

***CHAPTER FORTH***

## **CHAPTER 4**

### **INVESTMENT OF FUNDS**

#### **INTRODUCTION**

Investment of funds is another important function of the financial manager. After rising of finance through the sources of the funds, the next task is the profitable development of the funds raised. It is the one of decision of finance function. It is called as Investment Decision.

The Investment Decision relates to the selection of the assets in which funds will be invested by a firm. The assets fall into two groups.

- 1 Long Term Assets which will yield a return over a period of time in future.
- 2 Short Term Assets/ Current Assets defined as those assets which are convertible into cash usually with in a year.

Asset selection decision of a firm is of two type i.e. first type of asset popularly known as capital budgeting & current assets or short term asset is popularly known as working capital management. This chapter covers the Investment decision of Gokul Sahakari Doodh Utpadak Sanstha Ltd., Gadmodshingi.

## CAPITAL BUDGETING

Capital Budgeting or long term Investment decision is most crucial financial decision of a firm. The first aspect of capital budgeting decision relates to choice of new asset out of the alternatives available. Acceptance or rejection of assets depends on the benefits & the returns associated with it. The measurement of investment proposal is made on the methods of appraising investment proposals.

It is also considered as Investment in fixed assets. Fixed assets are those assets which are of some what fixed or permanent in nature. Fixed assets include Building, Machinery & Equipment. Fixed assets management is the important task which the management has to face in its day to day situations. It is important because of the following reasons.

- 1 There is risk involved because of their longer life.
- 2 Fixed assets create problem of acquisition & replacement.

The purchase of fixed assets is of particular significance to business firm because the amount involved is relatively large and represent commitments for relatively long period of time. Long term sources of funds are utilized such as retained earnings are used for purchasing of fixed assets. The businessman must have some fixed assets without which it cannot carry out its operations. Table No 4.1 shows the investment made in fixed assets by the sanstha.

**TABLE NO 4.1**  
**FIXED ASSETS**

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Dead Stock	13,498	12,688	15,513	16,162	27,099
Milko Tester	29,540	26,700	25,365	24,095	22,891
Stabilizer	975	975	930	883	839
Land	21,000	21,000	21,000	21,000	21,000
Liabrary	152	153	540	3,611	6,000
Total	65,165	61,516	63,348	65,753	77,829

SOURCE ANNUAL REPORTS

**TABLE NO. 4.1**  
**FIXED ASSETS**

The table shows the amount of fixed assets of Gokul Sahakari Doodh Utpadak Sanstha Gadmudshingi for the period covered under study.

The total amount of fixed assets for the year 2000-01 is Rs. 65,165. And for the year 2001-2002 is Rs.61, 516.

As compare to the last year amount is decreased due to decrease in amount of milko tester and dead stock by Rs.3, 649.

The amount of fixed assets for the year 2002-2003 is Rs.63, 348. As compare to the last year amount is increased by Rs.1, 832 due to increase in the amount of Dead Stock and library.

The amount of fixed assets for the year 2003-2004 is Rs.65, 753. As compare to the last year amount is increased by Rs.2, 405 due to increase in the amount of Dead Stock and library.

The total amount of fixed assets for the year 2004-05 is Rs.77, 829. As compare to the last year amount of fixed assets increased by Rs. 12,076 due to increase in amount of dead stock and library.

The amount of land is fixed which is Rs.21, 000 for all the five years.

From the above analysis it can be concluded that the amount of fixed assets are increased in the year 2002-03, 2003-04 and 2004-05 due to increase in the amount of dead stock.

The following table shows the changes in the amount of fixed assets.

TABLE NO. 4.2  
FIXED ASSETS

YEAR	FIXED ASSETS (Amount Rs.)	INCREASE/DECREASE
2000-2001	65,165	-
2001-2002	61,516	-3,649
2002-2003	63,348	+1,832
2003-2004	65,753	+2,405
2004-2005	77,829	+12,076

SOURCE ANNUAL REPORTS

#### TABLE NO. 4.2

The table shows that the amount of fixed assets of the sanstha. For the year 2000-2001 Rs. 65,165 and for the year 2004-2005 Rs.77, 829. The total amount of increase in the fixed assets was Rs.12, 664.

The amount of fixed assets decreased by Rs.3, 649 in the year 2001-2002. the amount increased by Rs.1,832, Rs.2,405 and Rs.12,076 respectively for the year 2002-03, 2003-04 and 2004-05 due to increase in the amount of Dead stock and library.

#### INVESTMENT IN CURRENT ASSETS

According to the section 70 A societies shall invest or deposit its funds in one or more of the following.

- 1 In central Bank or State Co-operative Bank
- 2 In the Shares, or security bonds, or debentures, issued by other society with limited liability.
- 3 In Co-operative Bank on the conditions laid down by the registrar.

The following table shows the investments made by the sanstha in the current assets which involves cash in hand, cash at bank, prepaid expenses and other receivables etc.

TABLE NO.4.3  
CURRENT ASSETS

	2000-01	2001-02	2002-03	2003-04	2004-05
1 Cash in hand	3,383	17,248	3,930	15,486	7,741
2 Cash at Bank					
Bank of Maharashtra					
Current A/c	2,511	5,775	1,418	-	19,253
Savings A/c	1,258	1,218	1,265	-	-
K.D.C.C. Bank	1,281	60,281	48,572	60,944	80,591
Youth Devp.co-op	-	-	-	11,221	15,708
Post	933	933	933	1,303	1,303
Total	5,983	68,209	52,188	73,468	1,16,855
3 Prepaid Expenses					
Member advance	2,30,365	1,48,473	1,76,394	1,90,809	1,67,383
Advance salary	4,526	4,525	4,525	4,525	4,050
Building construction	5,99,537	6,27,315	6,10,862	6,10,864	6,10,865
Advance doodh bill	1,144	1,146	1,148	1,146	-
Total	8,35,572	7,81,459	7,92,929	8,07,344	7,82,298
4 Debtors					
Cattle feed	-	249	4,879	2,375	919
S.P Traders	-	2,000	2,000	2,000	2,000
Extra Bill	716	-	11,000	10,000	-
Total	716	2,249	17,879	14,375	2,919
5 Stock	452	17,248	387	3,458	5,022
Total (1+2+3+4+5)	8,46,106	8,86,413	8,67,313	9,14,129	9,14,835

### TABLE NO.4.3

#### INTERPRETATIONS

The above table shows the Investment in current assets of Gokul Sahakari Doodh Utpadak Sanstha Ltd., for the period covered under study.

The table shows total amount of current assets for the year 2000-01 is Rs.8,46,106, Rs.8,86,413, Rs.8,67,313 And Rs.9,14,835 respectively for the year 2001-02,2002-03,2003-04 and 2004-05.

The amount of cash in hand and cash at Bank is increased year after year which plays dominant role in composition of current assets.

The amounts of Sundry debtors are more than stock for the year 2000-01, 2002-03 and 2003-04 etc.

The amount of debtors is less than stock for the year 2001-02 & 2004-05. This shows over investment in stocks. Excessive stock is considered to be the grave yard of the business.



**TABLE NO. 4.4**  
**CURRENT ASSETS**

YEARS	CURRENT ASSETS Amount (Rs.)	INCREASE/DECREASE
2000-2001	8,46,106	-
2001-2002	8,86,413	+40,307
2002-2003	8,67,313	-19,100
2003-2004	9,14,129	+46,816
2004-2005	9,14,835	+706
	Increase	+68,729

SOURCE ANNUAL REPORTS

**TABLE NO.4.4**

From the above table it is clear that the amount of the current assets of the sanstha Rs.8,46,106 for the year 2000-01 and Rs.9,14,835 for the year 2004-05. The total amount of increase in the current assets was Rs.68, 729.

The amount of current assets increased by Rs.40,307, Rs.46,816, Rs.706 respectively for the year 2001-02,2003-04,2004-05 due to increase in the amount of cash in hand and cash at bank.

The amount decreased by Rs. 19,100 in the year 2002-03 due to non investment in cash and bank and youth development co-operative bank.

The following table shows the long term and short term investment of the sanstha.

TABLE NO.4.5  
INVESTMENTS

Investments	2000-01	2001-02	2002-03	2003-04	2004-05
1 Long Term					
Kolhapur Zilla Doodh Sangh shares	72,500	73,600	1,20,000	1,35,100	1,37,100
Kop.zilla Bank shares	50	50	50	50	50
Light Miter Deposit	1,580	1,580	1,580	1,580	1,580
Doodhsangh debenture	60,300	60,300	15,100	1,301	-
Telephone Deposit	2,000	2,000	2,000	2,000	2,000
VikramShikhan sanstha	-	-	50,000	50,000	50,000
Youth Devp. Co-op	-	-	-	25,000	25,000
Saneguruji Deposit	-	80,000	80,000	80,000	40,000
Damdupat Deposit	1,000	1,000	1,000	1,000	1,000
Total	1,37,430	2,18,530	2,69,730	2,96,031	2,56,730
2 Short Term					
Bank of Maharashtra	-	-	22,000	-	-
SanghShare Subscription	41	50	-	-	-
Doodh Sangh Debenture	04	09	-	-	-
K.D.C.C. Bank Savings	-	-	-	-	10,000
Total (1+2)	1,37,475	2,18,589	2,91,730	2,96,031	2,66,730

SOURCE ANNUAL REPORT

## INTERPRETATION

### TABLE NO.4.5

The table shows Investments in shares, security bond, debentures issued by other society and investment in co operative Banks. The table shows that the long term investment and short term investment of Gokul Sahakari Doodh Utpadak Sanstha Ltd., for the period covered under study.

From the table it is clear that the amounts of long term Investments are more than short term investments.

The table shows that the amount of Kolhapur Zills Bank shares light miter deposit, telephone deposit and damdupat deposits are same for each year.

Long term deposits increased in the year 2002-03,2003-04 and 2004-05 due to investment in Vikram Shikshan Sanstha, sanegurugi Deposits and Youth Development co-operative Bank.

The amount of Kolhapur Zilla Doodh Sangh shares increased each year. The table shows short term Investment in Bank of Maharashtra in the year 2002-03 Rs.22,000 and in K.D.C.C. Bank Savings Rs.10,000 for the year 2004-05.

It can be concluded that the amount of Investment is more in the year 2003-04 due to increase in the amount of Kolhapur Zilla Doodh Sangh Shares.

The following table shows the Changes in the amount of investments.

TABLE NO.4.6  
INVESTMENTS

YEARS	INVESTMENTS	INCREASE/DECREASE
2000-2001	1,37,475	-
2001-2002	2,18,589	+81,114
2002-2003	2,91,730	+73,141
2003-2004	2,96,031	+4,301
2004-2005	2,66,730	-29,301
	Total Increase	+1,29,255

SOURCE ANNUAL REPORTS

#### TABLE NO.4.6

From the above table it is clear that the amount of investments of the sanstha for the year 2000-01 is Rs.1, 37,475 and for the year 2004-05 Rs.2, 66,730. The increase in the amount of investment is Rs, 1, 29,255.

The amount of investments increased by Rs. 81,114 in the year 2001-02, Rs.73,141 in the year 2002-03 and Rs.4,301 in the year 2003-04 due to increase in the amount of long term investment.

The amount decreased by Rs. 29,301 in the year 2004-05 due to the decrease in the amount of long term investments i.e. Saneguraji deposits.

#### RATIO ANALYSIS

##### Meaning of ratio

The relationship between the two figures expressed mathematically is called a ratio.

##### Definition

According to Robert Anthony ratio is, “one number expressed in terms of another.”

It may be expressed in any of three ways times, proportion, percentage.

##### Advantages

The usefulness of the ratio analysis is not confined to the financial managers or executives only but the ratios are also useful to the financial institutions, credit suppliers and investors for evaluating the financial position of the firm and judge the solvency and profitability of the firm.

The following are the advantages of ratio analysis.

- 1 Ratios indicate the changes in the financial condition of the business.
- 2 Ratio analysis aid to management in the discharge of its basic functions of forecasting, planning, coordination, communication and control.

The ratio analysis points out the financial condition of business whether it is very strong, good, questionable or poor and enables the management to take necessary steps.

According to J Batty, "Ratio Analysis used properly can be a great boon to assessing important characteristics such as solvency, overtrading, and profitability."

The following ratios are calculated to study the investment decision of the sanstha.

1 CURRENT RATIO

2 LIQUID RATIOS

3 CASH POSITION RATIO

4 FIXED ASSETS TURNOVER RATIO

## 1 CURRENT RATIO

It is the ratio of current assets to current liabilities. The ratio is calculated by dividing the current assets by current liabilities.

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

It is suggested that in order to ensure the solvency of a concern current assets should be at least twice the current liabilities and therefore this ratio is known as 2:1 ratio.

### SIGNIFICANCE

The ratio indicates the solvency of the business i.e. the ability to meet the liabilities of the business as and when they fall due. The current assets are the sources from which the current liabilities to be met.

### INTERPRETATION

2:1 ratio is considered desirable it is not must it depends upon the nature of industry.

**TABLE NO.4.7**  
**CURRENT RATIO**

YEARS	CURRENT ASSETS Amount (Rs.)	CURRENT LIABILITIES (Rs.)	RATIO
2000-2001	8,46,106	70,349	12.02:1
2001-2002	8,86,413	1,19,453	7.42:1
2002-2003	8,67,313	84,514	10.26:1
2003-2004	9,14,129	1,26,810	7.20:1
2004-2005	9,14,835	89,785	10.18:1
		Average Ratio	9.14:1

SOURCE ANNUAL REPORTS

**TABLE NO.4.7**

The table shows the current ratio of Gokul Sahakari Doodh Utpadak Sanstha Ltd., Gadmodshingi for the period covered under study 2001 to 2005.

From the above table it can be concluded that the solvency of the sanstha is satisfactory because their average ratio is 9.14:1 which is above standard norm or ratio 2:1.



## LIQUID RATIO

The current ratio fails to serve as realistic guide to solvency of concern, as the major portion of current assets may comprise of such assets which cannot be converted immediately in cash e.g. (stock) to meet the immediate liabilities.

The liquid ratio indicates the relation of quick assets with quick liabilities. The ratio is calculated by dividing the quick assets by quick liabilities.

Liquid Assets

Liquid Ratio=-----

Liquid liabilities

If this ratio is 1:1 it is considered that all the claims will be met when they arise.

## SIGNIFICANCE

It is the measure of the extent to which liquid resources are immediately available to meet current obligation. This ratio is more rigorous test of liquidity than current ratio and when used it gives a better picture of the firm's ability to meet its short term debts out of the short term assets.

TABLE NO.4.8  
LIQUID RATIO

YEARS	LIQUID ASSETS (Rs.)	LIQUID LIABILITIES(Rs.)	RATIO
2000-2001	10,082	60,932	0.16:1
2001-2002	87,706	1,01,193	0.80:1
2002-2003	74,000	80,592	0.91:1
2003-2004	1,03,324	1,20,560	0.85:1
2004-2005	1,27,518	82,973	1.53:1
		Average ratio	0.85:1

SOURCE ANNUAL REPORTS

TABLE NO.4.8

The table shows the liquidity position of the Gokul Sahakari Doodh Utpadak Sanstha Ltd., Gadmodshingi for the period covered under study 2001 to 2005.

On the basis of the above calculated liquid ratio it can be said that liquid position of the sanstha is not satisfactory because the Average liquid ratio is 0.85:1 which is less than the standard norm. The liquid assets of the sanstha included less amount of cash and bank balances as compared to the liquid liabilities.

#### 4 CASH POSITION RATIO

To analyze the position of cash in current assets cash position ratio is used. Here cash included bank balance also. This ratio throws light upon liquid position.

It can be assumed that the standard for this ratio may be 50% . This ratio is determined by dividing cash including bank by amount of current liabilities it can be expressed as follows.

$$\text{Cash Position Ratio} = \frac{\text{Cash +Bank}}{\text{Current liabilities}}$$

**TABLE NO.4.9**  
**CASH POSITION RATIO**

YEARS	Cash +Bank(Rs.)	Current liabilities	Ratio
2000-2001	9,366	70,349	0.13:1
2001-2002	85,457	1,19,453	0.71:1
2002-2003	56,118	84,514	0.66:1
2003-2004	88,954	1,26,810	0.70:1
2004-2005	1,24,596	89,785	1.38:1
		Average ratio	0.71:1

SOURCE ANNUAL REPORTS

**TABLE NO. 4.9**

The table shows the Cash position ratio of Gokul Sahakari Doodh Utpadak Sanstha Ltd., Gadmodshingi for the period covered under study 2001 to 2005.

On the basis of the above table it can be concluded that the cash position ratio is satisfactory in sanstha because the average ratio is 71% which is above the norm or standard ratio.

#### TABLE NO.4.10

#### FIXED ASSETS TURNOVER RATIO

This ratio measures the efficiency in utilization of fixed assets. This indicates whether the fixed assets are being fully utilized. It is arrived as under.

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

#### INTERPRETATION

A high ratio means efficient utilization of assets. And falling trends means independent use of asset. It means that high ratio is index of overtrading while lower ratio is idle capacity & excessive investment in fixed assets. Normally standard ratio is taken as five times.

ABLE NO.4.10

FIXED ASSETS TURNOVER RATIO

YEARS	FIXED ASSETS	SALES	RATIO (Time)
2000-2001	65,165	79,003	1.21:1
2001-2002	61,516	6,24,966	10.15:1
2002-2003	63,348	7,40,434	11.68:1
2003-2004	65,753	6,60,035	10.03:1
2004-2005	77,829	4,63,009	5.94:1
		Average ratio	7.80:1

SOURCE ANNUAL REPORTS

TABLE NO.4.10

The table shows the fixed assets turnover ratio of Gokul Sahakari Doodh Utpadak Sanstha Ltd., Gadmodshingi for the period covered under study 2001 to 2005.

The table shows that the average ratio is 7.80 times. It shows fluctuating trend. The standard ratio is taken as five times. Therefore it can be concluded from the above analysis that fixed assets are used efficiently by the management of the sanstha.