

FIXED ASSETS MANAGEMENT

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Abstract

The management of fixed assets such as buildings, fixtures and machinery, which cannot be converted to a fair cash value in a timely manner. Fixed assets are often managed through the use of asset tags, which are tracked through serial numbers or bar codes, for easier organization, and are filed for the purpose of accounting, maintenance and theft deterrence.

Introduction

The selection of various fixed assets required creating the desired production facilities and the decision regards the determination of the level of fixed assets is primarily the task that at the production technical people. The decision relating to fixed assets involves huge funds a long period of time and are generally irreversible nature affecting the long-term profitability of a concern, an unsound invest decision may prove to be total to the very existence of the organization”.

Statement of the problem

Fixed assets are meant for use for many years. The value of these assets decreases with their use or with time or for other reasons. A portion of fixed assets reduced by use is converted into cash though charging depreciation. For correct measurement of income proper measurement of depreciation is essential, as depreciation constitutes a part of the total cost of production.

Objectives of the study

1. To evaluate fixed assets performance
2. To evaluate the fixed assets turnover
3. To known the amount of capital expenditure made by the company during study period.
4. To known the amount of finance made by long-term liabilities and owner funds towards fixed assets.

Review of Literature

Assets may be described as valuable resources owned by a business which were acquired at a measurable money cost. As an economic resource, they satisfy three requirements. In the first place, the resource must be valuable. A resource is valuable if (i) it is cash / convertible into cash; or (ii) it can provide future benefits to the operations of the firm. Secondly, the resource must be owned. Mere possession or control of a resource would not constitute an asset; it must be owned in the legal sense of term. Finally, the resource must be acquired at a measurable money cost. In case where an asset is not acquired for cash/promise to pay cash, the test is what it would have cost had cash been paid for it.

Research Methodology

Fixed Assets plays very important role in relating company's objectives the firms to which capital investment vested on fixed assets. This fixed asset is not convertible or not liquid able over a period of time the total owner funds and long-term liabilities are invested in fixed assets. Since fixed assets playing dominant role in total business the firms have realized the effective utilization of fixed assets. So, ratio contributes very much in analyzing and evaluating the performance of fixed assets. If firms fixed assets are idle and not utilized properly it effects long-term sustainability of the firms, which may affect liquidity and solvency and profitability positions of the company.

Results & Discussion

Trend Analysis:

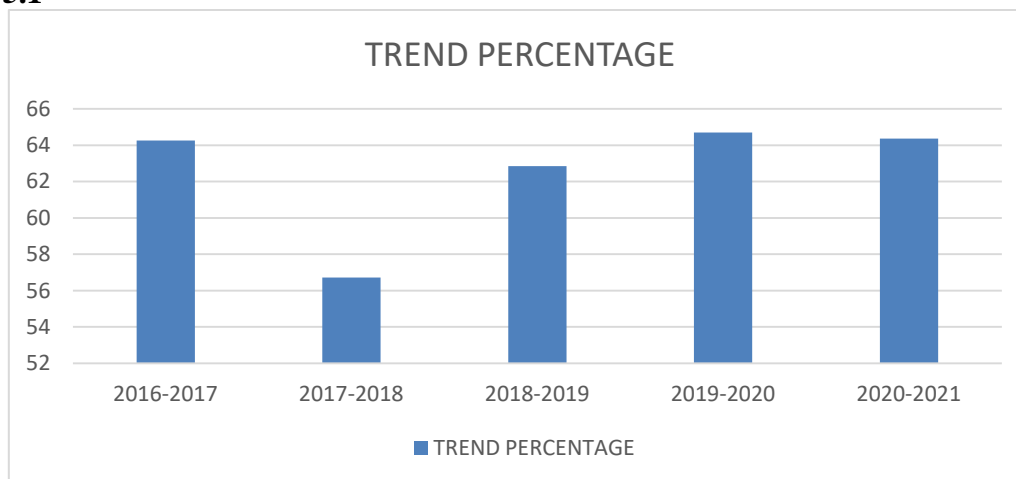
In Financial Analysis the direction of changes over a period of years is of initial importance. Time series or trend analysis of ratios indicators the direction of change. This kind of analysis is particularly applicable to the items of profit and loss account. It is advisable that trends of sales and net income may be studies in the light of two factors.

The rate of fixed expansion or secular trend in the growth of the business and the general price level. It might be found in practice that a number of firms would be shown price level. It might be found in practice that a number of firms would be shown a persistent growth over period of years.

Table: 5.1

YEAR	INVESTMENT	TREND PERCENTAGE
2016-2017	39,68,35,265	64.25
2017-2018	24,99,02,930	56.71
2018-2019	28,19,24,444	62.85
2019-2020	29,01,51,000	64.69
2020-2021	28,87,28,000	64.37

GRAPH: 5.1



INTERPRETATION: -

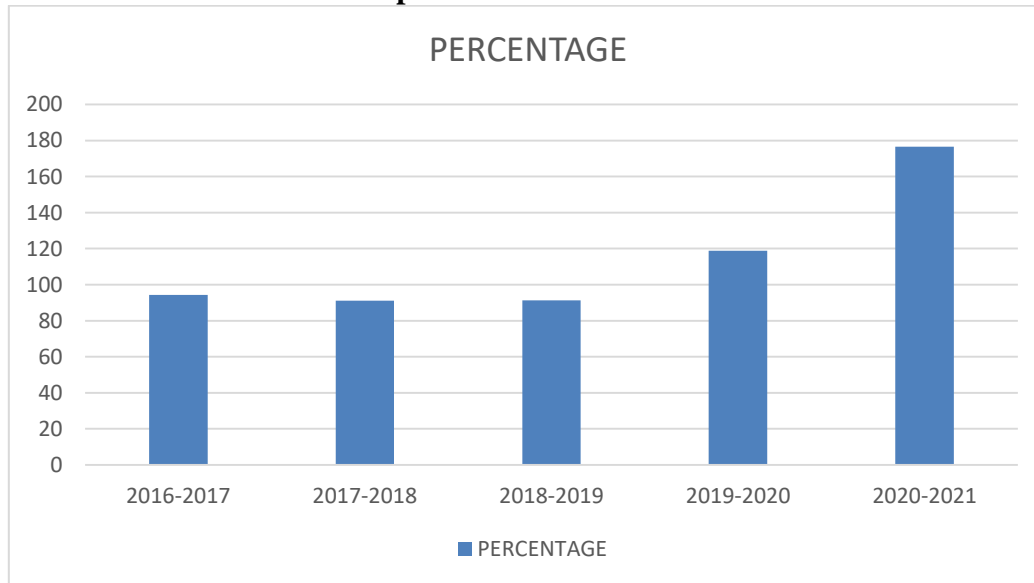
From the analysis of the above table, it can be observed that the growth rate of total investment of Industries is in downward trend which shows table of the Industries investment in total investment is decreasing from time to time during the year 2016-2017. It was recorded 100%. But it is decreasing in the year 2020-2021 which shows that there is a net decrease by 64.37%. The average investment in total assets was found to be Rs. 3,33,466.27 during the review period. During the period of 2016-2017 it is Rs. 44,85,21,389 and it was decreased in the year 2017-2018 Rs.2,887.28.

GROWTH RATE IN FIXED ASSETS:

Table: 5.2

YEAR	FIXED ASSETS	PERCENTAGE
2016-2017	5,89,55,39,377	94.23
2017-2018	5,69,93,08,565	91.09
2018-2019	5,71,48,37,436	91.34
2019-2020	7,43,21,97,000	118.79
2020-2021	11,05,19,01,000	176.64

Graph: 5.2



Interpretation:

Growth rate in fixed assets, the examination of the above table reveals analysis and interpretation.

- During the year 2016-2017 the assets investment was recorded at 62564.03 and it is decreased to Rs.1,10,519.01 in 2020-2021 the fixed assets investment is quite satisfactory.
- The trend percentage in the year 2016-2017 is taken as the base year as 100% and it was increased to 176.64 in the year 2020-2021.
- The average growth rate in fixed assets Rs.61996.566 in 6 years.

RATIO ANALYSIS:

Ratio Analysis is a powerful tool of financial analysis. A ratio is defined as “The indicated quotient of two mathematical expression” and as “The relationship between for evaluating the financial position and performance of a firm. The absolute accounting figure reported in financial statement do not private a meaningful understanding of the performance and financial position of a firm. An accounting figure conveys meaning when it is related to some other relevant information. Ratio help to summarize large quantities of financial data to make qualitative judgment about the firm’s financial performance.

1. Fixed Assets to Net Worth Ratio:

This ratio establishes the relationship between Fixed Assets and Net Worth.

Net Worth = Share Capital + Reserves & Surplus + Retained Earnings.

$$\text{Fixed Assets to Net Worth Ratio} = \frac{\text{Fixed Assets}}{\text{Net Worth}} \times 100$$

This ratio of “Fixed Assets” to “Net Worth” indicates the extent to which shareholder funds are sunk into the fixed assets. Generally, the purchase of fixed assets should be financed by shareholders, equity including reserves & surpluses and retained earnings. If the ratio is less than 100% it implies that owners’ funds are more than total Fixed Assets and a part of the working capital is provided by the shareholders. When the ratio is more than 100% it implies that owner’s funds are not sufficient to finance the fixed assets and the finance has to depend upon outsiders to finance the fixed assets. There is no “rule of thumb” to interpret this ratio but 60% to 65% is considered to be satisfactory ratio in case of industrial undertaking.

2. Fixed Assets Ratio:

This ratio explains whether the firm has raised adequate long-term funds to meet its fixed assets requirements and is calculated as under.

Fixed Assets (Assets Depreciation)

Capital Employed

This ratio gives an idea as to what part of the capital employed has been used in purchasing the fixed assets for the concern. If the ratio is less than one it is good for the concern.

3. Fixed Assets as a percentage to Current Liabilities:

The ratio measures the relationship between fixed assets and the funded debt and is a very useful so the long-term erection. The ratio can be calculated as below.

$$\text{Fixed Assets as a percentage to Current Liabilities} = \frac{\text{Fixed Assets}}{\text{Current Liabilities}}$$

4. Total Investment Turnover Ratio:

This ratio is calculated by dividing the net sales by the value of total assets that is (Net Sales / Total Investment) or (Sales / Total Investment). A high ratio is an indicator of over trading of total assets while a low ratio reveals idle capacity. The traditional standards for the ratio in two times

5. Fixed Assets Turnover Ratio:

This ratio expresses the number of times fixed assets are being turned – over is a state period. It is calculated as under:

$$\frac{\text{Sales}}{\text{Net Fixed Assets (After Depreciation)}}$$

This ratio shows how well the fixed assets are being uses in the business. The ratio is important is case of manufacturing concern because sales are produced not only by use of Current Assets but also by amount invested in Fixed Assets the higher ratio, the better is the performance. On the other hand, a low ratio indicated that fixed assets are not being efficiently utilized.

6. Gross Capital Employed:

The term “Gross Capital Employed” usually comprises the total assets, fixed as well as current assets used in a business.

$$\text{Gross Capital Employed} = \text{Fixed Assets} + \text{Current Assets}$$

7. Return on Fixed Assets:

$$\frac{\text{Profit after Tax}}{\text{Fixed Assets}} \times 100$$

This ratio is calculated to measure the profit after tax against the amount invested in total assets to ascertain whether assets are being utilized properly or not. The higher the ratio the better it is for the concern.

Fixed Assets to Net Worth:

NET WORTH = Share Capital + Reserves & Surplus + Retained Earning.

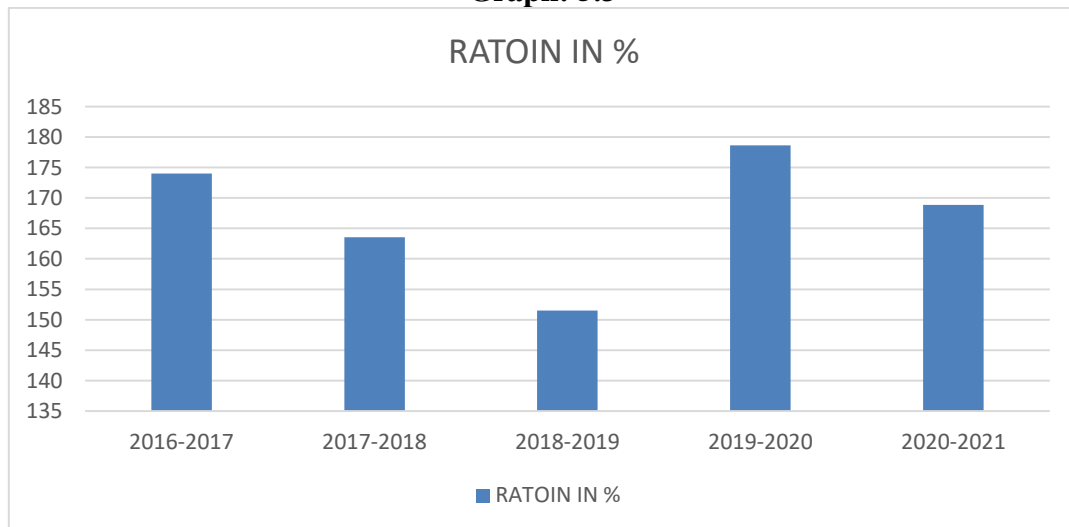
If the ratio is less than 100%, it implies that owner funds are more than the fixed assets and a part of working capital is provided by the shareholder and vice-versa.

$$\text{Fixed Assets to Net worth Ratio} = \frac{\text{Fixed Assets}}{\text{Net Worth}} \times 100$$

Table: 5.3

YEAR	NETWORTH	GROSS FIXED ASSETS	RATOIN IN %
2016-2017	3,38,78,40,215	5,89,55,39,377	174.02
2017-2018	3,48,48,27,422	5,69,93,08,565	163.54
2018-2019	3,77,14,58,784	5,71,48,37,436	151.52
2019-2020	41605.00	74321.97	178.63
2020-2021	65,443.44	1,10,519.11	168.87

Graph: 5.3



Interpretation:

- a) The Gross Fixed to Net Worth Ratio is fluctuating from year to year. In the year 2016-2017 the gross fixed assets to net worth ratio is 184.65. in the year 2020-2021 fixed assets to net worth to acquire the ratio is 168.87.
- b) The average net worth to fixed assets ratio is 6385.62 Rs. Or fixed assets average ratio is Rs.61996.668 the average percentage of fixed assets to net worth is 168.06.
- c) The highest ratio recorded in 2016-2017 at 184.65 the lowest ratio is recorded at 151.52 in the year 2019-2020.

Conclusion

The company may take one of the measures for improving more profits; sale should be enhanced from into end through innovative marketing techniques. In a competitive business world, unless & other wise aggressive it is very difficult to achieve its required sales.

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