Set Up a Property Control System

The Cowboy’s Branding Iron Identified and Proved Ownership of Property.

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A nyone who has ever seen a Western movie is familiar with one of the most rudimentary property control systems. Cattlemen still brand their stock with a distinctive mark. This mark identifies the cattle as the property of a particular ranch, and aids the cattleman in effectively controlling his property.

A modern profitable property control program (hereafter referred to as PCP) has the same objective. Property control is an identification and accounting system that enables any organization making use of capital assets (furniture, screw guns, trowels, fixtures and equipment) to make more efficient use of such physical properties.

As such, every PCP has two basic elements: (1) A simple way to positively mark each piece of property; and (2) a method of accounting for each piece of property. There is nothing mysterious or difficult in setting up such a program.

The benefits of a PCP, described in this article in more detail later on, will vary in importance from one contractor to another. But all organizations, large or small, will get real money-saving advantages from a properly established PCP.

1—Immediate inventory can be made to discover if there has been disappearances, thefts, or unauthorized transfers. This allows for timely filing of police reports and insurance claims.

2—Rapid information on the location and use of all equipment is made easy. This enables efficient use of property and permits the elimination of unnecessary items.

3—Positive identification and complete information are requirements for accurate tax accounting. With the passage of 1981 Tax Act (ERTA) with its Accelerated Cost Recovery System, (ACRS), it is incumbent upon management to keep
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accurate records of assets purchased after December 31, 1981. This also affects the computation of the investment credit for 1982 acquisitions, and especially in view of the 1982 Tax Act (TEFRA), with its changes in depreciation and investment calculations in 1983 acquisitions.

4—Proper control over property enables accounting department (in a large firm) and the accountant (for a small firm) to extract essential information for cost accounting control or for allocations to inventory costs.

5—Information in a PCP is very useful in having a sound insurance program. The hazards of too-little insurance, or the waste in over-insurance, is eliminated. Positive item identification is provided in case of loss.

6—The maintenance of a PCP system will be helpful in setting up a system for servicing of equipment, resulting in more efficient operations, less breakdowns, and allowing for higher trade-in or resale allowances.

Organizing the Program

Proper organization will require the cooperation of several people or departments. So will continued use of the program. Key individuals concerned should be briefed on the program and thoroughly acquainted with details. You might find it desirable to prepare a detailed bulletin on procedure to be followed:

1—Outline the purposes, objectives, and important features of the PCP.
2—Explain the operation of the system.
3—Describe the use of the record forms and the proper method of installation of permanent identification tags.
4—Fix the responsibility for installing and maintaining the system.
5—Establish a uniform system for placement of the tags. State where they are to be mounted on similar kinds of equipment.
6—Where not appropriate to use tags, discuss the use of engraving pens to affix i.d. numbers.

There is no universally suitable system for property control. Requirements vary with the size and nature of each individual enterprise. Basically there are some things that should be considered if you decide to install a program for your firm.

Property Checklist . . .

1—Decide what is desired from your property records and what functions are to be served.
   a—Physical Control:
      1—Identification
      2—Location
      3—Custody
      4—Maintenance and repairs
   b—Tax Accounting:
      1—Original cost data
      2—Depreciation method used
      3—Determination of reserve ratios
   c—Management accounting:
      1—Verify asset values
      2—Accounting allocations for cost accounting or tax preparation
   d—Fire & Theft Insurance
      1—Replacement Cost (new)
      2—Adjusted replacement cost (actual cash value)
      3—Segregations of exclusions from coverage
      4—Evidence of value for filing of claims
   e—Plan for Capital Expenditures:
      (Near & Long Term)
      1—Tax considerations for depreciation and investment credit.
      2—General considerations (moving, etc.)
      3—Equipment leasing.

2—List all of the desirable property facts for each item or asset.
   a—Equipment numbers (simple, easy system)
   b—Description of assets
   c—Location
   d—Date of purchase
   e—Initial cost plus installation costs
   f—Depreciation reserve
   g—Unrecovered cost
   h—Estimated remaining life
   i—Investment credit
   j—Depreciation method
   k—Depreciation provisions
   l—Classify by asset category
3-Plan method of collecting property facts:
   a-Use of company personnel
   b-Outside help
4-Decide best method of compiling data for implementation of program.

Record Forms . . .

Stock forms are available from commercial stationers, but a special form tailored to your needs can have certain advantages. (See Figure 1)

A simple card file may be adequate for a small or medium size organization, while larger groups may find punch cards or electronic memory systems are necessary. Small computer, possible.

Large or small, simplicity should be the rule, record only essential information. Make it complicated and you’ll most likely get breakdowns.

Use a separate form for each asset, individual or group. Make as many duplicates as deemed necessary. The original should be maintained in the controlling office, filed in straight numerical sequence according to tag number.

Duplicates can be kept in the departments or branches of large firms, in safedeposit box or at accountant’s office for smaller firms.

Numbers are the Key to a Good Program. Having a number assigned to an item for its life provides the necessary link between (1) the asset and (2) property records. Success depends on the adoption and maintenance of a good code numbering system.

Types . . .

Sequence Codes — Regardless of the type of equipment or its location, the best (and least confusing) numbering system is a sequence of consecutive serial numbers. Sequence systems can code an unlimited number of items with the fewest possible digits.

A sequence code usually requires the use of a directory to decode, since the number has no relation to the item or its location. However, transferring of assets and addition of new items is always easy with the sequence system.

Block Codes — A series of consecutive numbers is divided into blocks, with each block reserved for the identification of groups having a common characteristic. Expansion is confined to those numbers left unassigned in each block once the plan is established.

Mnemonic Codes — The use of continuous letter prefix followed by a sequence number. The prefix, often a two or three-letter abbreviation, identifies a particular location or class of item. Expansion of the sequence number is unlimited.

The filing system can be divided according to prefix letters, which may provide somewhat faster access to individual numbers. For economy, select as few letter prefix classifications as possible.

Color Codes — Location or class is indicated by different colors on the property tags. Numerous changes in colors can add to the manufacturing costs of the tags.

SPECIAL NOTE: Manufacturers’ serial numbers are not practical as item control numbers because they lack order or uniformity. They are frequently inaccessible, and some equipment may not have such a number.

The purpose of a property control tag is to assign a control number to the asset. This is the necessary and important link in a profitable PCP; the link between the item and the record form.

Tags should be systematically mounted. It is desirable to establish standard practices for uniform mounting locations on similar types of equipment.

Several types of property control tags are available. In buying tags, the following factors should be considered:

1—Permanent. Difficult or impossible to remove.
2—Indented numbers. Cannot be defaced, altered, or painted out.
3—Economical attachment. By unskilled help, without special tools.
4—Versatile attachment. Assembly line, or one-at-a-time, on any surface without drilling holes.
5—Safe. No protrusions to nick hands or tear clothing.
6—Distinctive appearance. Won’t be confused with other tags. Attractive for “outfront mounting.”