

## 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.

### ***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

### ***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.

Asset Acquisition to Capitalization

Asset Internal Transfer

Fixed Asset Disposal

Asset Acquisitions without a PO or for Lapse

### **High Level Process Description**

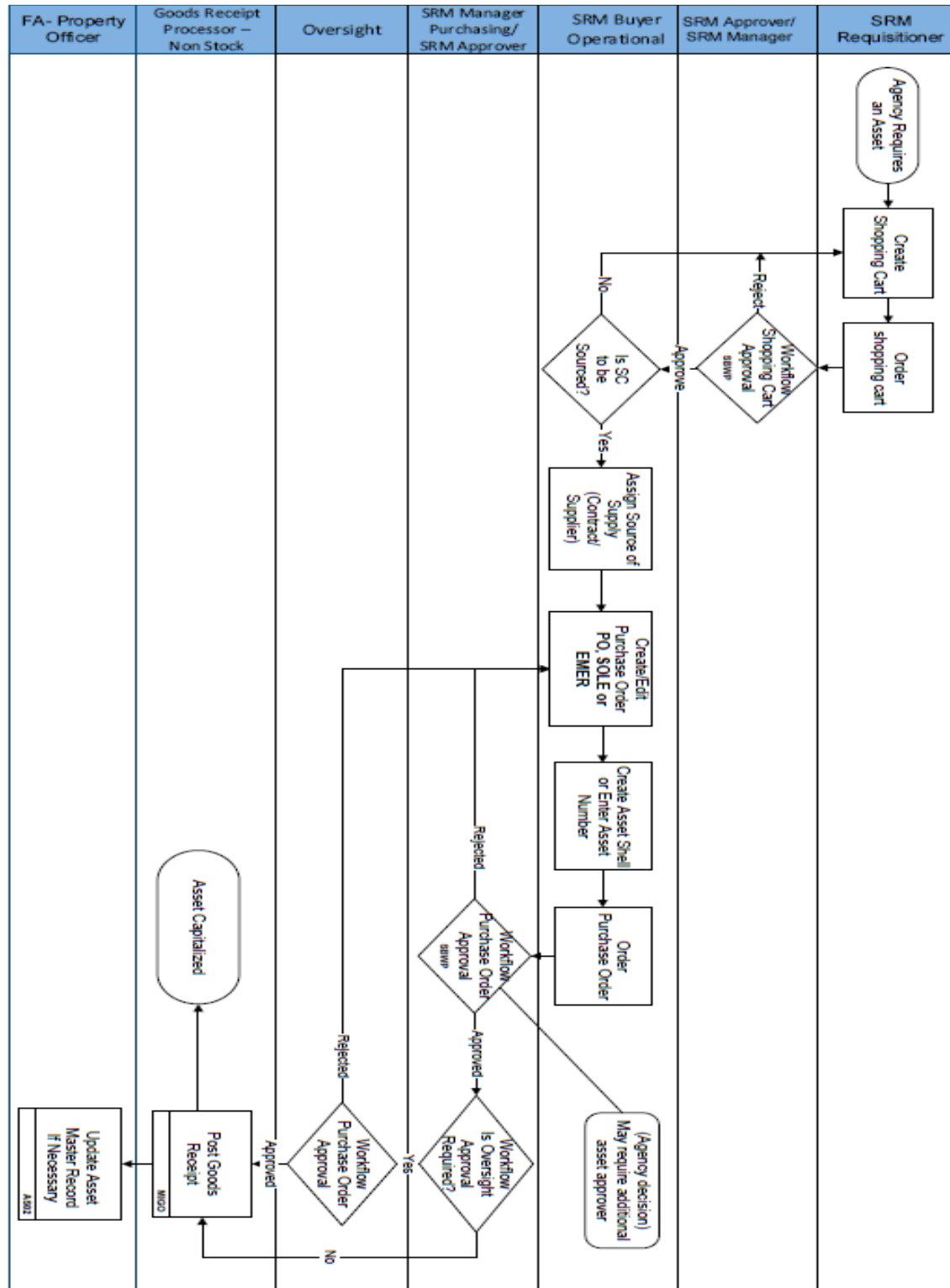
Every asset has a lifecycle of four distinct phases:

1. Acquisition: assets can be purchased from vendors (e.g., laptops), acquired by donations, acquired by confiscation, or through capital projects
2. Capitalization: through goods receipt or asset module transaction, value is added.

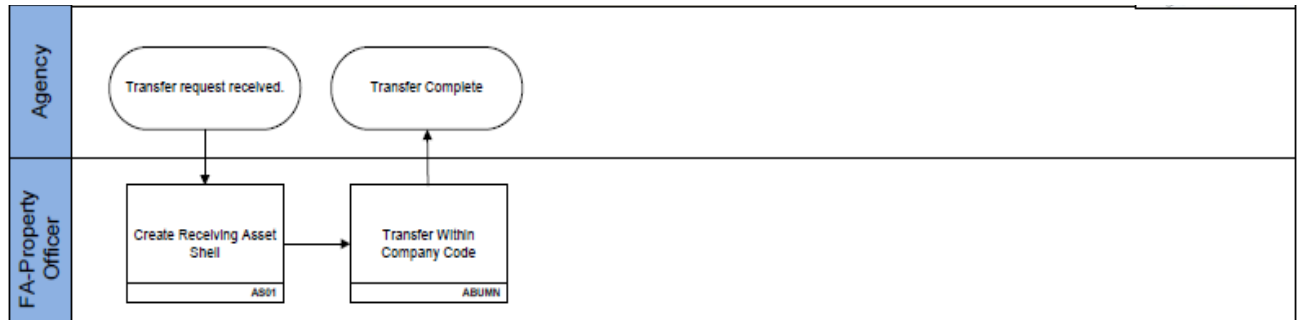
3. Useful life: assets depreciate during their operational life.
4. Retirement: assets that are no longer useful are transferred, sold, or Scrapped.

Chart of Accounts is the group of G/L accounts used to classify revenue, expenses, assets, and liabilities. Every fixed asset has sub-ledger account where depreciation and other costs are posted. Postings to this account result in postings to reconciliation accounts and funding sources responsible.

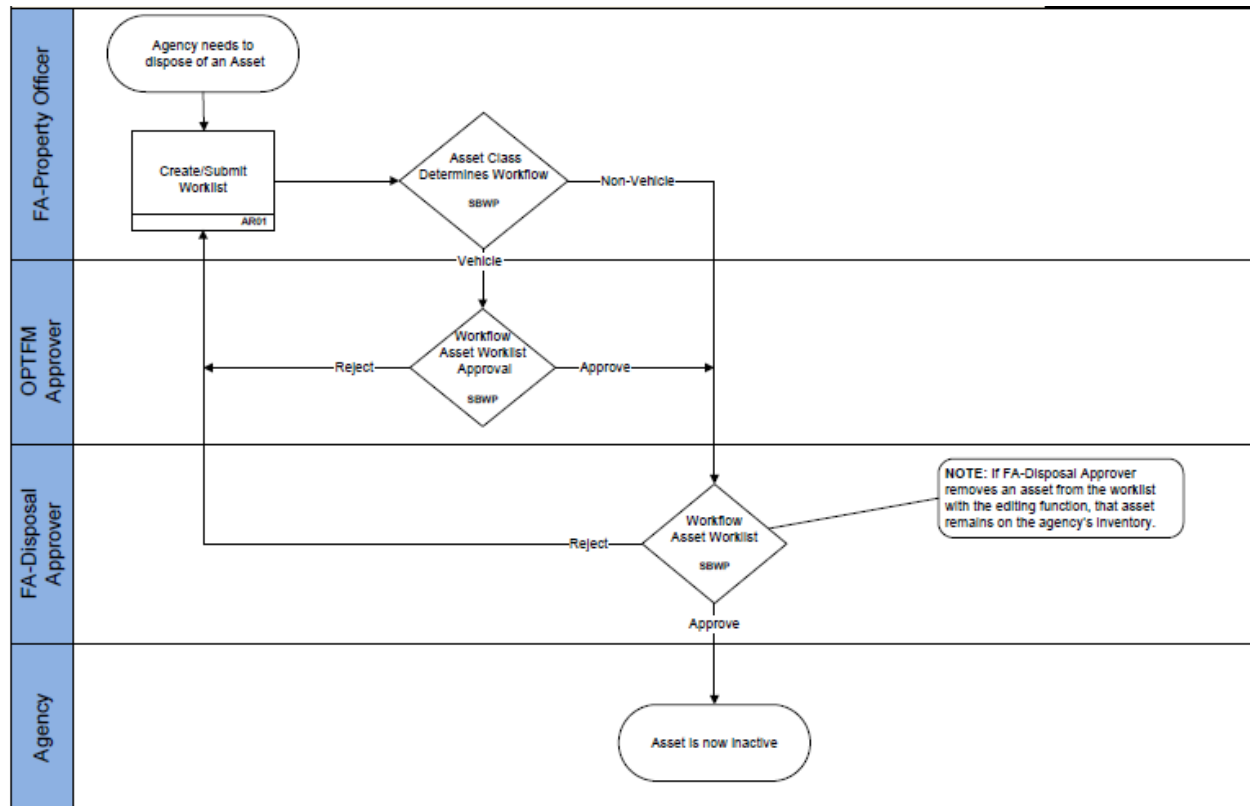
#### Asset acquisition to capitalization:



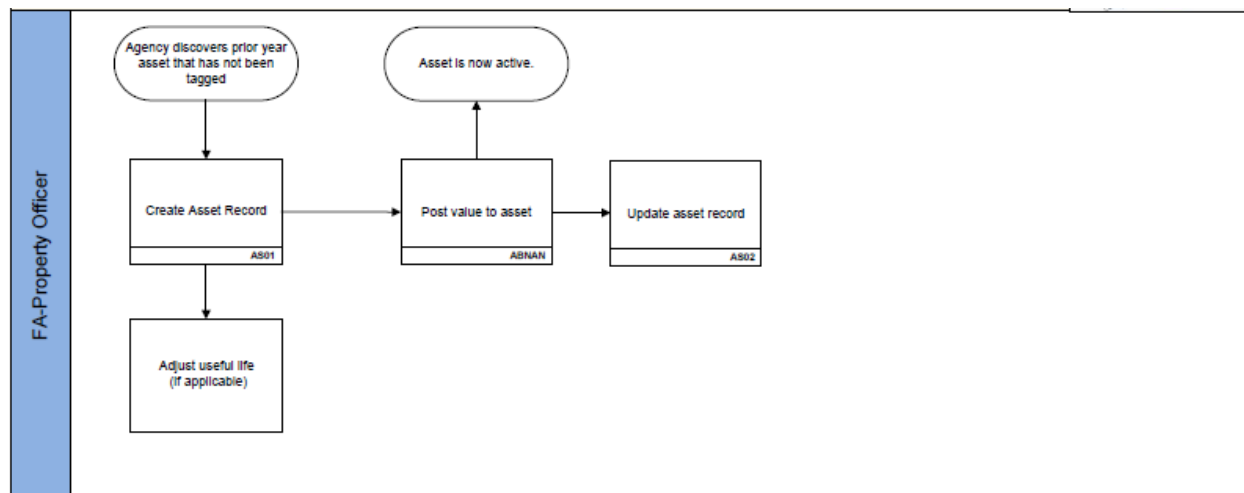
## Asset Internal transfers:



## Fixed asset Disposal:



## Asset acquisitions without PO or for lapse:



## **Key Process Steps**

Acquisition from purchase with vendor  
Acquisition with automatic offsetting entry  
Retirement with revenue  
Asset Sale without customer  
Post-Capitalization  
Write-Ups  
Assets Under Construction  
Depreciation Posting Run  
Posting Acquisition and Production Costs Values  
Depreciation Simulation/Primary Cost Planning

## **Company Roles**

Asset Accountant  
Accounts Payable Accountant  
General Ledger Accountant

## **Detailed Process Description**

### **Acquisition from Purchase with Vendor**

An external asset acquisition is a business transaction resulting from the acquisition of an asset from a business partner. The acquisition can be posted integrated with Accounts payable or without Accounts payable.

### **Acquisition with Automatic Offsetting Entry**

The asset can be posted automatically against the clearing account fixed asset acquisition.

### **Retirement with Revenue**

An asset is sold, resulting in revenue. The sale is posted with a customer.

An asset is sold, resulting in revenue. The sale is posted against a clearing account.

An asset had to be scrapped, with no revenue.

### **Asset Sale without Customer**

Asset Sale with partial retirement without customer

### **Post-Capitalization**

Post-capitalization represents subsequent corrections to the acquisition and production costs (APC) of a fixed asset.

### **Write-Ups**

A write-up is generally understood to be a subsequent change to the valuation of an asset.

### **Assets Under Construction**

Assets under construction (AuC) are a special form of tangible asset.

The AuC process includes a down payment, final invoice and the final settlement.

## ***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 prerequisite; 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.

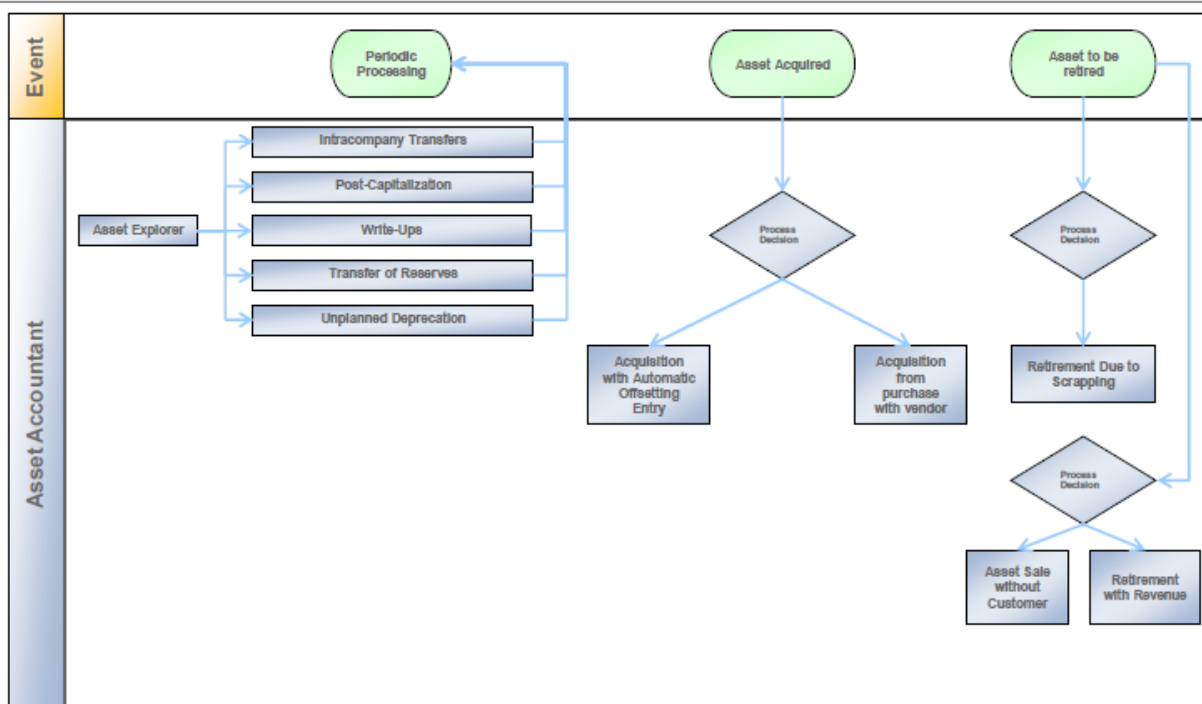
**Asset Amortization:** Tracking depreciation instalments

**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.

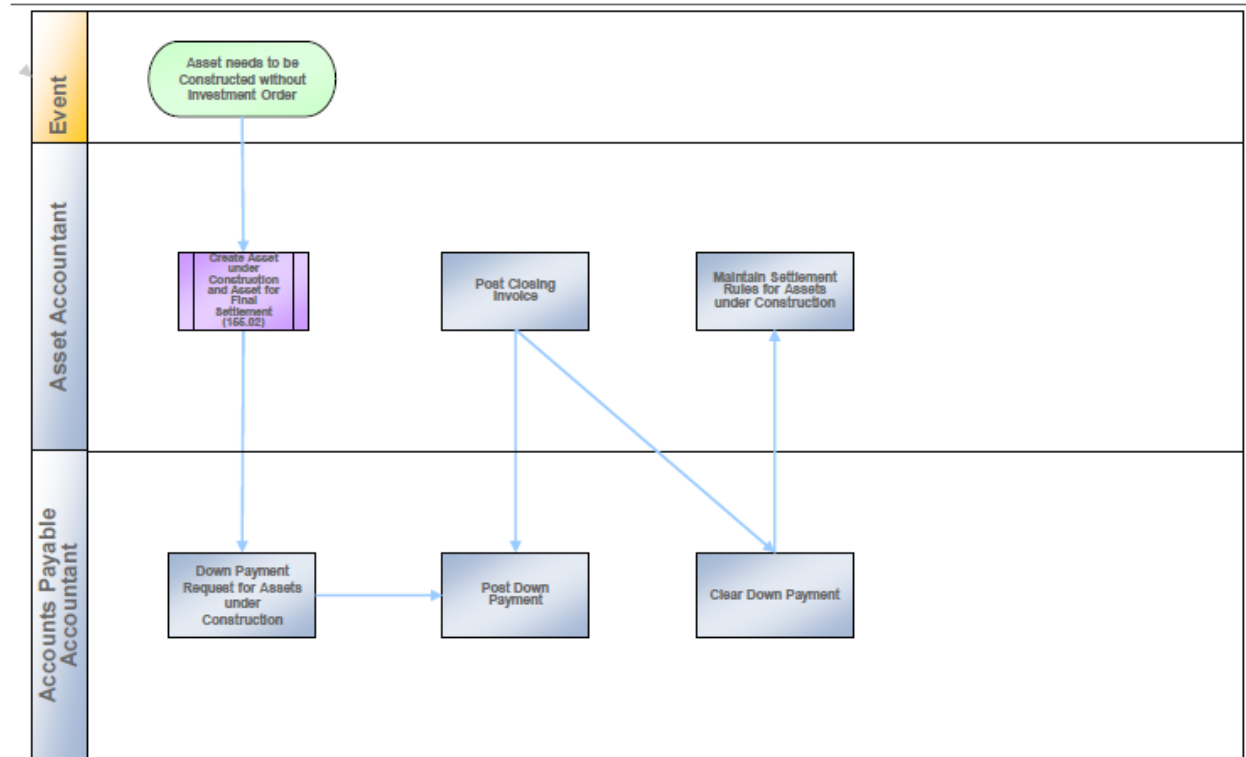
## **Process Flow Diagram**

### **Asset Accounting - Overview**



# Process Flow Diagram

## Asset Accounting – Asset under Construction



# Process Flow Diagram

## Asset Accounting – Periodic Processing

