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# STRAIGHT TALK ABOUT FIXED ASSETS SOFTWARE

**A GUIDE TO MEETING TODAY'S TOUGHEST  
COMPLIANCE CHALLENGES**

**Bloomberg  
BNA**



## Introduction

A decade ago, when it came to managing depreciation and fixed assets, the options were limited. You could either manage fixed assets using a custom built spreadsheet, or buy one of the few best-of-breed fixed assets packages on the market.

Today, virtually every general ledger (G/L) vendor provides some fixed assets management capability with its application. Others, seeking to expand market reach and share, have ventured into the fixed assets marketplace.

At the same time, the regulatory environment has also shifted, creating new complexities and a whole new level of scrutiny to the practice of accounting. In this challenging new environment, choosing the right fixed assets software has never been more important. A solid fixed assets software package can provide peace of mind, virtually eliminating the worry about appropriate accounting controls. Select the wrong software and you face exposure on many fronts. Troublesome gaps in your reporting. Account balances not reconciling. And perhaps most serious, issues of noncompliance – with consequences ranging from missed opportunities to stiff penalties – all despite your best efforts.

This Guide details some of the stickiest issues and pitfalls facing fixed assets managers today. Put your own fixed assets software to the test. See how you and your organization might fare in some of the real world scenarios here.

Knowing what to ask from your fixed assets software – seeing it straight – can save you time ... money ... and headaches for years to come.

## Insist on an Ironclad Audit Trail

“Audit trail” is a term used loosely by software vendors, but the need for an audit trail is very real.

At its heart, the point of an audit trail is to be able to trace financial data to its source. Nothing more, nothing less. Many software vendors miss this basic concept and offer substantially less.

For example, assume that during the year (say, in March) an asset is moved within the company from Operating Division A to Operating Division B. If the annual depreciation for that asset is \$1,200, the end-of-the-year depreciation postings to the general ledger should total as follows:

Depreciation for Division A:	\$200
Depreciation for Division B:	\$1,000
Total depreciation	\$1,200

Unfortunately, most applications do not track changes to data in the manner described above. Instead of maintaining the historical information for the data, only the most recent data is retained. In this scenario, the year-end reports for the company would show the following depreciation calculations:

Depreciation for Division A:	\$0
Depreciation for Division B:	\$1,200
Total depreciation	\$1,200

The application has completely lost track of the first 2 months of depreciation allocated to Operating Division A! Critical depreciation figures which, for all intents and purposes, “slip through the cracks,” invite a host of complications.

First, reports, when compared against prior years and postings, cannot be accurately recreated or reconciled, period.



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Second, you're automatically exposed to any number of audit problems. Say, for instance, you've closed your books for the year and are undergoing your annual audit from an external auditor. As part of that process, the auditor selects the annual depreciation for Operating Division A and asks for the supporting information for that number. You can't track the two months of depreciation history that is lost; you can run the report, but there will be no indication that an asset was moved.

*The right depreciation and fixed assets software allows you to reconstruct and review historical data easily with an actual "built in" audit trail. Without it, you leave yourself open to inaccurate calculations and serious reporting gaps.*

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**Fact:** *BNA Fixed Assets™* tracks changes made to asset data at any point in the lifetime of the asset while preserving the history of that asset. You can always recreate previous filings at the click of a button. This applies to changes that are made to the asset as well as to scenarios such as the transfer of an asset between legal entities (or between different departments), splitting (and partial disposal) of an asset, and like-kind exchanges.

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## Don't Play Guessing Games With Compliance

Not sure what the allowable tax life is for a leasehold improvement made in June of 1986? How about the amount of additional first-year bonus depreciation allowed for leasehold improvements in the New York City Liberty Zone?

Financial and tax depreciation rules are complicated, time-dependent (based on placed-in-service date), and continually subject to change. As an accounting professional, your job is to make sure that filings and reports are compliant with all appropriate rules and regulations. Lack of compliance has any of several implications, none of which are pretty:

- Loss of tax benefits
- Amended tax returns
- Restated earnings
- Potential penalties

Four complete volumes of Bloomberg BNA Tax Management® Portfolios devoted exclusively to Depreciation and Amortization contain over 400 pages of small print explaining depreciation for federal tax purposes alone. Effective fixed assets software must embed the many rules and regulations within the software, automatically applying them where appropriate. What's more, it should have the built-in "intelligence" to not only guide the user toward compliant choices, but also literally prevent users from making non-compliant choices.

For example, for federal tax depreciation, an asset with a property type of "Automobile, Listed" using a MACRS method would have possible valid values of:

Rate: 100%, 150%, or 200%  
Convention: Mid-quarter, or half-year  
Section 179 Expense: Elected or not elected  
Additional First-Year Bonus Depreciation: Elected or not elected

In addition to these choices, automobiles that are listed property are subject to annual limitations on depreciation amounts if they exceed a certain cost, determined by tax year. Correct application of these limitations extends the depreciable life of the asset and further complicates calculations.



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Fact is, most applications do not provide a “validation” engine – where the entry of data by the user is validated against current regulations. Even worse, many fixed assets applications simply don’t support certain fundamental concepts such MACRS, Additional First-Year Bonus Depreciation, mid-quarter convention, etc.

In a “do it yourself” scenario, expect to be wading through a myriad of regulations, doing an analysis asset-by-asset, even creating new calculations every single time there’s a change in the rules. In the end you’ll likely have no more peace of mind about compliance than if the whole exercise was done on a spreadsheet.

*Bottom line: Don’t find yourself forced into building this capability into the application later (or paying a pricey consultant to do it for you).*

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**Fact:** *BNA Fixed Assets* includes a validation engine that enforces compliance to tax regulations and GAAP rules. The software automatically applies the necessary requirements (such as use of mid-quarter convention) and is quickly updated to reflect regulatory changes.

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## Use Fixed Assets Software To Reduce the Time to Close Your Books, Not Prolong it

Period and year-end closing times are pressure-filled, often requiring an “all hands” effort.

Like any deadline-based exercise, much of the success in closing is based on decisions made throughout the entire time period. Proper controls, and the right checks and balances reduce the number of adjustments that must be made – and speed the closing process.

For fixed assets, this boils down to getting data entered into the system correctly the first time, allowing adjustments to be made easily, and maintaining the necessary audit trail. A well-designed system should facilitate the period close; a poorly designed system will require users to do financial handstands, creating elaborate work-arounds in response to system inadequacies.

### Simplifying Data Entry

Not everyone in your company needs to be (or should be) a depreciation expert. Your fixed assets software should provide templates that guide and simplify data entry for all users.

For instance, a new asset of the type “Automobile, Listed” has specific federal tax treatment required by law. And, the correct tax treatment will differ based on the vehicle’s placed-in-service date. If the employee who adds the asset needs to understand the appropriate depreciation treatment and limitations, odds are you’re going to be revising many entries at period close. However, if you’re using solid fixed assets software, all the end user needs to specify are:

1. Placed-in-service date
2. Cost basis
3. Type of asset (in this case, Automobile, Listed)

Most fixed assets software cannot simplify data entry to this level, and instead, require data entry staff to have extensive knowledge of available depreciation methods, rates, lives, and averaging conventions just to enter new assets. Additional layers of review are inevitable, leading to guaranteed longer closing times.





## Seamless Adjustments

No matter how good the initial data entry, adjustments will always need to be made.

The classic example is the purchase of a piece of equipment (say an industrial air conditioning unit) for which a rebate is received from the manufacturer two months after the asset is placed in service. In this case, the asset is generally added with its original full acquisition cost and the rebate lags behind by several months. When the rebate is received, the corporate accountant needs to make an adjustment to the cost basis of the asset to ensure that the depreciation calculations are correct. This adjustment process is often complicated by the fact that previous postings have been made or financial statements prepared.

Continuing the example:

Company ABC purchased an air conditioning unit for \$120,000 and placed it in service on January 1. Assuming a ten-year service life for GAAP purposes and straight-line depreciation, the company should record \$1,000 of depreciation expense each month. The company closes its books at the end of February and posts \$2,000 of depreciation expense for the first two months.

In March, the company receives a rebate for \$30,000 for having purchased the air conditioning unit. During the adjustments period, the accounting department correctly identifies the rebate as a reduced cost of the air conditioning unit. The question is “How does the firm adjust the fixed asset entry?”

The correct answer is that the accounting department should be able to adjust the cost basis of the asset (to \$90,000) starting in March. Future depreciation calculations will reflect the appropriate treatment based on the new basis. However, the three choices available to adjust the books for the \$500 excess depreciation are:

1. Claim the full \$500 adjustment in March
2. Prorate the \$500 over the remaining life of the asset
3. Ignore the excess depreciation entirely

The fixed assets software should allow the accounting department to perform this task seamlessly (while maintaining the ironclad audit trail that includes original cost, depreciation expense booked in the first two months, and adjusted cost in March). Today, most software applications simply don't address this need. This leads to strange “work-around” solutions such as adding negative assets to the fixed assets ledger. If that's the case, expect to invest even more time tracing the original assets if you (or your auditors) have questions about them at year-end closing.

*Don't be surprised if elaborate work-arounds end up coming back to haunt you at your busiest time.*

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**Fact:** *BNA Fixed Assets* allows users to enter an asset specifying only three items: cost basis, placed-in-service date, and type of asset – the software does the rest. This improves the accuracy of data entry and means fewer adjustments at period close. When adjustments are needed, they should be easy to make, fully supported and fully auditable. The result is two-fold: less time devoted to entering new fixed assets during the month and less time spent at period close correcting errors.

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## Leverage Fixed Assets Software to Make Smarter Financial Projections

In any corporation, the accounting department bears the responsibility of accurately recording financial transactions, and then reporting on the results of those transactions. In fact, preparation of filings is sometimes such a logistical challenge that all available time and resources are consumed by period-end and year-end closing activities.

In such cases, a key element of accounting is completely overlooked – planning future transactions to optimize the financial position of the organization. Software should serve as an enabler to analyze future depreciation impact to the company and answer key questions. “Should I buy or lease this equipment?” “Should I invest in new plant capacity this year, or wait until next year?”

For example, a retail store is considering expanding its operations dramatically in one region. In order to perform this expansion, the store plans to open 100 new stores over the next two years. Should they build the stores themselves? Or should they rent pad space and then add leasehold improvements to customize them?

In order to answer this question, the store needs to be able to create two scenarios for the next several years and compare the overall impact of each scenario. If each store will cost roughly \$1M to open, the two possible federal tax treatments are as follows:

Build		Rent (& Add Leasehold Improvements)	
Cost Basis:	\$100M	Cost Basis:	\$100M
Service Life:	39.5 years	Service Life:	39.5 years
Method:	MACRS Straight-Line	Method:	MACRS Straight-Line
Convention:	Mid-Month	Convention:	Mid-Month
1st Year Depreciation Expense:	\$2.4M	1st Year Depreciation Expense:	\$51.2M

Due to additional first-year bonus depreciation allowed on leasehold improvements, there's a huge difference in the tax benefit to this firm in the year of investment. Assuming a 35% corporate tax rate for taxable income of \$200M, choosing to rent and add leasehold improvements could have an immediate impact of over \$17M in tax savings for the store in the first year.

In no way is this example meant to be a recommendation for renting (and adding leasehold improvements) instead of building the property – there may well be a number of other significant factors involved in such a decision and each firm's financial position is unique.

Regardless, such a choice may likely have a substantial material impact to the financial position and performance of the firm.

Many software packages do not allow for any type of projection. Those packages are focused purely on compliance for a given time period, and require you to close your books through the report date.

*Choose a solution that allows you to perform these types of what-if analyses and you'll have a better, more solid handle on the true impact of future decisions.*

**Fact:** BNA Fixed Assets allows you to plan smarter for the future. As soon as each asset is added, depreciation is calculated for the service life of that asset – allowing users to immediately understand what the future impact of existing assets is to the firm, as well as allowing users to plan for specific transactions.





## 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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## Learn More

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](http://www.bnasoftware.com/fixedassets).

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