Fixed Assets Accounting: A Critical Analysis of Financial Evaluation

*CA Kamal Deep Sharma

Abstract

Fixed assets are not expected to be consumed or converted into cash within a year. Fixed assets are known as property, plant, and equipment (PP&E). They are also referred to as capital assets. A company's balance sheet statement consists of its assets, liabilities, and shareholders' equity. Assets are divided into current assets and noncurrent assets, the difference for which lies in their useful lives. Current assets are typically liquid assets which can be converted into cash in less than a year. Noncurrent assets refer to assets and property owned by businesses which are not easily converted to cash.

A fixed asset typically has a physical form and is reported on the balance sheet as property, plant, and equipment (PP&E). When a company acquires or disposes of a fixed asset, this is recorded on the cash flow statement under the cash flow from investing activities.

Research Gap

On the basis of the above literature it has been concluded that there is no major studies has been conducted on fixed assets accounting in India. The food processing industries has not much touched for research purpose. Hence, the researcher has selected this topic for the research purpose.

Objectives of The Study

The objectives of this study are as follows

1. To evaluate and analyze where selected food processing companies follow norms of disclosure regarding fixed assets accounting as suggested by Accounting Standard issued by the institute of Chartered Accountants of India.
2. To understand different fixed assets policy in selected food processing companies.
3. To analyze where selected food processing companies are follow uniform basis for charging depreciation.
4. To offer suggestion for fixed assets policy in regarding it future prospects.

Hypothesis of the Study

The study has been persuaded to test the following hypothesis with reference to Food processing Industry of our country:

H_01	There is no association among Fixed Assets Accounting and Profitability Position of the selected Food Processing Industries in India
H_02	There is no association among Fixed Assets Accounting and Liquidity Position of the selected Food Processing Industries in India
H_03	There is no relation among fixed assets policy and accounting in the Food Processing Industry in India
H_04	There is no proper fixed assets policy and accounting increase volume of production and quality of production.

Data Collection

Collection of data is very hard work for any types of research. The kind of data collected and the methods used to collect the data is a very important aspect of research. There are two basic means of data collection.

Primary Data

The primary data has been collected through personal interview of the company personnel's.

Secondary Data

The study is based on secondary data, drawn from the annual reports as found in the downloaded from the various websites. Other information related to the banks has been collected from various books, websites and magazines.

Analytical Techniques used for data analysis.

The Analytical Techniques of financial statement analysis has been used to ascertain and measure the relationships among the financial statement items. The following techniques has been used in the research for analysis:

1. Ratio analysis
2. Trend Analysis
3. Other Statistical Techniques Such as
   - Measures of Central Tendency
   - Measures of Dispersion
   - Index Number
   - Chi- Square test.
   - F-test etc.

Comparative Analysis of Net Profit to Fixed Assets Ratio

The comparative analysis of net profit to fixed assets ratio is explained in the following table:

Table: 1
Analysis of Net Profit to Fixed Assets Ratio
From 2012-13 to 2016-17

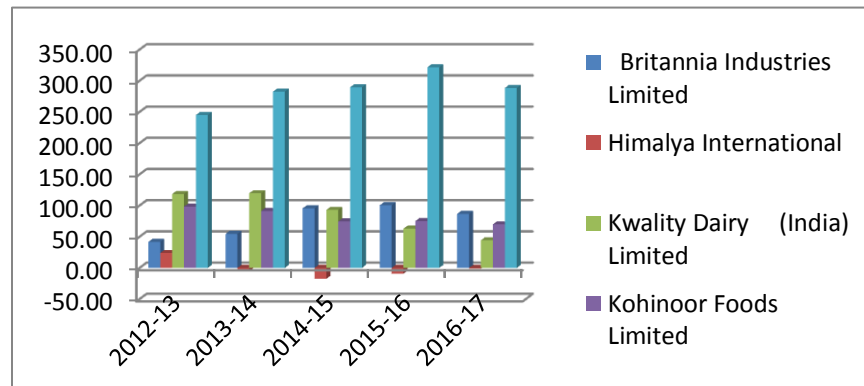| Year	Britannia Industries Limited	Himalya International	Kwality Dairy (India) Limited	Kohinoor Foods Limited	Heritage Foods (India) Limited	Range
2012-13	41.67	23.85	118.38	98.35	**245.07**	221.22
2013-14	54.61	-5.43	119.66	91.33	**282.60**	288.03
2014-15	95.54	-17.37	92.99	74.54	**289.65**	307.02
2015-16	100.41	-9.40	63.00	75.16	**321.61**	331.01
2016-17	86.65	-1.14	44.35	69.85	**288.42**	289.56
Highest	100.41	23.85	119.66	98.35	321.61	
Lowest	41.67	-17.37	44.35	69.85	245.07	
Range	58.74	41.22	75.31	28.50	76.54	

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Source: Annual Reports of the Selected Companies from 2012-13 to 2016-17

It can be drawn that the net profit to fixed assets ratio is marked highest in Heritage Foods (India) Limited during the period of study from 245.07 percent to 321.61 percent. It can also be explained by the following diagram:

Diagram: 1
Fixed Assets to Capital Employed Ratio

5.14   Comparative Analysis of Total Assets Ratio

Table: 2
Analysis of Total Assets Ratio
From 2012-13 to 2016-17

Year	Britannia Industries Limited	Himalya International	Kwality Dairy (India) Limited	Kohinoor Foods Limited	Heritage Foods (India) Limited	Range
2012-13	**13.77**	14.87	7.79	0.67	9.20	14.20
2013-14	**18.76**	-3.50	8.00	0.39	5.36	22.26
2014-15	**24.65**	-10.93	7.59	-4.69	9.64	35.58
2015-16	23.59	-5.74	6.37	0.27	**28.47**	34.21
2016-17	**21.52**	-0.67	5.98	-11.62	3.58	33.14
Highest	24.65	14.87	8.00	0.67	28.47	
Lowest	13.77	-10.93	5.98	-11.62	3.58	
Range	10.88	25.80	2.02	12.29	24.89	

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15.3

Source: Annual Reports of the Selected Companies from 2012-13 to 2016-17

It can be drawn from the above table that the total assets ratio is highest in Britania Industries Limited during the period of study. It was marked 13.77 percent which increased to 24.65 percent in 2014-15 except in 2015-16 which was marked highest in Heritage Foods Limited. Overall the ratio is marked good in Britania Industries Limited. It can also be explained by the following diagram:

Diagram: 2

Fixed Assets to Capital Employed Ratio
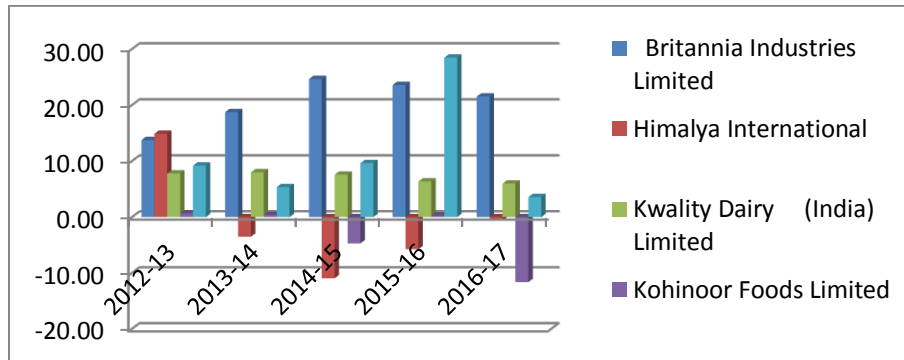
Chi-square Test of Net Profit to Fixed Assets Ratio

The analysis of chi-square test of net profit to fixed assets ratio is explained in the following table:

Table: 3

Chi-square Test of Net Profit to Fixed Assets Ratio

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	83.33[a]	84	.254
Likelihood Ratio	56.65	84	.601
Linear-by-Linear Association	3.54	1	.031
N of Valid Cases	25		

Inference Drawn

It is clear from the above table that the p value of net profit to fixed assets ratio of chi square test 0.254 is more than 0.05 hence, null hypothesis is rejected.

Chi-square Test of Total Assets Ratio

The analysis of chi-square test of total assets ratio is explained in the following table:

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Table: 4
Chi-square Test of Total Assets Ratio

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	63.22[a]	84	.365
Likelihood Ratio	46.21	84	.721
Linear-by-Linear Association	2.94	1	.152
N of Valid Cases	25		

Inference Drawn:

It is clear from the above table that the p value of the total assets ratio of chi square test 0.365 is more than 0.05 hence, null hypothesis is rejected.

Anova Test

The analysis of Anova test is explained in the following table:

Table: 5
Anova Test

ANOVA							
		Sum of Squares	df	Mean Square	F	Sig.	Decision
Fixed Assets Turnover Ratio	Between Groups	165.43	4	41.35	7.85	.001	Rejected
	Within Groups	105.25	20	5.26			
	Total	270.68	24				
Fixed Assets to Capital Employed Ratio	Between Groups	95.41	4	23.85	9.93	.000	Rejected
	Within Groups	48.03	20	2.40			
	Total	143.45	24				
Fixed Assets to Debt Ratio	Between Groups	84.43	4	21.10	8.32	.000	Rejected
	Within Groups	50.70	20	2.53			
	Total	135.137	24				
Net Profit to Fixed Assets Ratio	Between Groups	84.43	4	21.10	8.32	.000	Rejected
	Within Groups	50.70	20	2.53			
	Total	135.137	24				
Total Assets Ratio	Between Groups	84.43	4	21.10	8.32	.000	Rejected
	Within Groups	50.70	20	2.53			
	Total	135.137	24				

Inference Drawn:

It is clear from the above table that the p value of all the ratios are less than 0.05, hence, the null hypothesis is rejected. This means that there is no association among the ratios of the selected companies. The variation in the ratio lies on the basis of the performance and their working policies.

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Conclusion

On the basis of the above analysis it can be drawn that the Britania Industries Limited and Heritage Foods India Limited is marked good during the period of the study as compared to the other selected companies.

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