

## FINANCIAL STATEMENT ANALYSIS FOR EFFECTIVE UTILIZATION OF FIXED ASSETS W.R.T. EPC INDUSTRIES LTD.

---

Dr. Mahendra D. Dhondge Patil\*

### ABSTRACT

*The Fixed Assets Management is the Traditional Financial Statement Analysis method of a business enterprise. While financials of a company furnish useful data regarding its operations, a serious limitation of these statements is that they do not provide information regarding changes in the firm's financial position during a particular period of time. Fixed assets are acquired for use in the business for earning revenues so they are shown at their book values. A fundamental concept of accounting, closely related to the going concern concept, is cost concept of accounting. According to this concept, a fixed asset is recorded in the books at the price paid to acquire it and that this cost is the basis for all subsequent accounting for the asset. This concept does not mean that the fixed asset will always be shown at cost but it means that cost becomes basis for all future management decisions. Asset is recorded at cost at the time of its purchase but is systematically reduced in its value by charging depreciation. The market value of a fixed asset may change with the passage of time, but for accounting purpose it continues to be shown in the books at its book value, i.e., the cost at which it was purchased minus depreciation provided up-to-date. Fixed asset being the major investment in business, is considered main element to evaluate the performance of the business and used in many ratios.*

**KEYWORDS:** *Traditional Financial Statement, Companies Act, 2013, Return of Fixed Assets.*

### Introduction

Fixed assets are the important part of any manufacturing organization. Major chunk of finance required for setting up any business is Fixed Assets. Therefore, Management of fixed assets becomes necessity for any businessman. Effective utilization of fixed assets is required to have maximum returns of capital invested. Therefore, raising of funds and its effective utilization is of utmost importance for management. Fixed assets are the assets which are used for a longer period. The value of fixed assets decrease with their use or with passage of time or also due to other reasons.

### Need for Calculation of Returns on Fixed Assets

Fixed Assets play important role in attaining objectives of the company. The fixed assets are acquired using major funds for a longer period. Therefore it becomes necessary to utilize Fixed Assets effectively and they earn attractive profits to the firm. The lesser returns lead to decrease overall profitability of the firm. So it becomes essential to evaluate performance of fixed assets from time to time. Comparison may be intra firms or inter firm.

### Need for the Study

Normally companies take review of returns of fixed assets and accordingly take decision w.r.t. expansion, addition or deletion of assets. Normally, land, buildings, Plant and Machinery, Various instruments and vehicles represent the major assets of a manufacturing concern. There are various depreciation methods available. But the Companies Act, 2013 restrict the methods to only two. Selection of proper method is very crucial to get proper financial results. Following are the major provisions w.r.t. Depreciation in the Companies Act. The provisions are applicable from 01.04.2014.

---

\* Associate Professor, SMRK BK AK Mahila Mahavidyalaya, Nashik, Maharashtra, India.

- Depreciation is calculated by considering useful life of asset, cost and residual value.
- Any method WDV or SLM can be used.

**Schedule – II** contains a list of useful life according to class of assets and the residual value shall not be more than five percent of the original cost of asset. However companies are free to adopt a useful life different from what specified in Schedule II and residual value more than 5%. The financial statements shall disclose such difference and provide justification in this behalf duly supported by technical advice.

- Depreciation method used is to be shown in accounts
- Useful life of assets is to be disclosed only when it is taken different from Schedule – II
- Each Part of an item of an asset with a cost significant in relation to the total cost of the item shall be depreciated separately. Where cost of the part of the asset and useful life of that part is different from the useful life of the remaining asset, useful life of that significant part should be determined separately.

Fixed assets play a very important role in determining profits of the company. When a business decides to calculate returns of Fixed Asset, it has to calculate and compare various figures which is normally done by making use of various ratios.

Researcher has used Trend analysis and Ratio analysis in analysis of effective utilization of Fixed Assets.

#### **Objectives of the Study**

- The study is taken to calculate return of assets employed.
- The study is taken to consider the fixed assets turnover ratio.
- The study also takes into account the amount of capital expenditure made by the company during study period.

#### **Research Methodology**

Research is the systematic investigation into existing or new knowledge .It is used to establish or confirm facts, reaffirm the results of previous work, solve new or existing problems, support or develop new theories. A research project may also be an expansion on past work in the field.

#### **Sources of Data**

After going through different methods of data collection, it was decided that secondary data is suitable for this survey.

#### **Primary Data**

Primary data is the data and information collected through surveys and interaction with the people. Researcher has not used this method for data collection.

#### **Secondary Data**

The secondary data is collected from published sources like annual reports of the company, media reports and printed text books.

- The data gathering method is adopted purely from secondary sources.
- The theoretical content is gathered from eminent texts books, reference and Internet.
- Interpretation, Conclusions and Suggestions are purely base on my opinion.

#### **Scope of the Study**

The researcher has studied performance of fixed assets of Mahindra EPC Irrigation Ltd. The data is taken from annual reports of the company. The fixed assets considered in the paper are the assets which cannot be converted into cash within short span of time. Ratio analysis is used for evaluating Company's performance in relation to Fixed Assets.

The subject matter is limited to company's performance in relation to fixed assets but not do not consider other areas of corporate, marketing and financial matters.

### Review of Literature

The investment in fixed assets involves commitment of funds for longer period into the future and usually is difficult and costly to reverse often as they are in large increments (Hunt, 1965). Usually, sales vindicate the quantum of fixed assets employed in an enterprise. The effective utilization of fixed assets in an enterprise is gauged by the fixed assets turnover ratio. One of the most potent tools employed to evaluate the effectiveness of the utilization of fixed assets is assets turnover (Srivastava, 1979). In its broadest sense, asset management is defined as “a systematic process of maintaining, upgrading, and operating assets, combining engineering principles with sound business practice and economic rationale, and providing tools to facilitate a more organized and flexible approach to making the decisions necessary to achieve the public’s expectations” (OECD 2001). The main objective of asset management is to improve decision-making processes for allocating funds among an agency’s assets so that the best return on investment is obtained. To achieve this objective, asset management embraces all of the processes, tools, and data required to manage assets effectively (Nemmers 2004). For this reason asset management is also defined as “a process of resource allocation and utilization” (AASHTO 2002). Due attention must be given to the management of fixed assets as they represent sizable outlay and involve the long-term financial commitment. A systematic blending of current and fixed assets into a profitable combination is a challenging task to the financial management. An analysis on the financing pattern and utilization of fixed assets is, therefore, vital for the management of a business enterprise. (Dr. Das, 2017).

The investment in fixed assets involves commitment of funds for longer period into the future and usually is difficult and costly to reverse often as they are in large increments” (Hunt, 1965)

### Analysis & Interpretation

The analysis returns on fixed assets of Mahindra EPC Irrigation Ltd. is studied with the help of following techniques.

- Trend analysis
- Ratio analysis

#### Total Investment

Year	Investment (In Lacs)	Trend %
2014-15	15215.94	100.00
2015-16	16884.52	110.97
2016-17	18303.15	120.29
2017-18	19618.4	128.93

### Interpretation

From the analysis of the above table it can be observed that the growth rate of total investment is in upward trend, which shows table of the investment in total investment is increasing from time to time during the year 2014-15 it was recorded 100%. But it is increasing in the year 2015-16 which shows that there is a net increase by 111 %.

#### Growth Rate in Fixed Assets

Year	Fixed Assets (In Lacs)	Trend %
2014-15	3017.89	100
2015-16	2908.13	96.36
2016-17	2604.26	86.29
2017-18	2509.79	83.16

### Interpretation

The examination of the above table reveals that a) During the year 2014-15 the fixed assets investment was recorded at 3017.89 Lakhs and it is decreased to Rs. 2509.79 Lakhs in 2017-18 and it is quite satisfactory. b) The trend percentage in the year 2014-15 is taken as the base year as 100 % and it is decreased to 83% upto the year 2017-18.

**Ratio Analysis**

Year	Gross Fixed Assets (Crores)	Net Worth (Crores)	Ration in %
2014-15	30.18	114.42	26.38
2015-16	29.08	124.02	23.45
2016-17	26.04	134.18	19.41
2017-18	25.10	139.94	17.93

**Interpretation**

The Gross fixed assets to net worth ratio is continuously decreasing from year to year. The main reason is Fixed Assets are have decreasing trend while Net worth has increasing trend. In the year 2014-15 the gross fixed assets to net worth ratio is 26.38 and in the year 2017-18 the fixed assets to net worth ratio is decreased to 17.93.

**Fixed Assets to Long Term Liabilities**

This ratio explains whether the firm has raised adequate long term funds to meet its fixed assets requirements and is calculated as Fixed assets/ Capital Employed (Long Term Funds)

Year	Fixed Assets	Long Term Funds	Percentage
2014-15	3017.89	11659.57	25.88
2015-16	2908.13	12706.53	22.89
2016-17	2604.26	13513.54	19.27
2017-18	2509.79	14092.98	17.81

**Interpretation**

The fixed assets as a % of long-term liabilities is reducing from Year to year. The fixed assets as a percentage of long term liabilities is recorded at 25.88% in the year 2014-15 and it is reduced to 17.81% in year 2017-18. The ratio of fixed assets to long term liabilities is below 100% during review period which indicates that a part of the working capital requirement is met over from the long term funds of the company.

**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 standard for the ratio is two times.

Year	Investments ( Lacs)	Sales In Lakhs	Percentage
2014-15	15215.94	16918.52	111.19
2015-16	16884.52	20478.24	121.28
2016-17	18303.15	20102.63	109.83
2017-18	19618.40	20466.74	104.32

**Interpretation**

The ratio has increased in 2015-16 while it has decreased in succeeding two years. During the year 2015-16 the ratio was recorded at 121.28% and in the 2017-18 the ratio was decreased to 104.32%. Ratio above 100% shows effective utilization of Fixed Assets.

**Fixed Assets Turnover Ratio**

The fixed assets turnover ratio is the relationship between the sales / capital assets employed in a business.

Year	Sales In Lakhs	Total Fixed Assets	Percentage
2014-15	16918.52	3704.56	456.69
2015-16	20478.24	3850.91	531.78
2016-17	20102.63	3873.42	518.99
2017-18	20466.74	4324.66	473.26

**Interpretation**

The fixed assets turnover ratio is fluctuating trend during the review period of time. During the year 2014-15 the ratio was recorded as 456.69 which increased for two years and in the year 2016-17 the ratio increased to 518.99. The ratio decreased to 473.26 in 2017-18.

**Fixed Assets to Total Assets**

Year	Fixed Assets (Lakhs)	Total Assets	Percentage
2014-15	3017.89	15215.94	19.83
2015-16	2908.13	16884.52	17.22
2016-17	2604.26	18303.15	14.23
2017-18	2509.79	19618.4	12.79

**Interpretation**

From the above table it is examined that fixed assets to total assets ratio is continuously decreasing trend during the review period. During the year 2014-15 the ratio was 19.83% and upto the year 2017-18 the ratio decreased to 12.79%.

**Return on Fixed Assets**

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. The return on fixed assets can be calculated as under.

Year	Profit After Taxes	Fixed Assets	Percentage
2014-15	179.48	3017.89	5.95
2015-16	918.25	2908.13	31.58
2016-17	990.47	2604.26	38.03
2017-18	493.86	2509.79	19.68

**Interpretation**

Returns fixed assets ratio is also showing fluctuating trend. During the year 2014-15 the ratio recorded as 5.95 and in the next two years it increased to 31.58 & 38.03 and again in 2017-18 it reduced to 19.68%.

**Findings and Conclusions**

After analyzing the financial position of EPC Industries Ltd. 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:

The books of the company show that there is no increase in Fixed Assets Block over the years. But on the other hand Total Sales, Total Assets, Long Term Liabilities, Current Liabilities and Net Worth are all show increasing trend. This shows effective management of the company. With the same set of fixed assets, company is making progress in the business.

- Regarding the fixed assets to net worth it has observed that it has been decreased continuously.
- Regarding the fixed assets it has been observed that the fixed asset are decreased throughout the period under review.
- Regarding the fixed assets to long - term funds it is decreased over the Years.
- Regarding the total investment turnover ratio it is observed that it is showing fluctuating trend.
- Regarding the asset turn over ratio it has been observed that it is satisfactory at is almost 4 to 5 times in period under review.
- Regarding the fixed assets to total assets it has been observed that there is decrease from 20% to 13%.
- Regarding profit and fixed assets ratio it can be observed that it is also fluctuating during review period.
- From the above study it can be said that the financial position of the company on Fixed Assets is quite satisfactory.

### **Suggestions & Recommendations**

Suggestions for efficient management of fixed assets of are:

- Should analyze the life of fixed assets and if necessary, should acquire new fixed assets and technology.
- The Sales of the organization is increased but PAT is quite fluctuating which needs special attention of management.
- The capital budgeting policies should be achieved in the forth coming Years.

### **References**

- ✿ L.M Panday: Financial management vikas publisher, Prasanna Chandra: Financial Management, Tata McGraw hill
- ✿ S.P Jain & K.L Narang: Financial Accounting & Analysis Kalyani Publisher

### **Websites**

- ✿ [www.epcmahindra.com](http://www.epcmahindra.com)
- ✿ [www.wikipedia.com](http://www.wikipedia.com)
- ✿ [www.financedefinition.net](http://www.financedefinition.net)
- ✿ [www.moneycontrol.com](http://www.moneycontrol.com).

