

# Fixed Assets Management:

What You Need to Know



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One of the largest capital investments many companies have is their investment in their property, plant, and equipment account. So when it comes to managing your company's fixed assets, you want to be sure you are doing it correctly.

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Mismanagement can prove costly. There is the risk of missed opportunities for lucrative tax deductions, as well as the possibility of IRS penalties and interest's being assessed. In addition, it can cause you to have to restate your financial statements. You can avoid all this, but it takes a bit of planning and a fundamental knowledge of fixed assets management.

When managing fixed assets, you have two concerns: You must follow Generally Accepted Accounting Principles (GAAP) for financial statement reporting, and you must follow the IRS tax codes and regulations for income tax reporting. Each has its own set of rules and requirements.

This e-book will explain the differences between GAAP principles and IRS regulations for fixed assets management. Although there are many more intricacies when it comes to income tax reporting, once you've mastered the basics, you will see that by following some basic best practices for fixed assets management, it is possible to do it well.

Income tax reporting is more complex than GAAP reporting because the IRS has many more specific rules about what you can and cannot do. GAAP requires the matching of income and expenses based on what makes the most economic sense, while the IRS requires that you follow the very detailed IRS code and its regulations. To be compliant with both, therefore, you need to know what the rules and regulations are. What complicates income tax reporting even more, however, is that you have to keep different tax books for depreciating assets for different tax purposes. There are rules for regular tax reporting purposes, for Alternative Minimum Tax (AMT) and Adjusted Current Earnings (ACE), and even different requirements when calculating Earnings and Profits (E&P). In addition, you need to maintain a depreciation book for GAAP purposes. Add to this the various state income tax reporting rules, which may differ by state, and it becomes even more difficult, especially when a business is operating in several states.

This e-book will give you a sufficient understanding of where to start and what you need to consider for effective fixed assets management. It will also provide you with a helpful list of best practices to follow.



## 2.0

# Defining a Fixed Asset

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Starting with the basics, you must first understand what a fixed asset is. When there is an expenditure for an item, you need to know if you can immediately expense it or whether you are required to capitalize (and maybe depreciate) it. While at times it may seem obvious, it isn't always so.

A fixed asset is durable in nature and has physical substance. It is acquired by a business for use in its operations and is not held for resale. Most importantly, it must be able to be of service for more than one year (otherwise it is most likely an item that may be expensed). And finally, it usually may be depreciated. (An example of a fixed asset that cannot be depreciated is land.)

A principal difference between an item that may be expensed versus capitalized is the asset's life expectancy. Any asset that is durable in nature and used in a business may be expensed in the year in which it is acquired if it will not last at least one year. Anything with a life of less than a year is not considered a fixed asset.

## 3.0

# Critical Elements of Depreciation

Before you can depreciate an asset, there are five critical elements that you need to understand in order to correctly calculate depreciation on it.

- Property type
- Placed-in-service date
- Depreciable basis
- Estimated life
- Depreciation method



### Property Type

To calculate depreciation on an asset, you must know what type of property it is. First, is it tangible or intangible? A tangible asset is depreciated, whereas an intangible asset is amortized. If it is a tangible asset, is it personal property or real property?

Real property, known as Section 1250 property for tax purposes, is land and anything attached to the land, such as a building. Personal property, known as Section 1245 property for tax purposes, is basically everything else. Personal property is moveable and includes such property as furniture and equipment. Within each of these categories, for tax purposes, there are other more specific property types. Real property, for example, may be either commercial real property or nonresidential rental property. Personal property, too, may be a specific type such as listed property (that is, property that lends itself to personal use). Either real or personal property may be farm property, Indian reservation property, or tax-exempt use property. The point is, for tax purposes, there are specific and specialized property types, and each has its own set of rules.

If depreciating an asset for financial reporting purposes, generally a company will have a policy in place for how to do so based on its property type. For tax reporting purposes, property type will determine an asset's depreciable life and, in some cases, the depreciation method that must be used.

## Placed-in-Service Date

An asset's placed-in-service date is essential to know as it is the date on which depreciation may begin to be claimed. It is not necessarily the same as the asset's acquisition date.

An asset is considered to be "placed in service" when it is fully operational and ready for its intended use. If an asset needs to be modified before it can be put into service, it cannot be depreciated until the modifications are made. Another example is rental property, which can be depreciated as soon as it is ready to be rented; it is not necessary for an actual lease commitment to be secured.

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## Depreciable Basis

Depreciable basis represents the amount of an asset's acquisition cost on which a business may claim depreciation. Here is the basic formula to follow:

	<b>Asset's Acquired Value</b>
+	Freight and installation costs
-	<u>Tax credits (certain tax credits reduce an asset's basis)*</u>
x	<u>Business-use percentage</u>
-	Section 179 expense*
-	Additional first-year depreciation (aka, "bonus depreciation")*
-	<u>Salvage value (depending on the depreciation method used)</u>
=	<b>Depreciable basis</b>

\*Note that certain of these items only affect depreciable basis for tax reporting purposes.

The above formula is for calculating the depreciable basis in the year in which the asset is placed in service. In the years following, depending on the depreciation method being used, you may have to deduct the asset's accumulated depreciation claimed to date.

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## Estimated Life

Estimated life is the period of time over which an asset is depreciated. For financial reporting purposes, the estimated life is whatever a reasonable life expectancy is for a particular asset. The goal for financial reporting is to select a life that most accurately reflects an asset's true economic usefulness. Past experience, industry guidelines, and a company's maintenance and replacement policies can all help with this determination.

For tax reporting, the estimated life is known as the asset's "recovery period." An asset's recovery period is prescribed by the IRS and is based on the asset's property type and its placed-in-service date.



## Depreciation Methods

There are several different depreciation methods that may be used. Each method generally provides the same opportunity to deduct an asset's depreciable basis over its assigned life. However, the various methods do so at different rates.

Furthermore, some methods may result in more depreciation taken in the early years of an asset's life versus claiming the same amount of depreciation expense every year. Some assets' economic usefulness expires as the assets age, while other assets are consistently productive over their given lives.

The available depreciation methods are:

- **Straight-Line:** The straight-line depreciation method calculates the same amount of depreciation each year.  
(Acquisition Value - Salvage Value) / Life in Years
- **Declining-Balance:** The declining-balance depreciation method calculates more depreciation in the early years of an asset's life and smaller amounts as the asset ages. The declining-balance method may, or may not, switch to the straight-line method about midway through the asset's life. (This is done to fully depreciate the asset.) There are different rates if you are using a declining-balance method; the rates are:

- 200%
- 175%
- 150%
- 125%

When depreciating an asset using the declining-balance method for tax reporting purposes, only the 200% and 150% rates are used.

(Acquisition Value - Accumulated Depreciation) / Life in Years \* Rate

- **Sum-of-the-Years'-Digits:** The sum-of-the-years'-digits depreciation method, like the declining-balance method, calculates more depreciation in the early years of an asset's life and less in its later years.

(Acquisition Value - Salvage Value) \* (Remaining Life / Sum of the Years' Digits\*)

\*The "sum of the years' digits" is defined literally. For example, the sum of the years' digits for an asset with a 3-year life is 6 and is calculated as: Year 1 + Year 2 + Year 3 = 6.

- **Remaining-Value-Over-Remaining-Life:** The remaining-value-over-remaining-life depreciation method is used when you want the declining-balance method to switch to the straight-line method to fully depreciate an asset (although not below its salvage value).

(Acquisition Value - Accumulated Depreciation minus Salvage Value) / Remaining Life in Years)

- **Units-of-Production:** The units-of-production depreciation method is calculated using either the service-hours method or the productive-output method.

- Service Hours

(<Acquisition Value - Salvage Value> \* Hours Used This Year) / Total Estimated Hours in Asset's Life

- Productive Output

(<Acquisition Value minus Salvage Value> \* Units of Product Produced This Year) / Total Estimated Units to be Produced During Asset's Life





For financial reporting purposes, you should use whichever of these depreciation methods most accurately matches the economic usefulness and productivity of an asset.

Currently for tax reporting purposes, fixed assets are depreciated under the Modified Accelerated Cost Recovery System (MACRS). Based on an asset's property type, when it is placed in service, and, sometimes, how it is used, there are mandatory depreciation methods and recovery periods. MACRS consists of two systems of depreciation:

- The General Depreciation System (GDS), which is used most of the time and is more accelerated, uses either the 200% or 150% declining-balance method or the straight-line method.
- The Alternative Depreciation System (ADS), which is only used if required by tax law for certain property or if elected by the business. ADS uses longer recovery periods than under GDS and only the straight-line method without the Salvage Value.

Certain MACRS property requires that certain depreciation methods be used. For example, farm property must use 150% declining-balance, and real property must always use the straight-line method. When compared to financial reporting, your choices for which depreciation method to use for tax reporting purposes are much more limited.

## Amortization

Fixed assets management is often thought to include intangible assets as well. Whereas tangible assets are depreciated, intangible assets are generally amortized.

Amortization is similar to depreciation, as it is used to indicate an asset's decline in value. The principal difference between depreciation and amortization is that amortization always uses the straight-line depreciation method for tax reporting purposes and generally uses it for financial reporting purposes. The rules do differ for tax reporting versus financial reporting.

For financial reporting, unless an intangible asset has an indefinite life, it is amortized over its estimated useful life (although intangible assets with or without a definite life should be reviewed periodically for an impairment loss). Furthermore, although the straight-line method is usually used, sometimes a different method will more accurately reflect the decline in an asset's usefulness, and when that is the case, an alternative method should be chosen.

For tax reporting, straight-line is always used when amortizing an asset. An asset's amortizable life depends on what type of property it is. IRS Code Section 197 requires a standardized 15-year life for certain intangible property. Section 197 intangibles include franchises, patents, copyrights, and trademarks. Most Section 197 intangibles are acquired through the purchase of a business but some may be self-created (such as trademarks). There are also other IRS code sections that control how you amortize specific intangibles such as organization costs, research and development costs, copyrights, and musical compositions.



For tax reporting, straight-line is always used when amortizing an asset.

## The principal averaging conventions used are:

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- **Midmonth Convention, where the asset is deemed placed in service at the midpoint of the month.**
  - **Modified Midmonth Convention, where the asset receives:**
    - **A full month of depreciation if placed in service in the first 15 days of the month, and**
    - **No depreciation if placed in service in the last 15 days of the month.**
  - **Full Month Convention, where the asset receives a full month of depreciation regardless of when in the month the asset is placed in service.**
  - **Midquarter Convention (which is required for tax reporting purposes when certain conditions are met), where the asset is deemed placed in service at the midpoint of the quarter of the year.**
  - **Half-Year Convention, where the asset is deemed placed in service at the midpoint of the year.**
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## Averaging Conventions

When calculating depreciation, it is important to understand the use of averaging conventions. When businesses acquire assets, they don't do so all on the first day of the year (nor, for that matter, do they dispose of assets only on the last day of the year). To simplify the calculation of depreciation, averaging conventions are used. Averaging conventions are a set of rules for determining how depreciation should be prorated in the year in which an asset is placed in service, as well as in the year in which an asset is disposed (if it is disposed of before it is fully depreciated).

Averaging conventions for financial reporting purposes are used (or not) based on whatever a particular company prefers. However, for income tax reporting purposes, averaging conventions are mandated, generally according to the type of property (although the midquarter convention must be used when more than 40% of qualifying property is placed in service during the last three months of the tax year).

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## Salvage Value

Salvage value is the dollar amount that can be received for an asset when it is retired from service at the end of its useful life, less any removal and selling costs. (A building, therefore, usually does not have any salvage value, since it is assumed that the cost of demolishing the building would be more than the sales value of any materials recovered.)

Certain depreciation methods, like the straight-line and sum-of-the-years'-digits methods, require that salvage value be subtracted from the asset's acquired value. Although the declining-balance method does not deduct salvage value, an asset using the declining-balance method cannot be depreciated below its salvage value.

For tax reporting purposes, when using MACRS, salvage value is disregarded. This has been since 1981, when the Accelerated Cost Recovery System (ACRS) was first introduced.

## 4.0

# Expensing Options for Tax Purposes

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It is possible, for tax reporting purposes, to claim as an expense either part or all of an asset's depreciable basis.

While there are specific expensing possibilities for very specialized property types (such as a 50% expensing option for qualifying cellulosic biofuel plant property), there are two provisions that many more businesses may be able to take advantage of: bonus depreciation and Section 179 expensing.

**Property that qualifies for bonus depreciation must be new property and be one of the following property types:**

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- **MACRS property with a recovery period of 20 years or less**
  - **Computer software (which must be off-the-shelf software)**
  - **Water utility property**
  - **Qualified leasehold improvement property**
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**The portion of an asset not expensed under Section 168(k) is subject to depreciation.**

### **Bonus Depreciation**

Under IRS Code Section 168(k), a business may be able to deduct a portion of an asset's depreciable basis in the year in which the asset is placed in service. Bonus depreciation, sometimes referred to as Additional First-Year Depreciation, was initially introduced as a 30% temporary deduction in 2001. Several years later it was increased to 50%, and, at one point, it was as high as 100% before it was again reduced to 50%. While the amount of the deduction allowed for bonus depreciation has changed over time, good fixed assets management software will keep track of the allowable amount. You can also always check at [irs.gov](http://irs.gov) to see the current allowable amount. At the time this e-book was prepared, it still was not made a permanent deduction.

An interesting fact about bonus depreciation is that the deduction is not optional. If you do not want to claim it on eligible property, you must make a formal election to that effect. This is important to remember because if you do not make the election and yet do not claim the deduction, the property is treated as if you had claimed the additional depreciation amount. When this is the case, before depreciation can be calculated, the basis of the property must first be reduced by a deduction that you did not claim.



## Section 179 Expense

Under IRS Code Section 179, a business may be able to elect to expense qualifying property in the year in which it is placed in service. When claimed, Section 179 expense replaces depreciation.

To qualify for the Section 179 expense deduction, the property must be either personal property or certain real property, and be both purchased and used predominantly in an active trade or business. (“Predominantly” means that it is used more than 50% of the time in the business.) Property only held for the production of income does not qualify for the expense.

When claiming the Section 179 expense deduction, there is both a dollar limit and an investment limit. In addition, the total amount of Section 179 expense claimed in any one year cannot exceed the business’s taxable income for the year.

When Section 179 expense was first introduced in 1982, the annual maximum dollar limit that could be claimed was \$5,000. However, over the years it has changed, and in fact, it has been as high as \$500,000.

The investment limitation is based on the total amount of qualifying property you place in service in a given year. For every dollar of investment in qualifying property over the threshold amount, the allowable amount deducted under Section 179 is reduced by one dollar. This threshold amount has been periodically increased and adjusted for inflation. Like the dollar limitation, it has changed almost every year and has ranged from a \$200,000 threshold in the early years to as high as \$2 million.

Although your fixed assets management software will always know what the current allowable amount of the Section 179 expense deduction is, as well as the investment limit, you can also check at [irs.gov](https://www.irs.gov).

If both Section 179 expense and bonus depreciation are claimed on the same asset, first reduce the asset’s basis by the Section 179 amount before you calculate bonus depreciation on it.

## 5.0

# Fixed Assets Adjustments

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There are several reasons why an adjustment might be needed to an asset's depreciable basis, one of the depreciation critical fields. Consider the following scenarios:

- Cost rebates are received after the asset is placed in service.
- An improvement is made to an asset either to change its purpose or to improve its performance.
- An asset becomes damaged and repairs are made.
- An asset becomes impaired (although this only affects an asset for financial reporting purposes).

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Another depreciation-critical field that may change for financial reporting purposes is an asset's estimated life. A change in an asset's life expectancy may be due to:

- Obsolescence.
  - Improper maintenance, which shortens the asset's life.
  - An asset is accidentally damaged, or wears out earlier than expected.
  - Improvements are made that extend an asset's life.
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### Depreciation-Critical Fields

After you have put an asset in service, there are many reasons why you may need to adjust a depreciation-critical field for an asset. There are different rules for handling such adjustments depending on if they are for financial or tax reporting purposes.

Whenever you need to change a depreciation-critical field for financial reporting purposes, you should follow the guidelines under ASC 250, Accounting Changes and Error Corrections. Such a change in depreciation is considered a change in accounting estimate and is applied on a prospective basis. To do this, you should use the new method or life as of the beginning of the year of change, and apply it to the current net book value. No change is made to retained earnings.

While any of the above changes to an asset's life are not that uncommon, for tax reporting purposes, an asset's recovery period remains the same even if the asset's life expectancy changes. Under IRS rules, an asset is depreciated for a mandatory recovery period. Unless an asset is disposed of, you continue to depreciate it until the end of its assigned recovery period. If an asset's economic useful life changes, it has no effect on the asset's recovery period for tax accounting.

While it is possible for a depreciation-critical field other than depreciable basis to need a revision for tax reporting purposes, it is not very common. One example, however, is when the use of an asset changes and certain adjustments are required. When a change in use occurs after the asset's placed-in-service year, you may be required to change both the method of depreciation and the asset's recovery period. For example, if an asset's use changes to its being used predominantly outside of the U.S., straight-line depreciation over the asset's ADS life would then be required for future depreciation of the asset.

## **Impairment Losses**

For financial reporting, ASC 360, Property, Plant, and Equipment, contains guidance on recording impairment losses. An impairment loss exists when an asset's carrying amount on the financial statements exceeds its fair market value. When the decrease in value is not recoverable, an impairment loss should be recorded.

The carrying amount of an asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to be received from or earned by the asset. Periodically, you need to estimate an asset's future undiscounted cash flows (cash inflows less outflows) over the asset's remaining estimated depreciable life. (An example of an asset's cash outflow is its expected maintenance costs.) If the result is less than the asset's carrying value then it is safe to assume that the asset's cost is not recoverable, and an impairment loss should be recorded. After an impairment loss is recorded, the asset's adjusted cost becomes its new depreciable basis.

For tax reporting purposes, impairment losses are not recorded.

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## **Asset Transfers**

Another type of adjustment to an asset may occur if you decide to transfer all or part of an asset. Sometimes a group of similar assets are acquired on the same date in a bulk purchase and entered as one asset. Later, if part of the asset account is transferred outside of the company to a related entity, both the asset and the accumulated depreciation accounts must be adjusted to reflect the transfer.

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## **Asset Disposals**

An adjustment is also needed if assets are disposed, or retired. When this occurs, the asset account is reduced, and the accumulated depreciation on the asset is removed from the general ledger account. Asset disposals include sales, abandonments, casualty losses, and exchanges. A disposal may be a bulk disposal of several assets or a partial disposal of a group of assets entered as a single line item.

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## 6.0 Internal Control

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### **Sarbanes Oxley Act**

The Sarbanes-Oxley Act, which was passed after Enron and other accounting scandals occurred, mandated new higher standards for public companies to put in place to prevent fraud. The Act requires management to assess the effectiveness of the company's internal controls over financial reporting. In addition, external auditors must now attest to the accuracy of management's assessment of the company's internal controls.

**Nonpublic companies have also been affected by the perceived need for tighter internal controls.**

Maintaining an effective system of internal controls can be difficult. Ideally, you want to be able to both deter and prevent fraud, but at the very least, you need to be able to detect it. And, because property, plant, and equipment often comprise a significant portion of a company's assets on the balance sheet, having adequate internal controls in place is essential when it comes to managing your fixed assets.





## **Audit Trails**

Creating an audit trail that documents when changes are made to an asset's data is an important element of a company's internal controls. While there are many reasons for having a fixed assets management application in place, the strengthening of internal controls is high on the list. Good fixed assets management software provides a built-in system of controls that manage access to asset data and the depreciation policies applied to that data. When managing the records of fixed assets, it is important to establish an appropriate level of access for each user who has contact with them and to be able to track when a user accesses the data, along with any changes that the user might make. Having a complete history of an asset is important not just during an audit, but also to remind you of what changes may have been made to the asset in the past, along with the reason why.

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## **Physical Inventories**

Another part of the internal controls process is the necessity to take physical inventories of a business's fixed assets, and to do that, you must be able to track them. Putting tracking controls in place is important to prevent theft and to ensure against loss. This is true for depreciable assets but also applies to assets for which you may need to pay property taxes, or for which you want to purchase insurance. In fact, property taxes can be minimized with good tracking and maintenance of accurate fixed assets records. Even if you are able to expense an asset, it doesn't mean you shouldn't track it. Having good internal controls in place is simply common sense when establishing good business practices.

Good fixed assets management software provides a built-in system of controls that manage access to asset data and the depreciation policies applied to that data.

## Fixed Assets Management Applications

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### Spreadsheet Alternative

Years ago spreadsheets were popular for handling most of the necessary fixed assets records. However, as tax laws became more and more complex, and GAAP, too, changed many of its guidelines, it became clear that spreadsheets were no longer a good solution. Even if they were kept up to date (and that required a huge effort), company personnel often changed, and the person who created the spreadsheet often left the company. There was also both the lack of control over the spreadsheets as well as a higher probability of errors. After all, a spreadsheet only knows what you build into it.

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### Fixed Assets Management Software

Fixed assets management software applications that have been developed have become both more sophisticated as well as much easier to use. Training a new fixed assets manager to use software is so much simpler than trying to discern how a spreadsheet was created and how to make changes to it.

Of course, having a good fixed assets manager on staff does not preclude also purchasing fixed assets management software. The cost of the software more than pays for itself with the time and money that will be saved by not needing to depend on a staff member to stay current with all of the tax regulations and GAAP developments to ensure you are compliant. A subscription to tax and GAAP research services is costly, but it's more than that. A fixed assets management application gives you the confidence of knowing you have up-to-date software that is kept current with all of the tax and financial reporting requirements, no matter how often they change. Furthermore, while staff may come and go, the software is a constant with no vacation or sick leave required. Software gives your company the support it needs 24/7 with unflinching accuracy.

Realize that even though the tax rules and GAAP policies frequently change, the changes almost always only affect new assets. Older property that is still in service and is still being depreciated must use the earlier rules and regulations that were effective when it was initially placed in service. The new rules don't replace the old rules; they simply add to the amount of knowledge you need to have. You not only need to be knowledgeable about the current rules, but you must know and understand all of the earlier tax legislation and GAAP policies and those most important dates that control when each new rule became effective.

Having good fixed assets management software in place can give you peace of mind as you'll know that you are applying both past and present tax and GAAP rules correctly. It also assures:

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- Accurate depreciation calculations.
  - Correct calculation of gain or loss on disposals, as well as the determination of whether the gain or loss is ordinary or capital in nature.
  - Consistent application of your company's depreciation policies
  - Improved internal control and extensive audit trails.
  - The ability to try what-if scenarios.
  - The ability to easily merge the data from several companies or divisions.
  - The ability to dispose or transfer, in bulk, multiple assets at the same time.
  - The ability to produce comprehensive reports.
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## Advantages of Software

With fixed assets management software in place, you are able to make correct decisions from legitimate choices. You supply some basic information like property type and the placed-in-service date, and the software only offers you correct options: depreciation methods, lives, and averaging conventions that are permitted based on the information you have entered. In addition, the software then knows how to depreciate the asset for as many different books, for as many different purposes, as you require. However, you only need to enter the information once. This includes a book for GAAP, regular tax, AMT, ACE, E&P, and state(s). It is much better to use your time analyzing the data rather than researching what the rules are.

Basically, when using a good fixed assets management application and best practices, you can take full advantage of all available deductions. At the same time, you will be able to rest assured that your assets are under your control, being correctly handled, and that you are compliant with all of the tax rules and GAAP policies.





## 8.0

# Best Practices for Fixed Assets Managers

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The number-one best practice is to have solid fixed assets management software in place. However, while having a good fixed assets management application is essential, there is still a need for a knowledgeable fixed assets manager to use it. To employ best practices, it is helpful to have well-defined, manageable tasks to ensure nothing is missed for either financial reporting or for tax reporting.

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### **Financial Reporting**

For financial reporting purposes:

- Make sure the company has a depreciation policy in place for the most common types of property. Given the company's own experience (or industry standards), there should be a predefined depreciation method and estimated useful life for each main classification of asset by property type.
- The company should have a capitalization policy whereby a threshold is set for certain types of assets, below which they are expensed rather than capitalized. However, remember you still may need to track certain expensed assets for property tax reporting and/or insurance purposes.
- Review the depreciable lives of any assets that you think might need to be either lengthened or shortened.
- Review assets for possible impairment losses.
- Review other General Ledger accounts, such as Repairs and Maintenance, to verify if any expenditures that should have been capitalized (and possibly depreciated) were expensed.



## Income Tax Reporting

For income tax reporting purposes:

- Understand the income tax position of the company for the current year and whether the chief financial officer is looking to reduce income by accelerating deductions through larger depreciation amounts. When this is the case, consider using the more accelerated GDS versus ADS under MACRS for assets placed in service in the current year, as well as bonus depreciation and/or Section 179 expense if available.
- Check to see if more than 40% of qualifying property was placed in service during the last three months of the year (in which case you must use the midquarter averaging convention).
- See if there are any listed properties owned by the company and, if so, check to see if proper usage records are being kept.
- Be sure you are aware of the states in which the company is doing business and what depreciation books need to be maintained.

## General Practices

In general:

- Verify you are using the most current version of the fixed assets management software.
- Decide on who should have access (and what kind) for using the fixed assets management software.
- Review the audit trail of individual assets and make sure any changes were correctly handled.
- Be sure you are informed of additional installation charges on any fixed assets placed in service in the current year.
- Record any modifications or improvements made to any of the fixed assets.
- Record any rebates received, reducing each asset's basis as needed.
- Coordinate with whoever is responsible for handling asset disposals and determine if there were any assets sold or retired this year.
- Be sure you are made aware of any asset transfers that occurred during the year.
- Verify that all assets are accounted for and a physical inventory has been taken. Be sure that not only are all assets properly recorded on the books but also that the assets on the books are also still on the premises. (Doing the latter prevents overpaying on property taxes and insurance.)
- Review insurance records to check that all appropriate assets (especially new acquisitions) are covered and that any disposed assets are removed from the company's policies.
- Review the property tax records. For example, if any assets are transferred to another location within the company, be sure that they are not under a different property tax authority.
- Record all new assets and increase their acquisition values by any modifications made to them.
- Make depreciation projections so you're ready with data when estimates are requested for budgeting purposes.



Be sure you are made aware of any asset transfers that occurred during the year.



It is always a good idea to take a moment, sit back, and review what you are doing. Look at your overall business practices, analyze what you are accomplishing, and consider if there might be anything you have missed.

When depreciating an asset for tax reporting purposes, your goal is to pay the least amount of tax as late as possible, within the law. Selecting the correct depreciation method will help you do that.

When depreciating an asset for financial reporting purposes, be sure you are selecting the best depreciation method and life that most realistically reflects the actual use and economic life of the asset.

# Sage Software Applications

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## **Sage Fixed Assets—Depreciation**

Sage Fixed Assets—Depreciation enables you to manage the entire fixed asset life cycles of all of your assets from acquisition to transfers and disposals, and maintain reliable, relevant, useful data. A comprehensive solution that provides advanced fixed asset accounting and reporting features, it offers more than 50 depreciation methods including MACRS 150 percent and 200 percent (formulas and tables), ACRS, Straight-Line, Modified Straight-Line (formulas and tables), Declining-Balance, Sum-of-the-Years'-Digits, and user-defined depreciation methods. The Sage Fixed Assets—Depreciation family also provides easy-to-use fixed asset accounting, depreciation, and reporting features for companies needing effective decision-making tools.

Sage Fixed Assets—Depreciation includes an Audit Advisor feature to locate assets that may not be in compliance with IRS regulations. Running the Audit Advisor does not change any of your asset data. It is up to you to decide whether to change the information for your assets but the advice is invaluable.

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## **Sage Fixed Assets—Tracking**

Efficiently create and track multiple physical inventories of assets and enjoy complete control over your entire asset inventory at every step with Sage Fixed Assets—Tracking. This solution allows you to track your fixed asset inventory thoroughly, helping to eliminate lost or stolen assets and reduce insurance and tax overpayments. With automated inventory functionality and built-in reconciliation capabilities, Sage Fixed Assets—Tracking offers you a complete range of inventory tracking tools so you can effectively achieve tighter control over your fixed assets.



## **Sage Fixed Assets—Planning**

Take control over your fixed assets even before they become fixed assets with Sage Fixed Assets—Planning. Whether you're assembling multicomponent equipment, upgrading machinery, renovating buildings, or just accumulating separate invoices prior to placing a fixed asset into service, Sage Fixed Assets—Planning is the perfect solution for your construction-in-progress needs.

With multiple levels of detail tracking and numerous built-in reports, you can easily manage and report on projects, including current project status, actual versus budget variance, and project details. Manage both capitalized and expensed assets for convenient project tracking, and get key project information at a glance with "Project Snapshot." Plus, with this fully integrated solution your fixed assets are instantly created in Sage Fixed Assets—Depreciation upon project completion.

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## **Sage Fixed Assets—Reporting**

Gain total control over the format, appearance, and context of all your depreciation and fixed asset management reports with Sage Fixed Assets—Reporting. This easy-to-use solution allows you to instantly create professional, custom reports that you can save and reuse whenever you wish.

The Customized Standard Reports feature in Sage Fixed Assets—Reporting allows you to make edits to the built-in reports with minimal effort. Better still, you can share fixed asset data with other programs using PDF, XLS, HTML, XML, and other popular formats. Enjoy custom reports and data integration—all in one simple, point-and-click system. Sage Fixed Assets—Reporting is the perfect solution to extend the built-in reporting functionality of any Sage Fixed Assets product.



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