

Efficiency of Management in Utilising Fixed Assets: An Assessment

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Abstract

The investment in fixed assets is imperative for carrying out the operating activities of a business concern. The sales of the business concern depend upon how efficiently the investment made in current assets and fixed assets is managed. It determines the profitability, risk reduction, growth, development and social goals of the business concern. The efficient use of fixed assets is a challenging task. This is true especially in the case of manufacturing concern because the efficiency of management in utilising fixed assets depends upon the demand for the product, the degree of competition in the industry, the competitive strength, the opportunities and threats available in the business environment and the strategic approach in managing the changing business environment in the present era of liberalised and globalised economy. The efficient use of fixed assets in generating sales is one of the significant aspects of fixed assets management. The business concern must always plan for efficient use of fixed assets so as to generate high sales volume. The present paper focuses on the real corporate world practices regarding how efficiently the investment made in fixed assets is managed. The main aim is to enlighten the shareholders, creditors, investors, bankers, prospective entrepreneurs, students and academicians relating to efficient utilisation of fixed assets and its implications. The study would reveal how far the fixed assets have been utilised, to what extent sales generated and to what extent available production capacity utilised.

1. INTRODUCTION

Investment decision is the second most important decision in the area of financial management. It relates to the investment of funds in fixed assets and in current assets. The investment decision relating to fixed assets is called Capital Budgeting Decision. Khan. Y and Jain. P.K pointed out that, "Capital budgeting decisions pertain to fixed/long-term assets which by definition refer to assets which are in operations and yield a return, over a period of time, usually exceeding one year. They, therefore, involve current outlay or a series of outlays of cash resources in return for an anticipated flow of future benefits." Such an investment decision involves a careful consideration of various factors, viz., profitability, safety, liquidity, solvency, etc. A heavy capital investment may be necessary for replacement of fixed assets, expansion of business, diversification of business and research and development.

Capital budgeting is commonly referred to fixed assets management. The fixed assets management is concerned with determining the source of financing and the level of investment in fixed assets and the efficient use of fixed assets to generate high sales volume. It is an integral part of the overall financial management. The main aim of fixed assets management is to avoid over investment and under investment in fixed assets. An over investment in fixed assets means unprofitable employment of capital which may lead to the payment of dividend out of capital. Under investment, on the other hand, is an indication that the firm has an inadequate capacity to meet demand which leads to a loss of profitable business opportunity.

Utilisation of fixed assets has become the most important activity in fixed assets management. It refers to how efficiently the investment made in fixed assets is managed to generate high sales volume. In other words, it is concerned with the efficient use of fixed assets in generating high sales volume. It involves the full utilisation of available capacity, to prevent inefficiency in production and sales, to reduce higher overhead charges and to increase profit. For the financial success of a company, a strategy for the efficient use of fixed assets to generate high sales volume is essential.

2. OBJECTIVES OF THE STUDY

- To study the importance of efficient utilisation of fixed assets.
- To analyse the efficiency of management in utilising fixed assets of selected public limited companies.

3. DATA BASE AND METHODOLOGY

The present study is based on secondary data. The relevant secondary data was collected from the annual reports of Hero Motorcorp Limited, Bajaj Auto Company Limited and TVS Motor Company Limited, books, journals, magazines and other documents. This is an analytical study of the efficiency of management in utilising fixed assets of Hero Motorcorp Limited, Bajaj Auto Company Limited and TVS

Motor Company Limited for the period of 10 years from 2008-2009 to 2017-2018.

3.1. Tools for Analysis

Ratio analysis has been used as a tool of evaluating the efficiency of management in utilising fixed assets of Hero Motorcorp Limited, Bajaj Auto Company Limited and TVS Motor Company Limited. Statistical tools such as averages, percentages have been used to quantify the data.

3.2. Limitation of the study

The present paper attempts to examine the perspective of the efficiency of management in utilising fixed assets of Hero Motorcorp Limited, Bajaj Auto Company Limited and TVS Motor Company Limited. All other aspects of fixed assets management of Hero Motorcorp Limited, Bajaj Auto Company Limited and TVS Motor Company Limited have not been focused in this paper for the present study.

4. THE IMPORTANCE OF UTILISING FIXED ASSETS

The most important activity in fixed assets management is utilisation of fixed assets. It is concerned with the efficient use of fixed assets to generate high sales volume. The efficient use of fixed assets will result in high sales volume and optimum utilisation of available capacity. This will reduce the cost of production and higher overhead charges and increase the profit of the company. The inefficient use of fixed assets, on the other hand, will result in low sales volume and under utilisation of available capacity. This will increase the cost of production and overhead charges and reduce the profit of the company. So, the management must strive for utilising fixed assets at optimum level to achieve higher return on investment.

5. ANALYSIS OF THE EFFICIENCY OF MANAGEMENT IN UTILISING FIXED ASSETS

The efficiency of management in utilising fixed assets of Hero Motorcorp Limited, Bajaj Auto Company Limited and TVS Motor Company Limited has been analysed with the help of an analytical tool, 'the ratio of sales to fixed assets or fixed assets turnover ratio' as below:

5.1. Sales to Fixed Assets (or Fixed Assets Turnover) Ratio

Investment in fixed assets is made by the business concern solely for the purpose of generating sales. Sales to fixed assets ratio expresses the relationship between Sales and Fixed Assets. This ratio is helpful to assess what extent the investment in fixed assets contributes towards sales. The main purpose of this ratio is to measure the efficiency

of management in utilising fixed assets. Fixed assets here mean fixed assets minus depreciation. The ratio is computed as below:

$$\text{Sales to Fixed Assets Ratio} = \frac{\text{Net Sales}}{\text{Net Fixed Assets}}$$

The financial experts are of the opinion that the standard ratio is 5:1 in the case of manufacturing concerns. A high sales to fixed assets ratio is an indication of efficient utilisation of fixed assets. This will reduce the cost of production and enhance profit. A low sales to fixed assets ratio, on the other hand, is an indication of inefficient utilisation of fixed assets. This will increase the cost of production and reduce profit.

Table- 1. Exhibits the Sales to Fixed Assets Ratio of Hero Motorcorp Limited as below:

Table-1
Sales to Fixed Assets Ratio of Hero Motorcorp Limited
For The Period from 2008-2009 to 2017-2018

Year	Net Sales Rs in corer	Net Fixed Assets Rs in corer	Sales to Fixed Assets Ratio(in times)
2008-2009	12,325.38	1,694.25	7.28
2009-2010	15,839.58	1,706.92	9.28
2010-2011	19,397.93	4,130.24	4.70
2011-2012	23,579.03	3,824.35	6.17
2012-2013	23,768.11	3,133.07	7.59
2013-2014	25,275.47	3,097.36	8.16
2014-2015	27,585.30	3,625.24	7.61
2015-2016	28,599.30	4,442.14	6.44
2016-2017	28,500.46	4,860.64	5.86
2017-2018	32,230.49	4,972.93	6.48
$\bar{x}$	_____	_____	6.96

Source: Compiled and computed from the Annual Reports of Hero Motorcorp Limited.

$\bar{x}$ - Stands for Arithmetic Mean.

From the above Table -1, it is clear that the ratio of sales to fixed assets has been fluctuating between 4.70 times and 9.28 times during the period under study with a

mean figure of 6.96 times. It increased from 7.28 times in 2008-2009 to 9.28 times in 2009-2010. Then, it decreased from 9.28 times in 2009-2010 to 4.70 times in 2010-2011. It again increased from 4.70 times in 2010-2011 to 8.16 times in 2013-2014. It again decreased from 8.16 times in 2013-2014 to 5.86 times in 2016-2017. Then, it again increased from 5.86 times in 2016-2017 to 6.48 times in 2017-2018. The ratio has been much above 5 times in most of the years under study. The average ratio is also above 5 times ie, 6.96 times. It reveals that there is a high sales to fixed assets ratio as against the standard norm of 5:1 in most of the years under study. This means that the Hero Motorcorp Limited has efficiently utilised the investment made in fixed assets to generate sales in most of the years under study.

The main inference could be drawn from the above analysis is that the efficiency of management of the Hero Motorcorp Limited in the utilisation of fixed assets is very good. The efficient use of fixed assets, thus, resulted in high sales volume and optimum utilisation of available capacity.

Table- 2. Exhibits the Sales to Fixed Assets Ratio of Bajaj Auto Company Limited as below:

Table-2

Sales to Fixed Assets Ratio of Bajaj Auto Company Limited
For The Period from 2008-2009 to 2017-2018

Year	Net Sales Rs in corer	Net Fixed Assets Rs in corer	Sales to Fixed Assets Ratio(in times)
2008-2009	8,700.17	1,648.77	5.28
2009-2010	11,813.25	1,600.43	7.38
2010-2011	16,398.23	1,552.57	10.56
2011-2012	19,528.98	1,523.38	12.82
2012-2013	19,997.25	2,097.98	9.53
2013-2014	20,149.51	2,150.10	9.37
2014-2015	21,612.01	2,172.18	9.95
2015-2016	22,586.52	2,138.34	10.56
2016-2017	21,766.68	2,043.96	10.65
2017-2018	25,164.92	1,934.80	13.01
$\bar{x}$	—	—	9.91

Source: Compiled and computed from the Annual Reports of Bajaj Auto Company Limited.

$\bar{x}$ - Stands for Arithmetic Mean.

From the above Table -2, it is clear that the ratio of sales to fixed assets has been fluctuating between 5.28 times and 13.01 times during the period under study with a mean figure of 9.91 times. It increased from 5.28 times in 2008-2009 to 12.82 times in 2011-2012. Then, it decreased from 12.82 times in 2011-2012 to 9.37 times in 2013-2014. It again increased from 9.37 times in 2013-2014 to 13.01 times in 2017-2018. The ratio has been much above 5 times in all the years under study. The average ratio is also above 5 times ie, 9.91 times. It reveals that there is a high sales to fixed assets ratio as against the standard norm of 5:1 in all the years under study. This means that the Bajaj Auto Company Limited has also efficiently utilised the investment made in fixed assets to generate sales in all the years under study.

The main implication from the above analysis is that the efficiency of management of the Bajaj Auto Company Limited in the utilisation of fixed assets is also very good. The efficient use of fixed assets, thus, resulted in high sales volume and optimum utilisation of available capacity. Table- 3. Exhibits the Sales to Fixed Assets Ratio of TVS Motor Company Limited as below:

Table-3
Sales to Fixed Assets Ratio of TVS Motor Company Limited
For The Period from 2008-2009 to 2017-2018

Year	Net Sales Rs in corer	Net Fixed Assets Rs in corer	Sales to Fixed Assets Ratio(in times)
2008-2009	3,670.72	1,036.37	3.54
2009-2010	4,363.11	982.78	4.44
2010-2011	6,288.02	994.98	6.32
2011-2012	7,126.20	1,078.08	6.61
2012-2013	7,065.00	1,047.57	6.74
2013-2014	7,961.85	1,173.79	6.78
2014-2015	10,098.22	1,418.99	7.12
2015-2016	11,104.66	1,750.55	6.34
2016-2017	12,135.31	2,046.15	5.93
2017-2018	15,129.66	2,503.00	6.05
$\bar{x}$	—	—	5.99

Source: Compiled and computed from the Annual Reports of TVS Motor Company Limited.

$\bar{x}$ - Stands for Arithmetic Mean.

From the above Table -3, it is clear that the ratio of sales to fixed assets has been fluctuating between 3.54 times and 7.12 times during the period under study with a mean figure of 5.99 times. It increased from 3.54 times in 2008-2009 to 7.12 times in 2014-2015. Then, it decreased from 7.12 times in 2014-2015 to 5.93 times in 2016-2017. It again increased from 5.93 times in 2016-2017 to 6.05 times in 2017-2018. The ratio has been much above 5 times in most of the years under study. The average ratio is also above 5 times i.e., 5.99 times. It reveals that there is a high sales to fixed assets ratio as against the standard norm of 5:1 in most of the years under study. This means that the TVS Motor Company Limited has also efficiently utilised the investment made in fixed assets to generate sales in most of the years under study.

The main inference could be drawn from the above analysis is that the efficiency of management of the TVS Motor Company Limited in the utilisation of fixed assets is also very good. The efficient use of fixed assets, thus, resulted in high sales volume and optimum utilisation of available capacity.

6. FINDINGS AND SUGGESTIONS

Fixed assets management is one of the important aspects of financial management as it has long-term impact on earning, dividend and share value of the firm. The most important activity in fixed assets management is utilisation of fixed assets. Fixed assets should be managed efficiently since they are the earning assets of firm.

The efficiency of management of Hero Motor Company Limited in utilising fixed assets to generate high sales volume is very good. This is evident from the Table-1 that the ratio of sales to fixed assets has been above 5 times in most of the years under study. The average ratio is also above 5 times i.e., 6.96 times. This is an effective financial management practice of this company concerning the utilisation of fixed assets. This reduces the cost of production, overhead charges and improves the operating efficiency which in turn enhances competitive strength and enables the company to exploit the business opportunities, to increase the profit and to achieve other objectives of business.

The efficiency of management of Hero Motor Company Limited in utilising fixed assets to generate high sales volume is very good. This fact has been verified by the ratio of sales to fixed assets which has been above 5 times in all the years under study. The average ratio is also above 5 times i.e., 9.91 times. This is an effective financial management practice of this company concerning the utilisation of fixed assets. This reduces the cost of production, overhead charges and improves the operating efficiency which in turn enhances competitive strength and enables the company to exploit the business opportunities, to increase the profit and to achieve other objectives of business.

The efficiency of management of TVS Motor Company Limited in utilising fixed assets to generate high sales volume is also very good. This is evident from the Table-3 that the ratio of sales to fixed assets has been above 5 times in most of the years under study. The average ratio is also above 5 times i.e., 5.99 times. This is an

effective financial management practice of this company concerning the utilisation of fixed assets. This reduces the cost of production, overhead charges and improves the operating efficiency which in turn enhances competitive strength and enables the company to exploit the business opportunities, to increase the profit and to achieve other objectives of business.

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