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Financial Asset Management

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Abstract:
Financial management is a service activity which is concerned with providing quantitative information which is of financial nature which may be needed for making Economic decisions regarding the choice among alternative course of actions. The financial management is a process of identification accumulation, analysis preparation interpretation and communication of financial information to plan evaluate and control a business firm. Financial management is that specialized function of general management which is related to the procurement of finance and its effective utilization for the achievement of the goals of an organization. Finance may be defined as the provision of money at the time where, it is required. Finance refers to the management flews of money through an organization. It concerns with the application of skills in the manipulation, use and control of money. Different authorities have interpreted the term "finance "differently. However there are three main approaches to finance.

- *The first approach views finance as to providing of funds needed by a business on most suitable terms this approach confines fiancés to the raising of funds and to the study of financial institutions & instruments from where funds can be procured.*
- *The second approach relates fiancé to cash.*
- *The third approach views fiancé is being concerned with raising funds & their effective utilization.*

Key words: *Financial Markets and functions, financial Asset Policy, Asset Control , etc…*

Introduction:

Financial management is a service activity which is concerned with providing quantitative information which is of financial nature which may be needed for making Economic decisions regarding the choice among alternative course of actions. The financial management is a process of identification accumulation, analysis preparation interpretation and communication of financial information to plan evaluate and control a business firm.

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Fixed Assets play vary important role in realign company's objectives the firms to which capital investment vested on fixed assets.

Theses fixed assets are not convertible or not liquid able over a period of time the total owner finds 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 ration contributes very much in analyzing and utilized properly it effects long term sustainability of the firms in analyzing and utilized properly it affect long term sustainability of the firms which may effect 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 needs lead a tremendous in financial cost and intangible cost associate to it.

So there is need for the companies to evaluate fixed assets performance analysis time to time by comparing with pervious performance comparison with similar company and comparison with industry standards. So chose a study to conduct on the fixed assets analysis of LG ELECTRONICS.

Using ratio in comparison with previous year performance, the title of the project is analysis on Fixed Assets management. The study is made to known the amount of capital expenditure made by the company during study period. The study is conducted to evaluate depreciation and method of depreciation adopted by LG.
Profit maximization is not considered as basic idea for making investment and financing decision through Fixed Asset Management. The study is evaluate is giving adequate returns to the company.
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. The immediate objective of any business is to earn profit and maximize the profit as much as possible. Wealth Maximization is better criteria rather than profit maximization. Any financial action which creates wealth.
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 funds and long term liabilities. Intangible assets must be amortized over the period benefited not to exceed 40 years. Amortization is a term used to describe the systematic write-off to expense of an intangible asset's cost over its economic life. The straight-line method of amortization is used. The amortization entry is Amortization expense Intangible asset The credit is made directly to the given intangible asset account. However, it would not be incorrect to credit an accumulated amortization account, if desired. Some intangibles have a limited legal life. An example is patents, which have a legal life of 17 years. The project is covered of fixed Assets of LG ELECTRONICS. drawn form annual report of the company. The fixed assets considered in the project is which cam not be converted into cash with one year. Ratio analysis is used for evaluating fixed assets performance of LG ELECTRONICS.
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. The study is made to known the amount of capital expenditure made by the company during study period. The study is conducted to evaluate depreciation and method of depreciation adopted by LG.Profit maximization is not considered as basic idea for making investment and financing decision through Fixed Asset Management. The study is evaluate is giving adequate returns to the company.
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. The study period of 45 days as prescribed by Osmania University. The study is limited up to the date and information provided by LG ELCTRONICS INDIA LTD and its reports. The reports will not provide exact fixed Assets status and position in LG ELECTRONICS. it may varying form time to time and situation to situation. This report is not helpful in investing in LG ELECTRONICS. Either through disinvestments or capital market. The accounting procedure and other accounting principles are limited by the company changes in them may vary the fixed assets performance.

Are those, which have physical existence and generate goods and services. Included in this category are land, building, plants, machinery, furniture, and so on. They are shown in the balance sheet, in accordance with the cost concept, at their cost to the firm at the time they were purchased. Their cost is allocated to/charged against/spread over their useful life.

The yearly charge is referred to as depreciation. As a result, the amount of such assets shown in the balance sheet every year declines to the extent of the amount of depreciation charged in that year and by the end of the useful life of the asset it equals the salvage value, if any. Salvage value signifies the amount realized by the sale of the discarded asset at the end of its useful life.

Do not generate goods and services directly. In a way, they reflect the rights of the firm. This category of assets comprises patents, copyrights, trademarks and goodwill. They confer certain exclusive rights to their owner's patents conger exclusive rights to use an invention, copyrights relate to production and sale of literary, musical and artistic works, trademarks represent exclusive right to use certain names, symbols, labels, designs, and so on intangible fixed assets are also written-off over a period of time.

Intangible assets lack physical substance and arise form a right granted by the government or another company. Intangibles may be acquired or developed internally. Examples of rights granted by the government are patents, copyrights, and trademarks, while am example of a privilege granted by another company is a franchise. Other types of intangibles include organization costs, leasehold improvements, and goodwill.

ACCOUNTING FOR INTANGIBLE ASSETS

APB Opinion 17 specifies the requirements for accounting for intangible assts. Intangibles that have been acquired, such as goodwill, should be recorded at cost. In the event that an intangible is acquired for other than

cash, it should be reflected at either the fair market value of the consideration given or the fair market value of the right received, whichever is more clearly evident. Intangibles should not be arbitrarily written off if they still have value. When identifiable intangibles are internally developed (e.g., patents), they should be recorded as assets and reflected at cost. If they are not identifiable, they should be expensed. Intangible assets must be amortized over the period benefited not to exceed 40 years. Amortization is a term used to describe the systematic write-off to expense of an intangible asset's cost over its economic life. The straight-line method of amortization is used. The amortization entry is Amortization expense Intangible asset The credit is made directly to the given intangible asset account. However, it would not be incorrect to credit an accumulated amortization account, if desired. Some intangibles have a limited legal life. An example is patents, which have a legal life of 17 years. Deferred charges are of along-term, nonrecurring nature. They are allocated to a number of future periods. Examples are start-up costs and plant rearrangement costs. Deferred charges are customarily listed as the last asset category in the balance sheet since their dollar value is usually insignificant relative to total assets. When non-current assets cannot be properly placed into the asset classifications already Discussed, they may be included in the Other Assets category. Placement of an item in this classification depends upon its nature and dollar magnitude. However, this classification should be used as a last resort.Not surprisingly, periodic disenchantment with returns on marketable securities has led some investors to examine a host of tangible assets that are normally considered only by "collectors". The average returns on collectibles such as Chinese ceramics, coins, diamonds, paintings, and stamps have on occasion been quite high, but generally such assets also experience periods of negative returns.

This fluctuation is not surprising because if one (or more) type of collectible had provided consistently high returns, many investors would have been attracted to it and would have bid its price up to a level where high returns would no longer have been possible.

In a sense, a collectible asset often provides income to the owner in the form of consumption. For example, an investor can admire a Roberto Clementre rookie baseball card, sit on a Chippendale chair, gaze upon a Georgia O' Keefe painting, play a Stradivarius violin, and drive a Stutz Bearcat automobile. Value received in this manner is not subject to income taxation and is thus likely to be especially attractive for those in high tax brackets. However, the value of such consumption depends strongly on one's preferences. If markets are efficient, collectible assets will be priced so that those who enjoy them most will find it desirable to hold them in greater-than-market-value proportions, whereas those who enjoy them least will find it desirable to hold them in less-than-market-value proportions (or, in many cases, not at all). Institutional funds and investment pools have been organized to own collectibles of one type or another. These arrangements are subject to serious question if they involve locking such objects in vaults where they cannot be seen by those who derive pleasure from this sort of consumption. On the other hand, if the items are rented to others, the only loss may be that associated with the transfer of a portion of the consumption value to the government in the form of a tax on income. Investors in collectibles should be aware of two especially notable types of risk. The first is that the bid-ask spread is often very large. Thus an investor must see a large price increase just to recoup the spread and break even. The second is that collectibles are subject to fads (that risk has been referred to as stylistic risk). For example, Chinese ceramics may be actively sought by many investors today, leading to high prices and big returns for earlier purchasers. However, they may fall out of favor later on and plunge in value. Unlike financial assets, there is no such thing as fair value for collectibles that can act as a kind of anchor for the market price. In the United States, private holdings of gold bullion were illegal before the 1970s. In other countries, investment in gold has long been a tradition. According tone estimate, at the end of 1984 gold represented over 6% of the world market wealth portfolio. History suggests gold has performed like other types of collectibles in that it has had periods of high returns but also periods of low returns (particularly since the early 1980s). Furthermore, gold has had a high standard deviation, suggesting that by itself it has been a risky investment. However, for any single investment, risk and return are only parts of the story. Correlations of an asset's returns with the returns on other assets are also relevant. In general, gold price changes have a near-zero correlation with stock returns. Gold thus appears to be an effective diversifying asset for an equity investor. Furthermore, gold prices generally have been highly correlated with the rate of inflation in the United States as measured by changes in the Consumer Price Index. This is consistent with gold's traditional role as a hedge against inflation, because higher inflation generally brings higher gold prices. Investors interested in gold need not restrict themselves to bullion. Other possibilities range from stocks of gold mining companies to gold futures to gold coins and commemoratives. Furthermore, there are other types of precious metals, such as silver, that investors may want to consider*Current Assets The second category of assets*

included in the balance sheet are current assets. In contrast to fixed assets, they are short-term in nature. They refer to assets/resources, which are either held in the form of cash or ate expected to be realized to cash within the accounting period in the normal operation cycle of the business. The term 'operating cycle' means the time span during which cash is converted into inventory, inventory, into receivable /cash sales and receivables into cash. Conventionally, such assets are held for a short period of time, usually not more than a year. These are also known as liquid assets. Current assets include cash, marketable securities, accounts receivable (debtors), notes/bills receivables and inventory. Is the most liquid current asset and includes cash to hand and cash at bank. It provides instant liquidity and can be used to meet obligations/acquire without assets without any delay.

Are short-term investments, which are both readily marketable and are expected to be converted into cash within a year. They provide an outlet to invest temporary surplus /idle funds/cash. According to generally accepted accounting principles, marketable securities are shown in the balance sheet below the cost or the market price. When, however, show at cost, the current market value is also shown in parenthesis.Represent the amount that the customers owe to the firm, arising from the sale of goods o credit they are shown in the balance sheet at the amount owed less an allowance (bad debts) for the portion which may but be collected.

Refer the amounts owned by outsiders for which written acknowledgments of the obligations are available. Means the aggregate of those items which are (i) held for sale in the ordinary course of business (finished goods), (ii) in the process of production for such sales (work-in-process) or (iii) to be currently consumed in the production of goods and services (raw materials) to be available for sale. It is the least liquid current assets. Included in inventory are raw materials, working process (semi-finished) and finished goods. Each of these serves a useful purpose in the process of production and sale. Inventory is reported in the balance sheet at the cost or market value whichever is lower.Investments the third category of fixed assets is investments. They represent investments of funds in the securities of another company.

They are long-term assets outside the business of the firm. The purpose of such investments is either in earn return or/and to control another company. It is customarily shown in the balance sheet at costs with the market value shown in parenthesis.Other assets included in this category of assets are what are called deferred charges that are advertisement expenditure preliminary expenses and so on. The second major content of the balance sheet is liabilities defined as the claims of outsiders that is, other than owners. The assets have to be financed by different sources. One of source of funds is borrowing – long-term as well as short-term. The firms can borrow on a long-term basis from financial institutions/banks or through bonds/mortgages/debentures, and so on. The short-term borrowing may be in the form of purchase of goods and services on credit. These outside sources from which a firm can borrow are termed as liabilities. Since they finance the assets, they are, in a sense, claims against the assets. The amount shown against the liability items is on the basis of the amount owned, not the amount payable. Depending upon the periodicity of the funds, liabilities can be classified into (1) long-term liabilities and (2) current liabilities.They are so called because the sources of funds included in them are available for periods exceeding one year. In other words, such liabilities represent obligations of a firm payable after the accounting period. Debentures or bonds are issued by a firm to the public to raise debt. A debenture or a bond is a general obligation of the firm to pay interest and return the principal sum as per the agreement. Loan raised through Issue of debentures or bonds may be secured or unsecured.Secured loans are the long-term borrowings with fixed assets pledged as security. Term loans from financial institutions and commercial banks are secured against the assets of the firm.They have to be repaid/redeemed either in lump sum at the maturity of the loan/debenture or in installments over the life of the loan. Long-term liabilities are shown in the balance sheet net of redemption/repayment.In contrast, the long term-liabilities, such liabilities are obligations to outsiders repayable in a short period, usually within the accounting period or the operating cycle of the firm. It can be said to be the counterpart of the current assets. Conventionally, they are paid; out of the current assets; in some cases, however existing current liabilities can be liquidated through the creation of additional current liabilities.Sundry creditors or accounts payable represent the current liability towards suppliers from whom the firm has purchased raw materials on credit. This liability is shown in the balance sheet till the payment has been made to the creditors.

Bills payable are the promises made in writing by the firm to make payment of a specified sum to creditors at some specific date. Bills are written by creditors over the firm and become bill payable once they are accepted by the firm. Bills payable have a life of less than a year; therefore, they are shown as current liabilities in the balance sheet.

Bank borrowings form a substantial part of current liabilities of a large number of companies in India. Commercial banks advance short-term credit to firms or financing their current assets. Banks may also provide funds (term loans) for a financing a firm's fixed assets. Such loans will be grouped under long-term liabilities. In India, it is a common practice to include both short and long-term borrowings under loan funds.

Provisions are other types of current liabilities. They include provision for taxes or provision for dividends. Every business has to pay taxes on its income. Usually, it takes some time to finalize the amount of tax with the tax authorities. Therefore, the amount of tax is estimated and shown as provision for taxes or tax liability in the balance sheet. Similarly, provision for paying dividends to shareholders may be created and shown as current liability.

Expenses payable or outstanding expenses are also current liabilities. The firm may owe payments to its employees and others at the end of the accounting period for the services received in the current year. These payments are payable within a very short period. Examples of outstanding expenses are wages payable, rent payable, or commission payable.

Income received in advance is yet another example of current liability. A firm can sometimes receive income for gods or services to be supplied in the future. As goods or services have to be provided within the accounting period, such receipts are shown as current liabilities in the balance sheet.

Installments of long-term loans are payable periodically. That portion of the long-term loan which is payable in the current year will for part of current liabilities.

Deposits from public may be raised by a firm for financing its current assets. These may therefore classify under current liabilities. It may be noted that public deposits may be raised for duration of one year through three years.

How should the changing value of a fixed asset be reflected in a company's accounts?

The benefits that a business obtains from a fixed asset extend over several years. For example, a company may use the same piece of production machinery for many years, whereas a company- owned motor car used by a salesman probably has a shorter useful life.

By accepting that the life of a fixed asset is limited, the accounts of a business need to recognize the benefits of the fixed asset as it is "consumed" over several years.

This consumption of a fixed asset is referred to as depreciation.

Financial Reporting Standard 15 (covering the accounting for tangible fixed assets) defines depreciation as follows:

"the wearing out, using up, or other reduction in the useful economic life of a tangible fixed asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for goods and services produced by the asset".

A portion of the benefits of the fixed asset will be used up or consumed in each accounting period of its life in order to generate revenue. To calculate profit for a period, it is necessary to match expenses with the revenues they help earn.

In determining the expenses for a period, it is therefore important to include an amount to represent the consumption of fixed assets during that period (that is, depreciation).

In essence, depreciation involves allocating the cost of the fixed asset (less any residual value) over its useful life. To calculate the depreciation charge for an accounting period, the following factors are relevant:

- The cost of the fixed asset;

- The (estimated) useful life of the asset;

- The (estimated) residual value of the asset.

What is th relevant cost of a fixed asset?

The cost of a fixed asset includes all amounts incurred to acquire the asset and any amounts that can be directly attributable to bringing the asset into working condition.

Directly attributable costs may include:

- Delivery costs

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- Costs associated with acquiring the asset such as stamp duty and import duties

- Costs of preparing the site for installation of the asset

- Professional fees, such as legal fees and architects' fees Note that general overhead costs or administration costs would not costs of a fixed asset (e.g. the costs of the factory building in which the asset is kept, or the cost of the maintenance team who keep the asset in good working condition) The cost of subsequent expenditure on a fixed asset will be added to the cost of the asset provided that this expenditure enhances the benefits of the fixed asset or restores any benefits consumed.

PROCESS

Although the useful life of equipment (a fixed asset) may be long, it is nonetheless limited. Eventually the equipment will lose all productive worth and will possess only salvage value (scrap value). Accounting demands a period-by-period matching of costs against income. Hence, the cost of a fixed asset (over and above its salvage value) is distributed over the asset's estimated lifetime. This spreading of the cost over the periods which receive benefits is known as depreciation.

The depreciable amount of a fixed asset – that is, cost minus salvage value – may be written off in different ways. For example, the amount may be spread evenly over the years affected, as in the straight-line method.

The units of production method bases depreciation for each period on the amount of output. Two accelerated methods, the double declining balance method and the sum-of-the years'-digits method, provide for greater amounts of depreciation in the earlier years.

METHODS

1. STRAIGHT-LINE METHOD

This is the simplest and most widely used depreciation method. Under this method an equal portion of the cost (above salvage value) of the asset is allocated to each period of use. The periodic depreciation charge is expressed as

$$\frac{\text{Cost} - \text{Salvage Value}}{\text{Estimated life}} = \text{Depreciation}$$

2. UNITS OF PRODUCTION METHOD

Where the use of equipment varies substantially from year to year, the units-of-production method is appropriate for determining the depreciation. For example, in some years logging operations may be carried on for 200 days, in other years for 230 days, in still other years for only 160 days, depending on weather conditions. Under this method, depreciation is computed for the appropriate unit of output or production (such as hours, miles, or pounds) by the following formula:

$$\frac{\text{Cost} - \text{Salvage}}{\text{Estimated units of production during lifetime}} = \text{Unit Depreciation}$$

The total number of units used in a year is then multiplied by the unit depreciation to arrive at the depreciation amount for that year. We can express this as

Unit depreciation x usage = depreciation

Or

$$\frac{\text{Cost} - \text{Salvage}}{\text{Estimated life (in units)}} X \text{ usage} = \text{depreciation}$$

This method has the advantage of relating depreciation cost directly.

3. DOUBLE DECLINING BALANCE METHOD

The double declining balance method produces the highest amount of depreciation in the earlier years. It does not recognize salvage or scrap value. Instead, the book value of the asset remaining at the end of the depreciation period becomes the salvage or scrap value. Under this method, the straight-line rate is doubled and applied to the declining book balance each year.

Many companies prefer the double declining balance method because of the greater "write-off" in the earlier years, a time when the asset contributes most to the business and when the expenditure was actually made. The procedure is to apply a fixed rate to the declining book value of the asset each year. As the book value declines, the depreciation becomes smaller.

100%

_____ X 2 = depreciation rate
Estimated life in years

4. SUM-OF-THE-YEARS-DIGITS METHOD

With this method, the years of asset's lifetime are labeled 1,2,3 and so on, and the depreciation amounts are based on a series of fractions that have the sum of the years' digit as their common denominator. The greatest digit assigned to a year is used as the numerator for the first year, the next greatest digit for the second year, and so forth.

What is the Useful Life of a fixed asset?

An asset may be seen as having a physical life and an economic life. Most fixed assets suffer physical deterioration through usage and the passage of time. Although care and maintenance may succeed in extending the physical life of an asset, typically it will, eventually, reach a condition where the benefits have been exhausted.

However, a business may not wish to keep an asset until the end of its physical life. There may be a point when it becomes uneconomic to continue to use the asset even though there is still some physical life left.

The economic life of the asset will be determined by such factors as technological progress and changes in demand. For purposes of calculating depreciation, it is the estimated economic life rather than the potential physical life of the fixed asset that is used

What about the Residual Value of a fixed asset?

At the end of the useful life of a fixed asset the business will dispose of it and any amounts received from the disposal will represent its residual value. This, again, may be difficult to estimate in practice. However, an estimate has to be made. If it is unlikely to be a significant amount, a residual value of zero will be assumed.

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