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Investments other Than Fixed Assets: An Encyclopedic-Theoretical Review

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Abstract

Finance is a panacea for all ills of the organization. One of the possible determinants of the exposure of companies to economic fluctuations might be their investment intensity, i.e. the increase in their long-term (tangible) assets. Due to the fact that investments once made tend to be difficult to be disposed off at favorable terms, any unjustified investments may have a strong adverse effect on companies' sustainability, especially during the time of economic decline. Investment intensity has been found to work as a signal about future profitability. No organization can sustain without determining its investment strategy excluding fixed asset, which ensures long term profitability of the concern. Hence, optimal investment strategy is particularly useful to companies considering expansion or capital investment. Therefore, the application of investment other than fixed asset generally includes investment in real asset, bonds, company holding, financial instruments, rentals for capital appreciation, etc. In this context researchers has studied the encyclopedia, Oxford Dictionary, Financial Dictionary and Webster Dictionary and has reviewed the following key words: Investment, Fixed Asset, Profitability, Income, Earnings Capital Employed, Shareholders Wealth, Asset Structure and Returns.

Keywords: *Investment, Asset, Capital, Return and Profitability.*

Introduction

Finance is a panacea for all ills of the organization. The economic crisis of recent years has brought to light the variances in company's investment pattern. One of the possible determinants of the exposure of companies to economic fluctuations might be their investment intensity, i.e. the increase in their long-term (tangible) assets. Due to the fact that investments once made tend to be difficult to be disposed off at favorable terms, any unjustified investments may have a strong adverse effect on companies' sustainability, especially during the time of economic decline.

Investment intensity has been found to work as a signal about future profitability. The motivation to invest lies in the signaling of expansion, perceived future returns and availability of large free cash flows for investments at management's disposal.No organization can sustain without determining its investment strategy excluding fixed asset, which ensures long term profitability of the concern. And includes investment in:-

- Shares and debentures of subsidiary or other companies,
- Rentals for capital appreciation,

- Real estate property,
- Long term financial instruments, etc.

Hence, optimal investment strategy is particularly useful to companies considering expansion or capital investment. Therefore, efficiency in the application of investment other than fixed asset should be judged in relation to income received from such investment. A greater return can be obtained by having huge level of asset which are not fixed asset.Effective organization of profitability and investment pattern, therefore, has an important impact on the strategy of the organization and generation of shareholders value.

The main objective of this study is to examine the effect of investment other than fixed asset to profitability, capital employed, capital appreciation, interest and non- interest income of selected listed Indian manufacturing companies. To evaluate the same following ratios will be considered:-

- ROI other than Fixed Asset - (Gains from Investment - Cost of Investment) / Cost of Investment
- ROA other than Fixed Asset - Net Income after tax / Total assets Excluding Fixed Asset
- ROE - Net income after tax / Average shareholder's equity
- ROCE other than Fixed Asset - EBIT / Capital Employed = EBIT / (Equity + Non-current Liabilities) = EBIT / (Total Assets Excluding Fixed Asset - Current Liabilities)
- EPS - (Net Profit after Taxes - Preference Dividends) / Number of Equity Shares
- Price to Earning - Market Price per Share / Earnings per Share
- Price to Cash Flow from Investing Activities - Price / Net Cash Flow from Investing Activities
- Interest Income to Total Income - Interest Income / Total Income
- Non-Interest Income to Total Income - Non-Interest Income / Total Income

This study aims to look into the relationship between manufacturing company's investment intensity and return belonging to various sectors, with the purpose of gaining some insight into this matter in order to do more detailed studies.

Objectives of the Study

- To evaluate the assets structure of selected manufacturing companies.
- To understand the relationship of Investments other than Fixed Assets to Fixed Assets and Capital Employed.
- To understand the relationship of Investments other than Fixed Assets to Income and Profitability.
- To examine the efficiency of investment management practice of the selected listed Indian companies.
- To study the impact of investment patter other than fixed asset with company's profitability and return.

Encyclopedic- Theoretical Review

Throughout this study certain words are used as specific shorthand. The details with regards to same include, its definition from three different dictionaries (Oxford dictionary, Financial dictionary and Webster dictionary), its synonyms and antonyms and brief summary from encyclopedia.

1. Investment
2. Fixed Assets
3. Profitability
4. Income
5. Earnings
6. Capital Employed
7. Shareholders wealth
8. Asset Structure
9. Returns

Investment

An investment is an asset or item that is purchased with the hope that it will generate income or appreciate in the future. In an economic sense, an investment is the purchase of goods that are not consumed today but are used in the future to create wealth. In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price. The building of a factory used to produce goods and the investment one makes by going to college or university is both examples of investments in the economic sense. In the financial sense investments include the purchase of bonds, stocks or real estate property.

Definition of Investment

- Oxford Dictionary:-

  The action or process of investing money for profit.

- Financial Dictionary:-

  The act of placing capital into a project or business with the intent of making a profit on the initial placing of capital. An investment may involve the extension of a loan or line of credit, which entitles one to repayment with interest, or it may involve buying an ownership stake in a business, with the hope that the business will become profitable. Investing may also involve buying a particular asset with the intent to resell it later for a higher price. Many types of investing exist, and each is subject to greater or lesser regulation in the jurisdiction in which it takes place. Legally, investing requires the existence and protection of individual property rights. Investing wisely requires a combination of astuteness, knowledge of the market, and timing.

- Webster Dictionary:-

  The outlay of money usually for income or profit: capital outlay; also: the sum invested or the property purchased.

Synonyms of Investment

- Asset

  An asset is a resource with economic value that an individual, corporation or country owns or controls with the expectation that it will provide future benefit.

- Property

  A property that is usually purchased specifically to generate profit through rental income and/or capital gains.

- Invest

  Invest refers to put valuable resources into something that you expect will give you a personal or financial gain.

Antonyms of Investment

- Divestment

  Disinvestment means to sell off certain assets such as a manufacturing plant, a division or subsidiary, or product line. Disinvestment is sometimes described as the opposite of capital expenditures. Some people use the term divestiture, or to divest when discussing disinvestment.

- Divest

  Divestment is the process of selling an asset. Also known as divestiture, it is made for either financial or social goals.

- Discharge

  Refers to the action of releasing a lien or the document in which the creditor relinquishes a lien. It is also known as a satisfaction, a release, a re-conveyance, or an extinguishment. However, release tends to be used in connection with both real and personal property, while the discharge, extinguishment, re-conveyance, and satisfaction are more often used only in connection with real property. Also refers to Relief granted to a debtor by a bankruptcy court. Discharge relieves the debtor from all further responsibility for pre-petition debt covered by the discharge.

Brief Summary of Investment

The word investment can be defined in many ways according to different theories and principles. It is a term that can be used in a number of contexts. However, the different meanings of "investment" are more alike than dissimilar.

Generally, investment is the application of money for earning more money. Investment also means savings or savings made through delayed consumption. According to economics, investment is the utilization of resources in order to increase income or production output in the future. An amount deposited into a bank or machinery that is purchased in anticipation of earning income in the long run are both examples of investments.

According to economists, investment refers to any physical or tangible asset, for example, a building or machinery and equipment.

On the other hand, finance professionals define an investment as money utilized for buying financial assets, for example stocks, bonds, bullion, real properties, and precious items.

Investments are often made indirectly through intermediary financial institutions. These intermediaries include pension funds, banks, brokers, and insurance companies. They may pool money received from a number of individual end investors into funds such as investment trusts, unit trusts, SICAVs etc. to make large scale investments. Each individual investor holds an indirect or direct claim on the assets purchased, subject to charges levied by the intermediary, which may be large and varied.

Types of financial investments include:-

- Alternative Investment

  An alternative investment is an investment in asset classes other than stocks, bonds, and cash. The term is a relatively loose one and includes tangible assets such as precious metals, art, wine, antiques, coins, or stamps and some financial assets such as real estate, commodities, private equity, distressed securities, hedge funds, carbon credits, venture capital, film production[4] and financial derivatives. Investments in real estate and forestry are also often termed alternative despite the ancient use of such real assets to enhance and preserve wealth. Alternative investments are to be contrasted with traditional investments.

- Traditional Investment

  Traditional investments refers to putting money into well-known assets (such as bonds, cash, real estate, and equity shares) with the expectation of capital appreciation, dividends, and interest earnings. Traditional investments are to be contrasted with alternative investments.

Fixed Asset

A fixed asset is an item with a useful life greater than one reporting period, and which exceeds an entity's minimum capitalization limit. A fixed asset is not purchased with the intent of immediate resale, but rather for productive use within the entity. An inventory item cannot be considered a fixed asset, since it is purchased with the intent of either reselling it directly or incorporating it into a product that is then sold.

Definition of Fixed Asset

- Oxford Dictionary:-

  Assets which are purchased for long-term use and are not likely to be converted quickly into cash, such as land, buildings, and equipment. Compare with current assets.

- Financial Dictionary:-

  An asset with a long-term useful life that a company uses to make its products or provide its services. A fixed asset is any asset that the company does not expect to sell for at least a year, but the term often refers to assets a company expects to have indefinitely. Common examples of fixed assets are real estate and factories, which a company holds for long periods of time.

- Webster Dictionary:-

  An asset that has physical form and is capable of being appraised at an actual or approximate value.

Synonyms of Fixed Assets

- Non-liquid Asset

  A type of asset that is not easily turned into cash. Land is considered a non liquid asset.

- Plant and Equipment

  Plant and equipment (P&E) is a company asset that is vital to business operations but cannot be easily liquidated. The value of plant and equipment is typically depreciated over the estimated life of the asset, because even the longest-term assets become obsolete or useless after a period of time.

- Non-current Asset

  Noncurrent assets are company's long-term investments, in the case that the full value will not be realized within the accounting year. Noncurrent assets are capitalized rather than expensed, meaning that the company allocates the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was purchased.

Antonyms of Fixed Asset

- Current Asset

  Current assets are balance sheet accounts that represent the value of all assets that can reasonably expect to be converted into cash within one year. Current assets include cash and cash equivalents, accounts receivable, inventory, marketable securities, prepaid expenses and other liquid assets that can be readily converted to cash. They are important to businesses because they can be used to fund day-to-day operations and pay ongoing expenses. Depending on the nature of the business, current assets can range from barrels of crude oil, to baked goods, to foreign currency. On a balance sheet, current assets will normally be displayed in order of liquidity, or the ease with which they can be turned into cash.

Brief Summary of Fixed Asset

A fixed asset is 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.

These are items of value that 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. 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, i.e. 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.

A fixed asset appears in the financial records at its net book value, which is its original cost, minus accumulated depreciation, minus any impairment charges. Because of ongoing depreciation, the net book value of an asset is always declining.

The following are examples of general categories of fixed assets:-

- Buildings
- Computer equipment
- Computer software
- Furniture and fixtures
- Intangible assets
- Land
- Leasehold improvements
- Machinery
- Vehicles

Profitability

Profitability is ability of a company to use its resources to generate revenues in excess of its expenses. In other words, this is a company's capability of generating profits from its operations. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities.

Definition of Profitability

- Oxford Dictionary:-

  The degree to which a business or activity yields profit or financial gain.

- Financial Dictionary:-

  Profitability is the Profit earned by a firm in relation to the size of the firm, measured in terms of total assets employed, long-term capital or number of employees.

- Webster Dictionary:-

  Making money.

Synonyms of Profitability

- Earnings

  Earnings are the amount of profit that a company produces during a specific period, which is usually defined as a quarter (three calendar months) or a year. Earnings typically refer to after-tax net income. Ultimately, a business's earnings are the main determinant of its share price, because earnings and the circumstances relating to them can indicate whether the business will be profitable and successful in the long run. Earnings are perhaps the single most studied number in a company's financial statements because they show a company's profitability. A business's quarterly and annual earnings are typically compared to analyst estimates and guidance provided by the business itself. In most situations, when earnings do not meet either of those estimates, a business's stock price will tend to drop. On the other hand, when actual earnings beat estimates by a significant amount, the share price will likely surge.

- Income

  Refers to any income that is realized as a result of business activity. It is a type of earned income, and is classified as ordinary income for tax purposes.

- Return

  A return is the gain or loss of a security in a particular period. The return consists of the income and the capital gains relative on an investment. It is usually quoted as a percentage.

Antonyms of Profitability

- Unprofitable

  It refers to a state of generating an overall loss or a negative net income. Sustained periods of being unprofitable can make a business go bankrupt unless new strategies are adopted to change the direction of the negative income.

- Unfavorable

  Refers to a situation or set of conditions is one that involves difficult problems and makes success harder to achieve.

- Disadvantageous

  A condition or situation that causes problems, especially one that causes something or someone to be less successful than other things or people.

Brief Summary of Profitability

Profitability is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities.

Profitability can be defined as either accounting profits or economic profits:-

- Accounting Profit

  Traditionally, farm profits have been computed by using "accounting profits". To understand accounting profits, think of your income tax return. Your Schedule F provides a listing of your taxable income and deductible expenses. These are the same items used in calculating accounting profits. However, your tax statement may not give you an accurate picture of profitability due to IRS rapid depreciation and other factors. To compute an accurate picture of profitability you may want to use a more accurate measure of depreciation.

  Accounting profits provide you with an intermediate view of the viability of your business. Although one year of losses may not permanently harm your business, consecutive years of losses (or net income insufficient to cover living expenditures) may jeopardize the viability of your business.

- Economic Profit

  In addition to deducting business expenses, opportunity costs are also deducted when computing "economic profits". Opportunity costs relate to your money (net worth), your labor and your management ability. If you were not farming, you would have your money invested elsewhere and be employed in a different career. Opportunity cost is the investment returns given up by not having your money invested elsewhere and wages given up by not working elsewhere. These are deduced, along with ordinary business expenses, in calculating economic profit.

  Economic profits provide you with a long-term perspective of your business. If you can consistently generate a higher level of personal income by using your money and labor elsewhere, you may want to examine whether you want to continue farming.

Income

Income is money that a business receives in exchange for providing a good or service or through investing capital. Income is consumed to fuel day-to-day expenditures. It refers to a company's remaining revenues after all expenses and taxes have been paid. In this case, it is also known as "earnings". Most forms of income are subject to taxation.

Definition of Income

- Oxford Dictionary:-

  Money received, especially on a regular basis, for work or through investments.

- Financial Dictionary:-

  The word "income," in its broad sense, is the gain derived from capital, labor, or a combination of the two. It is distinguishable from the capital itself. Ordinarily, for income tax purposes, the word "income" is not used alone. Rather it is used within such descriptive terms as gross income, taxable income, and adjusted gross income.

- Webster Dictionary:-

  Money that is earned from work, investments, business, etc.

Synonyms of Income

- Earnings

  Refers to the net amount earned after deducting the cost of goods sold, expenses and losses. It is often presented as net earnings or net income. When a corporation's stock is publicly-traded, the earnings must also be reported on the income statement as earnings per share (EPS) of common stock.

- Profit

  Profit is a financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity. Any profit that is gained goes to the business's owners, who may or may not decide to spend it on the business.

- Revenue

  Revenue is the amount of money that a company actually receives during a specific period, including discounts and deductions for returned merchandise. It is the "top line" or "gross income" figure from which costs are subtracted to determine net income. It is calculated by multiplying the price at which goods or services are sold by the number of units or amount sold.

Antonyms of Income

- Loss

  The result that occurs when expenses exceed the income or total revenue produced for a given period of time. For tax purposes, net losses in one time period can be used to counteract the income/gains generated in another time period. Under tax law, this loss can be carried back as far as two years.

- Expenses

  An expense consists of the economic costs that a business incurs through its operations to earn revenue. In order to maximize profits, businesses must attempt to reduce expenses without also cutting into revenues. Because expenses are such an important indicator of a business's operations, there are specific accounting rules on expense recognition.

- Debt

  Debt is an amount of money borrowed by one party from another. Debt is used by many corporations and individuals as a method of making large purchases that they could not afford under normal circumstances. A debt arrangement gives the borrowing party permission to borrow money under the condition that it is to be paid back at a later date, usually with interest.

Brief Summary of Income

This measurement is one of the key indicators of company profitability, along with gross margin and before-tax income. It is the mathematical result of revenues and gains minus the cost of goods sold and all expenses and losses (including income tax expense if the company is a regular corporation) provided the result is a positive amount. If the net amount is a negative amount, it is referred to as a net loss. Income is an estimate of performance in the operations of a company. It is influenced by financing and investing decisions.

Earnings

Earnings are the amount of profit that a company produces during a specific period, which is usually defined as a quarter (three calendar months) or a year.

Definition of Earnings

- Oxford Dictionary:-

  Money obtained in return for labour or services.

- Financial Dictionary:-

  The income of a business. Earnings usually refers to after-tax income but may occasionally be used synonymously with pre-tax income or even revenues.

- Webster Dictionary:-

  The balance of revenue after deduction of costs and expenses.

Synonyms of Earnings

- Gain

  It refers to an increase in the value of an asset or property. A gain arises if the selling or disposition price of the asset is higher than the original purchase or acquisition price. This positive difference between the sale price and purchase price is referred to as the gross gain; if transaction costs such as commissions and other expenses are considered, this would be a net gain. A gain may either be realized, i.e., when the asset is actually sold, or unrealized, i.e., a paper gain. Another important distinction of a gain is that it may be taxable or non-taxable.

- Income

  Income is money that a business receives in exchange for providing a good or service or through investing capital. Income is consumed to fuel day-to-day expenditures. It refers to a company's remaining revenues after all expenses and taxes have been paid. In this case, it is also known as "earnings". Most forms of income are subject to taxation.

- Profit

  Profit is a financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity. Any profit that is gained goes to the business's owners, who may or may not decide to spend it on the business.

Antonyms of Earnings

- Loss

  The result that occurs when expenses exceed the income or total revenue produced for a given period of time. For tax purposes, net losses in one time period can be used to counteract the income/gains generated in another time period. Under tax law, this loss can be carried back as far as two years.

- Payment

  A payment is the transfer of one form of good, service or financial asset in exchange for another form of good, service or financial asset in proportions that have been previously agreed upon by all parties involved. Payment can be made in the form of funds, assets or services.

- Debt

  Debt is an amount of money borrowed by one party from another. Debt is used by many corporations and individuals as a method of making large purchases that they could not afford under normal circumstances. A debt arrangement gives the borrowing party permission to borrow money under the condition that it is to be paid back at a later date, usually with interest.

Brief Summary of Earnings

Earnings are perhaps the single most studied number in a company's financial statements because they show a company's profitability. Earnings are the net benefits of a corporation's operation. Earnings are also the amount on which corporate tax is due. A business's quarterly and annual earnings are typically compared to analyst estimates and guidance provided by the business itself. In most situations, when earnings do not meet either of those estimates, a business's stock price will tend to drop. On the other hand, when actual earnings beat estimates by a significant amount, the share price will likely surge.

Many alternative terms for earnings are in common use, such as income and profit. These terms in turn have a variety of definitions, depending on their context and the objectives of the authors. For instance, the IRS uses the term profit to describe earnings, whereas for the corporation the profit it reports is the amount left after taxes are taken out.

Capital Employed

Capital employed represents the capital investment necessary for a business to function. Consequently, it is not a measure of assets, but of capital investment: stock or shares and long-term liabilities. It is usually presented as fixed assets plus working capital.

Definition of Capital Employed

- Oxford Dictionary:-

  Total capital harnessed in a firm's fixed and current assets. Viewed from the funding side, it equals stockholders' funds (equity capital) plus long-term liabilities (loan capital). Viewed from the asset side, it equals fixed assets plus working assets.

- Financial Dictionary:-

  The total funds invested in a business made up of shareholders' funds and long-term loan capital. It is equivalent in value to the company's net assets in its balance sheet

- Webster Dictionary:-

  Fixed assets plus current assets minus current liabilities. Capital employed is the value of the assets that contribute to a company's ability to generate revenue.

Synonyms of Capital Employed

- Financing

  Financing is the act of providing funds for business activities, making purchases or investing.

Financial institutions and banks are in the business of financing as they provide capital to businesses, consumers and investors to help them achieve their goals

- Capital Investment

  Capital investment refers to funds invested in a firm or enterprise for the purposes of furthering its business objectives. Capital investment may also refer to a firm's acquisition of capital assets or fixed assets such as manufacturing plants and machinery that is expected to be productive over many years.

- Capital Expenditure

  Capital expenditures or capex are investments in assets that will have a long life such as property, plant, and equipment. In accounting terms, the money spent will not run through the income statement directly but will appear on the cash flow statement.

Brief Summary of Capital Employed

Generally, capital employed is presented as deducting the current liabilities from the current assets. It can be defined as equity plus loans which are subject to interest. To define it properly, capital employed can be expressed as the total amount of capital that has been utilized for acquisition of profits. It also refers to the value of all assets (fixed as well as working capital) employed in a business.

As explained by Investopedia, capital employed is a term that s used commonly, but is a little difficult to be defined for it is used in different contexts. However, all the definitions usually refer to the investment required for the functioning of a business. "Employing capital" indicates making an investment in the business.

The general formula used for computing capital employed is:

Capital employed = Total Assets - Current Liabilities = Equity + Non-current Liabilities

Gross capital employed usually means the total assets, fixed as well as current, used in business, while Net capital employed refers to total assets minus liabilities.

On the other hand, it refers to total of capital, capital reserves, revenue reserves (including profit and loss account balance), debentures and long term loans.

Shareholders Wealth

Shareholder value is the value delivered to shareholders because of management's ability to grow earnings, dividends and share price. In other words, shareholder value is the sum of all strategic decisions that affect the firm's ability to efficiently increase the amount of free cash flow over time.

Definition of Shareholders Wealth

- Oxford Dictionary:-

  A process that increases the current net value of business or shareholder capital gains, with the objective of bringing in the highest possible return. The wealth maximization strategy generally involves making sound financial investment decisions which take into consideration any risk factors that would compromise or outweigh the anticipated benefits.

- Financial Dictionary:-

  Shareholder value is a business term, sometimes phrased as shareholder value maximization or as the shareholder value model, which implies that the ultimate measure of a company's success is the extent to which it enriches shareholders

- Webster Dictionary:-

  Shareholder value is the value enjoyed by a shareholder by possessing shares of a company. It is the value delivered by the company to the shareholder.

Brief Summary of Shareholders Wealth

Shareholder value is a business term, sometimes phrased as shareholder value maximization or as the shareholder value model, which implies that the ultimate measure of a company's success is the extent to which it enriches shareholders. It became popular during the 1980s, and is particularly associated with former CEO of General Electric, Jack Welch.

The term used in several ways:

- To refer to the market capitalization of a company (rarely used)
- To refer to the concept that the primary goal for a company is to increase the wealth of its shareholders (owners) by paying dividends and/or causing the stock price to increase
- To refer to the more specific concept that planned actions by management and the returns to shareholders should outperform certain bench-marks such as the cost of capital concept. In essence, the idea that shareholders' money should be used to earn a higher return than they could earn themselves by investing in other assets having the same amount of risk. The term in this sense was introduced by Alfred Rappaport in 1986.

Asset Structure

Like capital and financial structure, asset structure refers to the relative magnitudes of balance sheet items, as suggested in this example: Example balance sheet. The components of asset structure, financial structure, and capital structure (Capitalization) all appear on the company's balance sheet.

Definition of Asset Structure

- Oxford Dictionary:-

  A capital structure is a mix of a company's long-term debt, specific short-term debt, common equity and preferred equity. The capital structure is how a firm finances its overall operations and growth by using different sources of funds.

- Financial Dictionary:-

  The proportion of various types of asset held by a firm as shown in the balance sheet. For example, a large manufacturing company or public utility is likely to have proportionately large fixed assets, while retail companies are likely to have proportionately large current assets, such as debtors and stock. A firm's asset structure helps to determine the way in which finance is raised, in particular the balance of long-term loans and short-term debt

Brief Summary of Asset Structure

The term structure is used in business in several different ways. Most business people know that capital structure and financial structure, for instance, refer to balance sheet equity and liability items, which describe the nature of the company's financial position.

Another "structure" term is useful for planning and evaluating the makeup of a company's asset base: asset structure.

The primary objective for profit-making companies is often defined as "increasing owner value." Companies achieve this objective by earning profits, which increase owner value in two ways: as dividends and/or as retained earnings (which increase owner's equity). It is also said that assets are "what the company has to work with," or what it uses, to earn profits.

A strategic view of asset structure is based on the idea that there is an ideal or optimum asset structure for each company, based on:

- The company's industry and the nature of its core business.
- The company's business model and its strategic objectives.
- The nature of the markets the company operates in and its competition.
- Current economic conditions

Certainly, there exist large differences between the asset structures of companies in different industries. There are also striking differences between the asset structures of companies in the same industry, which have different business models.

Return

A return is the gain or loss of a security in a particular period. The return consists of the income and the capital gains relative on an investment. It is usually quoted as a percentage.

Definition of Return

- Oxford Dictionary:-

  A profit from an investment.

- Financial Dictionary:-

  The amount of revenue an investment generates over a given period of time as a percentage of the amount of capital invested. The rate of return shows the amount of time it will take to recover one's investment.

- Webster Dictionary:-

  Yield generated by an investment, expressed usually as a percentage of the amount invested.

Synonyms of Return

- Gain

  A gain is the increase in owner's equity resulting from something other than the day to day earnings from recurrent operations, and are not associated with investments or withdrawals. Typical gains refer to non-typical and non-recurring transactions, for instance, gain on sale of land, change in a stock's market price, a gift or a chance discovery.

- Profit

  Profit is a financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity. Any profit that is gained goes to the business's owners, who may or may not decide to spend it on the business.

- Income

  Any income that is realized as a result of business activity. Business income is a type of earned income, and is classified as ordinary income for tax purposes.

Antonyms of Return

- Loss

  The result that occurs when expenses exceed the income or total revenue produced for a given period of time. For tax purposes, net losses in one time period can be used to counteract the income/gains generated in another time period. Under tax law, this loss can be carried back as far as two years.

- Unprofitable

  It refers to a state of generating an overall loss or a negative net income. Sustained periods of being unprofitable can make a business go bankrupt unless new strategies are adopted to change the direction of the negative income.

Brief Summary of Return

In finance, return is a profit on an investment. It comprises any change in value and interest or dividends or other such cash flows which the investor receives from the investment. It may be measured either in absolute terms (e.g., dollars) or as a percentage of the amount invested. The latter is also called the holding period return.

A loss instead of a profit is described as a negative return. The return, or rate of return, can be calculated over a single period, or where there is more than one time period, the return and rate of return over the overall period can be calculated, based upon the return within each sub-period.

Rate of return is a profit on an investment over a period of time, expressed as a proportion of the original investment. The time period is typically a year, in which case the rate of return is referred to as annual return.

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