

**About the Author:**

*Steven Schimpff* has 30 years experience developing and implementing financial and accounting systems. For the last 14 years, Steve has implemented the Bassets System in all industries ranging from Fortune 100 to small and middle market companies. During this time, Steve has gained an extensive knowledge and expertise in depreciation and asset management.

Many companies are walking around completely unaware of a large hole in their SOX compliance related to fixed assets. Complying with the Sarbanes Oxley Act of 2002 (SOX) is a daunting task, however, the act's requirements can be reduced to one overriding principle:

### **Accurate Financial Reports**

SOX has a strong internal control focus and is designed to make sure that companies implement and maintain processes and procedures that ensure that the disclosed financial statements present an accurate picture of the company.

A company's accounting, financial reporting, and tax departments are the stewards of the internal controls that ensure the accuracy of the company's financial statements. Historically the accounting and tax departments have been at odds. While GAAP, which governs accounting and financial reporting, requires a company to reasonably estimate the economic depletion of an asset to determine the depreciation method, the federal income tax depreciation regime is based on federal tax policy. Depreciation for tax purposes has very specific rules and regulations for the assignment of methods and conventions to assets. These rules are very complex, as evidenced by the 1,000 plus pages of commentary and explanations in the CCH Tax Depreciation Guide. Adding to this complexity are the differing rules and regulations of state and local jurisdictions that are not required to adhere to federal standards. The tax department generally selects the allowable method and convention that maximizes the net present value of the tax depreciation deduction.

Many companies are revisiting their fixed asset processes and implementing new processes, procedures and software that allows the divergent interests of the accounting and tax departments to be addressed through multiple views of the same fixed asset data.

There are many internal controls that are required for a fixed asset process to be SOX compliant. A fixed asset depreciation software package should at least provide the ability to:

- Handle complex depreciation methods and conventions
- Accurately represent physical inventory
- Provide comprehensive application data security
- Generate an audit trail to track all data changes

## Handling Complex Depreciation Data Entry



### The Problem

Typical accounting entries are for either an **income or an expense item** and the data entry requirements are very basic. The data entry consists of a date, a dollar amount, the correct general ledger code and the source of the income or expense item.

Income	→	Date	Expense	→	Date
	→	Dollar Amount		→	Dollar Amount
	→	G/L Interface		→	G/L Interface
	→	Revenue Source		→	Expense Source

When it comes to the data entry for a fixed asset, the same basic information is required:

- Date of acquisition
- Dollar amount
- Appropriate asset general ledger code

However, additional more complex information is also required as follows:

- Depreciation Method
- First Year Convention
- Recovery Period
- Property Type
- Additional general ledger codes required for journal entries:
  - Accumulated Depreciation
  - Depreciation Expense

Additional general ledger codes that may also be required:

- Cash
- Capital Gains/Loss
- Construction in Progress

Additional tax related entries, as necessary:

- Section 179 Expense
- Bonus Depreciation
- Qualified Leasehold Improvements
- Luxury Automobile
- To mention just a few of the more common tax related items

The SOX Compliance problems for most fixed asset depreciation software packages begin with the basic depreciation information. There is a relationship between the depreciation method, first year convention, recovery period and property type that are based upon ten (10) IRS Property Classes. These property classes are detailed in the 135 item IRS Class Life Table along with the IRS mandated depreciation methods and first year conventions for Modified Accelerated Cost Recovery System (MACRS).

During data entry, most fixed asset systems do a poor job of error checking and validating the basic depreciation information that is entered into their software. This results in one or more of the four basis depreciation elements being entered incorrectly on a routine basis. Now add in some of the more complex tax regulations associated with Bonus Depreciation, Qualified Leasehold Improvement and Luxury Automobiles to mention just a few and the level of complexity rises.

While an asset record entered with the incorrect depreciation method and/or recovery period will calculate depreciation based upon the information entered, the resulting calculation will not be in compliance with IRS Regulations or SOX, since one or more of the depreciation parameters was entered incorrectly.



## The Solution:

For a fixed asset depreciation software package to be Sox Compliant, the software would have the user enter the basic fixed asset information:

- Date of acquisition
- Dollar amount
- Appropriate asset general ledger code

Once this basic information has been entered, the SOX compliant fixed asset depreciation software package would automatically enter the remaining, more complex information. Depreciation methods, first year conventions, recovery periods, etc. would be automatically entered based upon IRS Regulations and the company's fixed asset accounting rules. This process would remove the "Human Element" that results in the basic depreciation information being entered incorrectly.

The software package should also assist the data entry personnel with the more complex tax regulations that apply to a small portion of a company's assets. This would be accomplished with Drop Down or Pick List controls with appropriate Data Validation to ensure that the information was correctly entered.

## Accurately Represent Physical Inventory



### The Problem:

Another major problem area for SOX Compliance and fixed asset software is the **Balance Sheet entry** for capital or fixed assets, since this item is often overstated on most Balance Sheets. When was the last physical inventory of your organization's capital or fixed assets performed? A physical inventory generally results in the realization that the capital or fixed asset account is significantly overstated.



### The Solution:

A Capital Asset Inventory solution that is integrated with a SOX Compliant fixed asset software package is required. A capital asset inventory solution is based upon the use of a barcode scanner and barcode labels attached to individual assets. When used with frequent physical inventories of capital assets, a capital asset inventory solution will result in an accurate accounting of your capital asset inventory.

An added benefit of an accurate Capital Asset Inventory would be a reduction in business property insurance premiums and property tax payments since these expenses would no longer be based upon inaccurate and inflated Capital Asset values.

## Application Data Security



### The Problem:

With all financial software, both the Information Technology Department and the financial software must provide strong data security to prevent the theft and/or misuse of the financial data. Strict rules need to be enforced to ensure that users regularly change their passwords and meet the requirements of a **secure password**.



### The Solution:

The fixed asset depreciation software package must have a Security Feature that provides the following minimum functionality:

- Require a User ID and Password to gain access to the software application. At minimum, this feature prevents unauthorized users from accessing the application.
- Enforce secure passwords:
  - Minimum length of password
  - Password history to prevent reuse of prior passwords
  - Complex password requirements
  - Force user to change password after a specified time period
- Once an authorized user has accessed the application, the application security feature should:
  - Allow the user full or limited access to application features, data fields, reports
  - Control data export, which is a critical data security problem area

Additionally, the Information Technology Department must secure the physical data files from unauthorized access and copying.

## Audit Trail



### The Problem

Both accidental and deliberate changes to financial data can happen. A detailed log must be kept to track any changes made to financial data for the application to be SOX Compliant.



### The Solution:

The Audit Trail feature in a fixed asset depreciation software package enables administrators and/or users to locate and correct invalid data entry to new and existing asset records. The Audit Trail feature should provide the following minimum features:

- User ID, Date and Time associated with the new asset record data or changes made to existing asset record data and data export.
- Detail each changed data field with the original information contained in the field and the new value.
- Detail each data field that has been exported from the application and the target location for the export

This important feature allows the administrator and/or user to identify and correct invalid data entry. Keep track of data being exported from the fixed asset depreciation software package. The Audit Trail is also very beneficial in educating users and avoiding future problems.

## CONCLUSION

Do not allow your fixed asset depreciation software to be a hole in your SOX Compliance. An integrated software application that provides the necessary Internal Controls will improve the accuracy of your Data Entry, ensure an accurate Capital Asset Inventory, maintain proper Security and provide a complete Audit Trail. Meeting these four key elements will result in accurate financial reports and compliance with the Internal Control requirements of the **Sarbanes-Oxley Act of 2002** for your corporation.

**Thank you for your interest in this free paper. Please consider sending us a message with any comments or feedback you may have.**

### Why Choose the Bassets Fixed Asset System?

The Bassets Fixed Asset Software is a Rule Based fixed asset system that provides the necessary Internal Controls for SOX compliance. Bassets is an easy to use Asset Management and Depreciation software program that features superior performance and functionality. Bassets will allow you to calculate depreciation and generate fixed asset reports with less effort in less time.

Over the decade, Bassets has become a leader in the stand-alone fixed asset software market. We deliver superior products based upon the comments and needs of our customers combined with the latest programming technology and our close attention to detail.

Bassets' expertise lies in delivering the highest value, integrated software solutions for accounting professionals in every industry. Our goal is to create powerful solutions that are simple to use. We offer our software at a reasonable price and backed by our outstanding customer service.

Evaluate and compare Bassets to other fixed asset systems to see for yourself why the number of Bassets' users has grown substantially. Try a free evaluation copy today at [www.bassets.net](http://www.bassets.net) and see how you can simplify your asset management and become truly SOX compliant.

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