

CHAPTER SIXTH

CHAPTER 6

ANALYSIS OF INCOME AND PROFIT

INTRODUCTION

Profit earning is essential for the survival of a business enterprise. In the words of Lord Keynes, "Profit is the engine that drives the business enterprise."

A Business needs profit for existence, expansion and diversification. Profits are useful measure of overall efficiency of business. Profitability ratios are calculated to measure the overall efficiency.

Profitability is assessed with the help following ratios. There are two types of profitability ratios. The former shows the relationship between profit and sales. The two profitability ratios are Gross Profit margin ratio and net profit margin ratio. Relationship between profit and investment refers to the rate of return ratios.

This Chapter covers the ratios which help to measure the profitability. And the income of the sanstha which helps in maintaining the profit. Following ratios are used to find out the profitability.

Net Profit Ratio

Gross Profit Ratio

Return on capital employed

Return on net worth

Return on total assets

Return on Operating Assets

Sales to total assets

Sales to net worth

INCOME

OPERATING INCOME

NONOPERATING INCOME

1 OPERATING INCOME

This is the income earned during the regular course of business. Profit earned on sale of goods is an operating income. Gross Profit, commission received on purchase and sale, discount allowed by creditors are the examples of the operating income. Whether an item of income is operating or nonoperating income depends upon nature of organization and its activities.

In dairy cooperatives sale of milk, milk products, other sales etc. are the examples of operating income.

NONOPERATING INCOME

The income which is not earned during the operation of business is called nonoperating income. Interest on investment is nonoperating income to a company which is engaged in buying and selling of goods and services or manufacturing of goods. However for an investment company interest on investment will be considered as an operating income.

GROSS PROFIT RATIO

This ratio reflects the efficiency with which the management produces each unit of products. The ratio is calculated as under.

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} * 100$$

It indicates the degree to which selling prices of goods per unit may decline without resulting in losses on operation of the firm.

INTERPRETATION

A Higher gross profit ratio indicates sign of good management. A low gross profit ratio may indicate purchasing and make up policies

TABLE NO. 6.1
GROSS PROFIT RATIO

YEARS	GROSS PROFIT	SALES	RATIO
2000-01	48,838	79,003	61%
2001-02	69,118	6,24,966	11%
2002-03	1,11,160	7,40,434	15%
2003-04	1,11,767	6,60,035	16%
2004-05	62,182	4,63,009	13%
		AVERAGE RATIO	23%

SOURCE ANNUAL REPORTS

Table No. 6.1

The table shows the net profit ratios of Gokul Sahakari Doodh Utpadak Sanstha Ltd., Gadmodshingi during the period covered under study.

The table shows the gross profit ratios of the sanstha during the period covered under study.

From the table it can be concluded that the average ratio is 23% which is more than each years ratio. Hence it indicates the good management of the sanstha.

NET PROFIT RATIO

It is that portion of net sales which remains to the owners or the shareholders after all costs, charges and expenses including income tax have been deducted it is calculated as under.

Net Profit

$$\text{Net Profit} = \frac{\text{Net Profit}}{\text{Net Sales}} * 100$$

Ratio Net Sales

The ratio is widely used as a measure of overall profitability and is very useful to the proprietor.

This ratio shows earning left for shareholders a percentage of net sales. It measures the overall efficiency of the unit.

TABLE NO.6.2
NET PROFIT RATIO

YEARS	NET PROFIT	SALES	RATIO
2000-01	4,468	79,003	5.65%
2001-02	75,045	6,24,966	12.00%
2002-03	1,11,974	7,40,434	15.12%
2003-04	49,984	6,60,035	7.57%
2004-05	34,751	4,63,009	7.50%
		Average ratio	6.54%

SOURCE ANNUAL REPORTS

TABLE NO 6.2

The table shows the net profit ratios of Gokul Sahakari Doodh Utpadak Sanstha Ltd., Gadnudshingi during the period covered under study.

On the basis of the above table it can be concluded that the net profit is decrease in the year 2000-01. In the year 2001-02, 2002-03 it shows the increasing trend. After this in the year 2003-04 and 2004-05 net profit shows decreasing trend but more than in the year 2000-01.

Hence it can be concluded that the profit earning capacity of the sanstha is not at all good or satisfactory.

RETURN ON SAHAREHOLDERS INVESMENT

This ratio is arrived using the following formula

$$\text{Return on shareholders} = \frac{\text{Net Profit}}{\text{Shareholders Fund}}$$

Investment Ratio

Shareholders equity included equity share capital and reserve and surplus. It is also termed as net worth.

This ratio shows how well the firm has used resources of the owners. This ratio is measure of profitableness' of an enterprise. The realization of the satisfactory net income is major objective of the business and the ratio shows extent to which this objective is being achieved.

INTERPRETATION

A low rate of ratio may indicate that he concern is not very successful because of inefficient organization and management.

A high rate of return on the other hand may be result of efficient Management. The rate of return can be improved by making the best use of borrowed funds because the lenders are paid interest at a fixed rate and it also reduces the tax liability.

TABLE NO.6.3

RETURN ON SHAREHOLDERS INVESTMENT RATIO

YEARS	NET PROFIT	SHAREHOLDERS INVESTMENT	RATIO
2000-01	4,468	9,73,932	0.04
2001-02	75,042	9,72,023	0.07
2002-03	1,11,974	10,25,904	0.10
2003-04	49,984	11,01,119	0.04
2004-05	34,751	11,34,850	0.03
		Average ratio	0.48

SOURCE ANNUAL REPORTS

TABLE NO. 6.3

RETURN ON SHAREHOLDERS INVESTMENT

The table shows the net profit ratios of Gokul Sahakari Doodh Utpadak Sanstha Ltd., Gadmodshingi during the period covered under study.

The table shows the net worth or the shareholders investment is increasing trend each year than the return. Hence it can be concluded that the management had not utilize the funds efficiently because the average ratio is 0.48% which is not reasonable.

RETURN ON CAPITAL EMPLOYED

This ratio is measure if the return on total resources of the business enterprise. It shows the efficiency. Management has used the funds provided by the creditors and the owners.

The ratio calculated with following formula

$$\text{Return of capital employed} = \frac{\text{Net Profit}}{\text{Capital Employed}} * 100$$

The capital employed means working capital plus fixed assets.

TABLE NO.6.4
RETURN ON CAPITAL EMPLOYED

YEARS	NET PROFIT	CAPITAL EMPLOYED	RATIO
2000-01	4,468	8,40,922	0.53%
2001-02	75,042	8,28,476	9.05%
2002-03	1,11,974	8,46,148	13.23%
2003-04	49,984	8,53,072	5.86%
2004-05	34,751	9,02,879	3.84%
		Average ratio	6.50%

SOURCE ANNUAL REPORTS

TABLE NO.6.4
RETURN ON CAPITAL EMPLOYED

The table shows the net profit ratios of Gokul Sahakari Doodh Utpadak Sanstha Ltd., Gadmodshingi during the period covered under study.

On the basis of the above analysis made in the table it can be concluded that the average ratio is 6.50% it means the management has used the funds efficiently provided by the owners and creditors.

TABLE NO. 6.5
ANALYSIS OF INCOME

	2000-01	2001-02	2002-03	2003-04	2004-05
Operating Income	56,453	84,781	1,28,869	1,11,767	62,182
	(62.18)	(63.82)	(73.30)	(67.36)	(52.26)
Non operating income	34,332	48,061	46,929	54,146	56,798
	(37.82)	(36.17)	(26.70)	(32.64)	(47.74)
Total	90,785	1,32,842	1,75,798	1,65,913	1,18,980
	(100)	(100)	(100)	(100)	(100)

SOURCE ANNUAL REPORTS

TABLE NO.6.5

The table shows the analysis of Total Income of Gokul Sahakari Doodh Utpadak Sanstha Ltd., Gadmodshingi during the period covered under study,(2000-2005)

The table shows the total income for the year 2000-01 is Rs.90,785 out of which operating income is Rs.56,453 and non operating income is Rs.34,332. It means that the operating income is 62.18% and non operating income is 37.82% of total income.

The table shows the total income for the year 2001-02 is Rs.1,32,842 out of which operating income is Rs.84,781 and nonoperating income is Rs.48,061. It means that the operating income is 63.83% and nonoperating income is 36.17% of total income.

As compare to the last year amount of total income increased by Rs.42,057 for current year due to increase in the operating and nonoperating income.

The table shows the total income for the year 2002-03 is Rs.1,75,798 out of which operating income is Rs.1,28,869 and nonoperating income is Rs.46,869. It means that the operating income is 73.30% and nonoperating income is 26.70% of total income.

As compare to the last year amount of total income increased by Rs.42,956 for current year due to increase in the operating income.

The table shows the total income for the year 2003-04 is Rs.1,65,913 out of which operating income is Rs.1,17,767 and nonoperating income is Rs.54,146. It means that the operating income is 67.36% and nonoperating income is 32.64% of total income.

As compare to the last year amount of total income decreased by Rs.9,885 for current year due to decrease in the operating income.

The table shows the total income for the year 2004-05 is Rs.1,18,980 out of which operating income is Rs.62,182 and nonoperating income is Rs.56,798. It means that the operating income is 52.26% and nonoperating income is 47.74% of total income.

As compare to the last year amount of total income decreased by Rs.46,933 for current year due to decrease in the operating income.

It can be concluded that the total income is increased in the year 2002-03 Rs. 1,75,798 due to increase in the operating income. And total income decreased in the year 2000-01 due to decrease in the operating and nonoperating income.

TABLE NO. 6.6
ANALYSIS OF OPERATING INCOME

	2000-01	2001-02	2002-03	2003-04	2004-05
Gross Profit	48,838	69,118	1,11,160	1,11,767	62,182
	(86.51)	(81.52)	(86.25)	-	-
Management charges	7,615	15,663	17,709	-	-
	(13.49)	(18.48)	(13.75)	-	-
Total	56,453	84,781	1,28,869	1,11,767	62,182
	(100)	(100)	(100)	(100)	(100)

SOURCE ANNUAL REPORTS

TABLE NO.6.6

The table shows the analysis of Operating Income of Gokul Sahakari Doodh Utpadak Sanstha Ltd., Gadmodshingi during the period covered under study.(2000-2005)

The table shows the Operating income for the year 2000-01 is Rs.56,453 out of which Gross Profit is Rs.48,838 and Management charges is Rs.7,615. It means that the Gross Profit is 86.51% and Management charges are 13.49% of operating income.

The table shows the Operating income for the year 2001-02 is Rs.84,781 out of which Gross Profit is Rs.69,119 and Management charges is Rs.15,663. It means that the Gross Profit is 81.52% and management charges is 18.48% of total income.

As compare to the last year operating income have increased for current year due to increase in the amount of gross profit and management charges which is favorable.

The table shows the Operating income for the year 2002-03 is Rs.1,28,869 out of which Gross Profit is Rs.1,11,160 and Management charges is Rs.17,709. It means that the Gross Profit is 86.25% and management charges is 13.75% of total income.

As compare to the last year operating income have increased for current year due to increase in the amount of gross profit and management charges which is favorable.

The table shows the Operating income for the year 2003-04 is Rs.1,11,797 out of which is the amount of Gross Profit. It means that the Gross Profit is 100% of total operating income.

As compare to the last year operating income have decreased for current year due to management charges are not received.

The table shows the Operating income for the year 2004-05 is Rs.82,182 which is the amount of Gross Profit. It means that the Gross Profit is 100% of total operating income.

As compare to the last year operating income have decreased for current year due to management charges are not received.

It can be concluded that the operating income for the year 2000-01 to 2002-03 includes management charges and for the subsequent years management charges are not taken hence operating income is decreased.

TABLE NO.6.7
ANALYSIS OF NONOPERATING INCOME

	2000-01	2001-02	2002-03	2003-04	2004-05
Rent Received	8,900	15,168	13,200	17,800	15,989
	(25.92)	(31.56)	(28.13)	(32.87)	(28.15)
Interest Deposits	2,133	5,259	17,078	20,272	16,076
	(6.21)	(10.95)	(36.39)	(37.44)	(28.30)
Interest on Debenture	7,800	7,236	5,604	1,812	-
	(22.72)	(15.02)	(11.95)	(3.35)	-
Dividend	7,260	8,610	10,332	14,262	12,165
	(21.15)	(17.94)	(22.01)	(26.34)	(21.42)
Advance Interest	8,239	11,788	715	-	12,568
	(24.00)	(24.52)	(1.52)	-	(22.12)
Total	34,332	48,061	46,929	54,145	56,798
	(100)	(100)	(100)	(100)	(100)

SOURCE ANNUAL REPORTS

TABLE NO.6.7

The table shows the analysis of Operating Income of Gokul Sahakari Doodh Utpadak Sanstha Ltd., Gadmodshingi during the period covered under study.(2000-2005)

The table shows the Non Operating income for the year 2000-01 is Rs.34,332 out of which maximum amount received on rent. It means that the rent is 25.92% of total no operating income.

The table shows the Non Operating income for the year 2001-02 is Rs.48,061 out of which maximum amount received on rent. It means that the rent is 31.56% of total no operating income.

As compare to the last year amount of no operating income have increased due to increase in the advance interest, dividend, rent and interest on deposit etc.

The table shows the Non Operating income for the year 2002-03 is Rs.46,929 out of which maximum amount received on interest on deposit. It means that the interest on deposit is 36.39% of total no operating income.

As compare to the last year amount of no operating income have decreased due to decrease in the advance interest, dividend, rent and interest on deposit etc.

The table shows the Non Operating income for the year 2003-04 is Rs.54,146 out of which maximum amount received on interest on deposit. It means that the interest on deposit is 37.44% of total no operating income.

As compare to the last year amount of no operating income have increased due to increase in the advance interest, dividend, rent and interest on deposit etc.

The table shows the Non Operating income for the year 2004-05 is Rs.56,798 out of which maximum amount received on interest on deposit. It means that the interest on deposit is 28.30% of total no operating income.

As compare to the last year amount of no operating income have Increased due to increase in the amount of advance interest.

It can be concluded that the amount of total no operating income is increased each and every year due to increase in the amount of rent, interest on deposit, advance interest, dividend etc. it is favorable.