



A PRACTICAL GUIDE TO MORE EFFICIENT FIXED ASSETS ACCOUNTING

**BOOSTING YOUR ACCURACY AND SPEED
FROM REPORTING TO CLOSING**



**Bloomberg
BNA**



Introduction

Corporate accountants today face a whole new set of challenges. Accounting departments are staffed by fewer, more flexible, and often highly experienced professionals — each being asked to do more work with fewer resources. Given these demands, corporate accountants are taking a hard, new look at the entire corporate accounting lifecycle, and asking how better systems and processes can help improve productivity.

Often neglected, the area of fixed assets accounting offers a golden opportunity for corporate accountants to gain more efficiency on a daily basis. This booklet details how using *BNA Fixed Assets*™ in an integrated fashion with your general ledger and accounts payable systems can actually reduce the time required to perform common activities — and at the same time improve overall accuracy.

This booklet also discusses many of the typical issues that occur when dealing with adjusting entries. We'll show how *BNA Fixed Assets* enables the corporate accountant to accurately manage these entries and by doing so, greatly reduce the time required for fixed assets accounting during a busy period close.

More efficient fixed assets accounting holds the key to a wealth of benefits — improved control, improved accuracy, and greater productivity — that go a long way toward meeting the growing demands of corporate accounting. This booklet will show how.

Gain Efficiency and Accuracy Through Integration

The first place to start to improve efficiency for fixed assets accounting is at the point that an asset is added to the accounting system. Ideally this should take place when the invoice for the asset is entered in the accounts payable area — most of the information needed to set up the assets for depreciation is already being keyed in at the time that the invoice is entered: acquisition date, description, cost basis, etc. Rekeying this data adds no value and opens the door for errors.

BNA Fixed Assets integrates with the general ledger system, allowing organizations to transfer data entered in the A/P system directly to the fixed assets ledger.

However, the need to enter additional information required to set up an asset in the fixed assets system so that depreciation is correctly calculated for GAAP, Federal Tax, AMT, State Tax, and other purposes frequently prevents integrations such as this from going smoothly. Looking up these depreciation policies at the time of asset entry is cumbersome and manual application/interpretation of these policies can lead to errors that must be addressed at period closing.

BNA Fixed Assets allows for depreciation policies to be set up just one time and then automatically enforces those policies as assets are added. *BNA Fixed Assets* encapsulates the policies in a data record known as an “Asset Type” which users can then refer to through a simple description. For example, if a user is adding an automobile to the system, the user can simply select “Automobile” and *BNA Fixed Assets* will automatically set the asset up with the appropriate depreciation policy for all books, based on the policies established in the system.

The Asset Type concept found in *BNA Fixed Assets* makes it easy and efficient to set up new assets, improves overall control, and leads to fewer issues at closing and during an audit.



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BNA Fixed Assets automatically applies depreciation policies to newly added assets based on the type of asset added, preventing mistakes and saving time when setting up new assets.

Shorten Your Closing Times

As part of normal business operations, companies often add and dispose of assets each period. For each addition or disposition of an asset, a journal entry is made to the general ledger that debits or credits asset accounts as appropriate. For each of these entries, there is also a corresponding entry made in the fixed assets system. At the end of the period, the corporate accountant will be able to report from the general ledger on the following items:

- Beginning and ending asset balance
- Beginning and ending accumulated depreciation balance
- Period additions
- Period dispositions
- Gain/loss amounts

These items combined will allow for the calculation of the net property, plant, and equipment balance as:

$$\text{New PPE}_{\text{NET}} = \text{Starting PPE}_{\text{NET}} + \Delta \text{ Asset Balance}^* - \Delta \text{ Accumulated Depreciation}^*$$

**Note, the changes in Asset Balance and Accumulated Depreciation may be either positive or negative amounts, accounting for acquisitions and dispositions during the period.*

All these numbers are also tracked in the fixed assets system and as such, the net book value at the end of the period should be the same in the fixed assets system and the general ledger. Unfortunately, real-life daily accounting activities often mean that these numbers do not reconcile on the first attempt, leading to a painstaking process requiring the fixed assets accountant to uncover the differences between the systems and make any necessary adjustments so that the data reconciles.

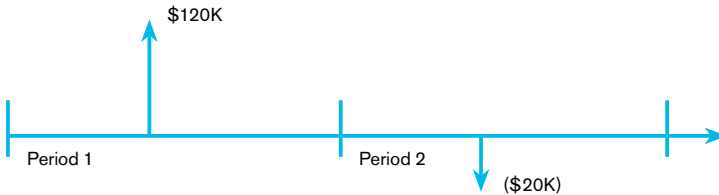
This reconciliation process at closing can be time consuming and frustrating — particularly if the fixed assets system does not support the closing process, leaving the fixed assets accountant to manually pore through each item in the ledger looking for discrepancies.

BNA Fixed Assets provides customizable reports, which during period close make it easy to accurately and effectively reconcile asset balances, depreciation expenses, and gain/loss calculations.

Managing Asset Balances

Figure 1 shows a sample transaction associated with the purchase of a new asset. In this case, Company ABC purchased a new industrial air conditioning unit in Period 1 for \$120K and then received a manufacturer's rebate in Period 2 for \$20K.

Figure 1. Asset Balance Adjustment



Assuming that this is the only asset in Company ABC, the asset balance reconciliation* at the Period 2 close should be as follows:

$$\text{Assets}_2 = \text{Assets}_1 + \text{Additions}_2 - \text{Dispositions}_2$$

or in this case,

$$\$100K = \$120K - \$20K$$

**Note that this reconciliation is only possible because Company ABC knew the original basis of the air conditioner, even after adjusting the basis in a subsequent period.*

Most fixed assets systems will make changes to the asset's cost basis retrospectively — in other words, changing the cost basis for this asset to be \$100K for all periods. This treatment of adjustments makes an otherwise easy task of reconciliation very difficult and time-consuming across hundreds or thousands of assets.

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BNA Fixed Assets can make prospective changes to data — ensuring that an audit trail exists for all changes. **BNA Fixed Assets** also provides standard reports so you can easily identify assets that have been modified in a given period — allowing you to easily reconcile asset balances during period close with no additional effort or changes to your accounting process.
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Calculating and Reporting Depreciation Expense

The adjustment to basis in the previous example provides an additional challenge when calculating depreciation (and by extension any changes to accumulated depreciation). Assuming that the GAAP depreciation treatment for the new asset is five-year straight-line depreciation with the full-month averaging convention, the Period 1 posted depreciation expense for that asset would have been $(\$120K/5/12) = \$2,000$. With the adjusted basis of \$100K, subsequent periods of depreciation should be $(\$100K/5/12) = \$1,667$.

The question remaining is what should the depreciation be in Period 2? In this case, the company over-depreciated the asset in Period 1 by \$333. Company ABC needs to adjust or revise future depreciation expense values in order to avoid over-depreciating the asset.



BNA Fixed Assets automatically adjusts future depreciation postings to reflect changes in basis, life, method, or any data impacting depreciation calculations.

While the discrepancy in this example is very small, it is quite possible for these discrepancies to be spread across many assets and result in material under- or over-depreciation of a company's fixed assets.

Calculating and Reporting Gain and Loss on the Disposition of Assets

In the previous example, Company ABC adjusted the basis of an asset in a period after the asset was initially placed in service. Due to system limitations discussed previously, it's not uncommon for companies to add an additional asset instead of adjusting the basis of the original asset.

Figure 2. Adjustment Workaround

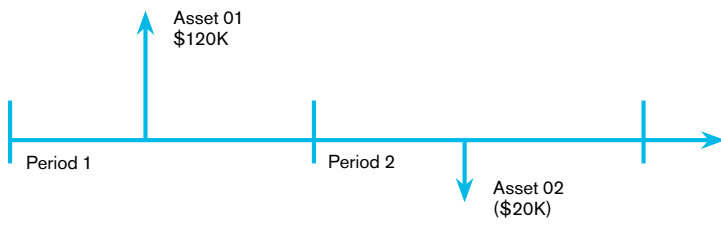


Figure 2 depicts this practice — in Period 2, the company added Asset 02 with an offsetting balance. In some sense, this practice works as the asset balances are now tracked correctly over time, but this practice also causes additional control issues. The offsetting asset (Asset 02) in this case does not represent an actual asset and as such, all of the controls associated with proper treatment of this asset require someone in the accounting department to recognize and associate the two assets.

The most obvious point of control weakness is at the time the asset is sold, retired, or otherwise disposed. At this point, a user has to enter data relevant to the disposition of the asset — sale price, disposal costs, etc. — and apply that data to the asset in question. If there are offsetting assets in place, the disposition data must be prorated across the value of the entire set of assets (original entry + offsetting entries) in order for the correct gain/loss to be calculated. If there are differences in an asset's basis for GAAP and Federal Tax accounting (for instance, if a Section 1031 or like-kind exchange was performed), this process becomes even more complex.

BNA Fixed Assets tracks all changes to an asset within a single record, making dispositions, transfers, and exchanges simple and straightforward. **BNA Fixed Assets** also provides simple program wizards to handle complex disposition and gain/loss scenarios, automatically performs all required calculations, and provides a rich set of reports that allow users to understand all asset activity — including changes to an asset record.





BNA Fixed Assets: Built-In Tax and Accounting Expertise

The controls provided by a fixed assets system are only as good as the rules built into the system. In many cases, the responsibility for building and maintaining the appropriate regulations (and corresponding reports) for the calculation of financial and tax accounting depreciation sits squarely on the shoulders of the user. What's more, financial (and especially tax depreciation) rules are complicated, time sensitive, and continually changing.

The ongoing configuration and maintenance of a fixed assets system is often neglected, leading over time to noncompliant data, missed tax savings, and, in some cases, complete outsourcing of portions of the fixed assets accounting process. The result is wasted time and dollars.

BNA Fixed Assets from Bloomberg BNA is the most respected name in fixed assets and depreciation management. Our expertise is built into *BNA Fixed Assets* software, which means novice users and seasoned professionals alike have the same high level of confidence when it comes to even the most complex issues.

Automatic Validation

BNA Fixed Assets has a built-in validation engine that automatically enforces compliance to tax regulations and GAAP rules. Hundreds upon hundreds of rules and regulations are embedded within the software, automatically applying the correct rules and regulations where appropriate. And, it's quickly updated to reflect the very latest regulatory changes. Accuracy is never compromised, period. This kind of integrated "intelligence" not only guides the user toward a compliant choice, but also literally prevents users from making wrong, noncompliant choices by validating the data entered against current regulations instantaneously.

Iron Clad Audit Trail

What's more, *BNA Fixed Assets* helps ensure nothing slips through the cracks, both in terms of inaccurate calculations or big reporting gaps that increase exposure to audit problems. A built-in audit trail lets users actually reconstruct and review historical data. The system tracks changes made to asset data at any point in the lifetime of an asset — from placed-in-service date to date of disposal — while preserving the entire history of the asset. This includes scenarios such as the transfer of an asset between legal entities (or between different departments), splitting (and partially disposing) of an asset, and like-kind exchanges. This Open Timeline is a *BNA Fixed Assets* exclusive. With it, users can prepare all reports for prior, current, and future years, while preserving every value reported in the past.

This capability means that reports always tie back to previously reported values. No more time wasted reconciling changes since the last time reports were run. Data starts clean, and stays clean.

BNA Fixed Assets

With *BNA Fixed Assets* from Bloomberg BNA, it's easy, efficient, and cost effective for companies of any size to manage the complete fixed assets lifecycle from purchase to retirement — saving you time and money while ensuring accuracy. Bloomberg BNA's renowned tax expertise is built right into the software — it's like having a tax expert at your side, providing the most up-to-date, comprehensive insight into the latest accounting rules and regulations. Our unique validation engine enforces compliance with tax regulations and GAAP rules, automatically ensuring accuracy. Even novice users can correctly and easily use the software without compromising accuracy.

BNA Fixed Assets delivers all the capabilities of a robust fixed assets management system and grows with you as your business matures. Whether your company has tens, hundreds, or thousands of fixed assets, there's a *BNA Fixed Assets* solution designed to meet your needs and budget:

- Desktop – Designed for a single user, it's powerful, but easy-to-use
- Server – For multiple users within the same company
- Web-hosted – Anywhere, anytime access with no software to install or maintain



About Bloomberg BNA's Software Products

Bloomberg BNA offers expert software products for tax and accounting professionals. With category-leading software and top-rated technical support, we are the solution of choice for professional firms and corporations of every size. More than 70,000 customers, including the IRS, depend upon Bloomberg BNA's software products for the highest degree of tax, regulatory, and compliance expertise available in the market.

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To learn more about how *BNA Fixed Assets* can improve the efficiency of your fixed assets accounting, call 800.424.2938 (select option 3), contact your local Bloomberg BNA Representative, or visit www.bnasoftware.com/fixedassets



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