WHITE PAPER

Cost Saving Through Asset Management & beyond

levantare
TECHNOLOGY PVT LTD

TABLE OF CONTENTS

Introduction

Do you need help to become asset aware for maximum profitability?
It is the practical step which all organizations need to take for tighter financial control and immediate bottom-line savings.
Spreadsheet is perhaps the most widely used of all financial software tools. When we consider the characteristics of spreadsheets which make them useful and powerful, they have their own limitations related to the task of asset management.
If we use this understanding-- on the strengths and limitations of spreadsheets, we can derive a requirements Checklist for asset management systems. You can use this Checklist as a means of evaluating alternative systems or as the basis for an Expression of Interest to vendors in this niche field of Fixed Assets Management Solution Providers. It will be invaluable in helping you select the right asset management system in accordance to your needs.
The current business and economic climate is challenging. You need to explore every opportunity for reducing costs and managing risk, as well as increasing transparency and accountability with Good Corporate Governance.
The aim of our Asset Aware campaign is to raise awareness of the cost savings and improved financial and risk management which result from best practice asset management. It is for you to decide what part spreadsheets will play in helping you achieve this. This article will Guide and help you to make that decision.

On the spreadsheet

Oh the spreadsheet! That familiar grid filled with numbers and formulae, so easy to create and expand, so difficult to change, and so impossible to verify. And yet we love to use them! Why? Part of the answer lies in their familiarity. Spreadsheets have been around since the earliest days of computing (Who remembers VisiCalc or Lotus 123?) Spreadsheets are 'bundled in' to standard business software, which is often pre-installed on PC's.

When something is easily available, it is likely to be used, and spreadsheets are indeed used extensively by almost all finance professionals.
They are used for the whole range of financial applications –

- ▶sales and purchase ledger,
- ▶budgeting,
- ▶expense accounting,
- ▶asset management,
- ▶and many others.

There are in fact some major advantages to spreadsheet systems.
Spreadsheets are

- ▶Quick to set up and easy to modify.
- ▶Simple calculations are easily defined,
- ▶And spreadsheets are extremely flexible, both in computation and presentation.
- ▶Spreadsheets are very good for 'thinking processes', where a user may want to
  - ▼analyze last month's sales figures, or
  - ▼Do 'what-if' projections.

But there are also many disadvantages to spreadsheet systems.
Spreadsheets

- ▶Quickly become complex and difficult to verify.
- ▶Often undocumented, they are error-prone
- ▶And hard to change reliably.
- ▶Producing reports is difficult,
- ▶Difficult to integrating a spreadsheet system with other enterprise systems.
- ▶Also makes it very difficult to track and control changes
- ▶Or to produce a clear audit trail.

When spreadsheets are used for asset management there is a profound mis-match between the requirements of effective asset management and the capabilities of spreadsheets. This mismatch costs the enterprise dearly in time, lack of control, and lost opportunities for cost savings.

Focusing on asset management

Two distinct functions
The task of fixed asset management involves two distinct functions.
The first entails keeping a record of the actual physical asset, so that information is available as to what exists and where it is situated. It also means keeping track of physical changes, for example, the sale or disposal of an item, or its move to another location in the company. In some organizations this aspect of asset management falls under the responsibility of the I.T. or Facilities Manager.
But, for the financial manager, these events are of interest only in so far as they are expressed in financial terms.
The fact that a PC is a Compaq with a Pentium processor and that it is situated on the marketing manager's desk is of less interest than the fact that it was bought for Rs.52000, but that because of depreciation its net book value is now Rs.1200. In other words, this aspect of asset management involves expressing actual physical assets in financial terms.
Most spreadsheet systems are used for control of both these aspects, and this points to one of their major drawbacks.

Spreadsheets are not suitable for storage and manipulation of large quantities of non-numeric data, such as detailed description, location, supplier details.

This gives us the first requirement of a fixed asset management system:

It must have the ability to store and retrieve comprehensive descriptive information about fixed assets.

A complex situation. . .

An asset management system models a complex real-life situation.

For example, individual assets may be grouped into asset categories, and belong to one of a number of departments, which are part of one of several cost and/or profit centres.

In addition the organisation may consist of a number of companies and/or may be located across several sites.

And many more…
The above are just representative of the myriads of department in any Hospital organization.
The complexity of this kind of multi-dimensional matrix or hierarchical structure makes it virtua lly impossible to model on any spreadsheet system, no matter how carefully designed and linked.

From this we can derive the second requirement of a fixed asset management system:

It must be able to reflect the structure of the organisation; it is modeling and be a dynamic one

The problem goes further than this.

Not only is the system to be modeled a complex one, but it is also dynamic. Changes occur at all levels, from the restructuring of some or all of the company to the simple acquisition and disposal of single assets, to the transfer of assets or groups of assets across departments or cost centres. Attempts to reflect this dynamism in a spreadsheet model are almost inevitably doomed to failure.

A third requirement, then, of a fixed asset management system is:

It should be flexible and easy to restructure Calculating depreciation

The financial management and control of fixed assets involves many complex calculations. The most complex are those relating to depreciation which affect net book value and ultimately are reflected in the P&L and the balance sheet.

One of the reasons for the complexity of depreciation calculation is that:

1. There may be varying rates of depreciation,
2. And these varying rates may apply to individual assets or to groups of assets.
3. Each individual asset may then be broken down into component parts which must be depreciated individually.
4. And in an Globalized world, each country of operation has its own depreciation & laws.

For example, a PC is a single asset, which consists of the processor and hard disk, the screen and the keyboard. Each of these components may have been acquired or changed at different times and have different depreciation rates applied to it. Any change such as acquisition, disposal or transfer will affect depreciation and may apply to an individual asset or to one or more of its components, or to a group of assets.

In a recent international survey, more than four out of five companies (80%) found incorrect depreciation calculations in their asset spreadsheet.

A good fixed asset management system then should be able to apply varying depreciation rates to individual assets, sub assets and groups of assets, applying depreciation policy of each nation.

Another reason for complexity may be the company's depreciation policy, particularly as it relates to timing.

In some organizations it is a policy to depreciate from the date of purchase, which means that the first depreciation period may not be a complete month. Some companies have a policy of starting to depreciate the month after purchase, and/or depreciating totally in the first year, or indeed not depreciating at all until the second year.

There may also be different depreciation policies for different groups or sub-groups of assets.

The same conditions will apply to asset disposal.

Any spreadsheet system becomes hugely complex and error prone in attempting to cope with this type of situation.

A very important requirement of a fixed asset management system is that it can take into account varying depreciation policies.

Re-lifeing

A related issue is that of re-lifeing assets, sub-assets and groups of assets.

If the useful life of an asset is reassessed, the depreciation must be recalculated accordingly over a longer or shorter period.

A good asset management system should be able to deal with re-lifeing of assets

Accounting policies

Many enterprises adhere to accounting policies such as:

1. resource accounting,
2. capital charging and valuations,
3. indexation,
4. revaluation and
5. backlog depreciation.

For public sector organizations, these policies are required.

Spreadsheets become hugely complex and error prone when used to handle these issues.

The requirement is for the asset management system to handle a full range of accounting policies, including all the requirements of public sector accounting.

Fixed Asset system as an island:

The fixed asset system can exist in isolation, but forms a part of the enterprise's financial and management accounting systems. The most essential link is with the nominal ledger, which must be updated with the depreciation figures from the fixed asset system.

In practice this means that the asset management system must produce a report such as a depreciation journal which can be used as a posting document, or it must export a file which can be input directly to the nominal ledger.
Ideally the asset management system will have to have an automatic link to a comprehensive range of accounting systems.
Problems arise because a spreadsheet based asset system may be structured very differently from the nominal ledger. For example, the fixed asset spreadsheet may have been constructed to match the organization's departmental structure. The nominal ledger, on the other hand, may well have different depreciation accounts not necessarily related to this structure.
The task of aggregating figures from the spreadsheet in a form suitable for input to the nominal ledger may be very complex indeed.
An asset management system should therefore be able to provide a smooth link with the nominal ledger system, by producing a correctly structured report and/or file, or through an automatic link

Reporting

A great deal of useful information is contained in an asset register. This information must be made available in a form that helps decision making.
Without this, all the potential for cost savings through proactive asset management is lost.
Both statutory and management reports require input from the fixed asset system. Some reports are required on a regular, others on an ad hoc basis.
There is no doubt that reporting is the area where a specialist system scores most highly over a spreadsheet system. A spreadsheet system holds raw information, and every report that is required must be painstakingly constructed, usually involving the use of macros to retrieve the relevant figures, which must then be formatted and output. With a spreadsheet system, any but the very simplest report is extremely complex and messy to produce.

A good fixed asset management system will provide a wide range of standard reports, as well as the ability to customize these. It should be possible for users to define the elements of the company structure and the reporting period upon which they wish to report.
A very useful feature is the ability to apply a filter to customize a report so that it reports, for example, only on certain categories of assets, or on assets worth more than a certain value.
We can summarize these requirements by saying that a good asset management system should have comprehensive and very flexible built-in and custom reporting facilities.

Audit trail

As with any financial system, the ability to track and report on history, i.e. provide an audit trail, is both useful and in many cases required. This is another facility which is very difficult to provide with a spreadsheet system.
The requirement is that the system should have full audit trail facilities.

Planning and forecasting

True management involves planning and forecasting as well as controlling.
For example, a company may wish to see the effect of the transfer of assets from one part of the organisation to another. Good budgetary control requires the ability to forecast depreciation, or see the effect of acquiring assets.
In theory, spreadsheets provide the ability to carry out what-if functions.
In practice, however, the complexity and inadequacies of spreadsheet based systems mean that forecasting and planning facilities are simply not available. A spreadsheet based asset management system is therefore a misnomer - it does not provide the ability to manage assets in any meaningful sense.
An important requirement is therefore the ability to forward plan by provision of forecasting and budgeting facilities.

Usability

The well known drawbacks of all spreadsheet systems apply equally to spreadsheet based asset management systems. Amongst the more serious drawbacks are the following:

- ▶Spreadsheet systems are almost always designed by an individual, so are very difficult for anyone else to change, and often to use.
- ▶Very few spreadsheet systems have any form of documentation, exposing the organisation to a complete lack of support in the event of the system builder leaving
- ▶Very few companies have any standards or guidelines for building spreadsheet systems, increasing the difficulty of modifying and learning to use the system.
- ▶Almost all spreadsheet systems have undetected and undetectable errors.

A specialist fixed asset management system will avoid all of these drawbacks. In addition, it will provide features common to all good software.

A good Asset Management system will be:

- ▶Single or multi-user with:
  - ▶appropriate security
  - ▶and access features.
- ▶It will handle 'occasional' procedures, such as closing a financial year, with ease.
- ▶It will be well designed, and easy to use,
- ▶It is sometimes described as having a good 'look and feel'.
- ▶The design and appearance of its reports will be excellent.
- ▶There will be:
  - ▶maintenance,
  - ▶help desk
  - ▶and training facilities available.

The requirement is that the system should be professional, well designed, easy to use and well supported.

Requirements checklist for an asset management system

The system should provide the ability to:

1. store and retrieve comprehensive descriptive information about fixed assets
2. reflect the structure of the organisation it is modeling
3. be flexible and easily restructured
4. apply varying depreciation rates to individual assets, sub assets and groups of assets
5. take into account varying depreciation policies
6. deal with re-lifeing of assets
7. deal with a full range of accounting policies, including those required for public sector organizations
8. provide a smooth link with the nominal ledger system, by producing a correctly structured report and/or file or through an automatic link
9. provide comprehensive and very flexible built-in and custom reporting facilities
10. provide full audit trail facilities
11. allow forward planning by provision of forecasting and budgeting facilities
12. And it should be professional, well designed, easy to use and well supported.

And finally

Advantages of spreadsheet systems

- ▶Readily available and cheap
- ▶Familiar to most PC users
- ▶Easy to create
- ▶Easy to modify
- ▶Very flexible
- ▶Good for 'thinking processes'

Drawbacks of spreadsheet systems

- ▶Spreadsheet systems are almost always designed by an individual, so are very difficult for anyone else to change, and often to use
- ▶Very few spreadsheet systems have any form of documentation, exposing the organisation to a complete lack of support in the event of the system builder leaving
- ▶Very few companies have any standards or guidelines for building spreadsheet systems, increasing the difficulty of modifying and learning to use the system.
- ▶Spreadsheets are very error-prone, especially when modified, for example -computed values can be accidentally overwritten with specific numbers -inserting rows and columns can easily corrupt totals and other calculated values - there is no easy way to test a spreadsheet, especially one that has been modified.

- Complex calculations are difficult to define and to maintain reliably.
- It is problematic to display the information in a spreadsheet in different ways.
- Modifying the spreadsheet destroys the original view. Copying the information, then reformatting it is time consuming and error prone
- It is difficult to extract information from spreadsheets for use in other applications or to integrate spreadsheets with, for example, an accounting system
- Spreadsheet systems make it impossible to track and control changes or to produce a clear audit trail.

For more information please contact:

arasu@levantare.co.in, www.levanatare.co.in