

## ANALYSIS OF ASSET MANAGEMENT SYSTEM IN A PRIVATE ENTERPRISE

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*The article describes the main characteristics and analyzes activities of a private enterprise. Based on the use of methodological approaches to the assessment of the company, the authors give the complex characteristic of the financial situation in a private enterprise "UBA". According to the analysis, they put forward their own proposals for asset management improvement.*

**Key words:** *enterprise assets, analysis, evaluation, approaches to evaluation, the cost approach, the comparative approach, the income approach, the financial indicators.*

### INTRODUCTION

To achieve a good result and efficient handling of the Fixed Assets, it is however pertinent to consider and examine some methodologies.

Corporate governance regulations are now demanding ever increasing levels of accountability from finance department, it has never been more important to have a fixed asset solution that can assist companies in meeting these regulations.

Specialized Asset Management System provides a long-term solution, compliance issues relating to fixed assets. Providing users with a system that can control and track changes to an asset throughout its life-cycle from the moment it has been entered into the system. It assists financial professionals in compliance, eliminating the use of spreadsheets altogether.

Independent research has estimated that many companies are overspending at least 20 % because of under-utilisation, inefficient maintenance and petty theft of their assets.

Fixed Asset Tools – Asset manipulation tools allow us to make mass changes to several fixed assets at once. These tools include processing depreciation schedules, releasing fixed asset transactions, converting purchases to fixed assets, and generating fixed asset calendars.

### RESEARCH TASK

Asset management is the key to expenditure control.

Recently, finance professionals and managers have had to cope with an awful lot of new guidelines and legislation. For bigger companies, corporate governance legislation such as Sarbanes-Oxley(SOX) has become a major issue.

The article aims is to improve financial management for the business by tracking, analyzing, and manipulating fixed asset management.

### RESULTS

The effectiveness of decision-making in the field of investment programs, restructuring, raising capital through shareholding, during the mortgage operations depends on the versatility and completeness of valuation

information of the enterprise. This causes the necessity of company's market value assessment based on three approaches simultaneously, which are the essence of real (complex) assessment of the company's economic and financial situation. PE "UBA" is considered to be a separate entity that hosts in the development of its economic, financial condition, including primary (production), and financial investment.

The problem of assessing the value of industrial enterprise for its owner, potential investors, insurance companies, tax authorities and other actors exists constantly in a market economy.

Valuation is important for a potential buyer or seller in determining the reasonable price of the transaction, for a lender - when deciding on a mortgage loan, for an insurance company – when compensating damages, for investors - when determining the initial cost of the project and future business development.

If the government alienates property, then its owner may be required to do its evaluation in order to challenge the government's offer of "fare compensation" when overcoming debt related to the evaluated objects belonging to the government. If a company wants to buy another, then it may need to assess the business value that belongs to the latter. Evaluation can be carried out in order to optimize taxation, to withdraw subjects that are in a state of bankruptcy, and to conduct anti-crisis policy to avert bankruptcy. This estimation procedure allows balancing the structure of assets, cleaning up the depreciation and optimizing the structure of production costs. Company valuation facilitates optimization of its management and success of the application of modern methods of financial management for sorting out crisis situations and for production restructuring.

Assessment of property is also conducted for other purposes:

- restructuring of the company. Liquidation, merger, acquisition or selection of independent companies from holding company requires its market valuation, because it is necessary to determine the purchase price or redemption of shares, the value of premiums paid to shareholders of the company that is being merged;
- determination of the value of securities in case of selling shares on the stock market;
- improvement of the effectiveness in current company management;
- determination of the credit worthiness of the company and the value of collateral for loans.

In this case, evaluation is needed because the value of assets according to financial statements may differ significantly from their market value.

Evaluation of the enterprise is orderly, purposeful process of determining the cash value of the object taking into consideration its potential in real time in a specific market. The purpose of this process is to calculate in monetary value, which may be the most probable sales price and to characterize the properties of the enterprise as a commodity, i.e. its utility and cost required for this utility.

According to national and international standards in evaluating the market value of different objects, and in particular, businesses, it is recommended to use three basic approaches (concepts) based on the scope of the assessment. They are: cost, income and market approaches (Table 1).

Table 1 – Approaches to the estimation of the market value

Approach	Essence	Purpose	Advantage	Disadvantage
Cost	is based on the principle of substitution which asserts that no prudent buyer or investor will pay more for a property than that amount, for which the site could be acquired and which improvements that have equal desirability and utility can be constructed without undue delay. It is a method of appraising property based on the depreciated reproduction or replacement cost of improvements, plus the market value of the site	is diversified: to determine the future benefits and rewards of ownership of the valuated assets because in determining, for example, the investment value (attractiveness) of the company, investor is primarily interested in future income	the most validity/reliability when improvements are new or near-new	for older/aged structures; the cost approach may not be relevant due to the greater subjectivity in estimating accrued depreciation
Comparative	is based primarily on the principle of substitution. This approach assumes a prudent (or rational) one. A typical buyer will compare asking prices and seek to purchase the property that meets his or her wants and needs for the lowest cost. In developing the sales comparison approach, the appraiser attempts to interpret and measure the actions of parties involved in the marketplace, including buyers, sellers, and investors	Purpose is to compare the value of assessed enterprise with the value of similar businesses	be used to estimate the value of the company whose shares are not involved in buying and selling on the stock market or they are less liquid, with similar in its manufacturing operations companies whose shares are involved in exchange transactions	Is not as comprehensive or detailed as a formal appraisal, and also has a bias, is usually done by a real estate agent for a property owner to determine the best selling price. It should never be presented as an appraisal
Income	values property by the amount of income that it can potentially generate. Hence, this method is used for apartments, office buildings, malls, and other property that generates a regular income	Purpose is in determining the time and amount of income that owner will receive and the risks it involves	is one of three popular approaches to appraising real estate. Often most important for hotels, apartments and office buildings	looks at the rents and values of real estate in the area, it may not take into account features that a piece of property may have, the condition of the property, the exact neighborhood or financing concessions

For a more accurate and reasonable evaluation of the enterprise, it is necessary to use an integrated method based on the simultaneous use of three approaches which will eliminate the one-sidedness of these estimates.

The solution can be made by analogy with solutions of multi-criterion decision-making tasks, in particular by establishing an integrated quality assessment criteria, taking into account different aspects of evaluation, including cost, income and comparative (market).

Feature of the market economy development in Lithuania at the present stage is the necessity and importance of enterprise valuation for solving issues of investing in a business, raising capital, mortgage operations, insurance and so on. The complexity of the task of businesses valuation is related to the ambiguity of experts' positions on the methodology of determining the market value of research object, as well as the fact that the structure of tasks that estimation is designed to solve is diverse and dissimilar.

To provide effective recommendations for fixed assets management it would be appropriate to conduct a general analysis of commercial activity of PE "UBA" as the object of study.

PE "UBA" is self-existing legal firm, which is registered in Lithuania. Its address is: LT – 03500 Vilnius.

Ownership of the company is private; the company operates exclusively by its regulations and laws of Lithuania and it does not have legal units in its structure. Also, the company is not a part of any legal entity and therefore is solely responsible for its own actions.

The company was founded in 1992 by one individual. The main activity of the enterprise is the production of plastic products, manufacture of flexible packaging and films. During 1993–1995 the product range has been gradually expanded. After studying the market situation, firm owner decides to add another activity — production of plastic jars and bottles.

The desire to expand markets and product range in 1999 pushes the company to the development of another activity - vacuum packing.

At present the scheme of the company includes several groups of services and production (Fig. 1).

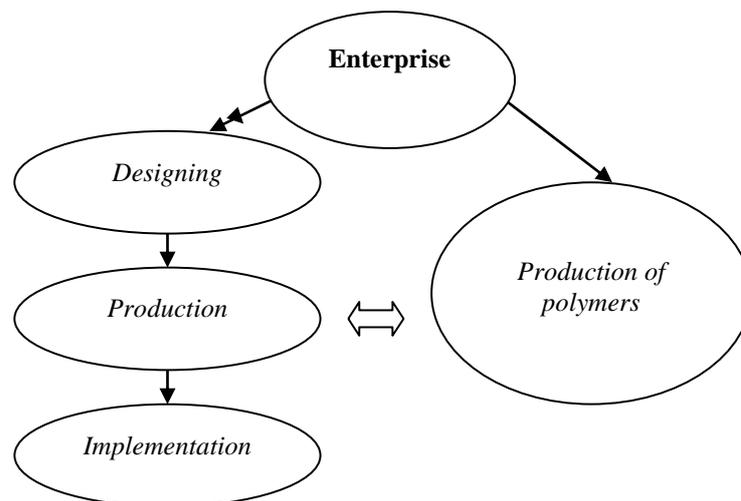


Figure 1 – Types of enterprise activities

The general activity of the company focuses on these areas, which operate simultaneously: manufacture of plastic packaging; production of technical and general purpose plastic; production of blister packaging.

The total product range consists of 25–30 points, depending on the volume of production and the season.

Services offered by PE "UBA" at the present stage of its activity are concentrated on meeting the demands of customers about the necessity of making the design documentation and molds design for production.

Total production activity is machine-manual. Number of manual processes in the production cycle is up to 30 % depending on the process or product.

Raw materials for recycling which the company uses are presented in the chart (Table 2).

Given the experience in the market "UBA" has formed a stable range of suppliers of necessary raw materials. The main suppliers of polymeric materials are:

- Firm "Polimerservis" address: LT-03500 Vilniua, office 323. This company supplies polyethylene of high and low pressure and certain technological supplements.

- "Partnerplast" address: LT – 04340 Vilnius, office 604 – supplier of dyes for plastics.

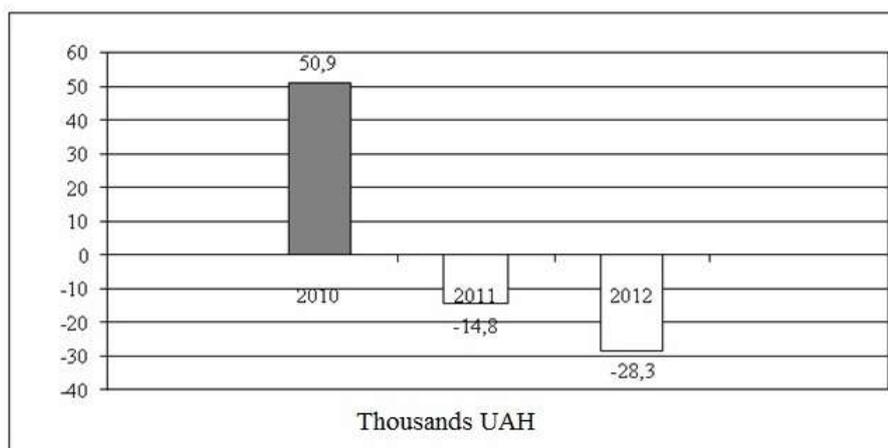
*Table 2 – Raw materials for the production cycle*

Raw materials	Usage	Physical condition	Demand, kg per month
High pressure polyethylene	General	Granule	1,800
Low-pressure polyethylene	Blowing	Granule	1,800
Polystyrene	General	Granule	1,000
PP	Casting	Granules	900
Technical color for plastic	General	concentrate	300

Most of suppliers are concentrated within the Eastern Nigeria.

After analyzing the structure of the company and its general characteristics, it is necessary to analyze the financial and economic activity.

First of all we check the rate of net profit over the past five years (Fig. 2). This index is taken from Form № 2.



*Figure 2 – Profit of PE "UBA" by year*

Obviously, the most profitable for last five years was 2010, in 2011 and 2012 the company operated with loss due to increased costs for construction and payroll. However, the income which was received in 2010 allowed company to work very stable.

The next step after the profit analysis is complete analysis of financial statements using economic factors – calculation of financial statements' data settlement defined by relationships between indicators (Table 3). This method is most suitable due to its efficiency and speed.

*Table 3 – Analysis of financial statement*

Index	Essence	Calculation	Result
The inventory turnover ratio	In order to decide how much the increase in stocks affected the activities of the company	2010 – 17, 2011 – 21, 2012 – 24	These calculations show that the increase in stocks does not play a negative role in the enterprise activity because they update very quickly
The overall liquidity ratio	Normal ratio in Lithuania is 1-1.5, so values are close to it	2010 – 1.52, 2011 – 0.93, 2012 – 0.99	This ratio means that for one Lita of current liabilities in the company, for example in 2012, was almost one Lita of current assets
The quick liquidity ratio	Unlike the previous ratio is more strict and reasonable. Normal ratio is close to one	2010 – 1.51, 2011 – 1.35, 2012 – 1.01	We can conclude that the company is very liquid
The absolute liquidity ratio	This ratio shows how much of the current short-term obligations may be recoverable. Standard value is not less than 0.1 – 0.2	2010 – 0.19, 2011 – 0.22, 2012 – 0.09	The company is in normal range
Return on sales	Shows which income enterprise gets from sales on 1 Lita	2010 – loss, 2011 – loss, 2012 – 0.12.	This suggests that from sales on 1 Lita PE "UBA" had 12 centas profits
Asset turnover ratio	Describes how efficiently assets are used considering volume of sales because it shows how much money from sales comes for each Litas invested in the assets of the company	2010 – 2.95, 2011 – 2.82, 2012 – 1.97.	This data shows asset turnover reduce, i.e. less efficient use of assets over the last three years
Return on assets (ROA)	Shows how effectively the company uses its assets for generating profit, that is how much profit is obtained from each Litas, which is embedded in the assets of the company	2010 – loss, 2011 – loss, 2012 – 0.12	Each Litas of assets brought to the company 12 centas of net
Return on equity (ROE)	Characterizes the efficiency of enterprise equity	2010 – loss, 2011 – loss, 2012 – 0.25	This means that for every Litas of equity company gets about 25 centas of net income
Capital productivity	Characterizes how well the company uses fixed assets	2010 – 4.04, 2011 – 3.80, 2012 – 3.10	These indicators show that fixed assets are used very efficiently

The ability to generate profits has great influence on short-term and long-term activities of the company. In this regard let's consider the following aspect of business - profitability, which is a measure of the efficiency of the enterprise.

Analyzing the cost effectiveness it is possible to conclude that PE "UBA" is quite profitable, but profitability is at relatively low level since according to the above analysis of liquidity company is prevailing in the direction of liquidity.

The emergence of more advanced types of equipment with high performance makes economically feasible the replacement of the existing fixed assets even before their physical deterioration.

Untimely replacement of obsolete fixed assets at PE "UBA" leads to the fact that the cost increases and quality decreases compared to products made by more advanced machines and equipment.

The financial condition of the company can be assessed in view of its short-term and long-term prospects.

The above analysis of fixed assets of PE "UBA" indicates the low level of provision of fixed assets, which was proved by indicators of availability and movement of fixed assets, and the capital-labor ratio.

Also, we can conclude that in the basic structure of the investigated company, leading place have buildings, structures, machinery and equipment, indicating the superiority of passive assets in the structure, which is not exactly a good thing, because production efficiency improvement is achieved through the active production assets.

Permanent reduction of rate of return is the result of inefficient use of fixed production assets. The reason for this was the lack of their update and replacement by more modern and upgraded.

Due to the absence of improvement in the material-technical base PE "UBA" loses huge part of profit, because together with reduced average number of employees decreased the number of manufactured products and therefore the part of income from sale. New upgraded appliances and further automation of manufacturing processes will reduce the time for holding certain production activities, which in return will increase the number of manufactured products.

Therefore, to improve the usage of fixed assets it is necessary to establish an optimal balance between fixed assets and working capital considering the direction of production in enterprises, development level of the main industry and achieved level of fixed assets.

Considering the fact that construction and equipment are the main means of production for industrial enterprises, one of the most efficient reserves of increasing the effectiveness of fixed assets usage in the industry is improvement of material and technical base and its rational use.

The level of use of industrial equipment in PE "UBA" largely depends on the human factor, so it is necessary to deepen the specialization and combine production, introducing progressive forms of organization and wages, raising staff qualification and responsibility for the management of their assigned equipment.

Identification of resources needed to increase the efficiency of fixed assets is possible only through prompt and proper economic analysis, which primarily involves determination of rate of return and main directions for its improvement.

## CONCLUSIONS

Given the data that was obtained during the financial and economic analysis, we can draw some conclusions:

1. Financial condition is quite stable and dynamic;
2. Activities of the company bring profit or income is sufficient for maintaining the financial stability;
3. Total capital productivity is quite high.

However, there are some problems with profitability and rather increased inventory, which is not very useful as stocks delay over current assets if used not very actively. There are problems causing tendency to reduce the amount of net income because it affects the reduction of working capital in the company, so it is advised to devote some attention to solving these issues.

Given the above calculations, we can conclude that the financial condition of the company will be fairly stable for at least 3-4 years.

## РЕЗЮМЕ

### АНАЛІЗ СИСТЕМИ УПРАВЛІННЯ АКТИВАМИ НА ПРИВАТНОМУ ПІДПРИЄМСТВІ

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*У статті описано основні характеристики та аналіз діяльності приватного підприємства. На підставі використання методологічних підходів до оцінки компанії, автори дають комплексну характеристику фінансової ситуації в приватному підприємстві "UBA". Згідно з аналізом вони висунули свої пропозиції щодо вдосконалення управління активами.*

*Ключові слова: активи підприємства, аналіз, оцінка, підходи до оцінки, витратний підхід, порівняльний підхід, дохідний підхід, фінансові показники.*

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