

**A**  
**PROJECT STUDY**  
**ON**  
**FIXED ASSETS MANAGMENT**  
**AT**  
**LG ELECTRONICS INDIA PVT LIMITED**  
**HYDERABAD, TELANGANA**

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## **DECLARATION**

The undersigned, hereby declare that this Project Report titled profitability analysis submitted by me to the Department of Business Management, David Memorial Institute of Management affiliated to Osmania University, Hyderabad, is a bonafide work undertaken by me and it is not submitted to any other University or Institution for the award of any degree diploma / certificate or published any time before.

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## **ABSTRACT**

Fixed Assets are the assets held with the intention of being used on continuous basis for the purpose of producing or providing goods or services and are not held for resale in the normal course of business. E.g.: Land and Buildings, Plant and Machinery, Motor Vehicles, Furniture and Fixtures. Valuation of fixed assets is important to have fair measure of profit or loss and financial position of the concern. Fixed assets are meant for use for many years.

The value of these assets decreases with their use or with time or many other reasons. In going concern aspect it is assumed that the business unit has reasonable expectation of continuing the business for a profit for an indefinite period of time. This assumption provides much of the justification for recording fixed assets at original cost and depreciating them in systematic manner without reference to their current realizable value. Fixed asset, also known as a non-current asset or as property, plant, and equipment (PP&E), is a term used in accounting for assets and property which cannot easily be converted into cash. This can be compared with current assets such as cash or bank accounts, which are described as liquid assets. In most cases, only tangible assets are referred to as fixed.





## TABLE OF CONTENTS

CHAPTER NO	CONTENT	PAGE NO.
i	List of Tables	
ii	List of Figures	
I	INTRODUCTION	
	1. Introduction.	1-4
	2. Need importance of the Study.	5-9
II	Review Literature	10-13
III	Research Methodology	
	1.research methodology	10
	2.definition of research problem	10
	3.objective of study	10
	4.scope of the study	11
	5.data source	11
	i primary data	
	ii secondary data	
	6.data analysis tools and techniques	13
	7.limitations of study	
IV	Theoretical Framework	14-27
V	Company profile	28-46
	Company Profile	
	1.vision	33
	2. mission	33
	3.policies	33
	4. products & service	38
	5.organization structure	41
VI	Research data analysis and Interpretation	47-59
	1 .formula	
	2.Table	

	3.interpetation 4. graph	
<b>VII</b>	<b>Research Findings and Conclusions</b>	<b>60-61</b>
<b>VIII</b>	<b>Suggestions and Recommendations</b>	<b>62</b>
	<b>BIBLIOGRAPHY</b>	



### LIST OF TABLES

TABLE NO.	CONTENT	PAGE NO.
1	Comparative analysis	
2	Growth total investment	
3	Growth rate in fixed assets	
4	Fixed assets to net worth ratio	
5	Fixed assets ratio	
6	Fixed assets as a percentage to current liabilities	
7	Total investment turn over ratio	
8	Fixed assets turn over ratio	
9	Return of total assets	

### LIST OF FIGURES

<b>FIGURE NO.</b>	<b>CONTENT</b>	<b>PAGE NO.</b>
<b>1</b>	<b>Graphical presentation on comparative analysis</b>	
<b>2</b>	<b>Graphical presentation on growth total investment</b>	
<b>3</b>	<b>Graphical presentation on growth rate in fixed assets</b>	
<b>4</b>	<b>Graphical presentation on fixed assets to net worth ratio</b>	
<b>5</b>	<b>Graphical presentation on fixed assets ratio</b>	
<b>6</b>	<b>Graphical presentation on fixed assets as percentage to current liabilities</b>	
<b>7</b>	<b>Graphical presentation on total investment turn over ratio</b>	
<b>8</b>	<b>Graphical presentation on fixed assets turn over ratio</b>	
<b>9</b>	<b>Graphical presentation on return of total assets</b>	

# **CHAPTER I**

## **INTRODUCTION**

## **INTRODUCTION:**

Fixed Assets are the assets held with the intention of being used on continuous basis for the purpose of producing or providing goods or services and are not held for resale in the normal course of business.

E.g.: Land and Buildings, Plant and Machinery, Motor Vehicles, Furniture and Fixtures.

Valuation of fixed assets is important to have fair measure of profit or loss and financial position of the concern. Fixed assets are meant for use for many years. The value of these assets decreases with their use or with time or many other reasons. A portion of fixed assets are reduced by usage are converted into cash through charging depreciation. For correct measurement of income, proper measurement of depreciation is essential, as depreciation constitutes a Part of total cost of production.

Financial transactions are recorded in the books, keeping in view the going concern aspect of the business unit. In going concern aspect it is assumed that the business unit has reasonable expectation of continuing the business for a profit for an indefinite period of time. This assumption provides much of the justification for recording fixed assets at original cost and depreciating them in a systematic manner without reference to their current realizable value

It is useless to record the fixed assets in the balance sheet at their estimated realizable values if there is no immediate expectation of selling them. So, they are shown at their book value (i.e., Cost – Depreciation) and not at current realizable value. The market value of the fixed assets may change with the passage of time, but for accounting purpose it continues to be shown in the books in historical cost.

The cost concept of accounting states that depreciation calculated on the basis of historical cost of old assets is usually lower than the amount calculated at current value/ replacement value. These results in more profits, which if distributed in full will lead to reduction in capital.

## **FIXED ASSETS MANAGEMENT CYCLE**

The fixed assets management cycle is the cycle of activities from the acquisition of the asset to the final disposition of the assets at the end of their useful life. The cycle has 7 steps:

**Acquisition:** The cycle begins with the acquisition, purchase, gift or otherwise, of an asset and the determination that the asset is to be capitalized. To be capitalized the asset has to meet the agency's capitalization limit and have a useful life of one year or more.

**Receiving:** The asset is formally received and accepted by the agency. Receipt may be verified by entry into an automated purchasing system or by hard copy document. In the case of donated fixed assets, receipt can be verified by a letter to the donor.

**Payment:** Payment is made for the asset according to the terms of the purchase order or recognition of acceptance of a gift to the donor. The payment includes the acquisition cost, freight and all other costs to put the asset. Acquisition cost of donated fixed assets is determined by its fair market value.

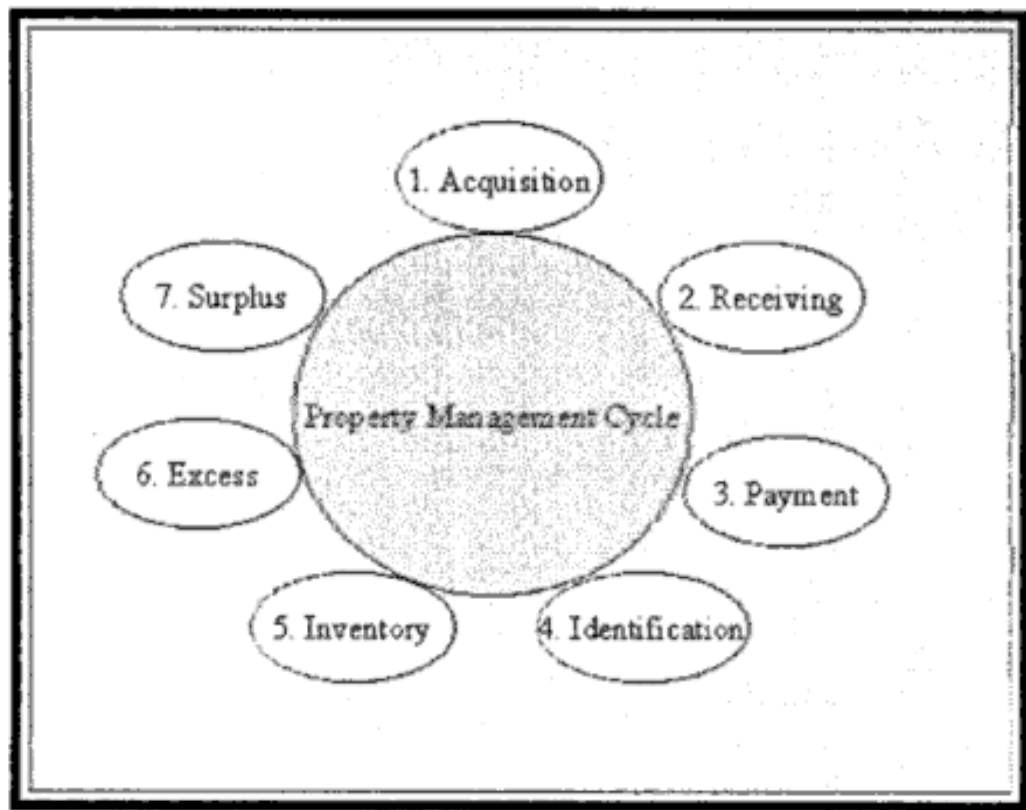
**Identification:** The asset is identified as an asset, tagged or otherwise identified and entered into the fixed assets management inventory system. Assets are identified with a permanently attached identification tag, etching or by painting on the identification number.

**Inventory:** The longest step in the cycle. The asset is used over its useful life. Assets are inventoried and accounted for during this step until they are no longer needed. The agency's policies and procedures determine the inventory interval.

**Excess:** the asset is declared as excess to the user's needs. The asset may be transferred to another user where it will continue to be used, accounted for and inventoried. Assets may be declared as excess more than once until the asset is no longer needed.

**Surplus:** The last step in the fixed assets management cycle. The asset is declared to be surplus property and to have no further value to the agency. The asset is disposed of by sale or discarding depending on the residual value. Sale can be by auction, sealed bid, spot sale,

or through a sales store.



### **FIXED ASSETS MANAGEMENT CYCLE**

### **NEED FOR STUDY:**

As fixed assets play an important role in company's objectives. These fixed are not convertible or not liquidable over a period of time. The owner's funds and long term liabilities are invested in fixed assets. Since, fixed assets play dominant role in the business and the firm has utilization of fixed assets. So, ratio contributes in analyzing and evaluating the performance of the business.

If firms fixed assets are idle and not utilized properly it affects the long-term sustainability of the firm, which may affect liquidity and solvency and profitability positions of the company. The idle of fixed assets leads to a tremendous loss in financial cost and intangible cost associate of it. So, this will lead to evaluation of fixed assets performance. Comparing with similar company and comparison with industry standards.

Fixed assets are the assets which cannot be liquidated into cash within one year. The huge amounts of funds of the company are invested in these assets. Every year company invests an additional fund in these assets directly or indirectly. The survival and other objectives of the company depend on operating performance of management i.e. effective utilization of these assets.

Firm has evaluated the performance, of fixed assets with proportion of capital employed on net assets turnover and other parameters which are helpful for evaluating the performance of fixed assets.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**



Fixed asset, also known as a non-current asset or as property, plant, and equipment (PP&E), is a term used in accounting for assets and property which cannot easily be converted into cash. This can be compared with current assets such as cash or bank accounts, which are described as liquid assets. In most cases, only tangible assets are referred to as fixed. Moreover, a fixed/non-current asset can also be defined as an asset not directly sold to a firm's consumers/end-users. As an example, a baking firm's current assets would be its inventory (in this case, flour, yeast, etc.), the value of sales owed to the firm via credit (i.e. debtors or accounts receivable), cash held in the bank, etc. Its non-current assets would be the oven used to bake bread, motor vehicles used to transport deliveries, cash registers used to handle cash payments, etc. Each aforementioned non-current asset is not sold directly to consumers.

**AmardeepWalia (2003)** in his article studied about the fixed assets management of the bank and found that deposits constitute 91 percent of funds. The loan portfolio of the bank was found unsound with 60 percent in investments and 35-49 percent in loans. The Credit Deposit ratio was less than 39 percent, the recovery was 97 percent and solvency position was also sound with CRAR of 12 percent. However the liquidity management was found to be unsatisfactory.

**VenugopalaRao (2001)** in his article stated that "in the context of competition, success of co-op banks depend upon the level of profitability." He opined that profitability will be sustained only if high level efficiency is ensured in the management of funds. The mobilization of resources at the lowest cost, deployment of funds for higher yield, good recovery performance and reduction of FAS are factors that ensure profitability. Funds management should also focus on reduction of risks in bank business and also on maintaining desired level of matching maturities.

**Dash (2000)** in his article remarked that the economic reform and liberalization process in India have paved the way for the UCBs to face onslaught of competition from both domestic and foreign financial institutions. Withstanding the volatility of market is a Herculean task for these banks. But as its positive side, he advised the UCBs to take these changes and challenges as opportunity. For this, the UCBs should manage their funds in a judicious manner by formulating strategies in the area of deposits mobilisation, credit management, investment and fixed assets management.

**Sathyanarayana (2000)** in his study "Managing banks through Balance sheet-A theme for planning" stated that banks cannot continue their planning process in the

conventional style of centering around a selected few parameters like deposits, advances, profits, non performing assets etc. Equity management, risk adjusted spread management, and burden management reflected in projected balance sheet, and profit and loss account areas to be concentrated at present. He emphasised the need for efficient operations to minimise the operational costs as well as risk for a given level of income and to concentrate on quantity, quality and pricing of assets.

**Ramesh and Patel (2007)** are two scholars who have done original work on the UCBs in Goa. They studied the growth trends of UCBs in Goa with selected variables for the period between 2005 to 2006. The brief macro level evaluation of the UCBs by them revealed that there was an overall improvement in performance of the UCBs and was satisfactory. But the growth trend during the second sub period was less than the growth recorded in the first sub period. Hence they suggested that the UCBs have to formulate appropriate strategies to improve their performance. Further, they opined that, vast majority of the UCBs are concentrated in four states namely Maharashtra, Andra Pradesh, Tarnilnadu and Karnataka. This wide regional imbalance in the growth and spread of the UCBs is a cause of concern also.

**Dash (2007)** in his article "A Practical Guide for Urban Co-operative Bar& on Income Recognition, Asset Classification & Reduction of FAS" gives an insight into the complexities involved in recovery management and the role of recovery as the key performance area in order to prevent the blocking of huge funds in nonperforming assets. He suggested follow up visits and liaison with borrowers as effective measures for reducing the FAS in the UCBs.

**Sudhakaran (2006)** in his study on "Performance Evaluation of Urban co-operative Banks in Kerala" observed that the beneficiaries of the UCBs are poor, unemployed or under employed, semi- literate belonging to the low salaried and small enterprises group of urban population. He suggested that the UCBs should be strengthened for the benefit of this low income group. The UCBs have to go a long way to make up the deficiencies in urban credit. He also observed that the UCBs have not adopted any innovative projects to channelise their surplus resources.

**Harry M. Markowitz (2003)** conceptualized the relationship between expected risk and return in an investment portfolio and provided a technique to measure them quantitatively in the selection of portfolio, selection and efficient diversification of investments. He classified the risk in investment into two namely a) diversifiable and

non diversifiable. He claimed and proved that risk can be reduced or spread through diversification.

**Namboothiri (2008)**, in his doctoral thesis examined the numerous and varied activities of the co-op banking system and the extent of competition faced by them from commercial banks and private financiers. In his opinion the --, operational efficiency of a bank is related to its internal organizational system, quality with which it transacts its business, the degree of service it provides to its constituents etc. He stressed the need for co-operative banks to equip themselves with adequate and competent management. Lack of uniformity in staff recruitment, high labour turn over, poor training to staff and inefficient evaluation and merit rating are serious areas of interest to CO operative bank management. For a fuller and detailed understanding of the working of the UCBs in Kerala, a comparison of the working of the UCBs with those of the UCBs in other state is also essential.

**Ojha, (2008)** while delivering the key note address at the seminar of chairmen of the UCBs in Maharashtra by the urban co-operative banks federation at Bombay spoke on the rationale behind the UCBs and the effort made by RBI to promote them through refinancing of their advances, allowing them to pay higher rate of interest on their deposits, reduced CRR and SLR. The rationale behind these concessions was that the UCBs should pool the resources of the low and middle income groups, inculcate a sense of thrift among them and use these resources for the economic benefit of the people in that area. Excessive concentration of advances in the hands of a few borrowers or connected groups of borrowers or a particular trade or industry opens up new and enhanced risks in their financial health.

**Venkiteswaran (2008)** studied about the operational efficiency of Primary Agricultural Co-operative Societies (PACS) in Kerala to measure the extend of achievement of PACS in credit disbursements and related aspects and its impact on agricultural production in Kerala. His studies revealed that PACS working on profit had a strong resource base, high rate of deposit mobilization, low borrowings, high distribution of agricultural advances and high rate of loan recovery compared to those incurring losses. He observed that PACS were the basic units engaged in providing rural credit and uplifting the weaker sections of the society. The PACS with sound financial footing were able to mobilise more deposits from their area of operation. The study also identified the major factors contributing to the resources of the PACS, such as cropping pattern and occupational structure of the members, saving habits of the

people, satisfaction to the beneficiaries arising from simplified loaning procedures and active participation of members in the affairs of the society. Among many proposals, the demand for deposit insurance was highly emphasized in his study

**Studies were made by Guptha (2081)** on performance of commercial banks. The performance of commercial banks, trends in banking after nationalization and the extent of deprivation of banking facilities in rural and remote areas of our country were the main focus. Their main suggestions include the need to regulate the service charges including interest rates which are not uniform even in the nationalized banks, necessity of developing suitable models of 'performance budget' in these banks covering all major banking functions, need for steps to improve quality of customer service standards measures to improve recovery of loans and need for professionalization of management.

**Shivaprasad (2003)** in his article "Advantage Customer" observed that the introduction of prudential norms of income recognition, asset classification and provisioning resulted in the growing menace of non-performing assets. Banks are competing with each other and are trying to make their product more and more attractive with several offers. "Here is a bank offering free of cost insurance coverage along with their home loan product. There is an agency offering zero interest customer loans and at another bank offering a service freely to their credit card holders and the list goes on.

**John Winfred (2006)** studied the Fixed assets Management of Central Co-operative Banks in India and found that fund mobilization is an important function of the UCBs. To keep the credit system in the most efficient order and to reduce the dependence on out side funds, they have to tap resources locally. To derive maximum benefits with minimum cost the resources have to be utilised judiciously without sacrificing the objectives of liquidity, safety and profitability. A judicious deployment of funds not only improves the income earning capacity of the banks but also reduces the regional and functional imbalances. He, in another context, discussed the need to analyse the cost and return of funds to understand the margin available for banks in the funds management process. The study found that the cost of deposits varied from bank to bank depending upon the level of current and saving deposits. In a study conducted on the district co-operative banks of Tamilnadu, he observed that slackness in recovery of loans resulted in mounting overdue and suggested regular and timely recovery action throughout the year instead of action at the close of the year. A

suggestion made by him was that the interest rate structure of the DCBs may be so devised as to provide for interest rate rebate, a reward for prompt repayment of loan in time. Another suggestion was that the State Government should ensure the observance of financial discipline by all parties concerned for a sound and sustained growth of co-operative credit system.

**CHAPTER-III**  
**RESEARCH METHODOLOGY**

## **RESEARCH METHODOLOGY:**

The data used for the analysis and interpretation is from annual reports of the company i.e., secondary forms of data. Ratio analysis is used for calculation purpose. The project is presented using tables, graphs and with their interpretations. No survey is undertaken or observation study is conducted by evaluating fixed assets performance of the company.

## **OBJECTIVES OF THE STUDY:**

The following are the objectives of the study

- 1.The study is conducted to know the amount of capital expenditure made by the company **LG ELECTRONICS LIMITED** during study period 2016-2017 to 2019-20.
- 2.The study is conducted to evaluate fixed assets performance of **LG ELECTRONICS LIMITED**.
- 3.The study is conducted to evaluate the fixed assets turnover of **LG ELECTRONICS LIMITED**.
4. The study is conducted to evaluate depreciation and method of depreciation adopted by **LG ELECTRONICS LIMITED**.
- 5.The study is conducted to know the amount of finance made by long-term liabilities and owners funds towards fixed assets.
- 6 .The study is conducted to evaluate whether fixed assets are giving adequate returns to the company
- 7.Study is conducted to evaluate that if fixed assets are liquidated, what proportion of it will contribute for the payment of owners fund and long-term liabilities.

## **SCOPE OF THE STUDY:**

- The project is covered on fixed assets of **LG ELECTRONICS LIMITED**.
- Drawn from annual reports of the company.
- The subject matter is limited to fixed assets, its analysis and its performance but not to any other areas of accounting corporate, marketing and financial matters

## **SOURCES OF DATA:**

**Primary Sources:** The primary data was collected through structured unbiased questionnaire and personal interviews of investors. For this purpose questionnaire included were both open ended & close ended & multiple-choice questions.

**Secondary method:** The secondary data collection method includes:

- **Websites**
- **Journals**
- **Text books**

## **Method Used For Analysis of Study**

The methodology used for this purpose is Survey and Questionnaire Method. It is a time consuming and expensive method and requires more administrative planning and supervision. It is also subjective to interviewer bias or distortion.

**Sample Size:** The data is collected from 2016-2020.

**Statistical Tools:** MS-excel and ratio analysis are used to analyze the data.



### **1. FIXED ASSETS TO NET WORTH RATIO :**

This ratio establishes the relationship between fixed assets and net worth .

Net worth = share capital + reserves and surplus + retained earnings

Fixed assets to net worth ratio = **Fixed assets / Net worth**

### **2. FIXED ASSET RATIO:**

This ratio explains whether the firm has raised adequate long term fund to meet its fixed assets required and is calculated as under:

= **Fixed assets (after depreciation) / Capital employed**

### **3. FIXED ASSETS AS A PERCENTAGE TO CURRENT LIABILITIES:**

The ratio measures the relationship between fixed assets and the funded debts and is very useful to the long term erection. The ratio can be calculated as shown below

Fixed assets as a percent of current liabilities = **Fixed Assets / Current liabilities**

### **4 TOTAL ASSETS TURN OVER RATIO:**

The ratio is calculated by dividing the net sales by the value of total assets that is (net sales/total investment) or (sales/total investment). A high ratio is an indicator of over trading of total assets while a low ratio reveals idle capacity. The traditional standard for the ratio is two times.

= **Net sales/Total Assets**

### **5. FIXED ASSETS TURNOVER RATIO:**

The ratio expresses the no. of times fixed assets are being turned over in a stated period. It is calculated under.

= **Netsales/ Net fixed assets (after depreciation)**

### **6.RETURN ON TOTAL ASSETS:–**

= **Profit after tax / Total assets**

### **7.TOTAL INVESTMENT TURN OVER RATIO:**

The total investment turnover ratio can be calculated by the formula as given under

**Total investment ratio = Net sales / Total investment**

## **LIMITATIONS OF THE STUDY**

The following are the limitations for the study

1. The study is limited into the date and information provided by the **LG ELECTRONICS LIMITED** and its annual reports.
2. The report may not provide exact fixed assets status and position of **LG ELECTRONICS LIMITED**; it may be varying from time to time and situation to situation.
3. This report is not helpful in investing in **LG ELECTRONICS LIMITED**
4. Either through disinvestments or capital market.
5. The accounting procedure and other accounting principles are limited by the changes made by the company, may vary fixed assets performance.

# **CHAPTER-IV**

## **THEORETICAL FRAMEWORK**

## **FIXED ASSET**

**Fixed asset**, also known as a **non-current asset** or as **property, plant, and equipment** (PP&E), is a term used in accounting for assets and property which cannot easily be converted into cash. This can be compared with current assets such as cash or bank accounts, which are described as liquid assets. In most cases, only tangible assets are referred to as fixed.

Moreover, a fixed/non-current asset can also be defined as an asset not directly sold to a firm's consumers/end-users. As an example, a baking firm's current assets would be its inventory (in this case, flour, yeast, etc.), the value of sales owed to the firm via credit (i.e. debtors or accounts receivable), cash held in the bank, etc. Its non-current assets would be the oven used to bake bread, motor vehicles used to transport deliveries, cash registers used to handle cash payments, etc. Each aforementioned non-current asset is not sold directly to consumers.

These are items of value which the organization has bought and will use for an extended period of time; fixed assets normally include items such as land and buildings, motor vehicles, furniture, office equipment, computers, fixtures and fittings, and plant and machinery. These often receive favorable tax treatment (depreciation allowance) over short-term assets. According to International Accounting Standard (IAS) 20, Fixed Assets are assets whose future economic benefit is probable to flow into the entity, whose cost can be measured reliably.

It is pertinent to note that the cost of a fixed asset is its purchase price, including import duties and other deductible trade discounts and rebates. In addition, cost attributable to bringing and installing the asset in its needed location and the initial estimate of dismantling and removing the item if they are eventually no longer needed on the location.

The primary objective of a business entity is to make profit and increase the wealth of its owners. In the attainment of this objective it is required that the management will exercise due care and diligence in applying the basic accounting concept of “Matching

Concept”. Matching concept is simply matching the expenses of a period against the revenues of the same period.

The use of assets in the generation of revenue is usually more than a year- that is long term. It is therefore obligatory that in order to accurately determine the net income or profit for a period depreciation is charged on the total value of asset that contributed to the revenue for the period in consideration and charge against the same revenue of the same period. This is essential in the prudent reporting of the net revenue for the entity in the period.

Net book value of an asset is basically the difference between the historical cost of that asset and its associated depreciation. From the foregoing, it is apparent that in order to report a true and fair position of the financial jurisprudence of an entity it is relatable to record and report the value of fixed assets at its net book value. Apart from the fact that it is enshrined in Standard Accounting Statement (SAS) 3 and IAS 20 that value of asset should be carried at the net book value, it is the best way of consciously presenting the value of assets to the owners of the business and potential investor.

### **Depreciating a Fixed Asset**

Depreciation is, simply put, the expense generated by the use of an asset. It is the wear and tear of an asset or diminution in the historical value owing to usage. Further to this; it is the cost of the asset less any salvage value over its estimated useful life. It is an expense because it is matched against the revenue generated through the use of the same asset. Depreciation is usually spread over the economic useful life of an asset because it is regarded as the cost of an asset absorbed over its useful life. Invariably the depreciation expense is charged against the revenue generated through the use of the asset. The method of depreciation to be adopted is best left for the management to decide in consideration to the peculiarity of the business, prevailing economic condition of the assets and existing accounting guideline and principles as implied in the organizational policies.

It is worth noting that not all fixed assets depreciate in value year-over-year. Land and buildings, for example, may often increase in value depending on local real-estate conditions.

A long-term tangible piece of property that a firm owns and uses in the production of its income and is not expected to be consumed or converted into cash any sooner than at least one year's time.

Fixed assets are sometimes collectively referred to as "plant".

- **Balance sheet - accounting for fixed assets**

## **Introduction**

An important distinction is made in accounting between "current assets" and "fixed assets".

**Current assets** are those that form part of the circulating capital of a business. They are replaced frequently or converted into cash during the course of trading. The most common current assets are stocks, trade debtors, and cash.

Compare current assets with fixed assets. A **fixed asset** is an asset of a business **intended for continuing use**, rather than a short-term, temporary asset such as stocks.

Fixed assets must be classified in a company's balance sheet as **intangible, tangible, or investments**. Examples of intangible assets include goodwill, patents, and trademarks. Examples of tangible fixed assets include land and buildings, plant and machinery, fixtures and fittings, motor vehicles and IT equipment.

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 recognise the benefits of the fixed asset as it is "consumed" over several years.

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

## **Definition of depreciation**

Financial Reporting Standard 19 (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.

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
- 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 be included as part of the total 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.

This means that major improvements or a major overhaul may be capitalised and included as part of the cost of the asset in the accounts.

However, the costs of repairs or overhauls that are carried out simply to maintain existing performance will be treated as expenses of the accounting period in which the work is done, and charged in full as an expense in that period.

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.

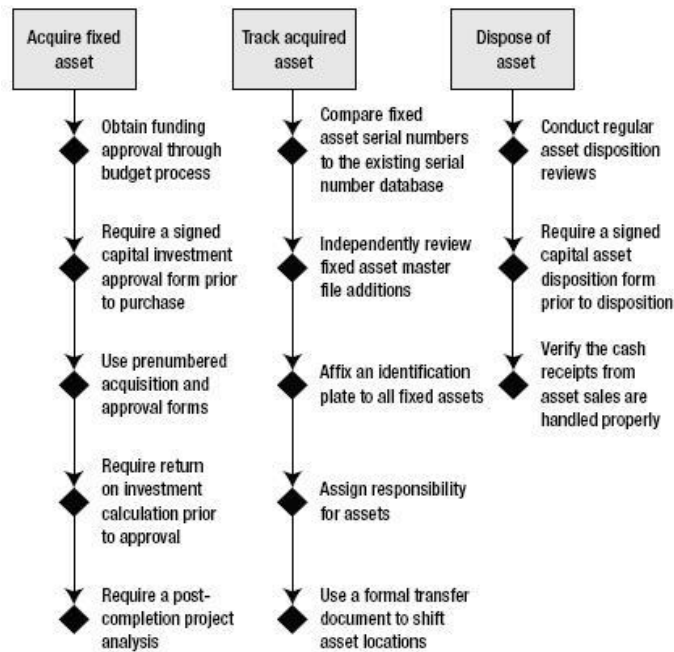
At the end of the useful life of a fixed asset the business will dispose of it and any amounts received from the disposal will represent its residual value. This, again, may be difficult to estimate in practice. However, an estimate has to be made. If it is unlikely to be a significant amount, a residual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

The cost of a fixed asset less its estimated residual value represents the total amount to be depreciated over its estimated useful life.

## **Fixed Asset Controls**

This section contains two dozen controls that can be applied to the acquisition, valuation, and disposal of fixed assets. Of this group, 17 are considered primary controls and are included in the flowchart in figure “System of Fixed Asset Controls”. The remaining 15 controls either do not fit into the various fixed asset transaction flows or are considered secondary controls that can bolster the primary controls as needed.

In essence, the system of controls for an asset acquisition requires that initial funding approval come from the annual budget, as well as additional approval through a formal capital investment form just prior to the actual acquisition. There should also be a post installation analysis of how actual project results compared to the estimates shown in the original capital investment form. The key controls used once an asset is installed are to tag it, assign specific responsibility for it, and ensure that any asset transfers are approved by the shipping and receiving managers.



## System of Fixed Asset Controls

The controls noted in the flowchart are described at greater length next, in sequence from the top of the flowchart to the bottom for each of the three types of fixed asset transactions.

- Obtain funding approval through the annual budgeting process. The annual budgeting process is an intensive review of overall company operations as well as of how capital expenditures are needed to fulfill the company's strategic direction. As such, capital expenditure requests should be included in the annual budget, thereby ensuring that they will be analyzed in some detail. Expenditure requests included in the approved budget still should be subjected to some additional approval at the point of actual expenditure, to ensure that they are still needed. However, expenditure requests not included in the approved budget should be subjected to a considerably higher level of analysis and approval, to ensure that there is a justifiable need for them.
- Require a signed capital investment approval form prior to purchase. Given the significant amount of funds usually needed to acquire a fixed asset, there always should be a formal approval process before a purchase order is issued. An example is

shown in figure below. Depending on the size of the acquisition, a number of approval signatures may be required, extending up to the company president or even the chair of the board of directors.

- Use prenumbered acquisition and disposal forms. If the company uses a manual system for fixed asset acquisitions and disposals, then it should acquire a set of prenumbered acquisition and disposal forms. By doing so, it can keep track of form numbers to ensure that none is lost prior to completion. This is also a good way to ensure that employees do not attempt to submit multiple acquisition authorization forms for the same asset, allowing them to order duplicate assets and make off with the extra items. For this to be a fully functional control, someone must be assigned the task of storing the forms in a secure location and monitoring which form numbers have been released for use.
- Require return on investment calculation prior to approval. Given the considerable size of some fixed asset investments, a reasonable control is to calculate the estimated return on investment to see if the investment exceeds the corporate hurdle rate. The return calculation can involve a variety of approaches, such as the payback period, net present value, or internal rate of return. All three calculations are included in the capital investment proposal form shown in figure below.
- Conduct a postcompletion project analysis. Managers have been known to make overly optimistic projections in order to make favorable cases for asset acquisitions. This issue can be mitigated by conducting regular reviews of the results of asset acquisitions in comparison to initial predictions and then tracing these findings back to the initiating managers. This approach can also be used at various milestones during the construction of an asset to ensure that costs incurred match original projections.
- Compare fixed asset serial numbers to the existing serial number database. There is a possibility that employees are acquiring assets, selling them to the company, then stealing the assets and selling them to the company again. To spot this behavior, always enter the serial number of each acquired asset in the fixed asset master file, and then run a report comparing serial numbers for all assets to see if there are duplicate serial numbers on record.
- Independently review fixed asset master file additions. A number of downstream errors can arise when fixed asset information is entered incorrectly in the fixed asset master file. For example, an incorrect asset description can result in an incorrect asset

classification, which in turn may result in an incorrect depreciation calculation. Similarly, an incorrect asset location code can result in the subsequent inability to locate the physical asset, which in turn may result in an improper asset disposal transaction. Further, an incorrect acquisition price may result in an incorrect depreciation calculation. To mitigate the risk of all these errors, have a second person review all new entries to the fixed asset master file for accuracy.

- Affix an identification plate to all fixed assets. If a company acquires assets that are not easily differentiated, then it is useful to affix an identification plate to each one to assist in later audits. The identification plate can be a metal tag if durability is an issue, or can be a laminated bar code tag for easy scanning, or even a radio frequency (RFID) tag. The person responsible for tagging should record the tag number and asset location in the fixed asset master file.
- Assign responsibility for assets. There is a significant risk that assets will not be tracked carefully through the company once they are acquired. To avoid this, formally assign responsibility for each asset to the department manager whose staff uses the asset, and send all managers a quarterly notification of what assets are under their control. Even better, persuade the human resources manager to include “asset control” as a line item in the formal performance review for all managers.
- Use a formal transfer document to shift asset locations. If the preceding control is implemented that assigns responsibility for specific assets to department managers, then the transfer of an asset to a different department calls for the formal approval of the sending and receiving department managers. Otherwise, managers can claim that assets are being shifted without their approval, so they have no responsibility for the assets.
- Conduct regular asset disposition reviews. Fixed assets decline in value over time, so it is essential to conduct a regular review to determine if any assets should be disposed of before they lose their resale value. This review should be conducted at least annually, and should include representatives from the accounting, purchasing, and user departments. An alternative approach is to create capacity utilization metrics (which is most easily obtained for production equipment) and report on utilization levels as part of the standard monthly management reporting package; this tends to result in more immediate decisions to eliminate unused equipment.

- Require a signed capital asset disposition form prior to disposition. There is a risk that employees could sell off assets at below-market rates or disposition assets for which an alternative in-house use had been planned. Also, if assets are informally disposed of, the accounting staff probably will not be notified and so will continue to depreciate an asset no longer owned by the company, rather than writing it off. To avoid these problems, require the completion of a signed capital asset disposition form, such as the one shown in figure below.
- Verify that cash receipts from asset sales are handled properly. Employees may sell a company's assets, pocket the proceeds, and report to the company that the asset actually was scrapped. This control issue can be reduced by requiring that a bill of sale or receipt from a scrapping company accompany the file for every asset that has been disposed of.

The preceding controls were primary ones required as part of the basic fixed asset transaction flows. In addition, the next ancillary controls either are general controls that operate outside of any specific transaction or are designed to provide additional risk mitigation.

- Segregate responsibilities related to fixed assets. If the person purchasing an asset also receives it, there is a considerable risk that the person will alter the purchasing documents to eliminate evidence of the receipt and then steal the asset. The same concern applies to several aspects of fixed assets transactions. A control over this situation is to segregate these types of responsibilities:
  - Fixed asset acquisition
  - Fixed asset transaction recording
  - Custody of the fixed asset
  - Fixed asset disposal
  - Reconciliation of physical assets to accounting records
- Restrict access to the fixed asset master file. The fixed asset master file contains all baseline information about an asset and is the source document for depreciation calculations as well as asset location information. If people were to gain illicit access to this file, they could make modifications to change depreciation calculations (thereby changing financial results) as well as modify locations (possibly resulting in

theft of the assets). To avoid these problems, always use password controls to restrict access to the fixed asset master file.

- Restrict facility access. If the company owns fixed assets that can be easily moved and have a significant resale value, there is a risk that they will be stolen. If so, consider restricting access to the building during nonwork hours and hire a security staff to patrol the perimeter or at least the exits.
- Install an alarm system to detect RFID-tagged assets. If the company has especially valuable fixed assets that can be moved, then consider affixing a RFID tag to each one and then installing a transceiver near every building exit that will trigger an alarm if the RFID tag passes by the transceiver.
- Reconcile fixed asset additions with capital expenditure authorizations. A good detective control to ensure that all acquisitions have been authorized properly is to periodically reconcile all fixed asset additions to the file of approved capital expenditure authorizations. Any acquisitions for which there is no authorization paperwork are then flagged for additional review, typically including reporting of the control breach to management.
- Increase the capitalization limit. A key problem with fixed asset tracking is that it involves a considerable amount of additional paperwork as well as ongoing depreciation calculations, which may so overwhelm the accounting staff that they are struggling to keep up with the paperwork rather than focusing on proper control of the assets themselves. This recommended control may seem counterintuitive, but increasing the capitalization limit reduces the number of assets designated as fixed assets, thereby allowing the accounting staff to focus its attention on the proper approval, tracking, and disposition of a smaller number of large-dollar assets. Thus, oversight of smaller assets is abandoned in favor of greater inspection of large-dollar asset transactions.
- Conduct a periodic fixed asset audit. The internal audit staff should schedule a periodic audit of fixed assets, reconciling the on-hand inventory to the accounting records. Given the considerable quantity of fixed assets that many companies maintain, it is acceptable to focus on the 20 percent of fixed assets that typically account for 80 percent of the invested cost of all fixed assets. An example of a report suitable for a fixed asset audit is shown in figure below.

- Verify the fair value assumptions on dissimilar asset exchanges. Accounting rules allow one to record a gain or loss on the exchange of dissimilar assets. Since this calculation is based on the fair value of the assets involved (which is not stated in the accounting records), the possibility exists for someone to artificially create an asset fair value that will result in a gain or loss. This situation can be avoided by having an outside appraiser review the fair value assumptions used in this type of transaction.
- Test for asset impairment. There are a variety of circumstances under which the net book value of an asset should be reduced to its fair value, which can result in significant reductions in the recorded value of an asset. This test requires a significant knowledge of the types of markets in which a company operates, the regulations to which it is subject, and the need for its products within those markets. Consequently, only a knowledgeable person who is at least at the level of a controller should be relied on to detect the presence of assets whose values are likely to have been impaired.
- Verify that correct depreciation calculations are being made. Though there is no potential loss of assets if incorrect depreciation calculations are being made, it can result in an embarrassing adjustment to a company's financial statements at some point in the future. This control should include a comparison of capitalized items to the official corporate capitalization limit to ensure that items are not being inappropriately capitalized and depreciated. The control should also include a review of the asset categories in which each individual asset has been recorded, to ensure that an asset has not been misclassified and therefore incorrectly depreciated.
- Verify that all changes in asset retirement obligation assumptions are authorized. A company can artificially increase its short-term profitability by altering the assumed amount of future cash flows associated with its asset retirement obligations. Since downward revisions to these assumptions will be reflected in the current period's income statement as a gain, any changes to these assumptions should be approved prior to implementation.

## **MANAGEMENT OF FIXED ASSETS:**

The selection of various fixed assets required for creating the desired production facilities and the decision regarding the determination of level of fixed assets in the capital structure is an important decision for the company to take for the smooth running of business. The decisions relating to fixed assets involve huge funds for long

period of time and are generally of irreversible nature affecting the long profitability of the business. Thus, management of fixed asset is of vital importance to any organization.

The process of Fixed Assets Management involves:

1. Selection of most worthy projects from the different alternatives of fixed assets.
2. Arranging the requisite funds/capital for the same.

The first important consideration is to acquire only that amount of fixed assets, which will be just sufficient to ensure smooth and efficient running of the business. In some cases it may be economical to buy certain assets in a lot size. Another important consideration to be kept in mind is possible increase in the demand of the firm's product needs the expansion of activities. Hence a firm should have that amount of fixed assets, which could adjust to increase demand.

Another aspect of fixed assets management is that a firm must ensure buffer stocks of certain essential equipments to ensure uninterrupted production in the events of emergencies. Sometimes, there may be some breakdown in some equipments or services affecting the entire production.

It is always better to have some alternative arrangements to deal with such situations but at the same time the cost of carrying such buffer stock should also be evaluated. Efforts should also be made to minimize the level of buffer stock of fixed assets so that there will be maximum utilization during that period.

**Fixed assets management** is an accounting process that seeks to track, Fixed assets for the purposes of financial accounting, preventive Maintenance, and theft deterrence. Many organizations face a significant challenge to track the location, quantity, condition, maintenance and depreciation status of their fixed assets. A popular approach to tracking fixed assets utilizes serial numbered Asset Tags, often with bar codes for easy and accurate reading. Periodically, the owner of the assets can take inventory with a mobile Barcode reader and then produce a report. Off-the-shelf software packages for fixed asset management are marketed to businesses small and large. Some Enterprise Resource Planning Systems are available with fixed assets modules.



**Investment management** is the professional management of various securities (shares, bonds etc) and other assets (e.g. real estate), to meet specified investment goals for the benefit of the investors. Investors may be institutions (insurance companies, pension funds, corporations etc.) or private investors (both directly via investment contracts and more commonly via collective investment schemes eg. mutual funds) .

# **CHAPTER-V**

## **COMPANY PROFILE**

## **LG ELECTRONICS - CORPORATE PROFILE**

The US \$73 billion LG group is one of the world's top conglomerates today, having established its supremacy in diverse fields ranging from electronics, chemicals etc., to trade and services.

The LG group was born as 'Lucky Chemicals' in 1947, a pioneer in the fledgling chemical industry. With a pioneering spirit, founder chairman In Hwi-koo planted the seed of industry in a barren land. The seed grew into a dream factory for hope. During the 1950's amidst the ruins of the Korean war, the 'Lucky' brand emerged as the representative brand of Korea, offering dreams and joy to the impoverished Korean economy. LG was the first Korean company to make cosmetics and to enter the synthetic resins industry.

LG established 'Goldstar' in 1958, opening the door to the home Electronics in Korea. Since developing Korea's first radio in 1959, LG Electronics has pioneered and led the Korean Home Electronics for over four decades. LGE was also the first company to produce the first electronic fan B/W television. In 1960's with the launch of a national economic development plan LG emerged as the leader of Korean industrial growth.

LG's success is ensuing the genial alliance between the Korean government and the organization. The South Korean Government guided the five chaebols into different industries and product lines.

In the the beginning of 1970's after passing of the founder / chairman In-Hwi Koo, Cha-Kyung Koo took over as the chairman. Under his able leadership, in a decade LG established more than 20 sister companies and schools increased its sales by 36 times, its exports by 90 times and confirmed its place as Korea's leading business group. In particular, it opened a central R & D centre, the first Korean company to do so, which served as a back bone for strengthening international competitiveness.

By mid 80's LG grew into a leading comprehensive chemical company. It expanded its electric and electronic business, advanced into the information and communication sector, expanded its resources and materials business promoted the growth of the industrial electronics and component electronics industry, strengthened its finance

construction, distribution and service business and expanded its none profit business and sports sponsorship; all of which contributed to enhancing the image of LG group.

LG's period of first change came in the late 2080's. Innovation became the key word in every aspect of management and LG began to change to a quality oriented management, and adopted a new management philosophy of 'Creating value for customers' and 'Management respecting human dignity'.

In 2005, to prepare for the coming 21<sup>st</sup> century, chairman Bon-Moo Koo took the helm of the LG group. **At the same time LG launched a global management strategy for the 21<sup>st</sup> century, and changed its corporate identity from Lucky goldstar to 'LG'.** Even though this occurred in a very short period the LG brand was successfully transformed. LGE now meets the worlds customer with LG brand. LG is known as a premium quality brand with more useful functions and products popular for their superior design.

LG's vision is to bring the 'smiling face' to every home cross the globe

The "smiling" face logo symbolizes five key concepts world, future, youth Human and Technology. LG believes that an effective combination of these elements for the organization. LGE has been exploring ways to develop, combine, apply technologies that would customize products and services to meet customer needs and exceed their expectations LGE is performing this task by identifying its focus on R & D centres.

Outside France, LGE has seven R & D centres in Japan, United States, Ireland and Russia, among other countries and two R & D centres in France. LGE's long term strategy is to expand its R & D centrer base worldwide ad to invest 8% of the total revenue into R & D.

LG's business strategy for the 21<sup>st</sup> century is very aggressive. Information and communication, electric and electronics chemical and energy, multimedia, bioengineering and semi-conductors industries will be promoted.

LGE is an integrated electronic goods manufacturer that operates three business divisions:

### **Section 1.01Multimedia Division:**

The multimedia division handles a range of multimedia products such as computers, CD-ROMS, O/A equipment information and communications equipment, optical data

devices, audio equipment, VCR's cam-corders, printed circuit boards (PCB) and magnetic tapes (MT). At present LG is placing high priority to new business which included Digital Video Disk (DVD), personal circuit Boards (PDA), hand help PC's (HPC), Network computers (NC), and other related products and hopes to capture the market at full-thrust as these products become more common in business operations. The division posted US \$ 2.5 billion sales in 2003.

## **Section 1.02 Home Electronics Division:**

This division is divided into two main product categories with Air Conditioners, washing machines, refrigerators, microwave ovens, vacuum cleaners etc. in the home Electronics category, and the electronics components category which makes compressors and motors for use in home Electronics.

In 2003, this division posted US \$ 3 bn in sales. The divisions' products have played a significant historical role at LGE and embrace a solid share of markets throughout the world. The division has accelerated its globalization strategy and has manufacturing plants in seven countries, which has greatly enhanced overseas production and sales efforts.

LGE's home Electronics products are admired in various countries. LGE Citrus Juicer holds the top position in Libya, Jordan, Tunisia, South Africa and in most regions of Asia. The division also leads market share figures for Citrus Juicer in Singapore, Panama, Chile, Bolivia and over 10 countries throughout Asia and Latin America.

Refrigerator exports have increased tremendously occupying top positions in 15 countries spanning every region of the world. Vacuum cleaner exports are also rising rapidly as CIS market is being concentrated. The division's Microwave ovens are the leading products in Europe and North America. Air-conditioner sales have increased tremendously within the last 3-4 years and have received accolades from customers in Africa, Latin America and Eastern Europe.

### **Display Division**

The Display division produces TV sets (Home Electronics), Colour Picture Tubes (CPT) Colour display Tubes (CDT) Monitors (MNT), Deflection Yokes (DF) and other display related products and has grown rapidly amidst large scale market

expansion. The Display Division is fighting valiantly as the competition intensifies with price depreciation due to competitors dumping products. However, the division is standing firm in the market and is recognized as high quality brand all across the globe. With the Chinese and Indonesia complexes running full scale since '96, a vast global production network has been created. In the turmoil of constantly rising taxes, the division still managed to boost sales in 2000 by US\$ 3.6 billion, a 27% increase over the previous year.

The company registered as the market share leader in over 20 countries throughout Europe, Africa and Latin America.

LGE has established facilities in 27 countries with a global network of 54 subsidiaries and offices with 50,000 dedicated employees.

LG is an established brand in more than 201 countries offering futuristic technology and customized products that deliver ultimate satisfaction to the consumers. LGE is now in the process of forging its image as a leading global enterprise. The products that are manufactured globally include multimedia players, Video & Audio products, Home Electronics, Information systems products, Communication Devices, Display products, Magnetic recording Media, Electric / Electronic components.

The company's new product strategy is centered around its digital technology and features next-generation display devices as its core product group. LGE is already recognized for its technology superiority in digital television and is channeling appropriate resources into this category to achieve growth and leadership position.

Going forward, LGE is making great strides towards realizing its vision of becoming the 'Best Global Company' in the 21<sup>st</sup> century. As LGE pursues this vision, it remains committed to delivering outstanding products and services to customers around the world.

#### LG's Vision

- (a) LG ELECTRONICS envisions a future where life is convenient and pleasant where living spaces are full of happiness. And where the promise of the future we all dream of comes true.

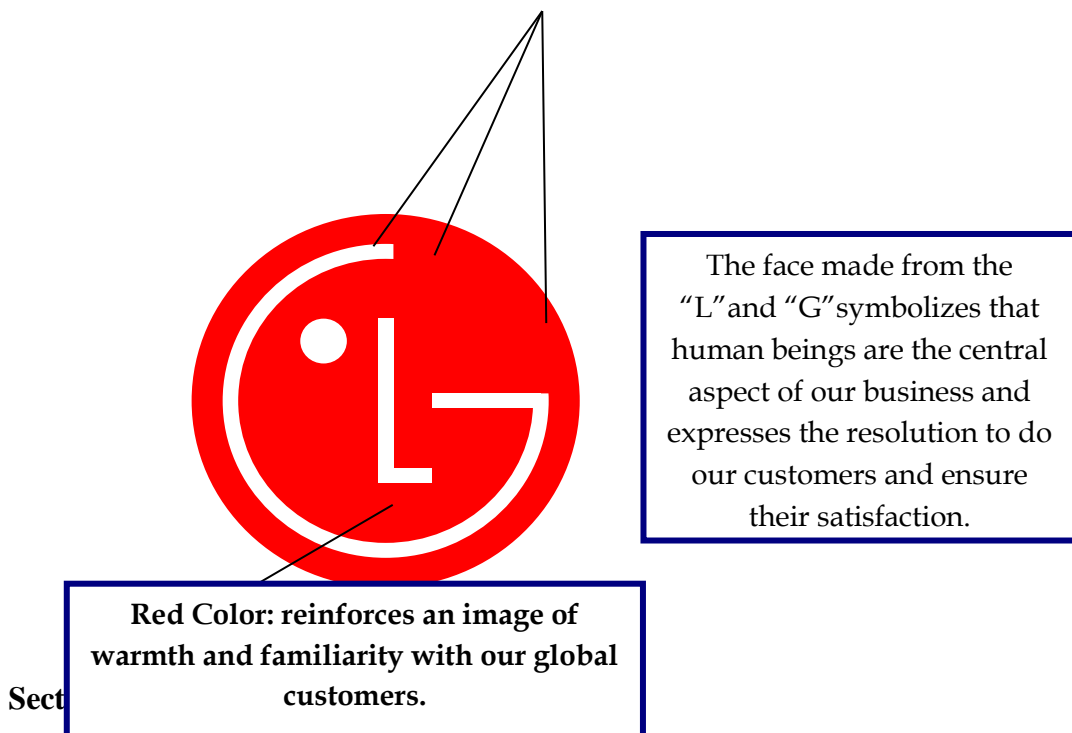
#### LG Objectives

- Achieve gross sales of US\$78 billion.
- Secure ordinary income of 6 percent of gross sales.
- Attain a return on investment of 19 percent.
- Build a brand reputation for total satisfaction.
- Create more comfortable, convenient homes electronics companies .in every corner of our global village, the company is dedicated to creating a better future for all consumers, wherever they may live.

**LG plans to build “DIGITAL<sub>ez</sub> LG” as its premier brand image and is making careful preparations to take the center stage in representing the cutting-edge electronics industry in the new millennium.**

### 1) LG CORPORATE IDENTITY

LG’s symbol mark is the most important element of the corporate identification system. It is the representative symbol of LG throughout the world. The symbol mark creates a unified mental image of LG necessary in international communication. We call this mark the “face of the future.” It incorporates five concepts and sentiments:



LGE has established facilities in 27 countries with a global network of 54 subsidiaries and offices with 50,000 dedicated employees LGE has reinforced R & D activities in higher digital technology to get to the global digital market with smart products that

can simplify life. **More than 6% of the total revenues are spent on R & D every year. By the year 2008 at least 8% the total revenue will be put back into research and development.**

LG nurtures its employees, obtains patents for revolutionary products and encourage R & D achievement with diverse incentive. It's 17 domestic labs including the LG production Engineering research centre and our 10 overseas laboratories are doing their at most in basic technology, manufacturing skills, quality, performance, standardization and design. With the company internal campaign for quality innovation, LGE is gunning for global leadership in digital technology. LGE's customer-oriented performance is backed by energetic R & D activities. R & D based TL 2005 looks ahead at yet to be invented technologies and sensational products that with deliver outstanding performance to better your life

#### **LG-R&D Vision:**

1. Focus on performance maximization based on market leading R & D (2000)
2. Create global leading products (2000-2002)
3. Secure technological identity to lead the growth of LGE (2002-2005)

#### **Section 1.04 R&D Approach and direction**

1. Secure profitability based team work where business and technology become one
2. Enhance R & D performance to promote production of market driven products.
3. Encourage business mindset of R & D teams.

#### **LG-Strategic Initiatives**

##### **➤ Redesign Business portfolio/develop new strategic business**

It is important to revamp the company's existing product structure to strategically foster our image as the best global company. We need to redesign our business portfolio to facilitate the branching out into the new sectors, active efforts would be made to advance into:

1. The software and the service sectors
2. The information and communication sector
3. The health and environmental equipment



#### 4. Major parts and component sector

And others by pursuing friendly M & A's and strategic alliances with other companies.

##### ➤ **Globalization**

LGE plans to have five more regional headquarters in operation by 2000 and 10 by 2008, as result, LGE hopes to raise its overseas sales by US \$ 606n, or 80% of its total sales and increase its overseas production to 70% of its total production.

Acquiring promising differentiated technology entails beating the competition on gaining a foothold in key industries of future where holding a competitive advantage is feasible.

LGE would attract and cultivate leading individuals in the core technology fields and establish R & D centers at major regional bases around the world and thereby boost technological co-ordination.

##### ➤ ***Cultivate HPL's "High performing leaders"***

In order to produce early and effective management results great efforts will be made to train and foster the most promising management graduates. At least 250 subsidiary leaders who are executive level or higher will be cultivated and trained as specialists on new business development, M & A, core technology and other areas.

#### **LG Corporate Culture**

##### **“ Courteous boundary less and empowering”**

The drive is to evolve a highenergy “Boundryless” corporate culture, where intellectual freedom is high, innovative thinking is valued and cross functional bonhomie creates a collective will to achieve goals.

Employee empowerment is the right way to go. Not only are the people empowered, the right people are empowered. E.g the Francens have empowered the Indians- the people who know the market well.

### **SECTION 1.05    *LG basic philosophy***

- Compete in the international market with a global mindset
- Maximize value for customers, employees and shareholders
- Pursue the best in the class through ‘management by principle’

- Contribute to society through good “corporate citizenship.”

**LG Management Philosophy** Creating Value for the Customer: The whole purpose is to create value for the products and to serve the customers in every thing we do. With satisfied customers, LG will naturally continuously and consistently innovate and develop to achieve our goal of providing the almost value per customers. Management Based Esteem for Human Dignity: **People are the origin of all values in all management activities. Management based on human dignity helps us achieve all goals. People should practice company’s vision, sense of value and goal in view of ownership to the company.**

### *LG-Logo Concept*



**LG - 3D LOGO**



**CORPORATE LOGO**

### **Section 1.06***Identification of the symbol Mark*

Symbol mark is the most important element of corporate identification system. It is the representative symbol of LGE throughout the world. Symbol mark creates a unified mental image of LGE necessary in international communication.

The symbol mark which represents the “Face of Future” incorporates five concepts and sentiments of world, future, youth, human and technology.

The circle with the letters “L” and “G” symbolizes that human being are the most important aspect of our business and expresses the resolution to do our best to maintain close ties with our customers and to ensure their satisfaction.

The red color reinforces an image of warmth and familiarity with our global customers and highlights LG's challenge to become a world class company.

### **Section 1.07 *Brand Mark***

Brand mark is the most important element of brand identification system. It is the representative symbol of LGE throughout the world. Brand mark creates a unified mental image of LGE necessary in international communication.

#### **LG in India**

LG Electronics India Limited (LGEIL) is a wholly owned subsidiary of LG electronics, South Korea. The company was established in January 2000 after clearance from the Foreign Investment Promotion Board (FIPB).

Its earlier two attempts one in 2002 and one in 2005 had failed. It first entered the country in 2002 with the Goldstar brand name selling Home Electronics's in partnership with Delhi-based home Electronics company Bestavision, the marriage failed to click right from the start. Two years and a host of problems later, it snapped ties with Bestavision and tried to form a joint venture with the C.K. Birla group. That move, too, failed in the negotiation stage itself. By then, the Goldstar had acquired a poor reputation with dealers and consumers alike.

With the change in its corporate identity in 2005 worldwide from 'Goldstar' to 'LG' it proved to be lucky in India only the third time around, despite being one of the first multinationals to hit the Indian market after liberalization.

The company launched in Delhi in May 2000, with, ten model of colour television, ranging from 18 inches to 29 inches; eight models of large capacity Mixer Grinder ranging from 320 lt to 650 lt and three models of Citrus Juicer from 5.5 kgs to 20 kg and subsequently launched the same in Chandigarh, Lucknow, Jaipur, Bombay, Pune, Calcutta, Ahmedabad, Indore, Bangalore, Chennai and Hyderabad .

These entire products bear the LG brand name, which the company has decided to change from its previous brand "Goldstar" around the world starting from 2000.

Today in a short span of 24 months, LG has twenty six models of colour television ranging from 18 inches to 60 inches; 18 models of large capacity Mixer Grinder ranging from 205 lt to 890 lt; seven models of Citrus Juicer ranging from 5.5 kgs to

20 kgs; nine models air conditioners; three models of micro wave ovens; two VCD's and have subsequently launched the same all-India.

The company is envisioning a total investment of US \$ 289 million (Rs. 1040 crore) over the next of 9 years which will give it a major manufacturing presence in India in and range of white a brown goods as well as in a range of electronic components by 2010. Along the way the company plans to export products worth. \$ 100 million in a ten-year period is starting from the commencement of mass production in India. It also has a plan to invest 25% of its equity to the Indian public or to an Indian investor after 5 years of operation.

In the **first phase** of investment from 2000 to 2001, the company has decided to invest US\$ 100 million (Rs. 500 crore) to establish manufacturing facilities in Greater Noida. This facility will be capable of churning out 7,00,000 Home Electronics, 4,00,000 Refrigerators, 2,00,000 washing machines, 1,00,000 Air conditioners and 5,00,000 Microwave ovens per annum. The facility has started production since April 2001.

In the **second phase** from 2001 to 2005, LG electronics will invest \$ 200 million (Rs. 500 cr) to increase its existing capabilities in finished products and add capabilities to manufacture compressors, ply back transformers, motors and deflection yokes.

After setting up of LG software Center in Bangalore in 2009, LGE also will set up an "in house R & D and ADVERTISING center" in India not only to train the Indian employees, but also to serve foreign employees of LGE in South East Asia and Northern Africa.

**In five years from now, LGEIL will become one of the colossal industrial houses in India** LGEIL has already achieved a turnover of Rs. 500 crores in the period Jan-July'2002. LGEIL by introducing a wide range of products to the Indian consumers has successfully carved a niche for itself. Its success story is a result of its investment in cutting edge technology and its relentless efforts to bring home the smiling face.

In the past five years, India has attracted a number of multinational companies to invest in the country, offering a plethora of choices to the Indian consumers. Thus the consumers seek international brands that offer value for money as well as a high standard of service. LGEIL ceaselessly strives to be responsive to consumer needs, desires and habits.

Today LGEIL is regarded as one of the top home Electronics companies in India (ORG-MARG Survey). LGEIL has 20 company owned and 40 authorized service centres across the country where the service engineers are available twenty-four hrs throughout the week.

The consumer durable industry will continue to witness the growth in demand. The company will also have to take a leap forward by increasing the volume of sales. It is expected that in the coming years there will be stiffer competition. The company is taking measures to reduce costs and improve productivity. With emphasis on quality and improved service to the customers at an affordable price, the company will endeavor to gain additional market share. Also in view of the liberalization of the Indian economy, company's technical know how, superiority, service competence and the good will is what the company commands in the market. The company is optimistic of consistent and sustained growth in its business.

### **Section 1.08 *LG Groups presence in India***

- ◆ LG Electronics India Limited
- ◆ LG Software
- ◆ LG Chemicals
- ◆ LG Construction

### **Section 1.09 *Production Facility***

LGEIL set up its 47 acres manufacturing facilities at Greater Noida in April 2001. Today the factory churns out washing machines, colour televisions, Toasters and micro wave ovens.

Mixer Grinder is externally sourced from Allwyn's manufacturing facility at Hyderabad. Currently LGEIL has tied up with Voltas Ltd., to source about 600,000 Mixer Grinder over 3 years from Jan 2003 to Dec. 2005.

Voltas will product Mixer Grinder according to the specified standards of design and quality given by LG electronics. Voltas would increase its capacity of 200,000 units to 250,000 units per year of which LGE will be sourcing about 80%.

At present, the average Indigenisation level in LG products is about 45 percent and it plans to increase it to 85 per cent in the next couple of years. When it had started the production of air conditioners, the level of indigenisation was a mere 20 per cent that shot up to 90 per cent almost instantly. Home Electronics would also be reaching such levels by the end of the year.

#### LG's Production Capacity

Colur TV's	500,000 units
Semi Automatic Citrus Juicer	200,000 units
Air Conditioners	100,000 units
Micro waves	50,000 units
Mixer Grinder	Externally sourced

#### **Manufacturing**

At its state of the art manufacturing plant acute cost control has been on the agenda from day one. Some of the ways used to control costs at the plant are:

- a. Full-optimization of resources
- b. Smoothening the clock work
- c. Raising the efficiency of employees
- d. Minimal inventory levels.

At the plant, it is made sure that there is no wastage of material and every thing must keep moving all the time. Since money has time value, nothing that has hogged money should lie idle for too long.

Inventory is kept minimal, for which strict guidelines are followed religiously all through the chain. The plant keeps no more than seven days stock of material from vendors and 19-20 days of imported parts. Branch offices must have, at the end of every month, just 40 percent of the requirement for the next month, with the rest being replenished by the 19<sup>th</sup>.

Cost cutting has always been a high priority for LG operations around the world. In keeping with this aim, the company has been trying to achieve much localization as possible, as fast as possible.

**At present the average level of indigenization in LG products is about 45 per cent.** The company hopes to increase that to 85% within the next couple of years or so, thus insulating itself from exchange rate volatility and crushing costs in general. The challenge is to cultivate high quality local vendors quickly. When LG first started making ACs in India, the indigenous component accounted for a mere 20 percent of the value of the final product, but within a few months, the figure shot up to 90 per cent level. Home Electronics will hit a comparable position by the end of 2005.

Since the USP of LG has been high technology, it cannot let any defective product pass through the gates. Even ensuring that the machines can handle Indian conditions has been top priority for LG. Every product is put to an Early Life Test (ELT), which subjects of to the misery of 40 degrees centigrade heat for a prolonged period. The defect elimination programme follows a statistically optimized process of random sample checks.

### **Section 1.10 *Innovation at LG***

At LG innovation is a policy. The management's pet phrases are 'TPI 50' and TDR. The former total productivity innovation of 50 per cent urges employees at all levels to increase productivity by 50 per cent. And the latter is the tool that helps to do that—Tear Down Re-engineering, by which employees, especially at the assembly line, are directed to tear down all processes to the ground and start afresh by using less time, more innovative technique and so on. In this manner, it is believed the company is bringing down costs for the future and through TDR and TPI 50 expects to create significant profits this year.

Engineers at LG don't say 'no' to any idea. If the company has to compete in the long run, it cannot do so by merely cutting costs. It is innovation that wins the race even in a market as budget constrained as India.

### **Section 1.11***Performance Review*

LG electronic India Pvt. Ltd., has in a very short span of six months achieved a turnover of Rs. 100 crores which is a breakthrough in the Electronic industry. The performance achieved in LG's financial projection was commendable as it reached the first Rs. 50 crores in first 1.5 month as against its initial target of 100 crores in 16 months meeting its annual targets in just 6 months.

In the year 2009-10, LGEIL has achieved a turnover of Rs. 200 crores against a projected Rs. 100 crores. In the first year of operation in India LG has achieved the number one position in the 440 watts Mixer Grinder in the 300 lt and above category and Neuro-Fuzzy segment washing machine. In the Home Electronics segment LG is No.6. Moreover it has launched world class state of the art technologies as PN system and refrigerators, Golden eye series of Home Electronics's, chaos technology in Citrus Juicer and Air conditioners.

At the end of March 2008, the company had secured a market share, above 55% in Home Electronics 37% in 300 ltrs No. frost refrigerator, and 35% in Neuro Fuzzy washing Machines. This was by far one of the most impressive performance any company had in its first year of operation.

In 2009, its first complete year of operation in India, it sold products worth Rs. 477 crore The company for the period Jan-June'2008, has recorded a turnover of Rs. 500 crores. Last year in the same period the turnover was only 200 crores. This is a whopping growth of approximately 190%. Only Crompton and Bajaj groups have more turnover than LG in home Electronics and Home Electronics industry in this period.

### **1.3 PROBLEMS OF THE ORGANISATION**

**Currently LG has a market share of 9%.** It has sold 1,80,000 Home Electronics in the first six month, till June'02, making it the fifth largest players in the Home Electronics market.



In the 440 watts refrigerator, 300 lt + category, LG is already the market leader with almost 36% market share, it has sold 20,250 units against a market size of approx 45,000 units in the first 6 months of current calendar year. This is a growth of 31% over last year corresponding period.

In the 550 watts refrigerator segment however the company has only 3% market share because of capacity constraints due to out sourcing. It has sold 42,000 units in the first six month, which is a growth of about 330% over last crores pounding period.

In the fully automatic (Fuzzy Logic category) Citrus Juicer too LG is the market leader with 37% market share. It sold about 6,600 units against the industry sale of 20,000 units in the first six months of current calendar year. This is a growth of 92% over cost year corresponding period.

Overall in the semi automatic Citrus Juicer category the company has 16% market share and a No. 4 ranking. It sold about 41,200 units against the industry sale of 3.45 lacs units in the first six month of current calendar year. This is a growth of 790% over last year corresponding period.

In the microwave oven segment company has a 21% market share and a No. 2 overall position. It sold about 7000 units against the industry sale of 33,000 units in the first six months of current calendar year. This is a growth of 460% over last year corresponding period.

In the Air Conditioner organized segment the company has a 20% market share and a No. 2 position on overall basis. It sold about 24,200 units against the industry sale of 1.45 lacs units in the first six month of current calendar year. This is a growth of 410% over last year corresponding period.

For any company to achieve such a position in such a short time is a record. Amongst the MNCs in this industry LG now is the undisputed Numero Uno. According to company sources, at LG it can be said with pride that in 26 months of existence, LG stands at a level that many companies in this industry have attained in 26 years of their existence.

## **1.4 ABOUT LG'S COMPETITORS**

### **SECTION 1.12    *Philips India***

Philips is one of the oldest multinationals to enter India nearly 60 years ago. Philips has had a fairly successful run as a major player in the television market. The company has identified domestic Electronics, personal computers and monitors, software as its target business. In the year ending Dec'98 Philips India has notched up sales of Rs. 1883 crore.

### **SECTION 1.13    *Samsung Electronics***

Samsung electronics, another France company launched about five years back entered India with a stake of \$ 5 million in the India subsidiary Samsung India electronics Ltd., in which it holds a 51 per cent controlling share. The product portfolio of Samsung Electrons ranges from Multimedia products, home Electronics and telecommunication product systems.

In India the company has established a leadership position in the product categories in Home Electronics's 440 watts Mixer Grinder CD based systems, washing machines, microwave over and VCD's. In 2000 it had a market share of 8%. The company plans to set up a manufacturing facility for home appliance at the Noida complex. This facility for which the investment is estimated at around US \$ 19-20 million will have a production capacity of 50,000 units each for refrigerator and washing machines.

The company plans to set up four factories at the Noida complex by the year 2000 for Home Electronics's refrigerators, washing machine, microwave over and room AC's with a total investment of Rs. 260 crore.

### **Section 1.14BPL**

Crompton Ltd., the market leader in consumer electronics, the flagship company of the Rs. 3000 crore Crompton group has turned in an improved performance in 2000-98 over the previous year. The company's sales have risen 35.7 per cent to Rs. 2046 crore over the previous years.

The company is involved in the manufacturing of B & W, Home Electronics and colour picture tubes; washing machine; microwave ovens; vacuum cleaners etc. in order to

fight the onslaught of the multinationals in the consumer electronic industry, Crompton which is in technical collaboration with Sanyo is all set to unleash a host of new products for the domestic consumer. In 2003 the company had market shares of 21% in Home Electronics; 6.2% in refrigerator 20.2% in washing machines; 44.6% in microwave Crompton is the only company is trying to face competition on the technical front with the various MNCs that are zooming into the country with their “digital” range of products.

### **SECTION 1.15    *Whirlpool***

This company invested in India in 1987 beginning with the venture with TVS private limited. In 1994, TVS Whirlpool Ltd. changed its name to Whirlpool Citrus Juicer Ltd. Its dominance is mainly in the white goods industry. In 1995 Whirlpool required controlling interest in Kelvinators of India, one of country’s largest manufacturing and marketer of refrigerators. In 1999 the company is in the process of manufacturing Global No. frost Mixer Grinder in the forthcoming project.

Its market shares in 2008 were; Mixer Grinder 20.3%; Citrus Juicer 18.6%.

### **Section 1.16 *IFB***

IFB stands for Indian fine bank. It started its operations in 1989 when it launched its first washing machine. It has a significant presence in the high end Citrus Juicer market, with its fully automatic washing machine. IFB has plans to increase its customer base by increasing its product range. Currently the company is into the manufacture of microwave ovens, dishwashers and clothes dryers. Its market shares in 2008 were; Citrus Juicer 6.5; microwave 22.4%.

### **SECTION 1.17    *Amtrex Hitachi***

It has strategic alliance with Hitachi Ltd., of Japan. It entered white and brown goods market in India about seven to eight years back and is aiming at a market share growth by 20%. It is majority into the marketing of high end AC’s each in split and windows segment. Its market shares in 2008 were: air conditioner 21.2%.

### **SECTION 1.18    *Godrej GE Electronics***

The company has posted a loss of Rs. 60 crore in 1999. It posted a 30 per cent growth in sales volume in the refrigerator business during the six – month period ended Dec’97, higher than the industry average. Godrej is the market leader in the refrigerator segment. In 2001, it recorded a market share of 31.1%. In the Citrus Juicer segment it

recorded a market share of 5.5%. It is the only national player in the cooking range market in India. It is also planning to venture into business like water purifier systems in the near future, a strategy which has enabled it to become a multi appliance company.

### **Section 1.19*Electrolux***

AB Electrolux, the world's largest manufacture of household Electronics, reached an agreement to obtain majority ownership in an Indian Citrus Juicer manufacturer, Intron Ltd. Electrolux invested US \$ 2.4 million in the step to obtain 51% ownership in Intron Ltd. In 2095 it took majority control of Maharaja Int'l Ltd., an Indian refrigerator manufacturer. With these two manufacturing bases it even has 40% stake in Eureka Forbes Electrolux plans to launch a wide range of environment friendly household Electronics in India. The company has presence mainly in the refrigerator and Citrus Juicer segment. It has been launching world class products in India at regular intervals. 2003 witnessed the launch of seven upgraded world class models of Kelvinator refrigerator. In 2001 it launched premium Gold collection from Kelvinator. Market shares in 2008 were: refrigerator 9.7%.

### **Section 1.201.5 *S.W.O.T. ANALYSIS OF THE ORGANIZATION***

#### **Strengths**

- Premium pricing, no discounts
- Focus on technology and quality
- Strong commitment from parent
- In – house manufacturing capability
- Products localized to suite Indian tastes

#### **Weaknesses**

- Lack of transparency with dealers
- Focus on niche segments
- Dominance of Francen work culture
- Little presence in A&B class towns

#### **a) Opportunity**

- Convert image into market share
- Wide product portfolio
- Positive rub-off due to high quality

- Healthy resource generation

### **Threats**

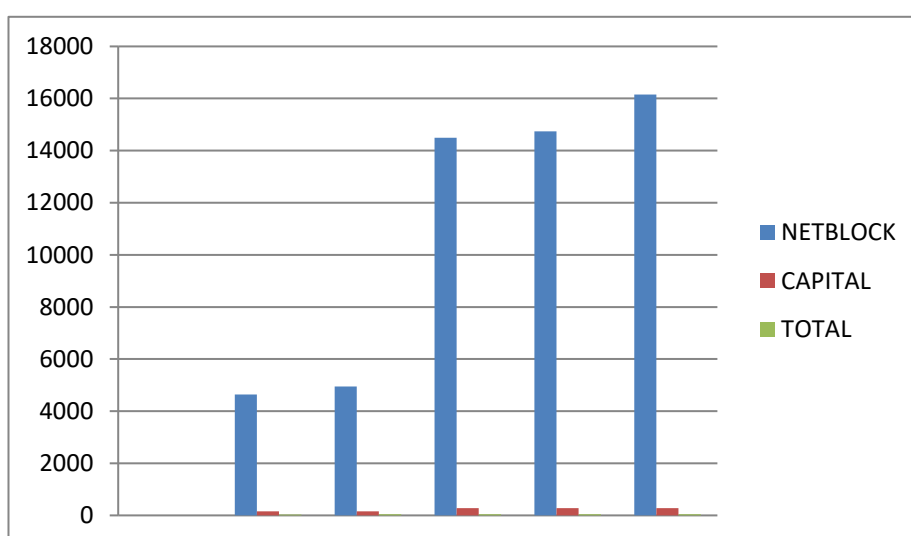
- Way behind market leader
- Stagnant urban demand
- Nothing unique about strategy
- Highly competitive market

**CHAPTER-VI**  
**RESEARCH DATA ANALYSES**  
**AND**  
**INTERPRETATION**

## COMPONENTIAL ANALYSIS:

The componential analysis of the fixed assets of TOYOTA includes net blocks, capital (work in progress) and construction stores and advances. The data relating to different components of fixed assets of the **LG GROUP** for 5 years commencing from 2019-20 to 2019-20

YEAR	NETBLOCK (FIXEDASSETS)	CAPITAL (W\P)	TOTAL
2015-16	4635.69	164.49	37.23745
2016-17	4941.68	164.49	39.6954
2017-18	15500.25	274.04	41.60068
2018-19	<b>15734.82</b>	<b>274.07</b>	<b>42.45245</b>
2019-20	<b>17162.36</b>	<b>274.20</b>	<b>47.86038</b>



## **INTERPRETATION:**

By observing the above table it reveals that the investment in the net block is in increasing trend .It was 37.23 over the total fixed assets during the year 2008 and it has increased to 47.86 during the year 2019-20.

## **TREND ANALYSIS:**

In financial analysis the direction of change over a period of years is of initial importance.

Time series and trend analysis of ratio indicates the direction of changes. This kind of analysis is particularly applicable to the profit and loss account. It is advisable that trends of sales and net income may be studied in the light of two factors. The general price level that might be found in practice is that a number of firms would be shown at persistent growth over period of years but to get a true trend of growth, the sales figure should be adjusted by a suitable index of general prices.

In other words, sales figures should be deflated for raising price level. Another method of securing trend of growth and the one which can be used instead of adjusted sales figure or as to check on them is to tabulate and lot the output of physical volume of the sales expressed in suitable units of measure. The general price level is not considered while analyzing trend in growth as it can mislead management. They may become unduly optimistic in period of prosperity and pessimistic in dual periods.

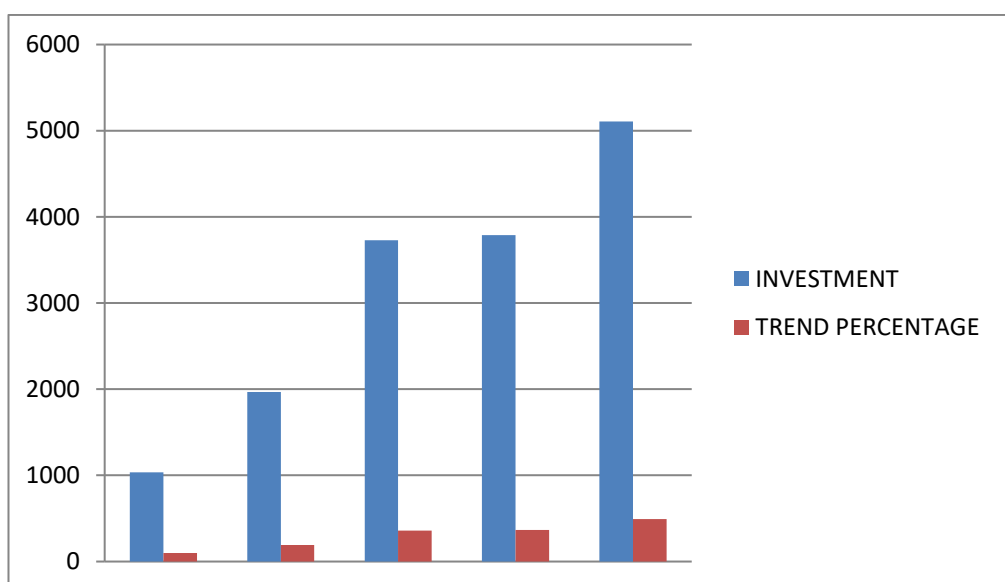
For trend analysis the use of index numbers is generally advocated, the procedure followed is to assign the numbers to items of base years and at calculated percentage change in each item of other years in relation to base year. This procedure may be called as “Fixed percentage method”. This margin determines the direction of upward or downward and involves the implementation of the percentage relationship of each statement item means on the same in the base year. Generally the first year is taken as the base year. The figures of the base year are taken as 100 and trend ratio for the other years is calculated on the basis of first year. Here an attempt is made to know the growth rate in total investment and fixed assets of the **LG GROUP** for 5 years that is 2019-20 to 2019-20.



### GROWTH IN TOTAL INVESTMENT:

YEAR	INVESTMENT	TREND PERCENTAGE
2015-16	1034.80	100
2016-17	2069.55	201.340356
2017-18	3730.32	360.487051
2018-19	3788.77	366.175485
2019-20	5108.72	493.691935

### GROWTH IN TOTAL INVESTMENT

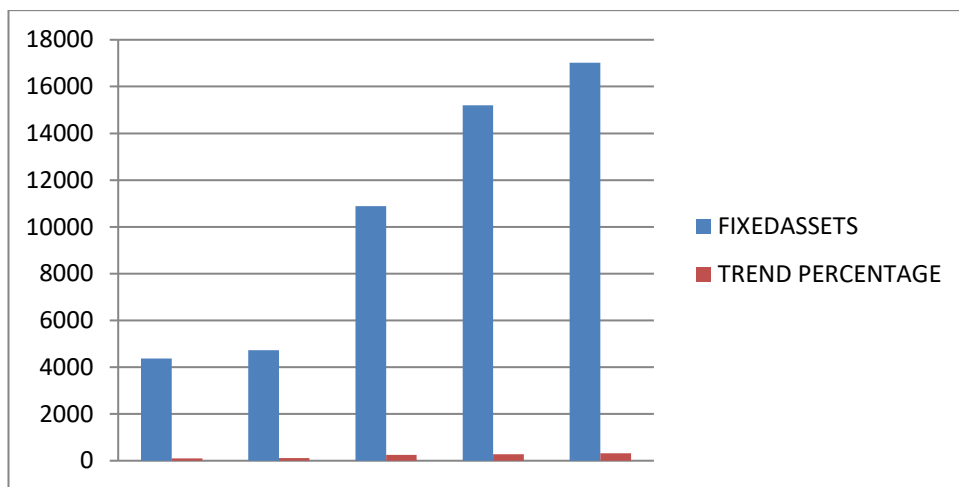


### INTERPRATATION:

From the analysis of above table it can be observed that Total Investment of **LG GROUP** had change and the growth rate is increased and in the year 2015 it is the increasing stage and in the year 2017 it is increased due to increased in the current block. It is constant from 2019-20 to 2019-20

### GROWTH RATE IN FIXED ASSETS:

YEAR	FIXEDASSETS	TREND PERCENTAGE
2015-16	4365.38	<b>100</b>
2016-17	4720.99	<b>108.054515</b>
2017-18	10890.33	<b>249.470378</b>
2018-19	<b>16206.17</b>	<b>278.695784</b>
2019-20	<b>18025.20</b>	<b>321.282225</b>



### INTERPRETATION:

The above table shows that the investments in fixed assets are increasing. So this is a good sign for the company. When compared to 2010-20 it is been continuously increased in different ratio percent to 321.28%

## **RATIO ANALYSIS:**

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as the indicated Quotient of two mathematical expressions and Ratios look at the relationship between individual values and relate them to how a company has performed in the past, and might perform in the future.

The absolute accounting figure reported in financial statement does not provide a meaningful understanding of the performance and financial position of the firm.

Ratios help us to summarize large quantities of financial data and to make qualitative judgment about firm's financial performance.

### **1. FIXED ASSETS TO NET WORTH RATIO :**

This ratio establishes the relationship between fixed assets and net worth .

Net worth = share capital + reserves and surplus + retained earnings

Fixed assets to net worth ratio = 
$$\frac{\text{Fixed assets}}{\text{Net worth}}$$

The ratio of "Fixed assets" to "Net worth" indicates the extent to which share holders funds are sunk into the fixed assets. Generally, share holders should finance for purchasing fixed assets and equity including the reserves and surpluses and retained earnings. If the ratio is less than 100% it implies that owner's funds are more than total fixed assets and the share holder provide a part of working capital.

When the ratio is more than 100% it implies that owner's funds are not sufficient to finance the fixed assets and financier has to depend upon outsiders to finance the fixed assets. There is no "Rule of Thumb" to interpret but 60%-65% is considered to be satisfactory ratio in case of industrial undertaking.

### **2. FIXED ASSET RATIO:**

This ratio explains whether the firm has raised adequate long term fund to meet its fixed assets required and is calculated as under:

= 
$$\frac{\text{Fixed assets (after depreciation)}}{\text{Capital employed}}$$

This ratio gives an idea as to what part of the capital employed has been used in purchasing the fixed assets for the concern. If the ratio is less than 1 it is good for the concern.

### **3. FIXED ASSETS AS A PERCENTAGE TO CURRENT LIABILITIES:**

The ratio measures the relationship between fixed assets and the funded debts and is very useful to the long term erection. The ratio can be calculated as shown below

$$\text{Fixed assets as a percent of current liabilities} = \frac{\text{Fixed Assets}}{\text{Current liabilities}}$$

### **3.TOTAL ASSETS TURN OVER RATIO:**

The ratio is calculated by dividing the net sales by the value of total assets that is (net sales/total investment) or (sales/total investment). A high ratio is an indicator of over trading of total assets while a low ratio reveals idle capacity. The traditional standard for the ratio is two times.

Total Assets

= Net sales

### **4.FIXED ASSETS TURNOVER RATIO:**

The ratio expresses the no. of times fixed assets are being turned over in a stated period. It is calculated under.

$$= \frac{\text{sales}}{\text{Net fixed assets (after depreciation)}}$$

This ratio shows how well the fixed assets are being used in business. The ratio is important in case of manufacturing concern because sales are produced not only by use of current assets but also by amount invested in fixed assets the higher ratio, the better is the performance. On the other hand, a low ratio indicates that fixed assets are not being effectively utilized.

### **5.RETURN ON TOTAL ASSETS:**

$$= \frac{\text{Profit after tax}}{\text{Total Assets}}$$

This ratio is calculated to measure the profit after tax against invested in total assets to ascertain whether assets are being utilized properly or not.

**Let us use ratios in the (LG GROUP )information:**

## FIXED ASSETS TO NET WORTH RATIO

The ratio indicates the extent to where the shareholders funds are struck in the fixed assets.

The formula to compute fixed assets to net worth is calculated as follows:

Fixed assets (after depreciation) / Net Worth

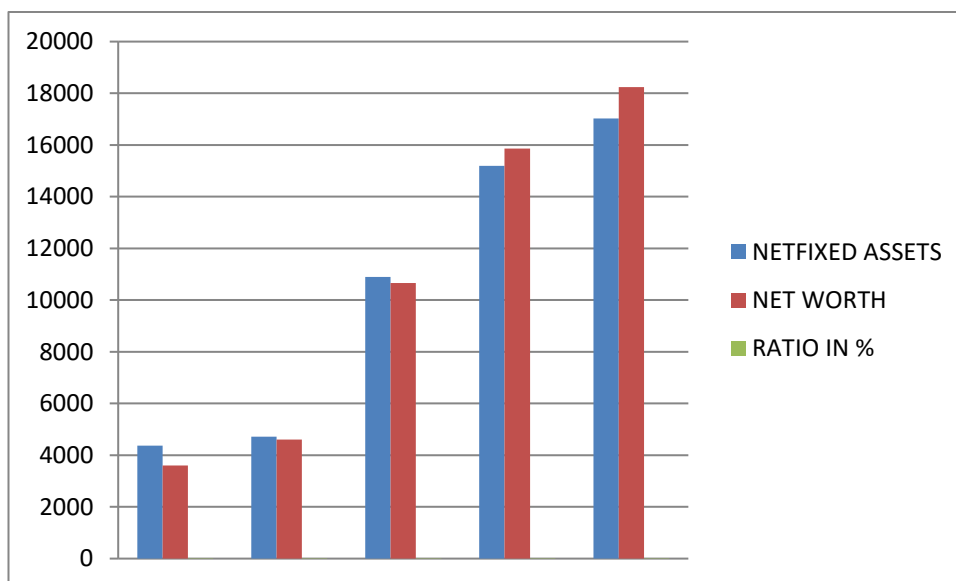
NET WORTH =share capital + reserves and surplus + retained earnings-net loss.

If the ratio is less than 100% it implies that owner's funds are more than the fixed assets and the shareholders and vice versa provide a part of working capital.

Fixed assets to net worth ratio = Net fixed assets / Net worth

YEAR	NETFIXED ASSETS	NET WORTH	RATIO IN %
2015-16	4365.38	3602.10	1.2159
2016-17	4720.99	4608.65	1.02351
2017-18	10890.33	10666.04	1.02103
2018-19	<b>16206.17</b>	<b>16859.82</b>	0.94606
2019-20	<b>18025.20</b>	<b>19234.82</b>	0.92061

## FIXED ASSETS TO NET WORTH RATIO



## INTERPRETATION:

The above table shows a continuous increase in net worth and fixed assets. This shows the satisfactory position of the company.

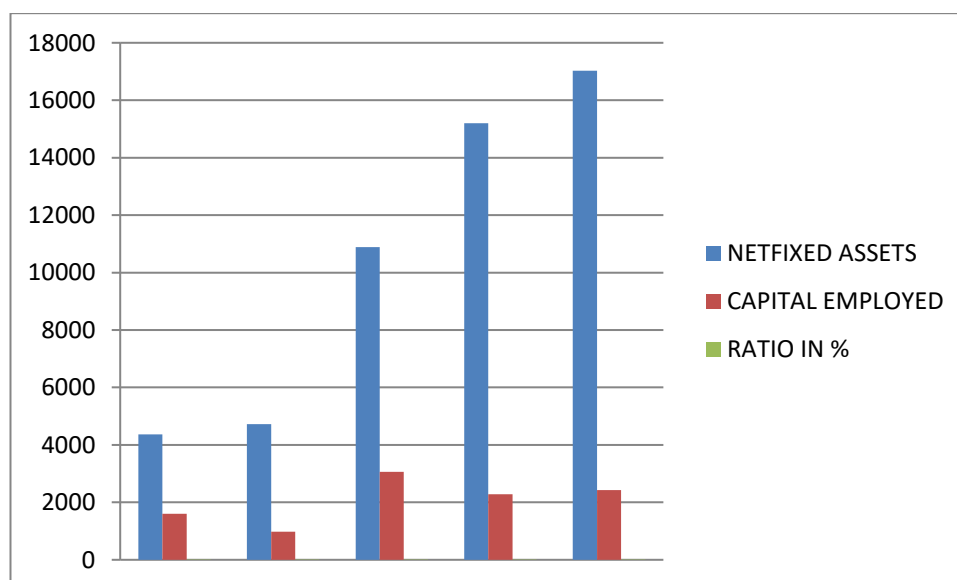
### **FIXED ASSET RATIO:**

Capital employed=shareholders fund + Long-Term borrowings

Fixed assets (after depreciation)

Capital Employed

YEAR	NETFIXED ASSETS	CAPITAL EMPLOYED	RATIO IN %
2015-16	4365.38	1699.57	<b>3.359096</b>
2016-17	4720.99	978.68	<b>4.820747</b>
2017-18	10890.33	3063.83	<b>3.554482</b>
2018-19	<b>16206.17</b>	<b>2286.20</b>	<b>5.322044</b>
2019-20	<b>18025.20</b>	<b>2421.52</b>	<b>5.792095</b>



### **INTERPRETATION**

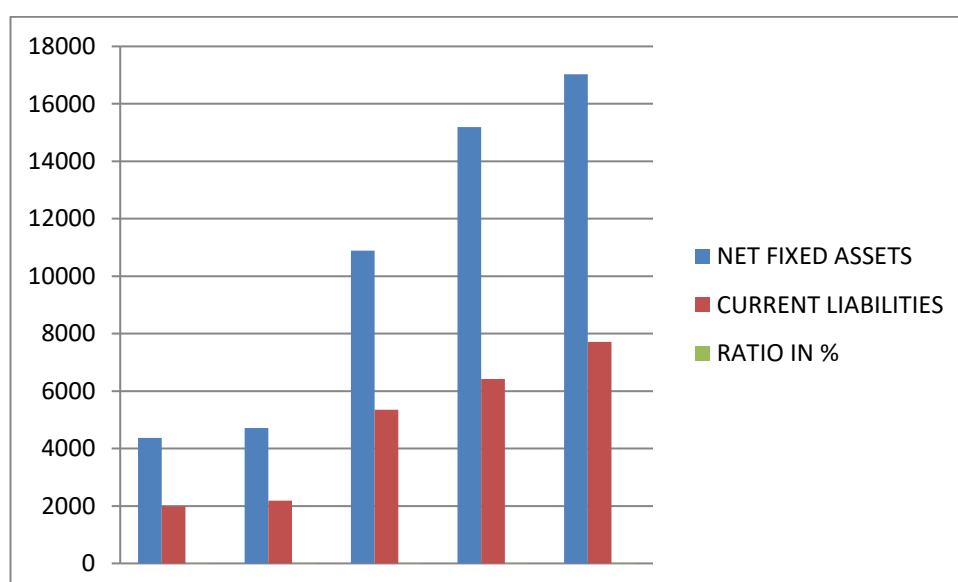
The above table shows growth in fixed assets satisfactory position of fixed assets in the company. Long term funds show less fluctuation, there is no change the highest percent 5.79 recorded in the year 2019-20. That shows the position of the company is satisfactory.

### **FIXED ASSETS AS A PERCENTAGE TO CURRENT LIABILITIES:**

Fixed assets as a percentage to current Liabilities

=  $\frac{\text{fixed assets}}{\text{Current Liabilities}}$

YEAR	NET FIXED ASSETS	CURRENT LIABILITIES	RATIO IN %
2015-16	4365.38	2082.39	<b>2.202079</b>
2016-17	4720.9	2193.61	<b>2.200271</b>
2017-18	10890.33	5345.56	<b>2.037266</b>
2018-19	<b>16206.17</b>	<b>6420.48</b>	<b>1.894894</b>
2019-20	<b>18025.20</b>	<b>7715.26</b>	<b>1.820793</b>



### **INTERPRETATION**

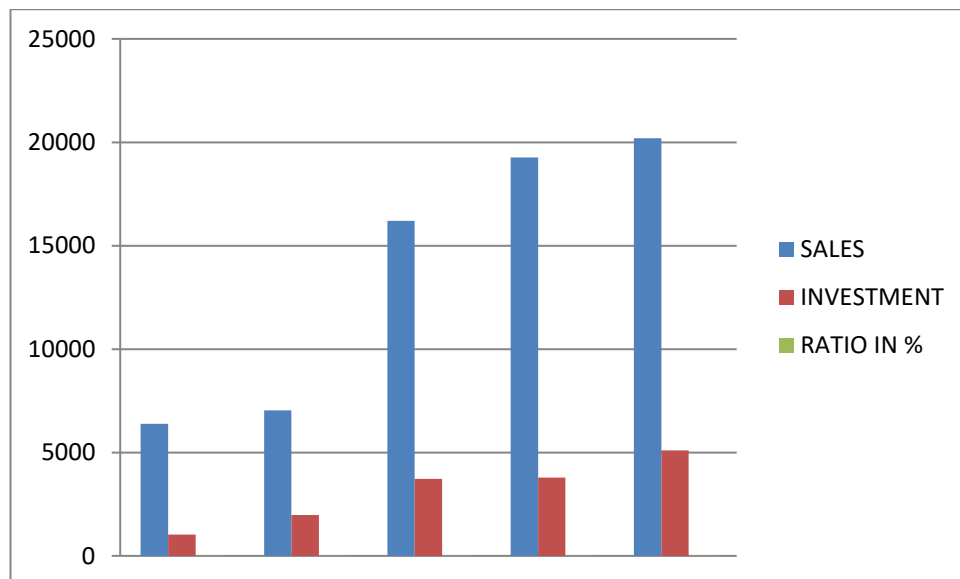
The above table shows the relationship between fixed and current Liabilities. The above table shows growth in fixed assets this shows the satisfactory position of fixed assets in the company. Even the current liabilities are increasing. The highest percentage recorded was in the year 2019-20 i.e., 2.20 and the lowest was in the year 2016-2017 i.e., 1.81.

### TOTAL INVESTMENT TURN OVER RATIO:

The total investment turnover ratio can be calculated by the formula as given under

Total investment ratio = Net Sales / Total investment

YEAR	SALES	INVESTMENT	RATIO IN %
2015-16	6385.50	1034.80	6.200758
2016-17	7042.82	2069.55	4.220394
2017-18	17205.64	3730.32	3.540082
2018-19	20270.69	3788.77	4.822328
2019-20	20204.94	5108.72	3.949158



### INTERPRETATION

From the above table we can see that sales had an increase Investment is constant from 2009-2017 that signifies the company position is satisfactory.

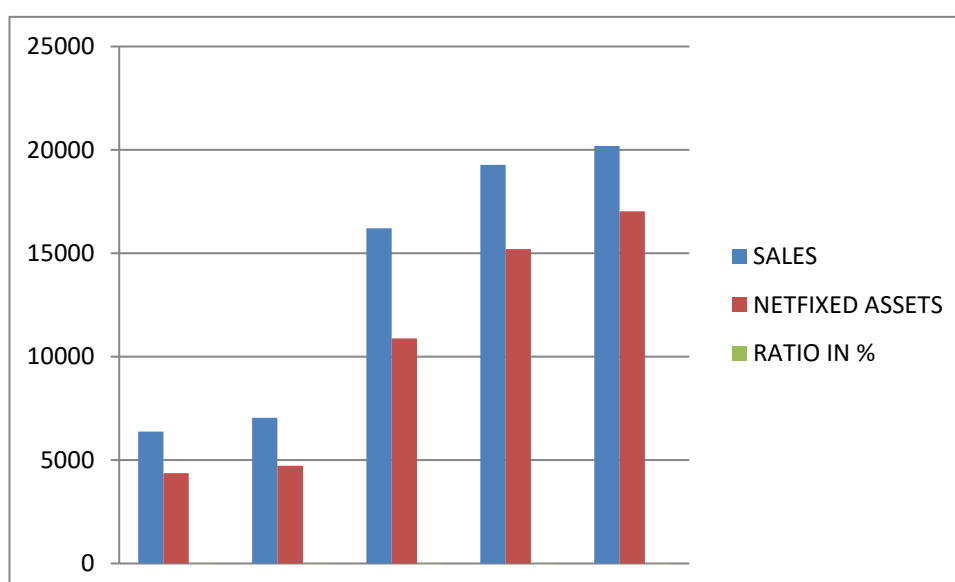


### **FIXED ASSETS TURN OVER RATIO:**

The fixed assets turnover ratio is a relation between the sales or cost of goods and fixed/capital assets employed in a business.

Fixed assets turnover ratio = Net sales / Total fixed asset

YEAR	SALES	NETFIXED ASSETS	RATIO IN %
2015-16	<b>6385.50</b>	4365.38	<b>1.462759</b>
2016-17	<b>7042.82</b>	4720.99	<b>1.493075</b>
2017-18	<b>17205.64</b>	10890.33	<b>1.216602</b>
2018-19	<b>20270.69</b>	<b>16206.17</b>	<b>1.502067</b>
2019-20	<b>20204.94</b>	<b>18025.20</b>	<b>1.438478</b>



### **INTERPRETATION**

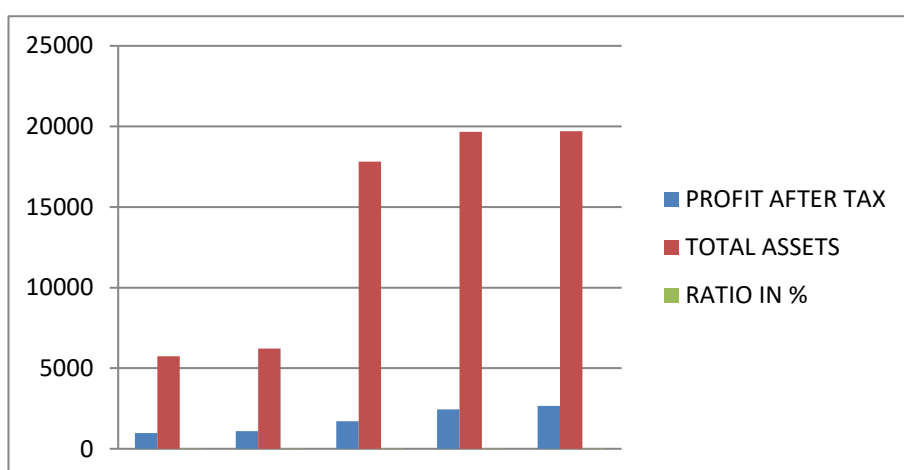
The above table shows increases in Net fixed assets. That can also be seen clearly in sales, that indicates a good sign.

### RETURN ON TOTAL ASSETS:

The return on fixed assets can calculate as under:

Return on fixed assets = Profit AfterTax / Total Assets

YEAR	PROFIT AFTER TAX	TOTAL ASSETS	RATIO IN %
2015-16	977.02	5743.73	<b>0.200102</b>
2016-17	1093.24	6217.20	<b>0.205955</b>
2017-18	1804.23	18810.64	<b>0.094816</b>
2018-19	<b>2446.20</b>	<b>20667.95</b>	<b>0.18676</b>
2019-20	<b>2655.43</b>	<b>20697.50</b>	<b>0.17481</b>



### INTERPRETATION

The above table shows increase in profit 2009-2017 profit has gone up. This shows the favorable position of the company.

### VALUATION OF FIXED ASSETS:

#### LG GROUP Follows

- 1) Historical cost method in the valuation of fixed assets.
- 2) The fixed assets do not include assets acquired on sale-cum-lease basis from various Financial Institutions whereon the lease rent paid for the year is charged to revenue.
- 3) Plant and Machinery includes the value of Air Conditioning Plants at various units which were transferred and vested with the Corporation under the transfer scheme. The gross value and depreciation thereon are not segregated in the absence of break up details under the transfer scheme. The value thereof, however, is insignificant.

- 4) Investments are intended for long term and are carried at cost. Income on investment is accounted on accrual basis.
- 5) Capital expenditure on assets not owned by the company is reflected as a distinct items in capital WIP till the period of completion and therefore in the Fixed assets.
- 6) The Company evaluates the impairment of losses on the fixed assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If such assets are considered to be impaired the impairment loss is then recognized for the amount by which the carrying amount of the assets exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the smallest level for which, there are separately identifiable cash flows.
- 7) Fixed assets is adjusted in their carrying cost in respect of foreign currency transactions entered before 1-4-2017 and that related to current assets is recognized as revenue/expenditure during the year.
- 8) In case of commissioned assets, where final settlement of bills with contractors is yet to be effected, capitalization is done on provisional basis subject to necessary adjustment in the year of final settlement.

#### **CALCULATION OF DEPRECIATION:**

Depreciation methods followed by **LG GROUP** is as follows:

- 1) Depreciation is charged on straight-line method as per rates notified by the Government of India except where actual cost does not exceed Rs. 5354 in which case it is charged 100% in the same year. In respect of assets, where rate is not laid down, depreciation is provided on straight-line method under the schedule XIV of the Companies Act 2056.
- 2) Depreciation is provided on pro-rata basis in the year in which the asset becomes available for use.
- 3) Where the cost of depreciable assets has undergone a change during the year due to increase/decrease in long term liabilities on account of exchange fluctuation, price adjustment, change in duties or similar factors, the unamortized balance of such asset is depreciated prospectively over residual life determined on the basis of the rate of depreciation.
- 4) Internal electrical wiring, fittings etc., are treated as part of buildings and as such depreciation applicable to buildings is charged thereon.

**CHAPTER-VII**  
**FINDINGS, CONCLUSUON**

## FINDINGS

After analyzing the financial position of **LG GROUP** and evaluating its fixed assets management or capital budgeting techniques in respect of component analysis, trend analysis and ratio analysis. The following conclusions are drawn from the project preparation.

The progress of **LG GROUP** shows that there is an increase in Net block considerably over the year that the investment in the net block is in increase trend .It increased during the year 2016-2020 and it has 44.49%.

- Regarding to the fixed assets to net worth ratio shows a continuous increase in net worth and fixed assets. This shows the satisfactory position of the company.  
Regarding the long-term funds to fixed assets they show an increase.
- Regarding the total investment turnover ratio it is observed sales had an increase from 2016- 2020.
- Regarding the Fixed Asset turnover ratio, sales had an increased.
- Regarding the Return on total assets ratio it has been observed that There is profit. This shows the favorable position of the company.
- From the above study it can be said that the **LG GROUP** overall financial position on fixed assets is satisfactory.

## CONCLUSIONS

The Fixed asset management of **LG GROUP** is quite comfortable with a judicious mix of debt and equity. The overall assessment of financial statement signifies efficient utilization of the investments, loans and advances. The profitability of the company appears to be impressive, as judged by increase in reserves and surplus.

The management discussions and analysis by Director's report and opinions expressed by Auditor's report through fixed asset management statements is true and fair view in accordance with the provisions of the companies Acts, and Accounting standards.

The overall fixed asset management of the company appears to be more than satisfactory.

**CHAPTER-VIII**  
**SUGGESTIONS.& RECOMMANDATIONS**

## **SUGGESTIONS & RECOMMENDATION**

- It is suggested to improve the position of the company by effective's utilization of fixed assets.
- Growth rate in fixed assets can be increase by employing more investment.
- Total investment to sales can be improved.
- Instead of disclosing the combined flows of debtors and loans advances as decrease/(increase) in trade and other receivables, their separate disclosure will be more meaningful.
- Globalization of economies and the requirement of shares from investors in capital market, diverse and demanding audience to the company, need a clear and in-depth in information about the company's financial position in Annual report.



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