Microsoft Dynamics AX 2012 R3
Financial Management

Boost your accounting and financial skills with Microsoft Dynamics AX 2012 R3

Mohamed Aamer
In this package, you will find:

- The author biography
- A preview chapter from the book, Chapter 6 “Exploring Fixed Assets”
- A synopsis of the book’s content
- More information on Microsoft Dynamics AX 2012 R3 Financial Management

About the Author

Mohamed Aamer is a Microsoft Dynamics AX Support Engineer for the EMEA region with Microsoft, Egypt. In 2013, he was awarded Microsoft Dynamics AX MVP, and he was the first AX MVP in the Middle East and Africa. His main focus is on implementing Microsoft Dynamics AX to fit customers’ needs. He uses his time to help and support Microsoft partners to answer their complex questions and tackle obstacles they might face; he understands customer business cycles and solves customer business problems through a combination of business process reengineering and utilization of Microsoft Dynamics AX functionalities. He is a Microsoft Certified Professional (MCP) specialized in financial management and supply chain management. In addition to this, he has been a Microsoft Certified Trainer (MCT) for 5 years.

Mohamed has varied consultation experience in dealing with Microsoft Golden Partners and Microsoft customers. He has worked as a consultant in many industries, such as retail fashion, retail electronics, cement manufacturing, trading, and ready mix. He has carried out multiple implementations of Microsoft Dynamics Retail Management System and Microsoft Dynamics AX in numerous capacities, such as project manager, solutions architect, and lead consultant. His consulting skills are complemented by his business, management, and interpersonal skills.
He is also a columnist of AX Excellence at the MSDynamicsWorld.com community, an official blogger at Microsoft Dynamics Community, and has his own blog (www.blog.mohamedaamer.com). He delivers evangelizing sessions to Microsoft Student Partners (MSPs) to introduce Microsoft Dynamics AX and Microsoft Dynamics Sure Step to them. He has been ranked in the top 100 influential people at www.dynamicsworld.co.uk for 2 consecutive years. He has obtained other badges from Microsoft, such as Microsoft Community Contributor (MCC) and Microsoft Dynamics Community Expert.

Mohamed authored Microsoft Dynamics 2012 Financial Management and reviewed Customer Success with Microsoft Dynamics Sure Step, both by Packt Publishing.

When not working on complex business processes, he attends live Sufi shows and music concerts.

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Microsoft Dynamics AX 2012 R3
Financial Management

The essential foundation of the Enterprise Resource Planning (ERP) implementation is the financial part that is considered as the backbone of the implementation. The implementation team from the partner side and customer side should ensure that the financial module is well structured and designed. This book provides a broad guide to Microsoft Dynamics AX Financial Management fundamentals for parties involved in the implementation project, with considerations of the business rationale behind functions, basic setups, configurations, transactions in action, and examples of real-life scenarios.

What This Book Covers

Chapter 1, Getting Started with Microsoft Dynamics AX 2012, explains the ERP concept, integration of modules, the financial posting mechanisms in Microsoft Dynamics AX 2012 R3, the role of consultant in implementation team, Microsoft Dynamics Sure Step implementation methodology, Microsoft Dynamics Lifecycle Service, and the Microsoft Dynamics AX 2012 R3 user interface.

Chapter 2, Understanding the General Ledger, explains the usage of main accounts, control points, and the Microsoft Dynamics AX 2012 R3 shared financial data concept. It also gives you a practical insight on opening balance tips and month-end closing procedures.

Chapter 3, Understanding Cash and Bank Management, will help you understand the cash and bank management module integration, controls, the bank reconciliation process, and then cover the bank facility function.

Chapter 4, Understanding Accounts Payable, focuses on integrating Accounts payable with other modules, the vendor transactions, invoices, payment, and prepayment, in addition to vendor controls and basic master data.

Chapter 5, Understanding Accounts Receivable, focuses on integrating Accounts receivable with other modules, the customer transactions, sales invoices, free text invoices and its correction, in addition to customer controls and basic master data.

Chapter 6, Exploring Fixed Assets, focuses on the integration of fixed assets with other modules and their transactions.

Chapter 7, Functioning of Cash Flow Management, focuses on the integration points between cash flow management and other modules in Microsoft Dynamics AX, provided with basic setups, configuration, and cash flow transaction.
Chapter 8, Working with Cost Management, covers the inventory costing model in Microsoft Dynamics AX 2012 and provides information about inventory cost setups and configuration, inventory reconciliation with general ledger, recalculation, and closing.

Chapter 9, Exploring Financial Dimensions, focuses on financial dimensions model in Microsoft Dynamics AX 2012, its practical utilization, and its reporting.

Chapter 10, Exploring Financial Reporting and Analysis, will help you to find out the reporting needs at early stages of the implementation project and what sides you should consider during the project's life cycle. It also explores Microsoft Dynamics AX inquiry forms and SQL Reporting Services (SSRS) reports.
The fixed assets module represents the tangible assets, intangible assets, and equipments. This module manages and controls the execution of fixed assets transactions. These transactions are based on fixed assets journals, or through other modules such as Procurement and sourcing, and Accounts receivable. This chapter will cover the following topics:

- Understanding fixed assets integration with other modules
- Exploring fixed assets master data characteristics
- Exploring fixed assets transactions

**Understanding fixed assets integration with other modules**

The fixed assets module manages and controls fixed assets transactions that records fixed assets master information and the basic transactions related to fixed assets acquisition, depreciation, and disposal. The fixed assets function is integrated with other business functions. The first integration point is with the Procurement and sourcing business functions that executes assets acquisition through normal procurement and purchase order processing, then the reception, and finally, the invoice. The second integration is with Accounts receivable that executes fixed assets disposal sales. There is a transaction document that moves an inventory item to be a fixed asset.
Exploring Fixed Assets

The integration of fixed assets document integration is as shown in the following diagram:

Each transaction is represented in a document type in Microsoft Dynamics AX with the document that contains the details of the transaction. The transaction data, whether inherited from the master data, entered manually, and/or automatically inherited from another transaction, is linked with a specific reference. The integration between fixed assets and other transaction documents gives visibility for tracing what are the original documents that are related to the asset transactions and who posted it.

There is a list of fixed assets transactions besides the basic transactions of acquisition, depreciation, and disposal sale or scrap. The following screenshot shows fixed assets transactions in Microsoft Dynamics AX 2012 R3. This can be accessed from the fixed assets posting profile under **Fixed assets | Setup | Fixed assets posting profiles.**
Exploring fixed assets master data characteristics

The fixed assets master data records have essential information that directly affects the asset transactions. The following section will cover the basic information that should be considered when creating a new fixed asset record. The following diagram shows the basic characteristics of fixed assets. There are more generic and higher levels of assets master data, depreciation profile, value model, and the asset group that represents the logical grouping of assets. The fixed asset record is the lowest level that represents the asset itself.

The depreciation profile

The depreciation profiles in Microsoft Dynamics AX 2012 R3 represent the rules that manage the depreciation principles that will be applied on the fixed assets. For example, the straight line depreciation method or the reducing balance depreciation method. The depreciation profile rules contain the depreciation method, depreciation year, and period frequency. In order to access the depreciation profile, go to Fixed assets | Setup | Depreciation | Depreciation profiles.
The depreciation method represents the method that can be applied for depreciation calculation. The following screenshot shows the supported depreciation methods in Microsoft Dynamics AX 2012 R3:

The depreciation method is an accounting principle that identifies the calculation method of distributing the cost of the fixed assets over the service line of the asset. The depreciation method is normally decided based on business requirements that might be built on law. It is important to understand the business requirements during the analysis and design phases. This requires a close cooperation between the implementation team and financial controller to ensure the proper design deployment and operation of fixed assets. The most common depreciation method is the straight line service life. Consider the following example.

Let's assume that a company acquired a car as a fixed asset at 20,000 USD and the service life for this car is 5 years. The depreciation calculation will be as follows.

Depreciation months are 60, that is, 5 years multiplied by 12 months.

The depreciation for each month will be equal to allocation, that is, 20,000 USD divided by 60 months, which is equal to 333.333 USD per month.
The form contains two types of fields based on the selected depreciation method. The first type is constant fields, which are shared with all the methods, and the second type is dynamic fields, which are activated based on the depreciation method selection.

**Constant fields**

Constant fields refer to depreciation year and period frequency. These fields are interrelated, which means that the values in period frequency are based on the depreciation year. The depreciation year represents the basis of calculation of depreciation whether calendar or fiscal.

The period frequency represents the ledger accruals during the calendar year, as follows:

- In case the selected depreciation year is a calendar year, Microsoft Dynamics AX 2012 R3 considers the calendar year starting from January. The available values are yearly, monthly, quarterly, and half-yearly.
- In case the selected depreciation year is fiscal year, Microsoft Dynamics AX 2012 R3 considers the fiscal year setup that might start at July. The available values are yearly and fiscal period.

**Dynamic fields**

Dynamic fields are activated based on the selection of the depreciation method:

- **Percentage**: It represents the percentage of depreciation calculation
- **Full Depreciation**: It represents that the fixed asset will be fully depreciated when the remaining service life reaches zero
- **Factor**: It represents the percentage value of origin that constitutes the depreciation
- **Interval**: It represents the interval to run the depreciation. This field will be active if the selected depreciation method is factored.
The value model

The value models represent the financial value of the fixed asset that belongs to the value model, and it can be the integration point between fixed assets and the general ledger in the posting profile. In order to access the value model, go to Fixed assets | Setup | Value models. The following screenshot shows the value model form:

![Value Model Form]

The depreciation file is attached to the value model, and it identifies whether the assets that belong to this value model will be depreciated or not. The depreciation can be overridden on a fixed asset level.

The value model identifies the control point on the assets belonging to a value model and checks whether to allow the net book value to go higher than the acquisition cost. Assume that there is a fixed asset with an acquisition price of 1250 USD and the depreciation amount is 187 USD. In case the user is going to reverse a depreciation transaction and modify the amount to be 300 USD, the system will throw an info log message indicating that the net book value will be higher than the acquisition cost, as shown in the following screenshot:
Chapter 6

The second control point on the value model denotes whether to allow a negative net book value for assets that belong to this value model. Assume that there is a fixed asset with an acquisition price of 1250 USD and the depreciation amount is 187 USD. In case the user is going to post a depreciation transaction and modify the amount to be 1251 USD, the system will throw an info log message to indicate that the net book value will be in negative, as shown in the following screenshot. In case we allow a negative net book value, the net book value will be equal to -1251.

![Screenshot of InfoLog showing negative net book value](image-url)

The second control point on the value model denotes whether to allow a negative net book value for assets that belong to this value model. Assume that there is a fixed asset with an acquisition price of 1250 USD and the depreciation amount is 187 USD. In case the user is going to post a depreciation transaction and modify the amount to be 1251 USD, the system will throw an info log message to indicate that the net book value will be in negative, as shown in the following screenshot. In case we allow a negative net book value, the net book value will be equal to -1251.

![Screenshot of InfoLog showing negative net book value](image-url)
Fixed asset groups

The fixed asset group has three purposes. The first is a logical grouping of fixed assets that is mainly used for reporting and analysis. The second purpose is considered as another integration point between the general ledger and the fixed asset module. The third purpose identifies the asset service life and depreciation periods. In order to access fixed asset groups, go to **Fixed assets | Setup | Fixed asset groups**. The following screenshot shows the fixed asset group form:

On the fixed asset groups form, identify the asset type and major type, in addition to identifying the auto-numbering of fixed assets, and attach the number sequence that will be used. The capitalization threshold represents the minimum amount of acquisition cost that will be depreciated. In case a fixed asset acquired has an amount less than the capitalization threshold, it will not be depreciated.

In order to identify the depreciation period and services life, on the **Fixed asset group** form, click on **Value models**. The **Fixed asset group/value model** form will open; here you have to enter the depreciation period in months and services life in years, as shown in the following screenshot:
Fixed assets

Fixed assets can be equipments, cars, and/or buildings. They represent the lowest level of assets master data, which contains the fixed asset record, the unique ID, description, grouping, and specific characteristics for fixed assets. In order to create a fixed asset record, there are two ways. You can either create a record manually or automatically through purchase order posting. The method of creation differentiates the acquisition document. The following diagram shows the creation methods and acquisition documents:
Exploring Fixed Assets

In order to create a new record of fixed assets, go to **Fixed assets | Common | Fixed assets | Fixed assets**, as shown in the following screenshot:

Press Ctrl + N to create a new record. Here, the **Fixed asset group** and **Number** fields are the mandatory fields. When the user selects the **Fixed asset group** value, the number is automatically created. Enter the **Name** and **Search name** of fixed assets under **Description**, as shown in the following screenshot:
Under **Value models**, there are two types of data. The first type of data is populated automatically, which represents the value model assigned to the fixed asset group. These fields contain depreciation, service life, and depreciation periods. This is shown in the following screenshot:

The second type of field can be identified manually. For this, navigate to the **General** tab to identify acquisition date and price. This is shown in the following screenshot:
Exploring fixed assets transactions

In this section, we will explore fixed assets transactions starting from acquisition transactions by acquisition journal, acquisition through purchase order, depreciation, disposal scrap, and fixed assets reversal transactions.

In order to record and post an acquisition journal, as shown in the following screenshot, go to Fixed assets | Journals | Fixed assets. Create a new journal by pressing Ctrl + N on the journal line, go to Proposal and select Acquisition proposal, and then go to select a query to identify the asset number, which will be acquired.

Note that if the acquisition price is not identified, the acquisition proposal will not populate the asset.
In order to acquire fixed assets through a purchase order, a parameter must be activated first. This gives the company the control to acquire the assets through the procurement department and enables it to apply the segregation of duties between the procurement, reception, invoicing, and payment process. As shown in the following screenshot, go to **Fixed assets | Setup | Fixed assets** and then click on **Purchase orders**:

The following options are available under the **Purchase order** tab:

- Allow asset acquisition from purchasing
- Restrict asset acquisition posting to a user group
- Create asset during product receipt or invoice posting
- Check for fixed assets creation during line entry
Exploring Fixed Assets

In the course of the execution of a fixed asset acquisition through a purchase order, go to Procurement and sourcing | Common | Purchase order | All purchase order. Then, create a new record by pressing Ctrl + N, select vendor, go to purchase lines, select service item, and then enter warehouse and price details. Now, go to the Fixed assets tab, as shown in the following screenshot:
If the fixed asset is new, check the **New fixed asset** checkbox and select a **Fixed asset group**. If this transaction is to capitalize on already created fixed assets, uncheck the **New fixed asset** checkbox, select **Fixed asset group** and **Fixed asset number**, and identify the **Transaction type** whether it is **Acquisition** or **Acquisition adjustment**. The Value model field is populated automatically. The process of the purchase order normally goes from confirmation to product receipt to invoice. After posting the purchase order invoice, the fixed asset record will be created and the asset acquisition transaction will be posted.

An acquisition entry has the following:

- Dr. Fixed assets
- Cr. Vendor balance

As shown in the following screenshot, select the purchase order line after posting the invoice, then go to the asset value model by right-clicking on the asset number and then click on **View details**. Now, click on the value model in the fixed asset form.

![Screenshot of the fixed asset form]

The status changing from **Not acquired yet** to **Open** represents the acquired fixed assets, and this asset will be included in the next depreciation run.
As shown in the following screenshot, in order to run fixed assets depreciation, go to **Fixed assets | Journals | Fixed assets**, create a new record and go to **Lines**. Then, go to **Proposals** and select **Depreciation proposal**. Now, identify the depreciation date, find the asset number by clicking on the **Select** button, and decide whether to summarize the depreciation in one line or for separate lines for each month.

Assume that the acquired fixed assets price is 2500 USD, the acquisition date is January 1, 2014, and the depreciation period is 60 months. The depreciation for each month is calculated as 2500 USD divided by 60 months, which is equal to 41.67 USD. The depreciation will run on till September 30, 2014.
The following screenshot illustrates the depreciation for each month:

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction type</th>
<th>Account</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
<th>Offset account</th>
<th>Offset area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/31/2014</td>
<td>Depreciation</td>
<td>COMP....</td>
<td></td>
<td>41.67 Ledger</td>
<td>607200-002...</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3/31/2014</td>
<td>Depreciation</td>
<td>COMP....</td>
<td></td>
<td>41.67 Ledger</td>
<td>607200-002...</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4/30/2014</td>
<td>Depreciation</td>
<td>COMP....</td>
<td></td>
<td>41.67 Ledger</td>
<td>607200-002...</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5/31/2014</td>
<td>Depreciation</td>
<td>COMP....</td>
<td></td>
<td>41.67 Ledger</td>
<td>607200-002...</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6/30/2014</td>
<td>Depreciation</td>
<td>COMP....</td>
<td></td>
<td>41.67 Ledger</td>
<td>607200-002...</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7/31/2014</td>
<td>Depreciation</td>
<td>COMP....</td>
<td></td>
<td>41.67 Ledger</td>
<td>607200-002...</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8/31/2014</td>
<td>Depreciation</td>
<td>COMP....</td>
<td></td>
<td>41.67 Ledger</td>
<td>607200-002...</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9/30/2014</td>
<td>Depreciation</td>
<td>COMP....</td>
<td></td>
<td>41.67 Ledger</td>
<td>607200-002...</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In case the **Summarize depreciation** checkbox is checked, the depreciation will be created in one line on September 30, 2014 as 375.03 USD.

The depreciation entry has the following:

- Dr. Depreciation expense
- Cr. Accumulated depreciation

The posted transaction of fixed assets are located on the value model, and in order to inquire about the posted transaction, go to **Fixed asset**, select a particular asset ID, go to the **Value model** ribbon, and then click on **Transactions**. As shown in the following screenshot, updates have occurred on the **Date when depreciation was last run** field, and the **Depreciation periods remaining** field that represents the equation, depreciation periods minus ran depreciation periods, that is 60 minus 9, which equals 51.
Exploring Fixed Assets

The Transactions button shows the posted transactions on the asset depending on whether it is acquisition or depreciation.

As shown in the following screenshot, the inquiry illustrates the acquisition price, depreciation, and net book value. The net book value represents the equation acquisition price minus depreciation, that is, 2500 minus 375.03, which equals 2124.97.
Fixed asset disposal sale

Assume that the disposal sale transaction occurred in a company that decided to sell a car, which is a fixed asset. This transaction that took place of selling a fixed asset occurred through the free text invoice in Accounts receivable. The posting profile of a disposal sale considers the following:

- **Depreciation (prior years):** The total depreciations of prior years will be reversed; the ledger account is the accumulated depreciation account, and the offset account is the fixed assets gain/loss account.
- **Depreciation (this year):** The total depreciations of the current year will be reversed; the ledger account is the accumulated depreciation account, and the offset account is the fixed assets gain/loss account.
- **Acquisition value:** The acquisition value will be reversed; the ledger account is the fixed assets account, and the offset account is the fixed assets gain/loss account.
- **Net book value:** The ledger account is the fixed assets gain/loss account, and the offset account is also the fixed assets gain/loss account.

In order to set up a fixed assets posting profile, go to **Fixed assets | Setup | Fixed assets** and select **Disposal | Sale**, as shown in the following screenshot:

The generated entry will be as follows:

- Dr. Accumulated depreciation account
- Dr. Fixed assets gain/loss account
- Dr. Accounts receivable
- Cr. Fixed assets gain/loss account
- Cr. Fixed assets gain/loss account
- Cr. Fixed assets account
Exploring Fixed Assets

There are some scenarios in daily business that require reversing fixed asset transactions. This can be executed from the fixed asset journal, as shown in the following screenshot. Now, go to Function and select **Retrieve fixed asset transactions**. Then, select **New voucher number per transaction** in order to generate a new voucher number, and check **Invert sign** to invert the transaction sign from the original one. To select a particular fixed asset, click on the Select button and add the asset number.

![Retrieve fixed asset transactions](image1.png)

The following screenshot illustrates the retrieved fixed asset transaction with an invert sign. You can see a minus sign on the debit side, which means it is a credit, and a minus sign on the credit side a means debit.

![Retrieve fixed asset transactions](image2.png)
Summary

In this chapter, we covered the fixed assets module in Microsoft Dynamics AX 2012 R3. We explored the fixed asset characteristics and its integration with other modules. We then explored the fixed assets master data and the required data to acquire, depreciate, and dispose an asset. Next, we explored the fixed asset transactions acquisition, whether through an acquisition proposal journal or through the purchase order, monthly depreciation, disposal sales, and fixed asset transaction reversals.

In the next chapter, we will discuss the cash flow management integration concept, basic configurations, and transactions.
Where to buy this book

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