NEWSLETTER NO. 28

SOFTWARE FOR TANGIBLE CAPITAL ASSET ACCOUNTING

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The implementation of tangible capital asset accounting is providing excellent business opportunities for software vendors and implementers, as well as for consultants. How many magic bullets have you been offered already?

What do you need to store your tangible capital asset data, to maintain current records, and to report accurately in a timely fashion, when required? You clearly will want something that falls somewhere between the proverbial back of an envelope and a custom-developed asset accounting package, or the module of one of the major ERP systems. The envelope is an easy solution, but how do you specify what your requirements for tools will be, for data processing that you have never really had to do before? What works for your neighbour may not work well for you in your organization.

There is no simple answer, and certainly no magic bullet. This newsletter will not look at or assess specific packages, as this is a continuously evolving market-place. What we do want to look at are some of the issues that you will face when selecting tools to facilitate your accounting.

It is old news that the move to accounting for tangible capital assets has two aspects or components, and the issue of software tools for each are quite different. The phases are:

1. Development of asset inventories as of January 1, 2009; and

2. On-going maintenance and updating of asset inventories – January 2, 2009 forwards.

Let us look at each, especially for municipalities that are just beginning to start work on this.

1 – Development of Asset Inventories

This phase involves the collection of detailed data on all tangible capital assets throughout the municipality. The data must be stored and retained in a suitable fashion and medium to permit ready retrieval of individual records when required, and appropriate and meaningful aggregation for management and financial reporting.

1a) Data Requirements for the Initial Asset Inventories

For each asset that you identify, you will collect information such as:

- **"Tombstone" data on each asset, such as what, where, who and serial number;**
- **Date of acquisition;**
- **Historical cost or estimated cost at time of acquisition (gross book value); and**
- **Accumulated amortization from date of acquisition to December 31, 2008.**

You may collect other background data, some of which may be quantitative, such as performance and production numbers, or qualitative, such as contracts and specifications.

Each individual asset will have its own data record containing such quantitative information, as well as probably a paper file containing corroborating background documentation for the asset and the data in your asset record. For each asset, you may start with an asset data sheet, and include copies of relevant contracts, POs, invoices, Council reports and change orders for the asset itself, and for any directly related costs. Since your major assets will certainly outlive your records retention bylaw terms, don't count on official municipal archives as a long-term resource for such back-up information.

Asset pools will each have a data record for the entire pool as a whole, while you will likely want to have a back-up file (electronic and paper) that supports that aggregated record.

Note that for the initial valuation and reporting, you ultimately need only two numbers:

1. historical cost of all assets; and
2. accumulated amortization for all assets, as of December 31, 2008,.

- for each reporting area that will be included and identified in your financial statements, and in your internal management reports. These are the so-called 2009 starting values.

Note: You prepare and present comparative financial statements for your municipality. The 2009 financial statements should therefore show tangible capital asset information for fiscal 2009 and for 2008. The above discussion takes care of the balance sheet information, but what about the 2009 Statement of Operations. Have you been recording all TCA acquisitions and dispositions since January 1st? If not, how will you restate your 2008 Statement of Operations to reflect TCA accounting?

Acquisitions will be easy, as they will be identified and valued in your inventories. Calculating 2008 amortization expense will be relatively easy, as you can identify everything dating from 2007 or earlier, plus the 2008 acquisitions. You simply need an easy tool to help you do the calculation. What about the disposals and write-downs? You would not really record any write-downs in 2008, as at this point in time, all of your assets have been expensed, so that they have been written-off from an accounting perspective. They will acquire book value as of January 1, 2009, but not before. So ignore the issue of write-downs.

You will be expected to record disposals in 2008. At the same time, your TCA accounting is probably not up and running, so that this may be a situation where you will report as completely as you can, but recognize that your records for 2008 may not be as complete as they will be for 2009. Note this, and move on. Full and proper disclosure for 2009 and subsequent years is paramount.

1b) Software for the Initial Asset Inventories

If your tangible capital assets number more than a dozen or so, you will almost certainly be looking for some tool to store and manipulate the data you are collecting.

Because it takes time to order specialized software, and you need to know what your on-going requirements will be for future file sizes and functionality – which you don't know at this point in time – don't go there, or even think about it. This exercise can be managed very well using a set of spreadsheets, e.g. in Excel, or a simple data base, such as Access. Many large municipalities are recording their initial inventories using such tools.

The advantage of using spreadsheets is ease of data input, ease of manipulation, and the easy ability to do sensitivity analysis, such as testing the impact of changing your threshold level. If you discover your requirements and needs changing over time, it is simple to add additional columns and rows to accommodate additional data fields or data records. Workbooks and worksheets can be linked, so that it is simple to aggregate tens of thousands of records. And it is a cheap solution – you probably already have the licenses. If it works for you, go with it.

The major downside is the relative fragility of the data in any spreadsheet. It can be "here today, gone tomorrow". Control who can get at it by password-protecting all of your spreadsheets. Require a different version number for each save, so that you can track changes at least to a day and a user.

You will have a lot of time and effort invested in the data. Protect it. Have multiple back-ups – it's fast, easy and cheap. Keep one on a flash drive, and store the drive in your brief case or purse, so that you have an off-site copy of your data. It is OK to be paranoid. The unwanted and the unexpected do happen, so protect your data against internal system problems, as well as external threats.

Using a data base avoids this data security problem. However, someone needs to organize and set up the data base, and develop any non-standard reporting required. Custom enquiry and hypothesis testing are not as easy, if possible at all, and there may be limitations on file size. Two million asset records may require 2 or more separate databases to be accommodated.

In summary, for speed, convenience and ease and simplicity, use common office productivity tools to store and manipulate your initial asset inventories, from which you will get your December 31, 2008 valuations. The only caveat is that you make sure, whatever software package you use, that it will allow you to export data from its environment in a format that will be readily recognized and accepted by other software environments

2 – On-going Maintenance and Updating of Asset Inventories

This phase requires tracking all tangible capital assets that are acquired, disposed of, written down or written off. This also includes updating asset records as circumstances require. Last but not least, there will be on-going reporting requirements.

2a) Data Capture for On-going Asset Accounting

Your on-going data requirements are quite simple – for this year, what came in? - what did you get rid of? - and what did you write-down or write off? Add in last year's year-end asset inventory valuations, and that gives you your figures for this year – done, after you have calculated this year's amortization expense.

How will you know what has transpired? Will staff send you an email each time? (Good luck!) And when do you want to carry out the accounting for the assets that have changed during the year? In real time, or at year-end? For a small municipality, these are probably not major concerns, whereas they definitely are for large municipalities, not least because of the sheer volume of updates that will potentially be needed.

On-going data capture is simply keeping your asset inventories current, tracking every movement of a tangible capital asset into, out of, and within the municipality. This is a continuation of the work of Phase 1. However, whereas that was like taking a snapshot as of one point in time, December 31, 2008, this phase is a moving target, so that currency and completeness of the data sets are much harder to guarantee and to achieve. This will be your major concern.

2b) Software for on-going Asset Accounting

The downside to spreadsheets is that they are usually standalone environments. So how will you update them to record asset movements in and out of your municipality? Who will take care of this, and when, if there is no electronic link to your payables and G/L environment?

In the short-term, you may be well advised to continue using your spreadsheet or simple data base environment, as it is up and running, you are familiar with it, and with what and where the information you will require is located. The need for current on-going updating may compel you to look for a more sophisticated asset accounting tool. Ideally, when a purchaser issues a purchase order, the PO can be flagged as being for a tangible capital asset, so that when the item is received and paid for, the asset accounting software or module is updated automatically. Then you only have to deal with the dispositions and write-downs.

Most accounting systems have an asset accounting module, and there are independent products that can be linked to major accounting systems. Or you could create your own module or "plug-in". Since you haven't done this before, it will be hard to spec out a sophisticated asset accounting environment to address your requirements, until you have had some experience using the data. You will want to consider:

Transaction volumes;
Availability of asset data banks elsewhere;
Extent you need/want automation;
Spreadsheets are likely sufficient in the short term; and most definitely

Don't commit to software before you really know your needs.

Also, will you be looking for an integrated corporate asset management solution, or just something for asset accounting?

For the purposes of municipal TCA reporting, most of these modules and packages offer more functionality than you will ever need, unlimited storage and processing capacity, and security of the data. For example, some programs will let you amortize your assets differently for corporate reporting, and for tax filing in multiple jurisdictions, using different rates and methods for each.. You will likely never use many of the features of the package you are buying.

But if you do go ahead and buy asset accounting software, what will the software itself cost? Multiply that figure by at least 6 to get your minimum likely implementation cost. That factor seems to apply for shrink-wrapped off the shelf software costing $150 at one extreme to a multi-million dollar suite of ERP financial software at the other extreme. And while you are implementing this software, you will still have your spreadsheets available, until you finish your conversion and can go live in the more sophisticated environment.

A Final Thought

If you do decide to make a major investment in asset accounting software:

Caveat emptor – let the buyer (= you) beware!

These are not intuitively obvious "plug-and-play" products. Be sure that you are buying what you really want and need, not someone else's generic idea of your requirements, and that you are not paying for a lot of functionality that you will never use. Above all, don't underestimate the cost of implementation, including the internal time and effort required.

Note re Municipally-owned Property Values

The Municipal Property Assessment Corporation (MPAC) has posted a Report on "Municipal Connect" that provides current value assessments (CVAs) for municipally-owned properties. Where available and subject to the valuation approach used by MPAC to assess these properties, the file may also contain land and building breakdowns. This may be helpful for valuing your real estate.

Please contact your local Municipal Relations Representative at MPAC or go on-line to "Municipal Connect" (Reports Tab, Electronic Assessment Information, Municipal Property Inventory) at www.mpac.ca. You may need to contact the Municipal Connect Administrator at your municipality to obtain access to this report.

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Our next newsletter will look at the issue of assets that have been transferred from another level of government, or which are being transferred between organizational units or entities within a municipality.

For more information and resources regarding tangible capital asset management, go to PSAB/Asset Management or contact:

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NOTE: This Newsletter is published to assist you with your implementation of tangible capital asset accounting and with related matters. The Public Sector Accounting Handbook is the only authoritative primary source on matters relating to GAAP, and you should consult with your auditor to resolve specific issues that you may have.