

## **CHAPTER V**

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CHAPTER NO. V

FINANCIAL PERFORMANCE THE WARANA BAZAR

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CHAPTER NO.V

FINANCIAL PERFORMANCE OF THE WARANA BAZAR.

(5.1) INTRODUCTION:-

The company has to obtain finance in order to perform its activities. Finance is considered as the life blood of business activities. Finance is almost exclusively concerned with the procurement of funds. It also covers, instruments, institutions and practices through which funds are obtained. It also covers the legal and accounting relationships between a business concern and its sources of funds. This approach of finance assumes that the expenditure decisions giving rise to the demand for capital are made elsewhere within a business and the financial manager is left with the task of determining how these funds can be raised.

In order to know the actual position of the business concern we have to concentrate on the financial performance of the concern. In this chapter the researcher is interested to through light on the

financial performance of the Warana Bazar, Warananagar,  
District.Kolhapur during the period from 1989-90 to  
1992-93.

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(5.2) FINANCIAL PERFORMANCE:-

The performance assessment includes the consideration of the effectiveness of company's objectives and policies. The use of long range planning group is the usual medium adopted by companies for the development of the objectives and policies in the strategy in the interest of the business. Management performance can be assessed by the measures other than those developed in the accounting context. But management is sufficiently motivated by accounting control. In decentralised organisations the method of transferred pricing adopted can influence the action of the manager in terms of profit level to be achieved by his own profit centre.

The performance assessment shows that policies and objectives need to be defined more clearly ( )  
This development can be valuable to the business to the extent that long run profitability may only be achieved where an organisation has clear directions and purposes. The creation of an effective performance assessment

requires the knowledge of financial analysis, business organisation and management. It also requires an ability to access external factors, likely to affect significantly the future of the business. Thus the overall performance includes the performance of Production, Marketing, Sales, distribution and finance.

Financial performance consists of the achievement aspects such as income, Capital, Investment, turnover and profits.

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(5.3) RATIO ANALYSIS:-

Ratio Analysis is the process of determining and interpreting numerical relationships based on financial statements. A ratio is commonly used as a Statistical Yard-stick, that provides a measure of the relationship between two figures. A ratio is a simple arithmetic of the relationship of one number to another. It indicates quotient of two mathematical expressions and as the relationship between two or more things.<sup>2</sup> This relationship can be expressed as per-cent, time or as a quotient.

The term accounting ratios is used to describe significantly relationship which exists between figures shown in a balance-sheet, profit and loss accounts on any point of accounting organisation.<sup>3</sup>

(5.3) CLASSIFICATION OF RATIOS:-

Financial ratios can be classified under the following five groups:-<sup>9</sup>

(a) STRUCTURAL GROUP:-

(i) Funded Debt to total capitalisation:

The term "Total capitalisation" comprises long-term debt, capital stock and reserves Surplus. This ratio is computed by dividing by funded debt by total capitalisation.

(ii) Debt to equity:-

This can be measured by dividing debt by total equity of a concern. It examines the good or bad condition of the company.

(iii) Equity to net fixed assets:-

This ratio gives an indication of the extent to which equity capital is invested in net fixed assets.

(iv) Net fixed assets to funded debt:

This ratio acts as a supplementary measures to



determine security for the lenders.

(v) Funded debt to net working capital:-

This ratio is calculated by dividing the long term debt by the amount of the net working capital. It helps in examining creditors contribution on the liquid assets of the firm.

(b) LIQUIDITY GROUP:-

(i) Current Ratio:-

The current ratio is computed by dividing current assets by current liabilities. Current assets normally include cash, trade investments, Sundry Debtors, and pre-paid exp, & inventory, B/R and current liabilities consists of creditors, Bank over drafts, Bills payable & outstanding expenses.

(ii) Acid test Ratio:-

This ratio is also termed as quick ratio or liquid ratio. It is determined by dividing quick assets ie. Cash, Debtors Bills receivables, trade investments, &

prepaid expenses by Current liabilities ie. creditors, Bills payable and outstanding expenses.

(c) PROFITABILITY GROUP:-

(i) Operating Ratio:-

It is calculated by dividing the total operating expenses by net sales and it is expressed as percentage. Total operating expenses include all costs except financial costs and Income tax.

(ii) Net Profit to Sales:-

This ratio is also called as the net profit ratio and net profit margin.

(iii) Coverage of interest payment:-

This ratio is determined by dividing interest charges on long term borrowings and dividend on preference shares into the company's earnings before interest and taxes for the period.

(d) TURNOVER GROUP:-

(i) Assets Turnover:-

This ratio is also called as Capital turnover. It is determined by dividing net sales by the tangible assets ie. net fixed assets plus current assets.

(ii) Net Working capital Turnover:-

It is computed by dividing average net current assets into net sales. It helps in measuring the efficiency of the employment of working capital.

(iii) Inventory of Turnover:-

This Ratio can be computed by dividing inventory to sales. The inventory turnover is valuable measure of ~~finding~~ <sup>Selling</sup> efficiency and inventory quality.

(V) MISCELLANEOUS GROUP:-

(i) Earning Price Ratio:-

This ratio is computed by dividing earnings per share by market price per share.

(ii) Dividend Yield:-

This ratio measures relationship between the dividend per share and the market price.

(iii) Pay out Ratio:-

The ratio is calculated by dividing the dividend pershare by the earning per share.

5.4 ANALYSIS OF THE FINANCIAL PERFORMANCE OF THE WARANA  
BAZAR

In order to evaluate the financial performance of the Warana Bazar liquidity ratio, profitability ratio, capital structure ratio and turnover ratios are calculated and compared with the help of general norms.

5.4 (a) Current Ratio :

The current ratio measures short - term solvency of the firm.

It is calculated by dividing current assets by current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current liabilities}}$$

In a sound business a current ratio of 2:1 is considered as ideal one.

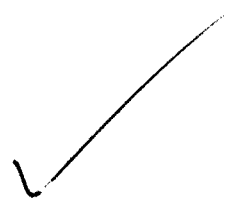
YEAR	AMOUNT	RATIO
1989-90	$\frac{1,08,49,183}{38,31,072}$	2.83:1
1990-91	$\frac{1,58,05,355}{55,34,152}$	<u>2.86:1</u>
1991-92	$\frac{1,70,56,254}{63,31,148}$	2.69:1
1992-93	$\frac{1,90,87,990}{72,95,972}$	2.61:1

Remark:- During the period of study the current ratio varied from 2.61:1 in 1992-93 to 2.86:1 in 1990-91. It indicates that the short term financial strength is satisfactorily maintained and the ratio is more than the standard.

5.4 LIQUID RATIO:-

This ratio applies to strengthen test of liquidity. The ratio 1:1 is generally considered satisfactory. An increase in the liquid ratio reveals that the liquidity position of the sotre has deteriorated. It measures the firms capacity to pay off current obligation immediately and is a more rigorous test of liquidity than the current ratio. It is calculated as:-

$$\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Liquid Liabilities}}$$



Liquid assets are calculated by deducting closing stock from current assets and liquid liabilities are calculated by deucting Bank overdraft from current liabilities.

The Liquid Ratio of the Warana Bazar is as follows:-

YEAR	AMOUNT	RATIO
1989-90	$\frac{21,93,398}{38,31,072}$ =	0.57
1990-91	$\frac{32,72,311}{55,34,152}$ =	0.59
1991-92	$\frac{42,34,966}{63,31,148}$ =	0.67
1992-93	$\frac{43,19,976}{72,95,972}$ =	0.59

This is the true test of going concern solvency of a business. As a general rule, when the current assets equal or exceeds the current liabilities the financial position may be considered satisfactorily.

The liquidity position of the Warana Bazar is not sound during period under study from 1989-90 to 1992-93 and it is below the generally accepted norms and indication of a weak short term financial strength. The ratio varied from 0.57 in 1989-90 to 0.67 in 1992-93 constituting a range of 0.60. The reasons for falling this ratio is an increase in Liquid-liabilities. In the year 1989-90 total current liability are Rs 38,31,072/- and at the end of the year 1992-93 it increased to Rs 72,95,972/-. Thus, there is an increase of Rs 34,64,900/- liquid liabilities during the period of four years. In the year 1989-90 this ratio was only 0.57 but there is slight improvement in this ratio in 1991-92, because of increase in liquid assets and corresponding decrease in liquid liabilities. But in the year 1992-93, the ratio is again declined. Thus it is clear that relationship between liquid assets and liquid liability is not so sound during all the four years.



(5.4) (c) DEBT EQUITY RATIO:-

This ratio expresses a relationship between total liabilities (external equities) and the owners equity (internal equities). This ratio provides meaningful information for evaluating relative position of creditors and owners.

Formula:-

$$\text{Debt Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Owners capital}}$$

As per the revised norms of Indian National Co-operative Association the solvency ratio of 2:1 is considered.

In order to calculate Debt equity ratio of the Bazar- total liabilities are considered.

- (i) Current Liabilities.
- (ii) Security deposits
- (iii) Fixed deposits.
- (iv) Subsidy.
- (v) Loans.



And in case of owners capital of the Warana Bazar includes:-

- (i) Equity Share Capital.
- (ii) Reserves and other funds.
- (iii) Net profit.

The Debt equity Ratio trend of the Warana Bazar is as follows:-

YEAR	AMOUNT	RATIO
1989-90	$\frac{89,35,954}{57,00,457}$	1.58:1
1990-91	$\frac{1,38,42,700}{70,71,427}$	1.95:1
1991-92	$\frac{1,49,26,762}{81,81,563}$	1.82:1
1992-93	$\frac{1,69,24,315}{88,68,858}$	1.90:1

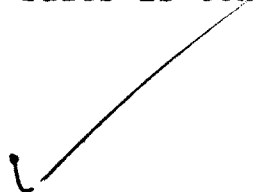
The above data show that Warna Bazar has maintained the debt equity ratio near to 2:1, required.

5.4(d) GROSS PROFIT TO SALES RATIO:-

This ratio establishes relationship of gross profit with sales to measure the operating efficiency of the firm and to reflect its pricing policy. The ratio is calculated by dividing the gross profit by sales and multiplied by hundred.

$$\text{Thus, Gross Profit Ratio} = \frac{\text{Gross profit} \times 100}{\text{Sales}}$$

A Gross profit of at least 9% of sales is considered to be ideal.



The gross profit ratio of the Warana Bazar is as follows:-

YEAR	AMOUNT	RATIO
1989-90	$\frac{52,34,040}{10,65,91,654} \times 100$	4.91%
1990-91	$\frac{67,20,163}{13,65,24,879} \times 100$	4.92%
1991-92	$\frac{81,97,097}{15,56,70,408} \times 100$	5.27%
1992-93	$\frac{94,69,411}{17,55,43,592} \times 100$	5.49%



5.4 (e) Fixed Assets To Proprietors Fund Ratio

This ratio shows the relation between fixed assets and own funds. A higher ratio of fixed assets to proprietor fund indicates that the store is mainly depend upon outside finance. Excessive dependence on outside finance is not better.

This ratio is calculated by using following formula:-  
Fixed Assets to Proprietors Fund Ratio:-

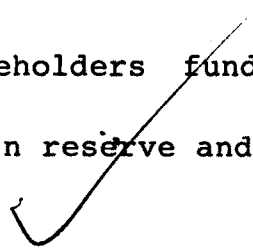
$$= \frac{\text{Fixed Assets}}{\text{Proprietors Fund}} \times 100$$

The position of the ratio of Warana Bazar is as follows:-

YEAR	AMOUNT		RATIO
1989-90	$\frac{35,80,021}{57,00,457}$	x 100	= 62%
1980-91	$\frac{47,69,404}{70,71,427}$	x 100	= 67%
1991-92	$\frac{56,78,903}{81,81,563}$	x 100	= 69%
1992-93	$\frac{59,65,462}{88,68,858}$	x 100	= 67%

The trend of this ratio fluctuates during the period of study from 62% in 1989-90 to 67% in 1990-91 and 1992-93. There is more investment of share holders fund in fixed assets and this is not an ideal policy of investment. When there is excess investment in fixed assets, the part of working capital has to supply by the shareholders. On an average the Warana Bazar invests 66% in fixed assets and remaining 34% in working capital.

In order to utilise the funds at optimum level, there should be proper allocation of share holders fund in the business. Here Shareholders fund show increasing trend because of increase in reserve and profits.



5.4 (f) STOCK TURNOVER RATIO:

This ratio indicates the number of times stock is replaced during the year. It measures the relationship between goods sold and inventory level. The ratio is calculated by dividing total sales by closing stock.

Formulla:-

$$\text{Stock Turnover Ratio} = \frac{\text{Total Sales}}{\text{Closing stock}}$$

At least a stock turnover of 9 to 12 times is necessary for a co-operative consumer concerns. The higher the ratio better is the performance of the concern.

The stock-turnover ratio trend of the Warana Bazar is as follows:-

YEARS	AMOUNT	RATIO
1989-90	$\frac{10,65,91,654}{86,55,785}$	12.31 Times.
1990-91	$\frac{13,65,24,879}{1,25,33,044}$	10.89 Times.
1991-92	$\frac{15,56,70,408}{1,28,21,288}$	12.14 Times.



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1992-93	$\frac{17,55,43,592}{1,47,68,012}$	11.87 Times.
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The Stock-Turnover Ratio of the Warana Bazar is from 10.89 time to 12.31 times. The Warana Bazar has maintained the standard ratio which is necessary for the consumer co-operative society. ✓

In the year 1989-90 it was 12.31<sup>Time</sup> but after 1989-90 it reduced to 10.89 times in 1990-91 and in (1992-93) the ratio was 11.37 times.

It is clear that Warana Bazar is making good effort to maintain the standard ratio.

5.4 (g) FIXED ASSETS TO TURNOVER RATIO:-

Fixed assets being a tangible nature, generally include land, building, Plant and Machinery, furniture and fixture, Vehicles etc. We can generalised that fixed assets are usually those assets which are required for relatively long periods for carrying on the business of the enterprise, which are not intended for re-sale.

However as the sales depends on factors other than fixed assets, the ability, efficiency, quality and style of goods, favourable market demand creation etc. No direct relationship which can be significantly measured by the ratio, can be established between sales and fixed assets.

This ratio is calculated by the following formula:-

$$\text{Fixed Assets to Turnover Ratio} = \frac{\text{Sales}}{\text{Fixed Assets}}$$

The position of this ratio of Warana Bazar is as follows:-

YEAR	AMOUNT	RATIO
1989-90	$\frac{10,65,91,654}{35,80,021} =$	29.77
1990-91	$\frac{13,65,24,879}{47,69,404} =$	28.65
1991-92	$\frac{15,56,70,408}{56,78,903} =$	27.41
1992-93	$\frac{17,55,43,592}{59,65,462} =$	29.42

The fixed assets turnover Ratio of the Warana Bazar is fluctuating. In 1989-90 it was 29.77 and in 1991-92 it declined to 27.41, and it once again increased to 29.42, in the year 1992-93.

From the above ratio it is clear that Warana Bazar is not required huge amount in fixed assets. The sales shows increasing trend but corresponding ratio of sales to fixed assets did not increased.

5.5 NET PROFIT AND DISTRIBUTION OF THE PROFIT OF WARANA

BAZAR

To earn Profit is the main moto of every business organisation. It can earn by facing risks and uncertain market fluctuations. Large the amount of profit more will be the interest of any shareholders to accompany with the association in near future. This will help to make future investments in the diversified activities of the concern.

Net Profit has been defined as "Profit arrived at after allowing for all the usual working expenses, interest on loans, repairs and outgoing depreciation bounties or subsidies from Government or Public bodies from Government or Public bodies, deduction of income tax or super tax, any other tax or duty on tax or interest on debentures or otherwise on Capital Account or amount set aside out of profit for reserves or any special funds. "

As per the principles and rules of the co-operation,

profit earned by the co-operative concerns is not distributed according to the shares hold by the members, but it is distributed according to the purchases made by the members. This concept is considered to be a practical expression of the non-profit characters of the cooperative concern.

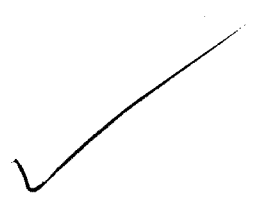
The Warana Bazar keeps 25% reserve funds, 10% benevolent fund, 15% price fluctuation fund & remaining 50% is kept for building fund, and share redumption fund and other funds.

The nature of profit distribution of the Sangh can be explained with the help of the following table.

Table No. 5.1

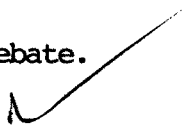
Statement showing Distribution of Net Profit

Sr. Particulars No.	1989-90		1990-91		1991-92		1992-93	
	Amount Rs	%age	Amount Rs	%age	Amount Rs	%age	Amount Rs	%age
1. Reserve Fund	30,842	25	23,322	25	22,875	25	28,305	25
2. Benivolent Fund	12,336	10	9,328	10	9,150	10	11,322	10
3. Price fluctuation fund	18,505	15	13,992	15	13,725	15	16,982	15
4. Share Redemption Fund	50,000	40	33,200	35	33,200	35	33,200	30
5. Building Fund	11,684	10	13,443	15	12,549	15	23,409	20
<b>T O T A L :</b>	<b>1,23,367</b>	<b>100</b>	<b>93,285</b>	<b>100</b>	<b>91,489</b>	<b>100</b>	<b>1,13,218</b>	<b>100</b>



PROFIT DISTRIBUTION TO SHAREHOLDERS :

Warana Bazar has not declared any dividend to its members, but it has given rebate coupon to its members. From the year 1981-82 to 1990-91 it has provided 25% rebate in purchases of called as rebate coupons. Since 1991-92, it has maintained 30% rebate.



5.6 SHARE CAPITAL AND WORKING CAPITAL OF WARANA BAZAR :

In order to study the financial performance of the Warana Bazar, following aspects are also considered.

5.6 (a) Share Capital :

Share capital is the amount collected from Public for the purpose of establishment and development of the Bazar. The amount collected by way of Share Capital is used to purchase fixed assets, such as land, building, machinery, furniture etc. The development of the Bazar is mainly depend upon the share capital. In order to make convenient to purchase the shares by public, it is divided into different parts.

5.6 (b) Working Capital :

Working capital is a life blood of every business. Working capital means amount required for the day to day expenses. It s useful to maintain the business activities. Lack of working capital affects each and every activities



of the business. Working capital consists of net current assets over current liabilities.

The growth and composition of share capital and working capital is shown in following table :-

Table No. 5.2

Table Showing Growth and composition of Share Capital and Working Capital of the Warana Bazar

(Rs.in Lakhs)

YEAR	SHARE CAPITAL Rs	WORKING CAPITAL Rs	% OF WORKING CAPITAL TO SHARE CAPITAL.
1989-90	23.76	70.18	295.37
1990-91	26.88	102.71	382.10
1991-92	31.55	102.71	339.94
1992-93	33.28	117.62	353.42

The above table shows the growth and composition share capital and working of the Warana Bazar during 198 to 1992-93. The above table shows that the Share Capital and Working Capital has increased considerably.

During the period of 1989-90 to 1992-93 the said capital was Rs 23.76 Lacs while the working capital was Rs. 70.18 Lacs and the percentage of the working capital to said capital was 295.37%. In the year 1991-92 the said capital was Rs 31.55 Lacs and the working capital was Rs 107.25 Lacs. But percentage of working capital to said capital ratio was decreased to 339.94%, because 1991-92 the Warana Bazar has opened two branches one at Ambap in Kolhapur District and another at Aitwade Budruk in Sangli District. So for this reason Warana Bazar's working capital ratio is declined. However, the ratio increased upto 353% in the year 1992-93.

5.7 Reserve Fund and other Funds :

Funds are created out of profits in order to strengthen the financial position of the business concern. Now a days every co-operative concern is keeping certain amount of funds aside in order to face the future financial risks and bad uncertain events. In the absence of funds the co-operative concern may not smoothly run its business. It is opined that the strength of the business can be measured in terms of funds and reserves maintained by the co-operative concern dealing in marketing activities.

The Warana Bazar maintains the following types of funds out of its surplus.

- 1) Reserve Funds and
- 2) Other funds

Reserve funds are the funds for a particular purpose, Such funds should not be used for any purpose other than

for which it is maintained. But other funds are maintained out of profits which are not used for a specific purpose.

The above other fund includes share depression fund, Building fund, education fund etc.

The other funds of the Warana Bazar includes :

- a) Share Redemption fund
- b) Building fund
- c) Education fund
- d) Investment fund
- e) Benivolent fund
- f) Price fluctuation fund
- g) Gratuity Fund and
- h) Depreciation fund

The following table shows that the Reserve Fund and other funds of the Warana Bazar.

Table No. 5.3

Table Showing Growth and Composition of Reserve Fund and other funds of the Warana Bazar (Rs. in Lakhs)

Year	Reserve Fund		Other Funds		Aggr- egate total of funds
	Amount Rs.	% of Agg- regate	Amount Rs	% of Agg- regate	
1989-90	4.40	13.77	27.55	86.22	31.95
1990-91	3.05	7.35	38.47	92.65	41.52
1991-92	3.63	7.78	43.00	92.22	47.53
1992-93	4.20	8.12	47.00	91.88	51.73

The above table No. 5.3 indicates, the growth and composition of Reserve and other funds of Warana Bazar during the year 1989-90 to 1992-93. The table explains that the reserve funds and other funds are increasing rapidly.

In the year 1989-90 the reserve fund was Rs 4.40 Lakhs while other funds were around Rs 27.55 Lakhs as to constitute 85.22% of the total funds.

The aggregate total of funds in the year 1989-90 was Rs 13.95 Lakhs in the year 1992-93.

The table helps us to conclude that the reserves and other funds were increasing rapidly. But the increase in the amount of other funds is less than the increase in the other funds.

5.8 THE OVERALL FINANCIAL PERFORMANCE OF WARANA BAZAR :

The financial performance of Warana Bazar during the period under study so far examined on last various pages in terms of ratios, profit, capital and reserves shown in the following overall consolidated table from which the overall financial performance at a glance can be reviewed.

The following table shows the overall financial performance of Warana Bazar.

Table No. 5.4

Overall financial performance of Warana Bazar

Sr No.	Particulars	1989-90	1990-91	1991-92	1992-93
1.	Current Ratio	2.83:1	2.86:1	2.69:1	2.61:1
2.	Liquid Ratio	0.57:1	0.59:1	0.67:1	0.59:1
3.	Debt equity Ratio	1.58:1	1.95:1	1.82:1	1.90:1
4.	Gross Profit Ratio	4.91%	4.92%	5.26%	5.39%
5.	Fixed Assets to Proprietors fund Ratio	62%	67%	69%	67%
6.	Stock Turnover Ratio	12.42 Times	10.95 Times	12.22 Times	11.95 Times
7.	Fixed Assets to Turnover Ratio	29.77%	28.65%	27.41%	29.42%

R E F E R E N C E

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