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Harness Fixed Asset Accounting with IT Asset Management to Plug Profit Leaks

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Unlike factories and manufacturing equipment, IT assets are among the easiest to shuffle around and redeploy. Organizations struggle with how to keep track of an ever exploding array of devices – some of which are of very small initial cost. Early efforts at comprehensive IT asset management were labor intensive and costly. As a result, many organizations neglected to implement robust IT asset management systems, and to this date rely instead on accounting/finance maintained fix asset databases. They now find themselves in a position where cost control pressures should cause renewed interest in IT Asset Management.

The follow points illustrate where active IT asset management prevents profits from evaporating while at the same time improving management metrics.

a. Depreciation

Most organizations are reasonably adept at adding new IT purchases to their fixed Asset inventory and assigning an appropriate depreciation schedule. Lack of coordination, however, with IT Asset Management leads to inaccuracies in the Fixed Asset Inventory. IT assets are often replaced, upgraded, or discarded by IT without consistent updating of the fixed asset inventory.

The impacts of botched depreciation flow throughout the finance area and impact borrowing base, Sarbanes-Oxley compliance, and ultimately earnings per share. The status of depreciation for IT assets is also the major reason that un-used equipment is held in storage rather than sold. This is a lost opportunity for mitigating lost value and also a guarantee that the stored equipment will cause some of the additional costs described below.

b. Personal Property Tax

Along with depreciation, many organizations are paying Personal Property Tax (PPT) on assets which have moved, placed in storage, or been removed. PPT is almost always calculated as a percentage of original cost, not of current value. In order to minimize PPT taxes, accurate records must be kept. Some tax advisory services believe that 10-20% of all PPT payments are made for equipment which is no longer in service.

c. Leasing

Leased assets should not be excluded from asset tracking even if the payments are expensed as part of a True Operating Lease. All assets are still subject to PPT (see above) and accurate records are essential to avoid overpaying. The lessee, not the lessor, is responsible for keeping parties informed about location changes and returns. Poor recording keeping for leased assets is the major reason that leases go beyond initial term. Failure to return leased assets on time and intact always causes additional expense.

d. Expensed Items

As unit costs decline, many users have attempted to avoid the paperwork involved in putting assets on the books and have begun to treat small purchases as they would office supplies. This tends to backfire, as unlike pencils, IT assets have recurring costs, licenses, and value over several years. For example, PCs need service contracts and help desks. Blackberries have monthly service plans. While expensing such items initially is a convenience to accounting, it can potentially mask the presence of long-term contracts or licenses which are not correctly associated with the original purchase. The lack of attention to detail at the outset causes nightmares for those trying to manage the environment, be it to locate ghost assets, renew service contracts, or just be able to identify the raw quantities deployed.

e. Licensing

While not always a concern of finance and accounting departments, the impact of poor asset records for IT assets has implications of legal liability for improper licensing of software. If assets with licenses are not accounted for properly, the organization can be vulnerable during a license audit and could face fines and penalties not to mention public humiliation.

It is important when adding an IT asset to the books (or recording a leased asset) that all licenses and license terms be correctly described. It is also important from an accounting perspective to ascribe the costs associated with licenses and services to the expense category as these costs are not depreciable. A common bundled offering from a vendor will combine hardware, software, services, accessories, and possibly consumables into one figure. In order to properly track the hardware for depreciation and taxation, expense the intangibles, know the expiration dates of service contracts, and not run into trouble over licenses – it is essential that proper records be kept.

f. Insurance

All companies carry insurance on plant and equipment based on the assets owned. All lessors similarly require insurance to cover their assets. Lack of accurate asset

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records will invariably mean that the insurance coverage is inflated. This is another hidden loss of profit due strictly to poor record keeping.

g. Reporting and Analysis

Most reporting about IT performance and metrics is based on simple data. A manager needs to know how many of an asset type are deployed so that a refresh can be planned. If the records of assets are not accurate - how then does the budget request get created and later approved? Does upper management accept writing checks for unknown quantities? Does Finance later approve invoices for taxes and insurance for devices which are long gone? No major organization can keep shareholders and regulators happy with smoke and mirrors when asked the question “What do you have?”

Key Points to Remember:

Financial Management values accurate records are they are measured on accuracy and integrity through Sarbanes/Oxley requirements. Financial Management also needs accurate records to be able to borrow against assets (the borrowing base) as well as report on depreciation correctly. IT management needs accurate records for decision making.

The users of IT and accounting databases need different details about the same asset. Until such time as a truly integrated asset management database (see technology) is fully implemented, both stakeholders need to be made aware of the high value the organization places of this data, and why.

To the extent that a client is paying PPT and insurance for ghost assets, identification and removal of ghosts will immediately return savings. Depreciation claims will always be accurate. Invoices that are presented can be validated against known assets – and bounced if there is no match. Storage space will be released for other purposes. IT managers will have a basic set of data from which to make informed decisions.

Most companies already have two systems in place – usually acquired at different times and maintained by different stakeholders. The task is to find a way to integrate the two databases in a way that meets the needs of both. This may mean consolidating on one or other system, or it may mean a wholly new selection. If a new selection is warranted, we recommend serious consideration of one that integrates

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with incident tracking and change management so that the database can be culled for much more useful management reporting than is current possible.

Summary

Failure to keep accurate IT asset records inevitably causes a systemic bleeding of company profits. Each little hole in asset records bleeds profit, and often goes unnoticed in the day to day context of fighting fires. Many initiatives to improve or adopt solid asset management founder when management determines that it has “bigger fish to fry” and can safely ignore the small bleeds until some time in the future. But in aggregate all these small problems combine to siphon what should be profit into significant waste. This is not pro-active management and will ensure that the organization will never be as profitable as it should be.

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