

## Quadrant II - Notes

### Module Name: meaning, features and determinants of Fixed capital

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#### Meaning of Fixed Capital

Fixed capital includes the assets and capital investments, such as property, plant, and equipment (PP&E), that are needed to start up and conduct business, even at a minimal stage. These assets are considered fixed in that they are not consumed or destroyed during the actual production of a good or service but have a reusable value. Fixed-capital investments are typically depreciated on the company's accounting statements over a long period of time—up to 20 years or more.

#### Features of fixed capital

##### **They have a useful life of more than one year**

Fixed assets are non-current assets that have a useful life of more than one year and appear on a company's balance sheet as property, plant, and equipment (PP&E).

##### **2. They can be depreciated**

With the exception of land, fixed assets are depreciated to reflect the wear and tear of using the fixed asset.

##### **3. They are used in business operations and provide a long-term financial benefit**

Fixed assets are used by the company to produce goods and services and generate revenue. They are not sold to customers or held for investment purposes.

##### **4. They are illiquid**

Fixed assets are non-current assets on a company's balance sheet and cannot be easily converted into cash.

**Nature of Business:**

The type of business Co. is involved in is the first factor which helps in deciding the requirement of fixed capital. A manufacturing company needs more fixed capital as compared to a trading company, as trading company does not need plant, machinery, etc.

**2. Scale of Operation:**

The companies which are operating at large scale require more fixed capital as they need more machineries and other assets whereas small scale enterprises need less amount of fixed capital.

**3. Technique of Production:**

Companies using capital-intensive techniques require more fixed capital whereas companies using labour-intensive techniques require less capital because capital-intensive techniques make use of plant and machinery and company needs more fixed capital to buy plants and machinery.

**4. Technology Up-gradation:**

Industries in which technology up-gradation is fast need more amount of fixed capital as when new technology is invented old machines become obsolete and they need to buy new plants and machinery whereas companies where technological up-gradation is slow they require less fixed capital as they can manage with old machines.

**5. Growth Prospects:**

Companies which are expanding and have higher growth plan require more fixed capital as to expand they need to expand their production capacity and to expand production capacity companies need more plant and machinery so more fixed capital.

**6. Diversification:**

Companies which have plans to diversify their activities by including more range of products require more fixed capital as to produce more products they require more plants and machineries which means more fixed capital.

**7. Availability of Finance and Leasing Facility:**

If companies can arrange financial and leasing facilities easily then they require less fixed capital as they can acquire assets on easy installments instead of paying huge amount at one time. On the other hand if easy loan and leasing facilities are not available then more fixed capital is needed as companies will have to buy plant and machinery by paying huge amount together.

#### **8. Level of Collaboration/Joint Ventures:**

If companies are preferring collaborations, joint venture then companies will need less fixed capital as they can share plant and machinery with their collaborators but if company prefers to operate as independent unit then there is more requirement of fixed capital.