

# Accounting methods of asset management

Business



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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. There 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 AASB 38 has recently been replaced by AASB 1041.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 value<sup>1</sup>.

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

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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

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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.

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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

1 ED 109- Highlights. [www. aasb. com. au](http://www.aasb.com.au). August 2, 2005

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[http://www. ey. com](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](http://www.neworkassist.ruralhealth.has.gov).

4 AASB 138 Intangible Assets Summary. [www. dtf. wa-gov. au](http://www.dtf.wa-gov.au). August 22, 2005