

Assets Management

- An asset is a basic unit of economic value that is expected to provide benefit beyond a single period. The value of the asset is recorded on the company balance sheet.
- Examples of assets are cash, accounts receivable, inventory, prepaid insurance, land, buildings, equipment, trademarks, and certain deferred charges.
- There are two major asset classes; tangible assets; and intangible assets.
- Tangible assets are classified as either; current assets, or fixed assets.
- Current assets include, inventory and receivables, while fixed assets include, buildings, property, equipment, land, machinery, and equipment.
- This tutorial will focus on the class of tangible assets, called fixed assets.

Sub Processes under Fixed Assets Functional area

The process for fixed assets can be summarized in following steps:

- Procuring an asset (purchase an asset)
- Registering/Adding an asset (ownership change, transfer)
- Depreciating/Appreciating Assets (category field)
- Transferring Assets (unit to unit or company to company)
- Adjusting Assets (need to clarify)
- Disposing Assets

Process Flow for Fixed Assets Process

Fixed Assets process can be divided into six sub processes;

- Procuring an asset
- Registering/Adding an asset
- Adjusting Assets
- Transferring Assets

- Depreciating/Appreciating Assets
- Disposing Assets

These steps are cyclic in nature and most of them happen in any fixed management lifecycle except for the ones shown in green. The green ones are optional steps, which may happen in certain business scenarios.

Now we will understand each of these steps in detail.

1. Procuring an asset

An asset is most often entered into the accounting system; when the invoice for the asset is entered; into the accounts payable; or purchasing module of the system.

Assets can also be directly entered in the, Fixed Asset Management System

2. Registering or adding an asset

Most of the information needed to set up the asset for depreciation is available at the time the invoice is entered

Information entered at this stage include; acquisition date, placed-in-service date, description, asset type, cost basis, depreciable basis etc.

Some information will flow automatically based on the asset type selected based on the relationships that need to be defined in the system.

3. Adjusting the Assets

Adjustments to existing asset information is often need to be made.

Events may occur that can change the depreciable basis of an asset

There may be improvements or repairs made to asset that either adds value to the asset or extend its economic life.

4. Transferring the Assets

Sometimes a fixed asset is transferred to another subsidiary, reporting entity, or department within the company.

These inter-company and intra-company transfers may result in changes that impact the asset's depreciable basis, depreciation, or other asset data.

This needs to be reflected accurately in the fixed assets management system

5. Depreciating the Assets

The decline in an asset's economic and physical value is called depreciation.

According to GAAP, depreciation is an expense, that must be periodically reflected, on a company's books, and allocated to the accounting periods, to match income and expenses.

Sometimes, the revaluation of an asset, may also result in appreciation of its value

Positive Depreciation will calculate as per given customisable formula.

Negative depreciation will be manually entered.

6. Disposing the Assets

When a fixed asset is, no longer in use, becomes obsolete, is beyond repair, the asset is typically disposed

When an asset is taken out of service, depreciation cannot be charged on it.

There are multiple types of disposals, such as abandonments, sales, and trade-ins

Any difference between the book value, and realized value, is reported as a gain or loss.

Key Transaction Fields

Let us understand some key generic fields that are used in almost every system or ERP during the Fixed Assets process;

Asset Category; Selection of Asset Category, enables inheriting the accounting properties of the underlying category.

Asset Description; Description of the asset or enter any notes

Purchase Date; The date of purchase of the asset

Accounting Date; Date used to determine which period this posting belongs to within the general ledger

Starting Date; determine which starting date the amortization is calculated for

Asset Value; Initial value of an asset

Usable Life; Years or Months to depreciate the asset over

Residual Asset Value; Value of the asset at the end of the depreciation period

Depreciate; usually a checkbox to define if the asset needs to be depreciated

Depreciation Type; The different methods to calculate depreciation

Depreciation Start Date; Date from which to calculate the depreciation postings

Depreciation Amount; The amount of the initial value to depreciate

Depreciated Value; Field indicating how much of the depreciation value has already been posted to the general ledger

Depreciated Plan; A field indicating how much value of the asset will be depreciated until the end of asset life

Previously Depreciated Amount; The amount that has already been amortized before the asset was entered into the system

Amortize; usually a checkbox to define if amortization is calculated

Asset Amortization; Tracking depreciation instalments.

Total Amortization; Field with the total amortization amount posted for a selected period

Accounting; Specific accounting settings are for an asset

Key Setups / Perquisites

Some key master elements or setups that are perquisite; to this process before transactions can take place in any ERP or any other system:

Asset Category; Selection of Asset Category, enables inheriting the accounting properties of the underlying category.

Asset Amortization; Tracking depreciation instalments

Accounting; Specific accounting settings are for an asset

Depreciated Plan; A field indicating how much value of the asset will be depreciated until the end of asset life.