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A Study On Fixed Assets Management With Special Reference To Polaris Consulting And Service Limited, Chennai

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Abstract

Fixed asset is one of the important resource purchased business entity. It act as a nerve centre of a business .It is considered as a permanent resource for the business and has a long term value. Fixed Asset Management is an important task for the business to track the permanent asset in order to save time and money for the business. The main objective of Fixed Asset Management is to maximizing the wealth of the company and to provide the best return to the stake holder. The present paper is aimed to evaluate the relationship between the fixed asset and financial performance of the company. This study considers five year data from 2013 to 2017. Th research methodology used in this study is Analytical research. The data was analyzed with the help of statistical & financial tools such as correlation, Regression, Trend analysis and Ratio analysis.

This study reveals the finding that there is a positive relationship between fixed asset management & performance of the company. Thus the study recommends that fixed asset management is an important component for the effective performance of the company.

Keywords

Fixed asset; fixed asset management; Tangible asset; Intangible assets; Capital expenditure

I. Introduction To Study

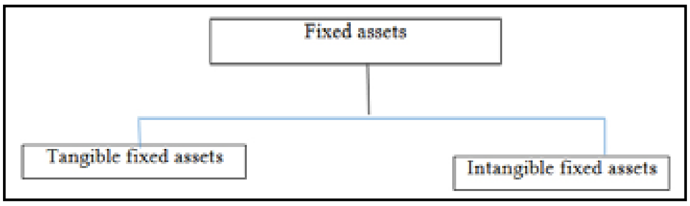
ASSETS

Assets are the properties of a business and things that are resources owned by a company and which have future economic value that can be measured. Assets are found on the right hand side of the balance sheet and referred to as "Sources of Funds."

Types of Assets

➢ **FIXED ASSETS**

Fixed asset are the assets which are acquired and are used over a long period of time in the business with the objective of making profits. Other names used for fixed assets are non-current assets, long term assets or hard assets. Generally the value of fixed assets generally reduces over a period of time (known as depreciation).



A. Tangible Fixed Assets

Tangible assets have definite physical shape or identity and existence; they can be seen, felt. These include things such as land and building, plant and machinery, furniture and fixtures.

B. Intangible Fixed Assets

Intangible assets does not have any physical shape which cannot be seen, nor felt but they value. These include things such as goodwill, patents, copyrights, trademarks, licences.

Meaning Of Fixed Assets Management

Fixed assets management is an accounting process that seeks to track fixed assets for the purposes of financial accounting, preventive maintenance, and meeting audit requirements and IFRS (International Financial Reporting Standards) compliance as well as theft deterrence.

Fixed Assets Used in Polaris

Office Equipment, Chair, Table, CPU, Monitor, ATM machine, Dehumidifier, UPS, IPS

Online UPS, Air Conditioner, Fan, Money Counting machine, Router Cc camera, Vault,
Generator, Printer, Scanner, IT"S Hardware & Software, Construction & Renovation Works, Photocopy Machine, Vehicle etc.

Depreciation of fixed asset

The monetary value of an asset decreases over time due to use, wear and tear or obsolescence. This decrease is measured as depreciation. Depreciation, i.e. a decrease in an asset's value, may be caused by a number of other factors as well such as unfavourable market conditions, etc. Machinery, equipment, currency are some examples of assets that are likely to depreciate over a specific period of time. Opposite of depreciation is appreciation which is increase in the value of an asset over a period of time
Accounting estimates the decrease in value using the information regarding the useful life of the asset. This is useful for estimation of property value for taxation purposes like property tax etc. For such assets like real estate, market and economic conditions are likely to be crucial such as in case of economic downturn
Depreciation means consumption of an asset. Depreciation involves total amount of benefit has been provided by the particular asset and allocation of the cost of the fixed asset over its useful lifetime. During calculating depreciation some things are needed to keep in consideration:

- The cost of the fixed asset
- The estimated useful life of the asset
- The estimated residual value of the asset
- Residual Value of Fixed Asset

At the end of the life time of a fixed asset business will dispose off it and after the disposal, the amount received from the dis-

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posal off is called the residual value. The cost of a fixed asset less than its estimated residual value will represents the total amount of depreciation of a particular fixed asset over its estimated lifetime.

There is a fixed asset which is not depreciated. For example, Land is not depreciated. Depreciation is charged on the items of property, plant machineries, different equipment; tools vehicles etc. depreciation on different fixed assets varies one from another because of variation in physical lifetime of different fixed asset. Depreciation is charged from the beginning date of acquisition.

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.

Asset Tracking

Asset tracking refers to tracking the method of physical assets, either by scanning barcode labels attached to the assets or by using tags using GPS or RFID which broadcast their location.

Fixed Asset Tracking Software

Fixed Asset tracking software allows companies to track what assets it owns, where each is located, who has it, when it was checked out, when it is due for return, when it is scheduled for maintenance, and the cost and depreciation of each asset.
The reporting option that is built into most asset tracking solutions provides pre-built reports, including assets by category and department, check-in/check-out, net book value of assets, assets past due, audit history, and transactions. All these information is captured in one program and can be used on PCs as well as mobile devices. As a result, companies reduce expenses through loss prevention and improved equipment maintenance. They reduce new and unnecessary equipment purchases, and they can more accurately calculate taxes based on depreciation schedules.
The most commonly tracked assets are:

- Plant and machinery
- Land and building
- Fixtures and fittings
- Furniture
- Vehicles and heavy equipment's.

Asset tracking systems are comprised of desktop software, a mobile application, barcode scanners, and barcode labels. These ingredients provide the means to locate physical objects, collect data on its usage and report on its activities.

Oracle People Soft Fixed Asset Management

Leverage the value of fixed asset inventory and minimize the cost of tracking physical assets. Use a flexible system that extends beyond adding, transferring, depreciating, and retiring. PeopleSoft Asset Management offers a fresh approach by delivering maximum financial control and system flexibility Enterprise Asset Management is part of Oracle's PeopleSoft Enterprise Financial Management family of applications.

Objective of the study:

- To evaluate the relationship between profitability position with management of fixed assets.
- To assess the amount of capital expenditure made by the company in relation to fixed assets.
- To assess the fixed assets ratios of Polaris consulting and services limited.

Limitations Of The Study

- The report may not provide exact fixed assets status and position of company; it may be varying from time to time and situation to situation.
- The accounting procedure and other accounting principles are limited by the changes made by the company, may vary fixed assets performance.
- Due to time constraint detailed survey is not possible.
- Confidentiality in terms of discloser of the internal financial information.
- The study is limited into the date and information provided by the company and its annual reports.

II. Review Of Literature

William D. Brady, Jr. (2001),This paper explains the meaning of Fixed asset in different ways such asnon-consumable goods, tangible in nature and have a useful life longer than one year.It can be any item costing over a certain dollar amount, large or small, to an item that has a certain useful life .These fixed assets are classified as land, improvements other than buildings,operating plants, equipment, vehicles, and construction in progress.

Delaney, Epstein, Nach and Budack (2002) This paper describes the accounting procedure of managing fixed asset under GAAP.Business may acquire fixed assets by several methods. Possible acquisition methodsinclude purchase with a Purchase Order or PO, lease-purchase, installment purchase,construction, and gifts. The method of acquisition of fixed assets should be properlyrecorded on the books of account and in subsidiary records that provide detailedinformation on each asset

III. Research Methodology

Research Design: Descriptive research design
Research Type: Analytical Research
Data collection: Primaryand Secondary

Tools for data collection

- Correlation
- Regression
- Ratio analysis
- Trend analysis

IV. Data Analysis And Interpretation

CORRELATION BETWEEN FIXED ASSETS AND PROFITABILITY POSITION OF THE COMPANY

Null hypothesis (Ho): There is no significant relationship between fixed assets and profitability position of the company.
Alternative hypothesis (H1):There is a significant relationship between fixed assets and profitability position of the company.

Table 4.1.1 Correlations

		fixed_asset	Profit
fixed_asset	Pearson Correlation	1	.922*
	Sig. (2-tailed)		.026
	N	5	5
Profit	Pearson Correlation	.922*	1
	Sig. (2-tailed)	.026	
	N	5	5

*. Correlation is significant at the 0.05 level (2-tailed).

P value = 0.026
Level of significance=0.05
P value < level of significance

Inference:
Since the calculated value (0.026) is less than the table value (0.05) null hypothesis is rejected and alternative hypothesis is accepted.
Thus, there is a significant relationship between fixed assets and profitability position of the company. The correlation value is 0.922, which implies positive correlation and Increase or decrease in fixed assets do significantly reflect in increase or decrease in profitability position of the company.

REGRESSION BETWEEN FIXED ASSETS AND PROITABILITY POSITION OF THE COMPANY

Null hypothesis (Ho): Fixed asset is not a significant determinant of profitability.
Alternative hypothesis (H1): Fixed asset is a significant determinant of profitability.

Table 4.1.2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.922[a]	.849	.799	25.71130

a. Predictors: (Constant), fixed_asset

FIGURE 5.1.2ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	11192.910	1	11192.910	16.931	.026[a]
	Residual	1983.213	3	661.071		
	Total	13176.123	4			

a. Predictors: (Constant), fixed_asset
b. Dependent Variable: pat

P value=0.02
Level of significance=0.05
P value <level of significance
0.026<0.05
Reject null hypothesis, accept alternative hypothesis

INFERENCE:
Since the calculated value (0.026) is less than table value (0.05) we reject null hypothesis and accept alternative hypothesis.
. Thus, fixed asset is a significant determinant of profitability and there is a relationship between fixed assets and profitability position of the company.

TREND ANALYSIS IN RELATION WITH CAPITAL EXPENDITURE OF FIXED ASSETS

TABLE 4.1.3

YEAR	CAPITAL EXPENDITURE OF FIXED ASSETS
2011	94.13
2012	147.05
2013	56.05
2014	35.86
2015	73.66

INFERENCE: In 2011, the capital expenditure of fixed assets is tend to be at decreasing stage and it further increased in 2012(147.05) but again in 2013 and 2014 it decreased to (56.05, 35.86) and had slightly increased to (73.66) in 2015 but in future years the capital expenditure related to fixed assets is at a decreasing stage which is not a desirable position of the company.

RATIO ANALYSIS IN RELATION TO FIXED ASSETS OF POLARIS

Fixed Asset to Net worth Ratio:
This ratio establishes the relationship between fixed assets and net worth.

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If the ratio is less than 100% it implies that owner's funds are more than total fixed assets and shareholder provide a part of working capital.

If the ratio is more than 100% it implies that owner's funds are not sufficient to finance the fixed assets and the financier has to depend upon outsiders to finance the fixed assets

Criteria: A ratio higher than 0.75 indicates that the firm is vulnerable to unexpected events and changes in business climate.

Table 4.1.4

YEAR	FA	NW	FA TO NW
2011	278.85	1032.55	0.27006
2012	383.13	1215.34	0.315245
2013	400.69	1342.72	0.298417
2014	378.73	1547.42	0.244749
2015	234.68	850.83	0.275825

INFERENCE

In 2012 the ratio increased to 0.31 but in 2013 and 2014(0.29,0.27) it falls down slowly and in 2015 it has increased to 0.27 which means there is a increase in both net worth and fixed assets that shows the satisfactory position of the company.

Fixed Assets Turnover Ratio:

This ratio determines the efficient utilization of fixed assets and profitability of a business concern.This ratio shows how well the fixed assets are being used in business. Criteria: Higher the ratio, more is the efficiency in utilization of fixed assets. A lower ratio is the indication of under utilization of fixed assets.

Fixed assets turnover ratio = Sales / Net fixed assets

Table 4.1.5 : Fixed Assets Turnover Ratio

YEAR	SALES	FA	FA TURN-OVER
2011	1438.64	278.85	1.63
2012	1797.49	383.13	1.72
2013	1890.52	400.69	1.59
2014	2035.31	378.73	1.69
2015	1715.88	234.68	1.9

INFERENCE: In the above table at 2011 it shows the fixed asset turnover of the company is at decreasing stage and in 2012 it starts increasing and in 2013,2014 again it starts decreasing and in 2015 it is increasing rapidly which means that fixed asset turnover ratio shows desirable position of the company.

Fixed assets ratio:

This ratio establishes the relationship between fixed assets and long term funds. The objective of calculating this ratio is to ascertain the proportion of long term funds invested in fixed assets.

Fixed assets ratio =Fixed assets / Long term funds

Long term funds = Share capital+ Reserves and surplus+ Long term loans.

Criteria: An ideal fixed asset ratio is 0.67.

The ratio should not generally more than '1'. If the ratio is less than one it indicates that a portion of it is financed by long term funds. If the ratio is more than '1' it implies that fixed assets are purchased with short term funds, which is not a prudent policy.

Table 4.1.6 : Fixed Assets Ratio

YEAR	FA	LTF	FA RATIO
2011	278.85	1044.41	0.266993
2012	383.13	1234.41	0.310375
2013	400.69	1360.38	0.294543
2014	378.73	1563.57	0.242221
2015	234.68	1215.4	0.193402

INFERENCE: The above table shows that the fixed assets ratio has been declining in initial stage and by year it starts it increasing and in the year 2013,2014 it declines and in the year 2015 it again starts increasing which shows the satisfactory position of the company.

Return on Total Assets:

Return on total assets is a financial statement ratio that measures how well a company uses its assets to generate revenue. This ratio is used to measure the productivity of the total assets.

Return on Total Assets = Net profit after tax / Total assets

Table 4.1.7 : Return On Total Assets

YEAR	PAT	TA	RETURN
2011	187	1211.43	15.4363
2012	310.06	1444.15	21.47007
2013	323.04	1670.82	19.33422
2014	260	1660.48	15.65812
2015	223	979.78	22.76021

INFERENCE: Return on assets has been increased to 22% in the year 2015 as compared to previous year and it shows the satisfactory and desirable position of the company

Fixed assets to total assets ratio:

This ratio is a measure to which fixed assets are financed with owners' equity capital.

Criteria: A high ratio, .5 or higher, indicates an inefficient use of working capital which reduces the enterprise's ability to carry accounts receivable and maintain inventory and usually means a low cash reserve.

Formula = Fixed assets / Total assets

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Table 4.1.8 : Fixed Assets To Total Assets Ratio

YEAR	FA	TA	RATIO
2011	278.85	1407.24	0.198154
2012	383.13	2154.52	0.177826
2013	400.69	2019.57	0.198404
2014	378.73	2071.92	0.182792
2015	234.68	1045.62	0.224441

INFERENCE:
Since the fixed assets to total assets ratio is less than 0.5 it means that the company has used efficient usage of assets and thus it shows out the satisfactory position of the company.

V. Findings

- There is a positive correlation and significant relationship between fixed assets and profitability position of the company
- There is 85% relationship between fixed assets and profitability and if the fixed assets increases, profit also increases and the vice versa.
- Trend analysis of capital expenditure related to fixed assets is at an increasing trend but the future predication shows a decreasing trend which is not a desirable position of the company.
- The fixed assets to net worth ratio shows an increase of 0.27 times compared to previous years and it has efficiently used the fixed asset
- The fixed assets turnover ratio also shows an increases of 1.90 times which shows the satisfactory position of the company and there is a positive relationship between fixed asset and net worth.
- The fixed assets to total assets ratio are less than normal criteria of 0.5times and it implies that the fixed assets are properly financed with owners capital
- The return of fixed assets has increased to 22% as compared to previous year of 15% that shows the assets are properly generating revenue for the company.
- The fixed asset ratio has decreased to 0.19 times which implies that the long term funds are not properly utilized by the company.

VI. Conclusion

The study is conducted to know how the Polaris consulting and services is effectively managing their fixed assets fixed asset management of Polaris 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. Thus the overall fixed asset management of company appears to be satisfactory.