

# [Accounting methods of asset management](https://assignbuster.com/accounting-methods-of-asset-management/)

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Topic: Benchmarking Report - Accounting methods of Asset Management Capital Velo is very important for this is one of the tools used by stockholders to determine if their money is working well.   
Capital velocity helps us in analyzing whether the long term assets are more than the   
than the ownership costs like write offs, depreciation, insurance, rent etc. The balance sheet is better presented if the capital velocity ratio gets bigger encouraging the shareholders to maintain their investments or even better to excitingly infuse more necessary capital into the business. After investing additional investments, the investors will get a higher share of the total dividend income to be dispensed.   
2. The are many ways the long term assets can be presented in the balance sheet per reference to AASB 1010 and AASB 1041. AASB 38 has recently been replaced by AASB 1041. AASB 1010 and AASB 1041 speaks of new ways of presenting the long term assets like buildings, equipment, plant, etc. usually with concentration on presenting them using the fair value1. Comparison of the various benchmarking methods is enumerated below:   
1) Historical Cost - less accumulated depreciation (straight line) -   
BENCHMARKING METHODS:   
Historical   
Amount   
A   
Capital   
Buildings   
1, 000, 000. 00   
Plant   
500, 000. 00   
Machine   
500, 000. 00   
2, 000, 000. 00   
Inventory   
500, 000. 00   
2, 500, 000. 00   
B   
Labour   
Direct Labour   
2, 400, 000. 00   
Indirect labour   
180, 000. 00   
2, 580, 000. 00   
C   
Ownership cost   
Write offs   
240, 000. 00   
Depreciation   
(average 15 yrs)   
133, 333. 33   
Insurance   
80, 000. 00   
Lease   
-   
Rent   
-   
Fixed maintenance   
100, 000. 00   
553, 333. 33   
D   
Direct Materials   
Indirect Materials   
100, 000. 00   
Energy   
48, 000. 00   
Services   
36, 000. 00   
184, 000. 00   
E   
Sales   
6, 000, 000. 00   
F   
Accounts Receivable   
2, 400, 000. 00   
Value Added = (B + C) A   
1. 25   
Capital Velocity = A / C   
4. 52   
INCOME   
STATEMENT   
Sales   
6, 000, 000. 00   
Direct Materials   
700, 000. 00   
Direct Labour   
2, 400, 000. 00   
Factory Overhead   
884, 000. 00   
Total Manufacture cost   
3, 984, 000. 00   
Work in process beginning   
2, 000, 000. 00   
Total Placed in process   
5, 984, 000. 00   
Work in process end   
500, 000. 00   
Cost of goods manufactured   
5, 484, 000. 00   
Finished goods beginning   
200, 000. 00   
Goods available for sales   
5, 684, 000. 00   
Finished goods end   
80, 000. 00   
Cost of goods Sold   
5, 604, 000. 00   
Gross profit   
396, 000. 00   
Historical Cost P2, 000, 000. 00   
Less Accumulated Depreciation (1st yr of operation) 133, 333. 33   
Carrying Value P1, 866, 666. 67   
2) Revalued at Recoverable Value: Based on Australian Accounting Standards: AASB1041, AASB1010 (AAS38 has been replaced by AASB 1041)   
Historical   
Recoverable   
Amount   
Value   
A   
Capital   
Buildings   
1, 000, 000. 00   
250, 000. 00   
Plant   
500, 000. 00   
125, 000. 00   
Machine   
500, 000. 00   
2, 000, 000. 00   
125, 000. 00   
Inventory   
500, 000. 00   
500, 000. 00   
2, 500, 000. 00   
625, 000. 00   
B   
Labour   
Direct Labour   
2, 400, 000. 00   
2, 400, 000. 00   
Indirect labour   
180, 000. 00   
180, 000. 00   
2, 580, 000. 00   
2, 580, 000. 00   
C   
Ownership cost   
Write offs   
240, 000. 00   
240, 000. 00   
Depreciation   
(average 15 yrs)   
133, 333. 33   
200, 000. 00   
Insurance   
80, 000. 00   
80, 000. 00   
Lease   
-   
-   
Rent   
-   
-   
Fixed maintenance   
100, 000. 00   
100, 000. 00   
553, 333. 33   
620, 000. 00   
D   
Direct Materials   
Indirect Materials   
100, 000. 00   
100, 000. 00   
Energy   
48, 000. 00   
48, 000. 00   
Services   
36, 000. 00   
36, 000. 00   
184, 000. 00   
184, 000. 00   
E   
Sales   
6, 000, 000. 00   
6, 000, 000. 00   
F   
Accounts Receivable   
2, 400, 000. 00   
2, 400, 000. 00   
Value Added = (B + C) A   
1. 25   
5. 12   
Capital Velocity = A / C   
4. 52   
1. 01   
3) Revalued at fair value - It is valued as though it is to be sold on the balance sheet date. 2   
BENCHMARKING METHODS:   
Historical Cost   
Fair   
Value   
A   
Capital   
Buildings   
1, 000, 000. 00   
800, 000. 00   
Plant   
500, 000. 00   
400, 000. 00   
Machine   
500, 000. 00   
400, 000. 00   
Inventory   
500, 000. 00   
900, 000. 00   
B   
Labour   
Direct Labour   
2, 400, 000. 00   
Indirect labour   
180, 000. 00   
2, 580, 000. 00   
C   
Ownership cost   
Write offs   
240, 000. 00   
Depreciation   
(average 15 yrs)   
200, 000. 00   
Insurance   
80, 000. 00   
Lease   
-   
Rent   
-   
Fixed maintenance   
100, 000. 00   
620, 000. 00   
D   
Direct Materials   
Indirect Materials   
100, 000. 00   
Energy   
48, 000. 00   
Services   
36, 000. 00   
184, 000. 00   
E   
Sales   
6, 000, 000. 00   
F   
Accounts Receivable   
2, 400, 000. 00   
Value Added = (B + C) A   
3. 56   
Capital Velocity = A / C   
1. 45   
4) Revalued at Replacement Cost - Buying a new item to replace damaged or outmoded equipments etc. Due to the continuous rise of inflationary goods and services, replacement cost has a higher probability of going up.   
BENCHMARKING METHODS:   
Historical Cost   
Replacement   
A   
Capital   
Cost   
Buildings   
1, 000, 000. 00   
Plant   
500, 000. 00   
1, 200, 000. 00   
Machine   
500, 000. 00   
600, 000. 00   
Inventory   
600, 000. 00   
500, 000. 00   
1, 100, 000. 00   
B   
Labour   
Direct Labour   
Indirect labour   
2, 400, 000. 00   
180, 000. 00   
2, 580, 000. 00   
C   
Ownership cost   
Write offs   
Depreciation   
(average 15 yrs)   
240, 000. 00   
Insurance   
200, 000. 00   
Lease   
80, 000. 00   
Rent   
-   
Fixed maintenance   
-   
100, 000. 00   
620, 000. 00   
D   
Direct Materials   
Indirect Materials   
Energy   
100, 000. 00   
Services   
48, 000. 00   
36, 000. 00   
184, 000. 00   
E   
Sales   
F   
Accounts Receivable   
6, 000, 000. 00   
2, 400, 000. 00   
Value Added = (B + C) A   
2. 91   
Capital Velocity = A / C   
1. 77   
3. There are other parameters for generating value added when what is being benchmarked is not in goods production but involved actively in the government health department, service company, local council, etc.   
For local government health departments and councils , prompt delivery of health programs and services, without the usual redundant application forms, is highly recommended. Doctors track patients and refer them to specialists, when needed. Most sponsors and charitable organizations will donate medicines and other related health and economic needs to poor patients. Doctors may share patients' information with other health workers so there is lesser medical history interview time resulting in public health being handled faster. 3. Indigent patients are often admitted to hospitals with the cost of free medicines and doctors' free medical diagnosis and treatment resulting in higher value added. The local government can also give free services to indigent patients. This too increases the value added.   
CONCLUSION   
There are many benchmarking methods enumerated above. It is clearly stated in AASB 1041 and the related AASB 1010 that the company can choose the fair value, recoverable value, historical cost less accumulated depreciation or replacement cost method of asset valuation in the balance sheet. 4 Most companies prefer, based on citation 2 below, the historical cost less accumulated depreciation method. Of all the 4 methods listed above, the highest capital velocity falls obviously under the historical cost method. The highest value added percentage is undoubtedly found under recovery method. It uses the one time simple straight line depreciation method. The fair value method will result in annual adjustment of the asset values due to volatile market prices resulting in additional work to the accounting staff.   
CITATIONS   
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2 Australian companies not revaluing non-current assets under new accounting standard   
http://www. ey. com. August 22, 2005.   
3 Kristen West, The First Step in Redirecting Healthcare Savings to Cover People Who Cannot Afford Needed Healthcare. www. neworkassist. ruralhealth. has. gov.   
4 AASB 138 Intangible Assets Summary. www. dtf. wa-gov. au. August 22, 2005