A STUDY ON FIXED ASSETS MANAGEMENT

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1. INTRODUCTION:

Fixed Assets are the assets held with the intention of being used on continuous basis for the purpose of producing or providing goods or services and are not held for resale in the normal course of business.

E.g.: Land and Buildings, Plant and Machinery, Motor Vehicles, Furniture and Fixtures.

Valuation of fixed assets is important to have fair measure of profit or loss and financial position of the concern. Fixed assets are meant for use for many years. The value of these assets decreases with their use or with time or many other reasons. A portion of fixed assets are reduced by usage are converted into cash through charging depreciation. For correct measurement of income, proper measurement of depreciation is essential, as depreciation constitutes a Part of total cost of production.

Financial transactions are recorded in the books, keeping in view the going concern aspect of the business unit. In going concern aspect it is assumed that the business unit has reasonable expectation of continuing the business for a profit for an indefinite period of time. This assumption provides much of the justification for recording fixed assets at original cost and depreciating them in a systematic manner without reference to their current realizable value.

It is useless to record the fixed assets in the balance sheet at their estimated realizable values if there is no immediate expectation of selling them. So, they are shown at their book value (i.e., Cost – Depreciation) and not at current realizable value. The market value of the fixed assets may change with the passage of time, but for accounting purpose it continues to be shown in the books in historical cost.

The cost concept of accounting states that depreciation calculated on the basis of historical cost of old assets is usually lower than the amount calculated at current value/ replacement value. These results in more profits, which if distributed in full will lead to reduction in capital.

NEED FOR THE STUDY:

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 has 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. The idle of fixed assets lead a tremendous in financial cost and intangible cost associate to it. So there is need for the companies to evaluate fixed assets performance. Comparison with similar company and comparison with industry standards. So chose a study to conduct on the fixed assets analysis of Tecumseh India Products using ratio in comparison with previous year performance. The title of the project is analysis on fixed assets management.
IMPORTANCE OF THE STUDY

Fixed Assets are the assets, which cannot be liquidated into cash within one year. The large amount of funds of the company is invested in these assets. Every year the company invests an additional fund in these assets directly or indirectly the survival and other objectives of the company purely depends on operating performance of management in effective utilization of their assets.

Firm has evaluated the performance of fixed assets with proportion of capital employed on net assets turnover and other parameters which is helpful for evaluating the performance of fixed assets.

OBJECTIVES OF THE STUDY:

1. The study is conducted to evaluate fixed assets performance of Tecumseh.
2. The study is conducted to evaluate the fixed assets turnover of Tecumseh.
3. The study is made to known the amount of capital expenditure made by the company during study period.
4. The study is conducted to evaluate depreciation and method of depreciation adopted by Tecumseh.
5. The study is conducted to known the amount of finance made by long-term liabilities and owner funds towards fixed assets.
6. Study is conducted to evaluate that if fixed assets are liquidated. What is the proportion of fixed assets amount will contribute for payment of owner fund and long term liabilities.
7. The study is evaluate is giving adequate returns to the company.

SCOPE OF THE STUDY

The project is covered of fixed assets of Tecumseh drawn from annual reports of the company. The fixed assets considered in the project are which cannot be converted into cash with one year. Ration analysis is used for evaluating fixed assets performance of Tecumseh.

The subject matter is limited to fixed assets it analysis and its performance but not any other areas of accounting corporate, marketing and financial matters.

2. LITERATURE SURVEY

MANAGEMENT OF FIXED ASSETS:

The selection of various fixed assets required for creating the desired production facilities and the decision regarding the determination of level of fixed assets in the capital structure is an important decision for the company to take for the smooth running of business. The decisions relating to fixed assets involve huge funds for long period of time and are generally of irreversible nature affecting the long profitability of the business. Thus, management of fixed asset is of vital importance to any organization.

The process of Fixed Assets Management involves:

1. Selection of most worthy projects from the different alternatives of fixed assets.
2. Arranging the requisite funds/capital for the same. The first important consideration is to acquire only that amount of fixed assets, which will be just sufficient to ensure smooth and efficient running of the business. In some cases it may be economical to buy certain assets in a lot size. Another important consideration to be kept in mind is possible increase in the demand of the firm’s product needs the expansion of activities. Hence a firm should have that amount of fixed assets, which could adjust to increase demand.

Another aspect of fixed assets management is that a firm must ensure buffer stocks of certain essential equipments to ensure uninterrupted production in the events of emergencies. Sometimes, there may some breakdown in some equipments or services affecting the entire production. It is always better to have some alternative arrangements to deal with such situations but at the same time the cost of
carrying such buffer stock should also be evaluated. Efforts should also be made to minimize the level of buffer stock of fixed assets so that there will be maximum utilization during that period.

3. RESEARCH METHODOLOGY

RESEARCH METHODOLOGY:

The data used for analysis and interpretation form annual reports of the company that is secondary forms of data. Ratio analysis is used for calculation on purpose.

The project is presented by using table’s graphs and with their interpretations. No survey is undertaken or observation study is conducted in evaluating ‘Fixed assets’ performance of Tecumseh.

SOURCES OF DATA:

The data gathering method is adopted purely from secondary sources.

The theoretical contents are gathered from eminent texts books and references and library at Tecumseh.

The financial data and information is gathered from annual reports of the company internal records

Interpretation conclusions and suggestions are purely base on my opinion and suggestions provided by the project guide.

SOURCES OF DATA:

The data needed for this project is collected from the following sources:

1. The data is adopted purely from secondary sources.

2. The theoretical contents are gathered purely from eminent text books and references.

3. The financial data and information is gathered from annual reports of the company.

LIMITATIONS OF THE STUDY

1. The study period of 45 days as prescribed by university

2. The study is limited unto the date and information provided by Tecumseh and its annual reports

3. The report will not provide exact fixed assets status and position in Tecumseh; it may vary from time to time and situation to situation.

4. This report is not helpful in investing in Tecumseh either through disinvestments or capital market.

5. The accounting procedure and other accounting principles are limited by the company changes in them may vary the fixed assets performance.

4. DATA ANALYSIS & INTERPRETATION

The analysis returns on fixed assets of Tecumseh India Products Private Limited (TPIPL) is studied with the help of following techniques.

1. Componential analysis

2. Trend analysis

3. Ratio analysis

Componential analysis:-

The componential analysis of the fixed assets of Tecumseh India Products Private Limited (TPIPL) includes Net Block , Capital (work in process) and construction stores and advances.

The data relating to different components of fixed assets of the Tecumseh India Products Private Limited (TPIPL) for ten Years commencing from 2005-06 are set out in the following table analysis.
Interpretation:

By observing the above table reveals that the following.

The investment in the net block is in fluctuating trend and it is varying in between 61.24% over the total fixed assets during the year 2005-06 and it is increasing to 71.94% during the year 2016-17.

The average net block registered 1741231.51 during the above period s.

The investment in use in capital w/p is also in fluctuating trend and it is varying in between 36.23% over the total fixed assets during the year 2005-06 it decreased to 20.51% during 2016-17.

The average capital W/P was registered at RS. 469699.67.

The investment in use in construction stores and advances in fluctuating trend and it varying in between 2.53% on the total fixed assets during the year 2005-06 and it is increased to 7.54% during 2016-17.

TREND ANALYSIS:

In Financial analysis the direction of changes over a period of Years is of initial importance. Time series or trend analysis of ratio indicators the direction of change. This kind of analysis is particularly applicable to the times of profit and loss account it is advisable that trends of sales and net income may be studied 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 a persistent growth over period of Years But to get a true trend of growth; the sales figure should be adjusted by a suitable index of general prices.

In other words, sales figures should be deflated for rising price level. Another method of securing trend of growth and one which can be used instead of the adjusted sales figure or as check on them is to tabulate and plot the output or physical volume of the sales expressed in suitable units of measure. If the general price level is not considered while analyzing trend of growth, it can be mislead management they may become unduly optimistic in period of prosperity and pessimistic in duel periods.

For trend analysis, the use of index numbers. In generally advocated the procedure followed is to assign the numbers. 100 to items of the base year and at calculate percentage change in each item of other Years in relation to the base year this procedure may be called as “fixed percentage method”.

This margin determines the direction of upward or downward and involves the implementation of the percentage relationship of the each statement item means to the same in the base year. Generally the first year is taken as the base year. The figure of the base year is taken as 100 and trend ratio for the other year is calculated on the basis of one year. Here an attempt is made to known the growth total investment and fixed assets of TPIPL for 12 Years that is 2005-06 to 2016-2017.

5. FINDINGS OF THE STUDY

Findings and Conclusions:

After analyzing the financial position of Tecumseh India Products Private Limited (TPIPL) and evaluating its fixed assets Management or capital budgeting techniques in respect of components analysis, trend analysis and ratio analysis. The following conclusions are drawn from the project preparation.

The progress of the TPIPL shows that there is an increase in Net Block considerably over the year that is from 61.24% to71.94% regarding the work-in-progress it has decreased from 36.23 to 20.51 the financial position of TPIPL regarding investment it has been increasing form 100%

1 Regarding the fixed assets to net worth it has observed that it has been decreased slightly to 105.09
2 Regarding the fixed assets it has been observed that the fixed asset has increased.

3 Regarding the long-term funds to fixed assets it is decreased over the Years.

4 Regarding the fixed assets as a percentage of current liabilities it is observed it is decreased over the Years except in the year it is increased.

5 Regarding the total investment turnover ratio it is observed that it has been increasing over the Years considerably i.e., 21.59 to 93.92.

6 Regarding the asset turnover ratio it has been observed that it is satisfactory at it were increasing from 27.59 to 82.61.

7 Regarding the fixed assets to total assets it has been observed that there was increase from 50% to 64%.

8 Regarding the profit and gross capital employed ratio it can be observed that it has been increasing over the year i.e., from 5.41 to 17.11 result of the above it can be said that the ratio is steadily increasing.

9 Regarding profit and fixed assets ratio it can be observed that it has been increasing over the Years i.e., from 112455.4 to 638776.4 it can be said that the profit to fixed assets ratio is quite satisfactory.

10 From the above study it can be said that the TPIPL financial position on Fixed Assets is quite satisfactory.

Suggestions & Recommendations:

1 Suggestions for efficient management of fixed assets of TPIPL are

2 The TPIPL should follow the NPV method or IRR method both at a time rather than following only NPV method.

3 The TPIPL should analyze and measure a list of projects for evaluation.

4 The ratio of return on fixed assets is poor. The finance department (The manager of TPIPL should take remedial steps to improve the position.

5 The PAT ratio must be improved.

6 The TPIPL capital budgeting policies should be achieved in the forthcoming Years.

7 The TPIPL has to increase its consultancy services to other power projects in India and abroad.

8 TPIPL must concentrate on other diversification and takeover.

9 TPIPL must be expanded with profit making units with low cost.

REFERENCES

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