A STUDY ON FIXED ASSET MANAGEMENT

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ABSTRACT

Fixed asset*, also known as a* ***non-current asset*** *or as* ***property, plant, and equipment*** *(PP&E), is a term used in accounting for assets and property which cannot easily be converted into cash. This can be compared with current assets such as cash or bank accounts, which are described as liquid assets. In most cases, only tangible assets are referred to as fixed.*

Moreover, a fixed/non-current asset can also be defined as an asset not directly sold to a firm's consumers/end-users. As an example, a baking firm's current assets would be its inventory (in this case, flour, yeast, etc.), the value of sales owed to the firm via credit (,i.e. debtors or accounts receivable), cash held in the bank, etc. Its non-current assets would be the oven used to bake bread, motor vehicles used to transport deliveries, cash registers used to handle cash payments, etc. Each aforementioned non-current asset is not sold directly to consumers.

These are items of value which the organization has bought and will use for an extended period of time; fixed assets normally include items such as land and buildings, motor vehicles, furniture, office equipment, computers, fixtures and fittings, and plant and machinery. These often receive favorable tax treatment (depreciation allowance) over short-term assets. According to International Accounting Standard (IAS) 16, Fixed Assets are assets whose future economic benefit is probable to flow into the entity, whose cost can be measured reliably.

Fixed assets management *is an accounting process that seeks to track fixed assets for the purposes of financial accounting, preventive maintenance, and theft deterrence. Many organizations face a significant challenge to track the location, quantity, condition, maintenance and depreciation status of their fixed assets. A popular approach to tracking fixed assets utilizes serial numbered Asset Tags, often with bar codes for easy and accurate reading. Periodically, the owner of the assets can take inventory with a mobile barcode reader and then produce a report.*

I. 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.

ACCOUNTING STANDARD FOR FIXED ASSETS (AS-10):

AS-10 on Accounting for Fixed Assets has been made mandatory with effect from 01.04.1991. According to the AS-10, "**Fixed Asset** is an asset held with the intention of being used on continuous basis for the purpose of producing or providing goods or services and is not held for resale in the normal course of action". *Gross book value* of fixed asset is its historical cost or other amount substituted for historical costs in the books of accounts or financial statements. When the amount of depreciation is deducted from gross book value then it is *Net Book Value*.

Cost of Fixed Assets should consist of purchase price including import duties etc., and attributable cost of bringing the asset to its working condition for its intended use. Financing costs relating to borrowed funds attributable to construction or acquisition of fixed assets for the period up to the acquisition or completion. Expenditure incurred in start-up and commissioning of the project including test runs.

Revaluation of assets: Fixed assets may be restated in the value with the help of appraisal under taken by the competent value's .Such valuation of assets is called revaluation.

NEED AND IMPORTANCE OF THE STUDY:

As fixed assets play an important role in company's objectives. These fixed are not convertible or not liquidable over a period of time. The owner's funds and long term liabilities are invested in fixed assets. Since, fixed assets play dominant role in the business and the firm has utilization of fixed assets. So, ratio contributes in analyzing and evaluating the performance of the business.

If firms fixed assets are idle and not utilized properly it affects the long-term sustainability of the firm, which may affect liquidity and solvency and profitability positions of the company. The idle of fixed assets leads to a tremendous loss in financial cost and intangible cost associate of it. So, this will lead to evaluation of fixed assets performance. Comparing with similar company and comparison with industry standards.

Fixed assets are the assets which cannot be liquidated into cash within one year. The huge amounts of funds of the company are invested in these assets. Every year company invests an additional fund in these assets directly or indirectly. The survival and other objectives of the company depend on operating performance of management i.e. effective utilization of these assets.

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

OBJECTIVES OF THE STUDY:

The following are the objectives of the study

1. The study is conducted to know the amount of capital expenditure made by the company during study period 2010-11 to2014-15.
2. The study is conducted to evaluate fixed assets performance The study is conducted to evaluate the fixed assets turnover **.**
3. The study is conducted to evaluate depreciation and method of depreciation adopted**.**

II. METHODOLOGY

:The data used for the analysis and interpretation is from annual reports of the company i.e., secondary forms of data. Ratio analysis is used for calculation purpose.

The project is presented using tables, graphs and with their interpretations. No survey is undertaken or observation study is conducted by evaluating fixed assets performance of the company.

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.

SCOPE OF THE STUDY:

The project is covered on fixed assets of **KESORAM.** Drawn from annual reports of the company. The subject matter is limited to fixed assets, its analysis and its performance but not to any other areas of accounting corporate, marketing and financial matters.

LIMITATIONS:

The following are the limitations for the study

1. The study is limited into the date and information provided by the KESORAM and its annual reports.

2. The report may not provide exact fixed assets status and position of **KESORAM**; it may be varying from time to time and situation to situation.

3. This report is not helpful in investing in KESORAM

4. Either through disinvestments or capital market.

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

III. FIXED ASSET

Fixed asset, also known as a **non-current asset** or as **property, plant, and equipment** (PP&E), is a term used in accounting for assets and property which cannot easily be converted into cash. This can be compared with current assets such as cash or bank accounts, which are described as liquid assets. In most cases, only tangible assets are referred to as fixed.

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It is pertinent to note that the cost of a fixed asset is its purchase price, including import duties and other deductible trade discounts and rebates. In addition, cost attributable to bringing and installing the asset in its needed location and the initial estimate of dismantling and removing the item if they are eventually no longer needed on the location.

The primary objective of a business entity is to make profit and increase the wealth of its owners. In the attainment of this objective it is required that the management will exercise due care and diligence in applying the basic accounting concept of "Matching Concept". Matching concept is simply matching the expenses of a period against the revenues of the same period.

The use of assets in the generation of revenue is usually more than a year- that is long term. It is therefore obligatory that in order to accurately determine the net income or profit for a period depreciation is charged on the total value of asset that contributed to the revenue for the period in consideration and charge against the same revenue of the same period. This is essential in the prudent reporting of the net revenue for the entity in the period.

Net book value of an asset is basically the difference between the historical cost of that asset and it associated depreciation. From the foregoing, it is apparent that in order to report a true and fair position of the financial jurisprudence of an entity it is relatable to record and report the value of fixed assets at its net book value. Apart from the fact that it is enshrined in Standard Accounting Statement (SAS) 3 and IAS 16 that value of asset should be carried at the net book value, it is the best way of consciously presenting the value of assets to the owners of the business and potential investor.

Depreciating a Fixed Asset

Depreciation is, simply put, the expense generated by the use of an asset. It is the wear and tear of an asset or diminution in the historical value owing to usage. Further to this; it is the cost of the asset less any salvage value over its estimated useful life. It is an expense because it is matched against the revenue generated through the use of the same asset. Depreciation is usually spread over the economic useful life of an asset because it is regarded as the cost of an asset absorbed over its useful life. Invariably the depreciation expense is charged against the revenue generated through the use of the asset. The method of depreciation to be adopted is best left for the management to decide in consideration to the peculiarity of the business, prevailing economic condition of the assets and existing accounting guideline and principles as implied in the organizational policies.

It is worth noting that not all fixed assets depreciate in value year-over-year. Land and buildings, for example, may often increase in value depending on local real-estate conditions.

A long-term tangible piece of property that a firm owns and uses in the production of its income and is not expected to be consumed or converted into cash any sooner than at least one year's time.

Fixed assets are sometimes collectively referred to as "plant".

- **Balance sheet - accounting for fixed assets**

IV. FIXED ASSETS MANAGEMENT CYCLE

The fixed assets management cycle is the cycle of activities from the acquisition of the asset to the final disposition of the assets at the end of their useful life. The cycle has 7 steps:

Acquisition: The cycle begins with the acquisition, purchase, gift or otherwise, of an asset and the determination that the asset is to be capitalized. To be capitalized the asset has to meet the agency's capitalization limit and have a useful life of one year or more.

Receiving: The asset is formally received and accepted by the agency. Receipt may be verified by entry into an automated purchasing system or by hard copy document. In the case of donated fixed assets, receipt can be verified by a letter to the donor.

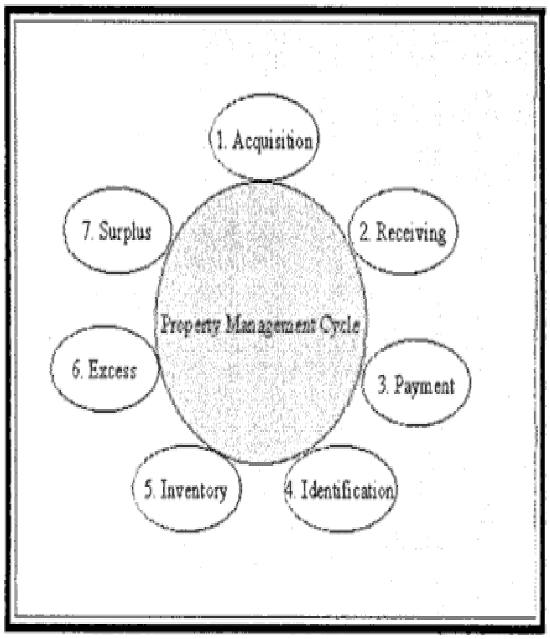
Payment: Payment is made for the asset according to the terms of the purchase order or recognition of acceptance of a gift to the donor. The payment includes the acquisition cost, freight and all other costs to put the asset. Acquisition cost of donated fixed assets is determined by its fair market value.

Identification: the asset is identified as an asset, tagged or otherwise identified and entered into the fixed assets management inventory system. Assets are identified with a permanently attached identification tag, etching or by painting on the identification number.

Inventory: The longest step in the cycle. The asset is used over its useful life. Assets are inventoried and accounted for during this step until they are no longer needed. The agency's policies and procedures determine the inventory interval.

Excess: the asset is declared as excess to the user's needs. The asset may be transferred to another user where it will continue to be used, accounted for and inventoried. Assets may be declared as excess more than once until the asset is no longer needed.

Surplus: the last step in the fixed assets management cycle. The asset is declared to be surplus property and to have no further value to the agency. The asset is disposed of by sale or discarding depending on the residual value. Sale can be by auction, sealed bid, spot sale, or through a sales store.



V. CONCLUSION

The Fixed asset management of Kesoram is quite comfortable with a judicious mix of debt and equity. The overall assessment of financial statement signifies efficient utilization of the investments, loans and advances. The profitability of the company appears to be impressive, as judged by increase in reserves and surplus.

The management discussions and analysis by Director's report and opinions expressed by Auditor's report through fixed asset management statements is true and fair view in accordance with the provisions of the companies Acts, and Accounting standards.

The overall fixed asset management of the company appears to be more than satisfactory.

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