. This whitepaper explores the daunting task of accurately managing the varied lifecycles of fixed assets.

No matter who you report to, you're accountable for the status and value of your organization's fixed assets: buildings, machinery, computers and other electronic equipment, vehicles, office furnishings, and more. Accurately tracking the varied lifecycles of these assets is a formidable challenge.

80% of Fortune 500 firms list fixed assets as the largest line item on their balance sheet. With so much at stake, it is no wonder that Aberdeen finds that 58% of users that run a fixed asset management solution to conduct accurate physical inventories save money on taxes and insurance, apply proper asset depreciation to maximum benefit, ensure regulatory compliance, assure disaster preparedness, and optimize staff time by eliminating redundant and repetitive activities.

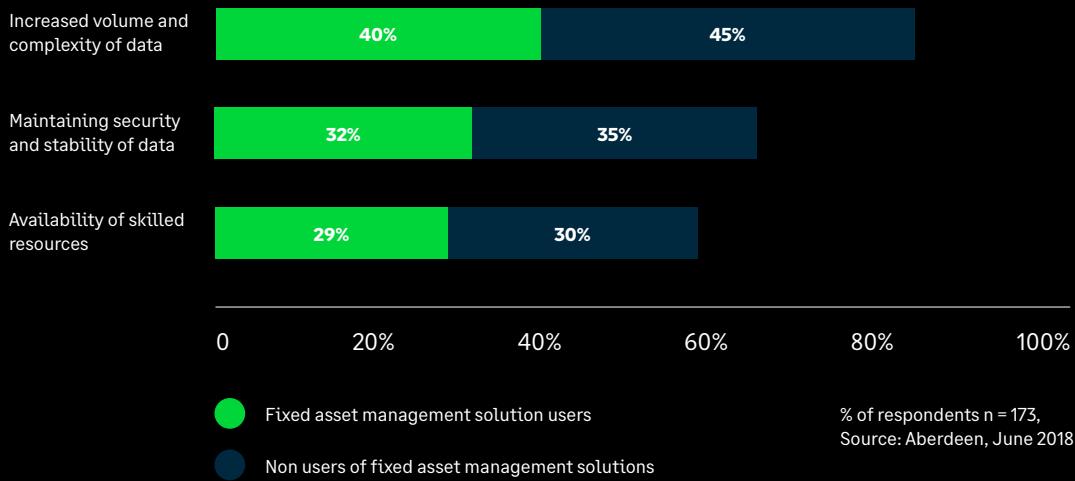
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Pressures driving users to a fixed asset management solution

Numerous pressures drive manufacturing organizations to focus resources on a fixed asset management solution. These include increased volume and complexity of data, maintaining security and stability of data, and leveraging the limited availability of skilled resources. (Figure 1)

Figure 1

Pressures for a fixed asset management solution



Those implementing a fixed asset management solution are more keenly attuned to these top pressures than non-users. They are data-centric, mastering increasing volume and complexity with an automated solution while maintaining data security and stability. They are also people-centric, harnessing their fixed asset management solution to leverage scarce availability of skilled resources, avoiding redundant and repetitive tasks.

Spreadsheets: The risk of doing it wrong

It always pays dividends to have the proper tool for the task at hand. While spreadsheets are inherently useful in business, they are decidedly not the best tool for managing fixed assets. (Figure 2)

When it comes to spreadsheets, 64% of respondents are impacted by version control issues. Often passed from employee to employee, it is difficult to tell which version is the most current. Spreadsheets lack audit trails; beyond the last person to access the file and date it was modified, all changes made must be manually logged. This leaves spreadsheets vulnerable to accidental and intentional changes that materially affect data integrity. These “version skew” issues are universal, affecting large and small firms alike.

Aberdeen finds that 62% experience challenges with spreadsheets because of their manual nature of input. In fixed asset management, bypassing manual input is a critical success factor; effectively managing fixed assets starts with an accurate baseline inventory count. For instance, an integrated fixed asset inventory management solution saves time by automatically connecting and reconciling tagged inventory data collected via handheld scanners. This dramatically reduces errors, as data does not have to be manually reentered into the fixed inventory accounting system.

A lack of security in spreadsheets means that sensitive numbers may be revealed to the wrong set of eyes, as reported by 54% of all companies. Spreadsheets also lack user access controls by username/password combinations. While access can be limited by a password, anyone who obtains the password also obtains access. Bluntly put, this increased level of security risk is totally unacceptable in the era of the Sarbanes-Oxley Act, which raises the bar for accountability and compliance by all companies.

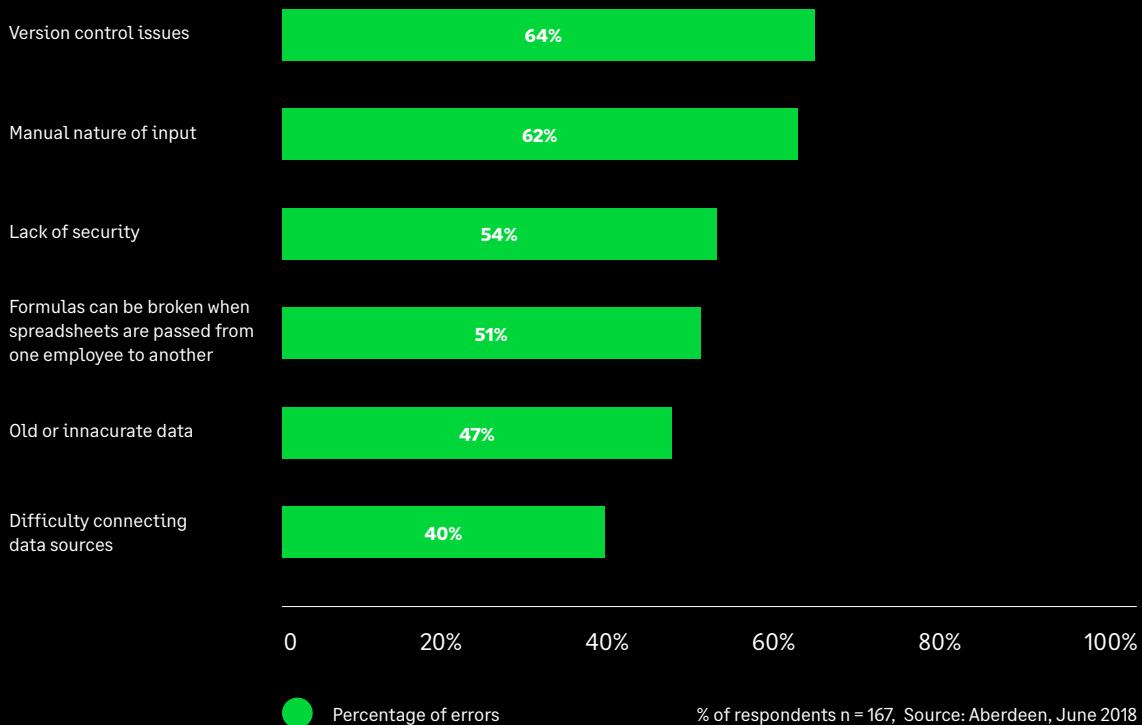
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Spreadsheet formulas can break when files are passed from one employee to another, as 51% of respondents report, or an improper cell reference can result in completely unintended values. In the case of fixed assets, it is very easy for these inaccurate formulas to result in improper calculations of depreciation or taxes, for example.

The great danger of old or inaccurate data is perhaps the most damning indictment of spreadsheets. As an example, the passage of the Tax Cuts and Jobs Act of 2017 requires businesses of most every type to calculate the investment in

their fixed assets using the Alternative Depreciation System (ADS) rules to take advantage of new tax deductions in under Internal Revenue Code (IRC) Sections 168(j), 199A, and 250. Without a fixed asset management solution to automatically apply built-in tax rules, generally accepted accounting principles (GAAP), and accurately calculated depreciation methods, all is lost. An error in any one of these areas can result in a direct financial loss for a company.

Figure 2
The perils of error-prone spreadsheets



The Aberdeen maturity class framework is comprised of three groups of survey respondents. This data is used to determine overall company performance. Classified by their self-reported performance across several key metrics, each respondent falls into one of three categories:

Best-in-Class

Top 20% of respondents based on performance.

Industry Average

Middle 50% of respondents based on performance.

Laggard

Bottom 30% of respondents based on performance.

Sometimes we refer to a fourth category, All Others, which is Industry Average and Laggard combined.





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Once a capital project is complete, the resulting fixed asset is added to a centralized repository of asset, lifecycle, and performance data, thereby providing data integrity.

Figure 3

Benefits of a fixed asset management solution

A fixed asset management solution moves beyond spreadsheets and offers capabilities that enable Best-in-Class performance (sidebar), such as minimized risks and maximized benefits

TCO and asset depreciation factors reported for decision support

73%

Centralized repository of asset, lifecycle, and performance data

53%

Automated tracking of capital project costs from inception and design through construction

53%

0 20% 40% 60% 80% 100%

● Fixed asset management solution users

% of respondents n = 173,
Source: Aberdeen, June 2018

Fixed asset management solutions:

Best-in-Class capabilities

Instead of a set of error-prone spreadsheets, a fixed asset management solution offers both a database and a calculation engine for asset depreciation, asset taxation, and accounting rule compliance. It is important that these rules be built into the system; 35% of fixed asset management solution users specifically cite compliance with new and/or changing regulatory requirements as a key driver in minimizing risks. Manually keeping up with new regulations is impossible and missing even a small regulatory change can result in huge fines and penalties.

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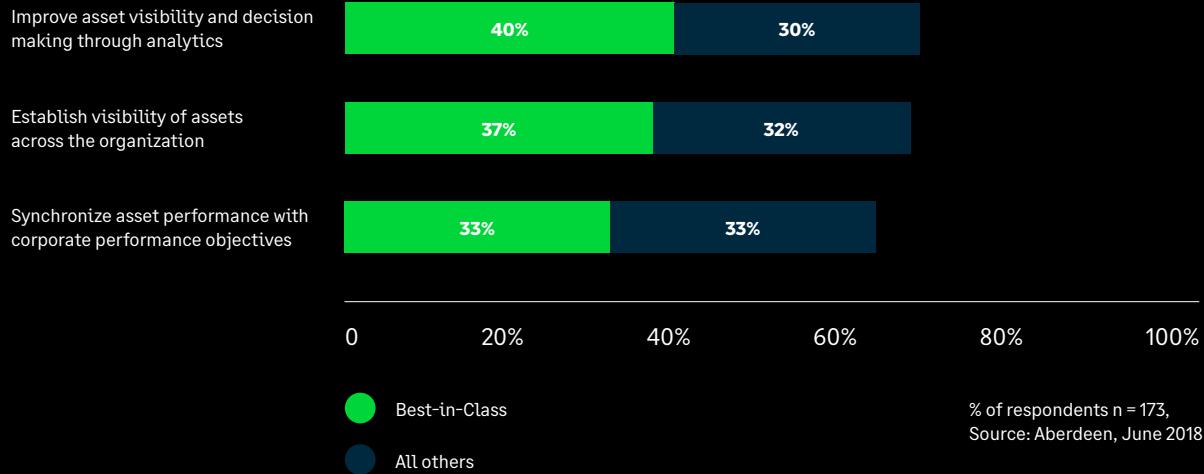
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Figure 4

Fixed asset management solutions: Best-in-Class strategies



A fixed asset management solution enables planning by providing automated tracking of capital projects from inception and design through construction. Once a capital project is complete, the resulting fixed asset is added to a centralized repository of asset, lifecycle, and performance data, thereby providing data integrity.

During physical inventories, a fixed asset management solution also saves money by identifying and removing “ghost assets.” Typically, these lost, stolen, or unusable items comprise up to 15% to 30% of a company’s property, plant, and equipment. In the process of inventory reconciliation, a fixed asset management solution identifies and removes ghost assets from the corporate ledger, and the resulting insurance fees and tax savings are significant.

Without such a solution, firms end up overpaying taxes and insurance on these ghost assets by up to 30%, negatively impacting their bottom line. This can also introduce huge inaccuracies into corporate financials, therefore subjecting the firm to regulatory compliance fines and penalties.

73% of Best-in-Class users demand the inclusion of built-in asset-depreciation capabilities in their fixed asset management solution. It is extremely important that assets are depreciated correctly; not doing so can result in direct financial loss. A fixed asset management solution typically contains dozens of correctly implemented depreciation methods, so choosing the best method to maximize financial benefits is fast and easy.

Finally, a solution also provides enterprise application integration, allowing users to share fixed asset management solution data with accounting, general ledger, and ERP systems.



Key takeaways

An effective fixed asset management solution reduces the immense job of fixed asset accounting and tracking to a manageable process; it overcomes the pitfalls of spreadsheets and provides a number of benefits. A fixed asset management solution:

- Enables accurate physical asset inventories free of “ghost assets” and manual input, via integration with handheld devices. This saves time, radically reduces errors, and ends overvaluation of fixed assets.
- Prevents overpayment of property taxes and insurance through accurate physical inventories.
- Maximizes available tax write-offs via accurate and appropriate asset depreciation calculations.
- Improves decision making through application of built-in regulatory compliance rules to customer data. This optimizes fixed-asset compliance, reducing property and income taxes.

It's time to break free from the barriers and limitations that spreadsheets impose on fixed asset management. A “beyond spreadsheets” approach is the best strategy to do so.

A fixed asset management solution results in more accurate physical inventories, less money spent on taxes and insurance, maximized benefits from accurate depreciation calculations, better regulatory compliance, and disaster preparedness. Moreover, it optimizes staff times by eliminating redundant and repetitive activities. Implementing a fixed asset management solution is the first step to accelerating your returns.

About Aberdeen Group

Since 1988, Aberdeen Group has published research that helps businesses worldwide to improve their performance. Our analysts derive fact-based, vendor-neutral insights from a proprietary analytical framework, which identifies Best-in-Class organizations from primary research conducted with industry practitioners. The resulting research content is used by hundreds of thousands of business professionals to drive smarter decision-making and improve business strategies. Aberdeen Group is headquartered in Waltham, Massachusetts, USA.

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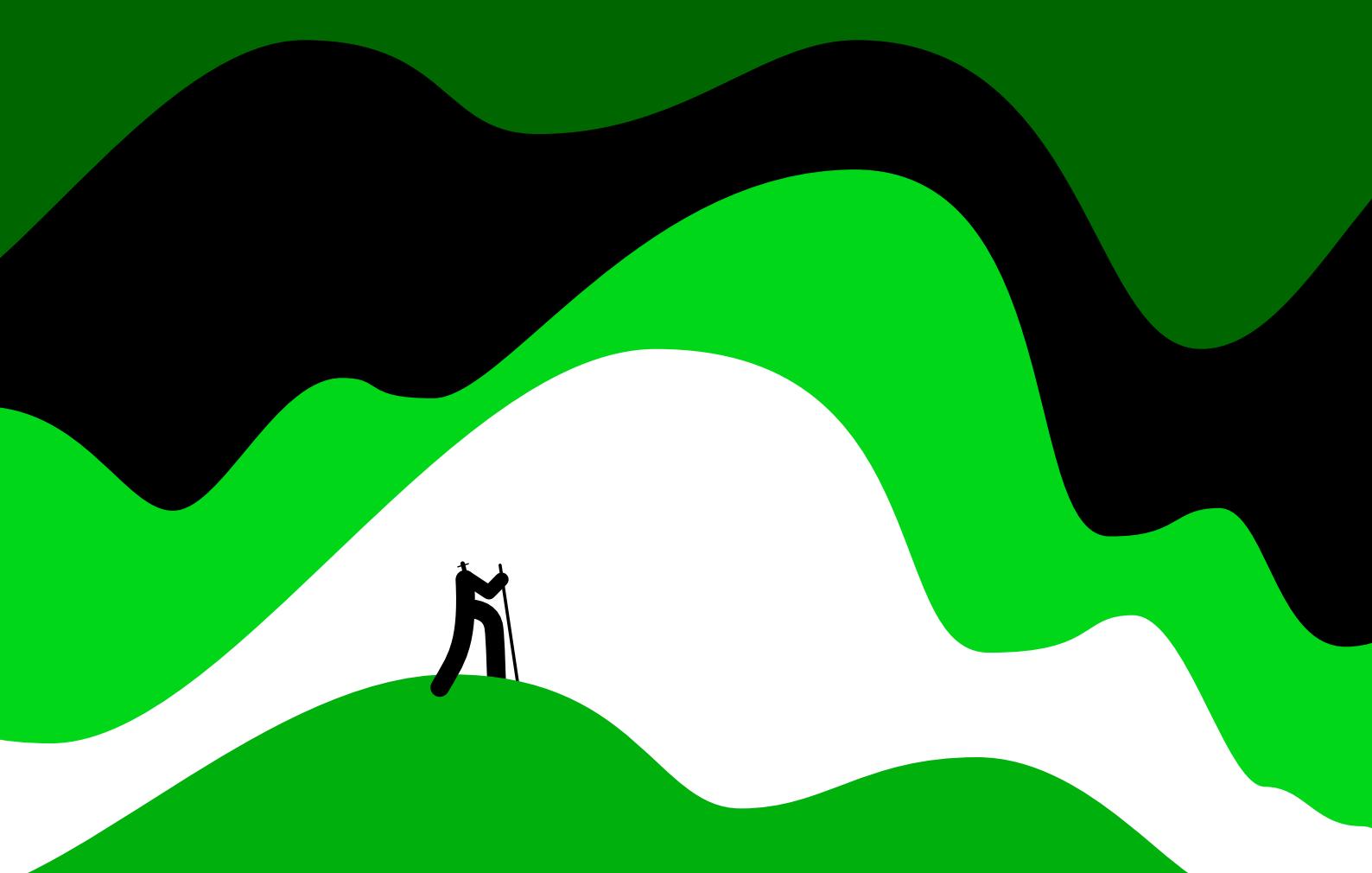
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