

# Capitalization & Fixed Asset Management Whitepaper



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## 1. BRIEF OVERVIEW

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The recent global economic ascent has enabled various industrial sectors to expand their operations to meet their strategic objectives in terms of reach and scalability. As the globalization phenomenon has provoked companies to look beyond their geographical boundaries, companies are increasingly making huge capital investments in large scaled projects which are executed over longer time frame. Complexity of managing CWIP & fixed assets multiplies in direct proportion to project size and the project life-cycle. Capitalization & Fixed assets management is considered as one of the most challenging function and therefore companies require highly skilled & focused resources for activities like:

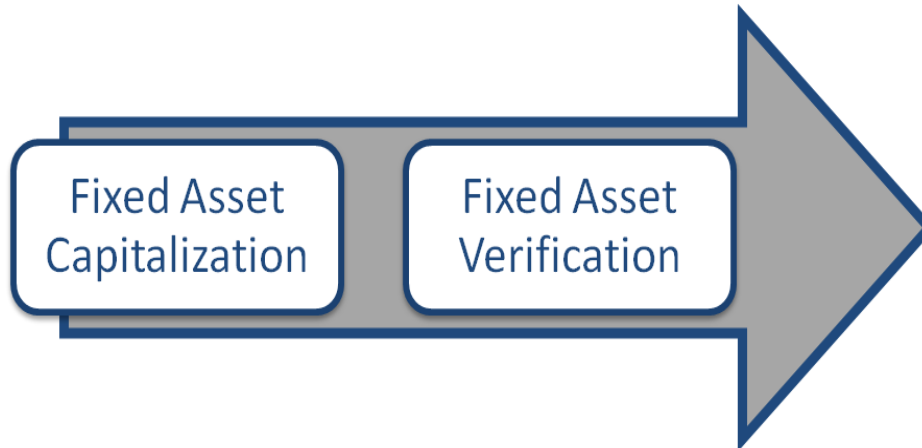
- ⇒ Reviewing capital spending requests and expenditures in accordance with company policies, budget availability and GAAP (Generally Accepted Accounting Principles).
- ⇒ Managing and administering the tracking, reporting, analysis and accounting of CWIP & fixed asset activities.
- ⇒ Collecting, reviewing, processing and tracking fixed asset acquisition requests, purchases, capitalizations, transfers, adjustments, reclassifications, retirements, capital improvement project (CIP) activities, etc.
- ⇒ Reconciliation of monthly/quarterly/annual fixed asset activities and balances to the General Ledger (GL).
- ⇒ Capitalization at the end of a large project.
- ⇒ Facilitating, conducting and reconciling fixed asset physical inventories.

To optimize these activities and to get the services of subject matter experts, most organizations prefer outsourcing this function so as to channelize their management efforts on monitoring the project execution and its timely completion. In absence of an appropriate Asset Management System, companies don't have an accurate accounting of their fixed assets - costing them billions each year in tax overpayment, regulatory non-compliance, and inefficiency.

Osource's Fixed Asset Management services, tried and tested across industry verticals, enables clients achieve goals in terms of improving the accuracy and visibility of data in their information systems, efficiently, cost-effectively and with absolute confidence.

## 2. SERVICE PORTFOLIO

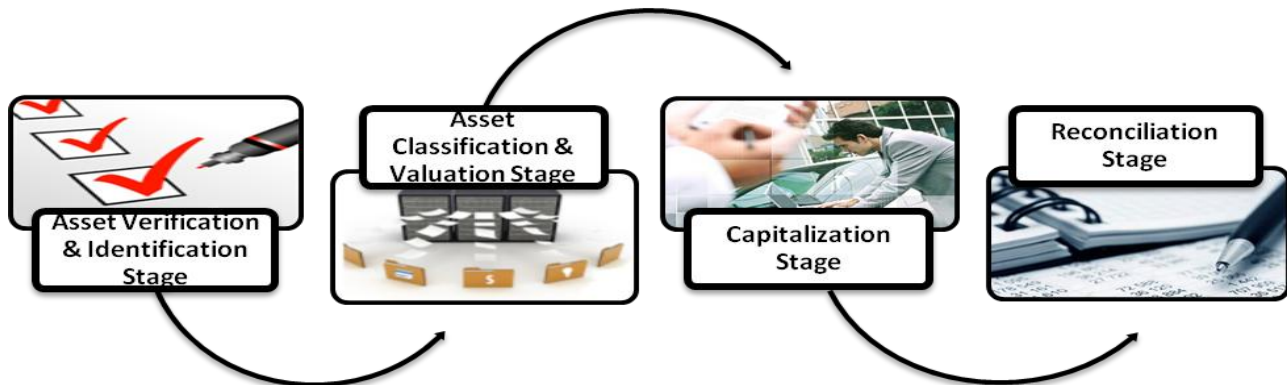
Based on the understanding and expertise derived from years of experience in the BPO industry, Osource under the gamut of Fixed Asset Management services offers the following:



### 2.1 PHASE I – FIXED ASSETS CAPITALIZATION

The following chart details the Generalized Scope of Work for the Fixed Assets Capitalization activity –

Following stages details the Scope of Work & approach methodology for the Fixed Assets Capitalization activity –



#### 2.1.1 VERIFICATION & ASSET IDENTIFICATION STAGE

The activities which will be covered in the Review phase are as follows –

⇒ Osource will perform a detailed review of the understandings on the **Capital Work In Progress (CWIP)** provided by the client.

⇒ Osource will also verify and scrutinize all the underlying documents provided by the client such as Invoice/running bills, delivery challans, Material Returned

Notes etc for closure & non closure against all **Work Breakdown Structure (WBS)**.

- ⇒ Post verification, Osource will confirm the closure of **Purchase Orders (PO) or Work Orders (WO) & Direct Material Receipts**. PO/WO/ Direct Material Receipts shall be considered closed when all the quantitative and qualitative aspects of the PO/WO are accepted as fulfilled by the client and relevant supporting documents for the same are provided to Osource for verification .
- ⇒ Osource will provide a statement of WBS status classifying Closed and Open PO/WO's along with remarks for Closure or Non closure to the client. Client will validate the closed PO/WO's and provide reasons for the Open PO/WO's.
- ⇒ All the Closed PO / WO will be considered for collation into a Statement of Basic Assets Identified for Capitalisation. Osource will discuss the status of Assets Identified with client.

#### **2.1.2 ASSET CLASSIFICATION & VALUATION STAGE**

- ⇒ Based on the data provided by the client, Osource will validate the identification and classification of the assets.
- ⇒ Post validation, Osource will provide a list of Identified Assets which requires Completion Certificate from Architect/Project Engineer, as the case may be to the client.
- ⇒ On receipt of collection of completion certificate, Osource will prepare a statement of asset to be capitalised.
- ⇒ Osource will correlate and cumulate all the Direct Cost appearing in CWIP Schedule to respective assets identified.
- ⇒ Osource will identify and allocate all Indirect Cost appearing in CWIP Schedule to respective assets identified.
- ⇒ Osource will cumulate and allocate all incidental cost related to CWIP to respective assets on allocation basis provided by Client.

⇒ Osource will create the asset capitalization statement and hand it over to the client in the format agreed.

### 2.1.3 CAPITALIZATION STAGE

⇒ In this stage, Osource will create the fixed assets schedule from Asset Capitalization statement and hand it over to the client in the format agreed.

### 2.1.4 RECONCILIATION STAGE

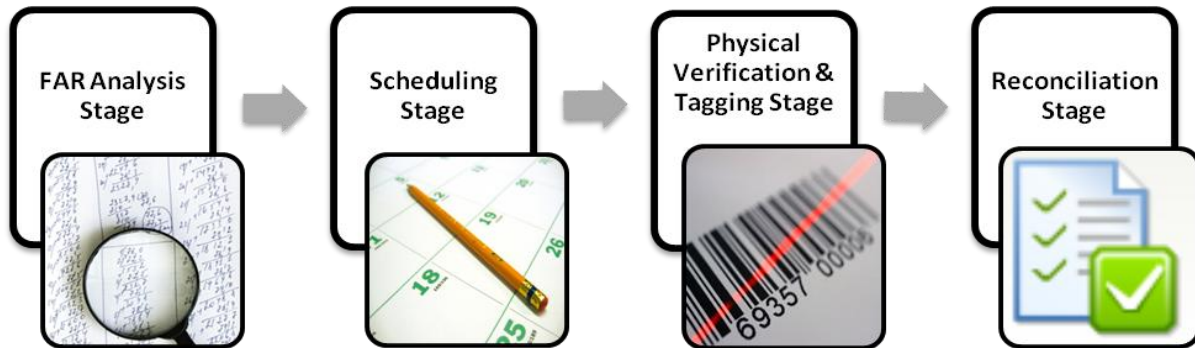
The reconciliation stage for the capitalization process will be carried out only after the completion of Phase II - Fixed Asset Verification. Post Reconciliation, Osource will hand over a FAR with the Osource Asset Barcode Number mentioned against each respective individual asset in the FAR.

#### **SUPPOSITIONS FOR FIXED ASSET CAPITALIZATION**

- ⇒ The Client will provide the appropriate infrastructure including workstation, seating area etc to Osource.
- ⇒ The Client will provide the necessary system access, Files and document & details to carry out the activity smoothly.
- ⇒ All reports, information or data provided shall be in MS Excel format.
- ⇒ Osource shall base its validations of Assets to be Capitalised , on the Completion Reports and explanations furnished by the Chartered Architect/ Engineers , as these would involve matters requiring Technical/Engineering expertise and hence not within the purview of Osource Capabilities.
- ⇒ All underlying documents provided to Osource shall be assumed to be approved by relevant authorities at Client End.
- ⇒ The reconciliation parameters and complete/updated data will be provided by the client for reconciliation.
- ⇒ Difference owing to the nomenclature will be clarified by the client.

## 2.2 PHASE II - FIXED ASSETS VERIFICATION

Osource adopts a phased approach for the proposed activities which are detailed hereunder – The following stages details the Scope of Work & approach methodology for the Fixed Assets Verification activity –



### 2.2.1 FIXED ASSET REGISTER ANALYSIS STAGE

The starting point of the assignment is the FAR provided by the client. Since the FAR provided to Osource is generally incomplete and inconclusive to identify the total count of assets, the client will also provide the list of locations. Details of assets to be verified will be captured under the heads like:

- a) Furniture & Fixtures (FF)
- b) Office Equipment (OE)
- c) Kitchen Equipment (KE)
- d) IT Assets (IT)
- e) Plant & Machinery (PM)
- f) Operating Assets (OA)
- g) Vehicles (VH)

⇒ The client and Osource will mutually discuss and agree on the assets to be verified/ not to be verified as also on the assets to be tagged and not to be tagged.

⇒ The group and subgroups for entering captured data will be mutually discussed and agreed upon.

⇒ The format specifying the fields required to capture the asset details at the time of physical verification will be mutually discussed and agreed upon.

⇒ Based on the standard fields and our experience, the best suitable coding structure to be printed on bar codes is given here under:

- a) FF - 00001 (5-digits) continued
- b) OE - 00001 (5-digits) continued
- c) KE - 00001 (5-digits) continued
- d) IT - 00001 (5-digits) continued
- e) PM - 00001 (5-digits) continued
- f) OA- 00001 (5-digits) continued
- g) VH - 00001 (5-digits) continued

⇒ The point/place/location for affixing barcode on each asset type will be mutually discussed and agreed upon.

⇒ The timing for the physical verification will be mutually discussed and agreed upon.

⇒ The finalized group & subgroups, format and coding structure will be signed off by both the parties along with the approved methodology.

⇒ The barcodes will be printed as per the pre-agreed coding structure.

### **2.2.2 SCHEDULING STAGE**

The scheduling activity would include the following -

⇒ Osource & the Client will jointly prepare a detailed schedule for physical verification of assets, tagging and post tagging reconciliation of assets. The schedule will be prepared based on the availability of assets and resources/team.

⇒ The finalized schedule will be adhered by Osource and the client.

Post scheduling activity Osource will initiate the asset verification.

### **2.2.3 PHYSICAL VERIFICATION & TAGGING STAGE**

As per the finalized schedule, Osource will deploy the team for carrying out the physical verification of the various assets. The client will appoint coordinator for assisting Osource team in identification and location of each asset at various facilities. The client

will ensure the availability of the assets as per the schedule for verification. The process would include:

- Establishment and identification of the existing fixed assets.
- The details will be manually recorded in physical sheets in a pre-decided format.
- Non-tagable assets will be marked in the FAR with relevant details.
- The physical sheets will be signed off by the client coordinator.

After first round of verification Osource will count the assets in class and print the bar codes accordingly to circulate to its teams for tagging. Osource will follow the coding structure as agreed with client. The tag code information will then be updated in the excel sheet, to ensure better tracking of the assets at a later stage. The procedure for implementing assets tagging is specified below:

- The assets will be tagged with the barcodes.
- The designated numbers specified on the barcode will be recorded against the particular assets in the physical sheet verified in the first stage.
- The tags will be affixed on pre-agreed spot on the assets for easy accessibility.
- The physical sheets will be signed off by the client coordinator.

#### **2.2.4 RECONCILIATION STAGE**

Post physical verification and tagging, the physical sheets will be collated and provided to the client for sign off. Post sign off, the asset details recorded in the physical sheets will be punched in to an excel sheet (soft copy). The punched data will be verified with the physical sheets to ensure the accuracy of data. The Fixed Assets Verification part will be closed upon the forwarding of the Final Excel Sheet containing the Details of Assets verified and Tagged.

SUPPOSITIONS FOR FIXED ASSET VERIFICATION

**Pre-Verification Stage**

- ⇒ FAR, provided by the client will be complete and updated as on date in all respects.
- ⇒ The overview on the types of assets will be provided by the Client.
- ⇒ The timing for the physical verification needs to be defined and intimated to the employees as well.
- ⇒ The client & Osource will mutually agree a cut - off date that will mark the start of the verification activity. Assets acquired after the agreed cut-off date, will be excluded from the succeeding activities.

**Physical Verification of Assets**

- ⇒ The admin staff and the technical person assigned in this behalf shall extend full support throughout the activity to facilitate successful completion of the assignment.
- ⇒ In case of all portable/movable assets, a declaration in writing from the department head shall be provided mentioning the details of such assets which could not be verified due to non availability at the time of verification exercise.
- ⇒ The details of the assets added after the start of the verification process will also be provided to Osource.
- ⇒ During the physical verification activity, the physical sheets / information provided by Osource will be acknowledged and signed off by the client.
- ⇒ The timing for the physical verification will be intimated to the employees and coordinated by the client.

**Post-Verification Stage**

- ⇒ The accounts staff handling the fixed assets accounting will extend their complete support throughout the activity.

**3. DOCUMENT DELIVERABLES**

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- a. Asset Capitalization Statement
- b. Physically Verified Assets Register (PFAR)
- c. Fixed Assets Register (FAR)