

Business Services - Common Problems:

Lack of replacement program for fixed/non-current assets

The purchase of fixed/non-current assets is constantly delayed because of lack of funds, which leads to the continued use of dilapidated and old machinery.

Indicators

- Increasing repair and maintenance costs.
- Loss of production (due to delays in the purchasing of new machinery or equipment).
- Increased finance charges (due to hasty loan agreements being undertaken or due to late payment of suppliers).
- Employee dissatisfaction (due to lack of modern equipment).
- Loss of market share (due to lack of competitiveness).
- Loss of production (due to regular breakdown of machinery).

Causes of the problem

- Lack of planning.
- Lack of funds.
- Lack of a system to monitor the breakdowns.

Short term solutions

- Analyse all fixed/non-current assets. Determine their life expectancy and their current productive capacity. Replace those assets which have the highest unused potential for increased production.
- Explain to staff that a new asset replacement program is being implemented, either at staff meetings or by memorandum.
- Examine the possibility of leasing assets instead of waiting to buy them outright.
- Compare the cost of finance against the expected return on the amount invested in the asset. The use of discounted cash flow techniques are helpful in this comparison.

Long term solutions

- Analyse the future fixed/non-current asset requirements of the business. Take into account diversification and product discontinuance. Set up a program for future asset purchases.



- Calculate whether there will be sufficient funds available at the forecasted date of replacement. In the event that funds will not be available, start examining all possible forms of finance and the different costs involved.

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