CHAPTER – II

REVIEW OF LITERATURE

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A) Review of Theses

M. Phil Dissertations

1) Deshpande D. S. (March 2007) : The study of Hospital it is a service industry which provides medical care. The humam is one of the most important aspect and considerations like other service industries such as transport, telephone etc. In Hospital industry is a philanthropic aspect which is a predominant factor. This is most so in a country like ours having large population must of which are below poverty line having no capacity to pay for the advanced medical treatment or complicated operations etc. In Kolhapur there was no big hospital to cater to the needs of general public other than Chhatrapati, Pramila Raje, Hospital. The promoters of lotus hospital had planned but at the same time, it should function. As commercial enterprise and not as a charitable institution among other things. This objective needs emphasis on financial management of the hospital. The researcher has made an attempt in this regard and some of the notable conclusions are revealed through the study.

2) Miss. Deuskar S.A. (Dec. 1994) : The study in India, Nearly 50 percent of the national income is derived from agriculture, also it is a means of livelihood for nearly two-thirds of the country's population and the nation's industrial growth, which has to be speeded up. Agricultural practices have to be raised on higher technological plane. Chemical fertilizers for enhancing agricultural production started only around the end of the 19th century. By the beginning of the 20th century production of fertilizers had already begun. But the fertilizer industry as such could

develop much later and could make spectacular progress only after the countries, attaining the Independence, when purposive outlays for the development of agriculture and support infrastructure could be provided in five year plans.

As a result in latter years the industry took rapid strides because of the increasing consumption and production. There were substantial imports of fertilizers, to meet the growing domestic requirements and industry occupies the second position among the major industries in India. Globally also India enjoys fourth position 45 regards the consumption and production of nitrogenous fertilizers. The country's consumption and production of phosphate fertilizers ranks tenth and thirteenth, while the consumption of potassic fertilizers ranks eleventh.

3) Gavali Suresh (Dec. 1985) : Next to textile industry the sugar industry has earned prestigious status in Indian industry. The sugar industry has occupied a pride place in the industrial map of India next to textile industry, it is a agro based industry and therefore it plays a vital role in our economy. In the year 1981-82. India ranked top in sugar production in the world. Indian government has all ready considered sugar as an export item therefore sugar contributes a good deal to the earning of foreign exchange.

Indian farmers look at sugarcane cultivation as one of the cash cultivation is drastically increased to food grain production & contributes Rs. 400 crores to the govt. treasury.

4) Jadhav S. J. (Dec. 2006) : The study is about co-operative organization of life with more and more people, a major role is of economic progress of the weaker sections of the society. Indian co-operation primarily meant for the welfare of common people, largest voluntary movements in the world, the management has come to study as

an important sector of the National economy all over the world. Co-operative banks have played very vital role in economic development of our country or co-operative banks help traders, businessman, entrepreneurs, artisans, distributors, employees and workers.

The main purpose of co-operative bank is to provide banking service to the society, however co-operative banks with their distinctive features of working occupied in urban, semi-urban and rural areas among the middle classes and weaker sections of the society. The overall profit earning capacity of the bank is satisfactory one.

5) Mr. Kashyap B. A. (June 2008) : The work of co-operation is derived from the Latin word Co-Operari, Co means 'With' and Operatic means to work Co-Operation thus means working together for a common purpose'. The term 'Co-operative Society' can be defined as ''an association of number of persons for a common benefit, or industry the profit being shared as dividend among the members of it, thus co-operation is a joint or collective action of people directed towards some specified goals in which there is a common interest with hope of getting some rewards''.

Co-operation has no limitations. The principle of co-operation is as old as the human society. It is fundamental characteristic on the basis of an individual and social life. Co-operative effort is an ultimately the spirit in human being which enables him to live together, work together and share the fortunes and misfortunes together. The social and economic progress of mankind would not have been possible in the absence of co-operation.

6) Killedar L. S. (Nov. 1988) : "A study in the area of operation of Bhogawati Co-operative sugar factory Shahunagar parite''. In this study the area is covered under the study and its historical perspective has been discussed in brief.

7) Shri..Longekar J. R. (1994) : A study of performance evaluation of selected banks in Satara district. In this research study a researcher has focused on the performance evaluation techniques in some selected banks of Satara district and the samples include co-operative banks, scheduled banks and commercial banks.

8) Patil A.G. (June 2004) : Unique Industries is a small scale unit which is located in M.I.D.C. area of Shiroli, Kolhapur working since in 1992. This industry is in manufacturing of foundry molding chemicals fore cast iron and steel manufacturing foundries and manufacturing of adhesives for corrugated base manufacturing units. The significant trends, indicating rise decline or stability as highlighted and financial position.

9) Mr. Patil Ramchandra. D. (1994) : The study of working pattern, growth, financial condition, finds out ways and solution to overcome and weaknesses in the present working. The factory is not able to meet its current obligation because credit strength of factory is not good due to the shortage of working capital, satisfactory profit proportionate to the volume of sales and the profit are not sufficient for a reasonable return on capital invested in the business.

10) Potadar L. D. (Oct. 2009) : The study is an exploratory and gives statistical information. The production of sugar from sugarcane is very old process in our a country. The system of sugar production from sugarcane was introduced by Duth at North Bihar in1810,sugarcane was used for making'Gur and Khandsari,' because there was no factory system of sugar production. In 1903the first and successful factory was established by British Entrepreneurs.

The past protection story of India's sugar industry is revealing from a scarcity of 29 working units in1930-31.The numbers of factories increased year by year.

11) Shri Pujari M. D. (1993) : India is a developing country, development of co-operative societies are working in which consumers co-operative societies helps in raising the standard of living of people by providing different commodities at reasonable rates and in required times. The main aim of the Warana bazaar is to provide best services to the rural consumers to their utmost satisfaction and give the best service to their members and non members at reasonable rates. The study of Warana bazaars sales, finance and customers services have become important to examine its performance.

Warana bazaar is one of the leading consumer co-operative stores in Maharashtra which covers the important talukas of Kolhapur and sangli districts. Considering the growth rate of membership, capital reserves, sales, purchases, during the period under the study the bazaar has made remarkable progress because of its efficient working. A study of consumers satisfaction is done with the help of fifty consumers of selected branches of Warana bazaar shows that consumers are satisfied with fair price, quality of goods, accuracy of weight, behavior of employees and other services rendered. Improvements in this can still be made by strict supervision and surprise checking.

12) Miss. Salvi J. G. (July 2008) : The study is an exploratory. In 1949 the successful establishment and operation of pravara co-operation sugar factory in Maharashtra state attracted attention of the government of India and since the sugar factories are being established in co-operative sector. These co-operative sugar factories play vital role in the social, economic, development of the country and amount of a funds are invested in this sector, for the establishment and development of sugar factories, other industries based on the byproducts. Co-operation sugar factories in Maharashtra state occupies pride place among the sugar industries of the

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country. In 1949 there were 186 co-operation sugar factories operating in Maharashtra. This project is installed by pram industry with the modern technology and machinery. This is the first project in Maharashtra which is based on "vacuum distillation" though the capacity of this project is 45000 liters per day.

Research of this factory includes the examination has under taken the view to examine and analysis of its solvency, liquidity and profitability position with the help of ratio analysis after close scrutiny of the study.

13) Mr. Salunke S. T. (Jan. 2009) : Kolhapur District has made stridden progress towards abundant production of sugarcane on account of fertile soil, favorable climate, hardworking farmers and growing irrigation facilities. In the beginning of eighties, Kolhapur district witnessed such as a bumper crop of sugarcane that even after meeting the requirement of the existing factories, a large quantity of sugarcane remained as a surplus, besides an additional land was to come under irrigation due to new irrigation projects such as Chandoll land Kalammawadi. Moreover, it has been observed that other food crops cannot grow root when sugarcane mushrooms the surrounding area. It sugar cane being a cash crop, farmers also incline towards the cultivation of sugarcane. This has resulted in souring the sugarcane production. Even the then existing sugar factories and some of them after implementing their expansion programmers could not crusher the, voluminous production of sugarcane.

14) Mrs. Topkar S. S. (Oct. 2008) : The present study is a case study of Nina foods Kolhapur, the successful food processing unit in western Maharashtra. The researcher has deliberately selected this topic because of the fact that western Maharashtra, particularly Kolhapur district is

endorsed with adequate natural resources in terms of fertile land, rainfall and the irrigation facilities.

Nine foods study of the renowned food processing industry in W.M. is very promising unit in food industry for the last 15 years. It has been successfully passed manufacturing unit acquired good quality of raw material as per the specifications of the domestic as well as export market. The demand for more capital was met by acquiring loans, deposits from farmers, relatives as well as bank. The change in the value of dollar led to considerable loses. The stable exchange rate has become yet another precondition for exports today.

15) Miss. Yadav S. A. (Sept. 2008) : The study of Abhyankar Footwear private limited was promoted in the year 2000 by Abhyankar family in Kolhapur. The firm is engaged in manufactures and sells of footwear. For e.g. leather chappals, sandals, shoes etc. It is famous for good quality of the footwear products. A study of financial performance of the company is very important because the facts and figures in the financial statement can be transformed into meaningful and useful figures through the financial analysis.

Ph.D. Thesis

1) V.M. Hilage (1989) : The co-operative sugar industry has completed more than 30 years of growth in Maharashtra by the year1988.The industry is looking forward for vertical expansion and diversification in the rural areas of Maharashtra. At this point of time the management of an individual sugar factory should think in terms of opportunities and threats in the environments and weaknesses. An individual sugar factory must formulate the strategy and implement it and for this there is a need of professional management on the factory level and industry level. The

management of the sugar factories should address themselves what my business is and where I want to take it."

Research Reports

1) Dr. A. N. Starker " In this report Dr. Starker highlighted the part of an urban co-operative Banks, where the covered objectives and functions of co- operative sugar, challenges of urban co-operative banks , lending strategy along with the need for financial performance , performance rating of urban co-operative banks in Maharashtra. For this work he selected one bank form different districts of Maharashtra (Nagpur, Aakola, Thane Kolhapur, Satara and Jalgaon). He conducted his project report on urban co-operative bank relating to the criteria fulfilled by urban co-operative banks for the purpose of refinance. He also studied the management of funds, risk management, customer service H.R.D.M.I.S etc.

I) The management Accountancy (ICWI) Annual Report (2000-2001) R.K.Mittal

The financial performance of HSKGB has been appraised on the basic of terms of five absolute parameters, which are AD (Aggregate Deposits), A A (Aggregate Advances), AWF (Average Working Funds), NP (Net Profits) and ONP (Operating Net Profit).The growth in these parameters is found to be statistically very significant. The net profits (Profit Net of Provision, Amortization And Taxes) and operating net profits (Net Profit Before Provisions and Contingencies), which shows banks profitability and operating efficiency respectively are found to be negative for the period 1990-91 to 1994-95. The performance of HSKGB is found to be (Hisar Sirsa Kshetriya Gramin bank) (1990-91 to 1998-99) fully satisfactory in respect of variables viz AD, AA, AWF, TIIAWF IS/

AWF, BPE and BPB during the study period (Today Interest Income), (Interest spread), (Business per employee).

II) The Management Accountant-(August 1997): Financial Ratio based on historical accounting information is often used by investors, creditors and management to evaluate the financial condition and performance of a company. In the past a large number of studies have been carried out by the researchers giving due importance to financial ratio.

In this study, an attempt is made to address towards examining the financial ratio information to predict and monitor the industrial sickness. Therefore some, important financial ratios have been used to detect the failing tendencies as early as they ereep into the financial structure of the companies.

III) The Management Accountant-Feb2010

There is a need for comparability in disclosures about the financial status of pension plan made for employers financial statements. Accordingly this statement, is requires revised disclosures about defined benefit pension plan in employers financial statements. The revised disclosures include the actual present value of accumulated plan benefits and the pension plan assets available for those benefits.

IV) Ottarkar's ple financial performance-(2004-2005)

Ottarkar's is one of the leading book retailers in the UK. It was founded in 1987 with its long experience in bookselling. Ottarkar tries to distinguish itself by offering extensive book ranges as well as an excellent services to customers through 132 stores in England, Scotland and wales. The company believes that it acquired 8%of total market share in the book market.

Overall Ottakar's financial performance in 2005 was better than 2004 as a result of an impressive growth in book market stimulating

interest of customers. Besides that, the positive improvement in the company ranges. Such as financial and commercial departmently. These contributed to a considerable growth in sales performance and higher gross margin.

Journal of financial performance

1) Journal of financial management and Analysis-M.R.Kumamy: Unless selfish management and fraudulent motives are eradicated in any country, or organization, its success is short lived and myopic. It is important that every manager in the organization becomes a selfless spiritual leader who is able to inculcate the dharma (ethical) code of value so that money laundering account manipulation and other heinous crimes becomes a thing of the past.

2) Journal of business-(July sep 2010) Rajainder singh, H.S.Sandhy, B.A.Metri and Rajainder Kaur (vision): The study verifies the empirical justification of the framework of supply chain practices, competitive advantages and organizational performance. However, the strategies and practices are directly linked with environmental dynamics and life cycle and of organizational growth so they should be flexible enough for incorporating changes. The results gained in this study are in sonsonant with statement quoted by Austin (1990) and Srivastava (2006). The instrument developed for supply chain practices, competitive advantage and organizational performance was based on rigorous literature survey and consultation with academicians and supply chain practitioners in India

3) Indian Journal of finance: Indian Journal of finance is a monthly double blind refereed journal focusing on research in the field of finance. The primary aim of the journal is to promote research by disseminating

the results of research in finance, accounting, financial economic sand sub areas like theory and analysis of financial markets and instruments, financial derivatives research, insurance in relation, to finance, portfolio selection, credit and market risk, statistical and empirical financial studies based on advanced stochastic methods financial instruments for risk management uncertainty and information in relation to finance.

4) International journal of financial services management-2007: This paper attempts to benchmark to draw conclusions about the process of adaptation of an economy to the Environment, specify possible differences in the main factors that determine firm profitability, using data from Greek manufacturing for 1995-99.The analysis uses regression models and is performed on a longitudinal sample of 30, 35firms, classified by size of employment. The econometric results indicate that size, managerial efficiency, debt structure, investment in fixed assets and sales growth affect significantly firm profitability.

5) The journal of government financial management- 1 July 2003 (Surdick, john j) : As government financial managers know well, the evaluation of bottom-line effectiveness in governments frequently is hampered by the lack of a strong correlation between the revenues generated and the expenditures/expenses incurred. Interperiod equity is a new measure of financial performance that can help to address this problem. In the future, measuring interfered for demonstrating performance and account ability in government financial reporting. The primary guidance in this area is found in the government accounting standards board (GASB).

6) Oxford Journals- 18 July 2008 : This work presents a comparative analysis of two crucial dimensions of firm's performance profitability and productivity. The characteristics of their empirical distribution and the associated degree of persistence over time are explored through a set of parametric and non-parametric exercise performed on an exhaustive panel of Italian firms, active in both manufacturing and services during the period 1998-2003.The main strength of our analysis resides in the use of a document not obvious interactions which are in place among economic performance, financial conditions and access to external credit.

7) Fundamentals of corporation finance, wisdom publications 337 (Dr.Shrivastave R.M): The performance assessment shows that policies need modification and object needs to be defined more clearly. This development can be valuable to the business to the extent that long run profitability may. only by achieved where an organization has clear directions and purposes. The creation of an effective performance assessment requires a knowledge of financial analysis business organization and management. It also requires as ability to assess internal factor likely to affect significantly the future of the business. Thus the overall performance includes performance of produce, marketing, sales, distribution and finance among this financial performance plays a dominant role, Financial performances consists of the achievement assets such as income, capital funds, investment, and turnover. It can also be assessed with the help of ratios.

8) China retail sector-an empirical review of financial performance 2009: A bench marking study of the top retailers in China conducted by price water house co-opers china and the china chain store &franchise association (ccfa) for china's ministry of commerce (move com) to

identify the opportunities and risks. In this study we evaluated the current revenue profitability and balance sheet of the 52 listed retail companies in china and how they compare to the 32 fortune 500global retailers (fortune 500) our research and analysis focused on domestic liege scale retailers, which include development stores, supermarkets and specially stores.

9) A comparison of financial performance in the banking sectors some evidence from Omani commercial banks-Med hat Tarawneh : The purpose of this study is to classify the commercial banks in Omani in cohesive categories on the basis of their financial characteristics revealed by the financial ratios. A total of five Omani commercial banks with more than 260 branches were financially analyzed, and simple regression was used to estimate the impact of asset management, operational efficiency, and bank size on the financial performance of these banks. The study found that the bank with higher total capital, deposits, credit, or total assets does not always mean that has better profitability performance.

10) With more than one third of the co-operative sugar factories in the state being sick, the Maharashtra government had appointed an expert committee to go into the reasons for the sickness and suggest remedial measures. In view of the importance of the co-operative sugar industry for Maharashtra's economy as well as the relevance of the expert committee's recommendations for co-operative sugars factories in a number of other states, these recommendations deserve to be discussed widely.

11) An attempt is made in this paper to understand the origins of the development of the co-operative sugar industry in the Ahmednagar district of Maharashtra. The conditions leading to the emergence of a rich

peasant strata in the region in the early 1900s and the relevant characteristics of the peasantry are discussed in section I. The spread of candy irrigation, coupled with financial support from a co-operative credit infrastructure, enabled the rich peasants to cultivate sugarcane, extensively as well as intensively, as seen in sections II & III. The crisis of the great agricultural depression of the early 1930s provoked a series of defensive responses from the rich peasantry. Some of these responses, discussed in section IV, brought about certain conditions necessary for the subsequent shift, two decades later into co-operative manufacture and marketing of sugar. The development of a modern sugar industry received a great boost in the early 1930s. This together with the actual setting up of the pioneering co-operative sugar enterprises is discussed in section V.

12) Participation and control – study of a co-operative Tea factory in the Nilgiris – Sharit Bhowmik.

Co-operative organization can best protect and promote the interest of the weaker section of society when they are truly democratic. However, the autonomy of co-operatives is often undermined by state governments. The major tool of government dominance is co-operative legislation. A case study of a co-operative tea factory in the Nilgiris district of Tamil Nadu details the bureaucratization of a co-operative.

13) Co-operative marketing societies case studies in Marathwada – Sandra Mclareh -

In terms of produce sales and loan recoveries, co-operative marketing societies generally have not been successful. They have not been able to break the hold of money lender traders over the farmers in the sale of agricultural produce. Should the marketing societies, therefore,

be abandoned? To answer this question, a detailed study of individual performance judged against a few general criteria which are in any case more relevant to loan schemes than to marketing operations. This article records, the findings of one such detailed study carried out in the Marathwada region of Maharashtra.

Stakeholder Relations and the persistence of corporate financial performance.

We examine the effect of a firms relations with its nonfinancial stakeholders, including its employees, suppliers, customers and communities on the persistence of both superior and inferior financial performance. In particular, integrating and extending the resource based view of the firm and stakeholder management literatures, we develop the arguments that good stakeholder relations not only enable a firm with superior financial performance to sustain its competitive advantage for a longer period of time, but more importantly, also help poorly performing firms to recover from disadvantageous positions more quickly. The arguments are supported by the analysis of a series of first-order autoregressive models. Our findings further suggest that the positive effect of good stakeholder relations on the persistence of superior performance is not as strong as that of some other firm resources, such as technological knowledge, but it is the only factor examined that promises to help a firm recover is found to be more critical than its role in helping superior firms sustain their performance advantage.

B) Financial Management - Theoretical Background

A financial statement is an organized collection of data to logical and consistent accounting procedures which are prepared

periodically, normally at the end of a financial year. Its purpose is to convey on understanding of some financial aspects of a business firm.

The term financial statement generally referees to two basic statements

1) The income statement

2) The balance sheet

1) The income statement (also termed as profit and loss A/C): It discloses financial results operation for a given period. It is a summary of the operating and financial transaction which has contributed to the change in the owners' equity, during the accounting period.

2) The Balance Sheet (Also termed a position statement): It is a statement of financial position of a business at a specified moment of time. It contains a list of assets and liabilities of a business and the position of the position of the owner of the business (i.e. owner's equity)

Proper and careful analysis and Interpretation of these statements are almost necessary to find out strengths and weaknesses of a firm. The future plans and decisions of a firm are made in view of its strengths and weakness. Therefore, financial analysis is the starting point for planning and decision making. Financial analysis refers to the process of identifying the financial strengths and weaknesses of a firm by establishing relationship between the items of profit and loss and balance sheet. According to Ingrain and Grewal, the financial analysis is the process of methodical, classification, comparison, raising pertinent questions and then seeking answer for the Financial analysis depend primarily on these statements to diagnose financial performance why?. It appears that there are three principal reasons.

i) As long as the accounting biases remain more or less the same over time, meaningful inferences can be drawn by examining trends in raw data and in financial ratios.

ii) Since similar biases characterize various firms in the same industry, inter firm comparisons are useful.

iii) Experience seems to suggest that financial analysis works if one is aware of accounting biases and makes adjustments for the same.

Analysis of financial statements is of interest to lenders (short-term as well as long-term), investors, security analysis managers and others. Financial statement analysis may be done for a variety of purposes, which may range from a simple analysis of the short term liquidity position of the firm to a comprehensive assessment of the strengths and weaknesses of the firm in various areas.

The term "Interpretation" means explaining the meaning and significance of the data simplified by analysis. It is the process of drawing conclusions and inferences.

Types of financial analysis and Interaction

Financial analysis can be classified on the basis of two factors viz.

I) Material used

II) The modus operandi of analysis

Shows Types of financial analysis

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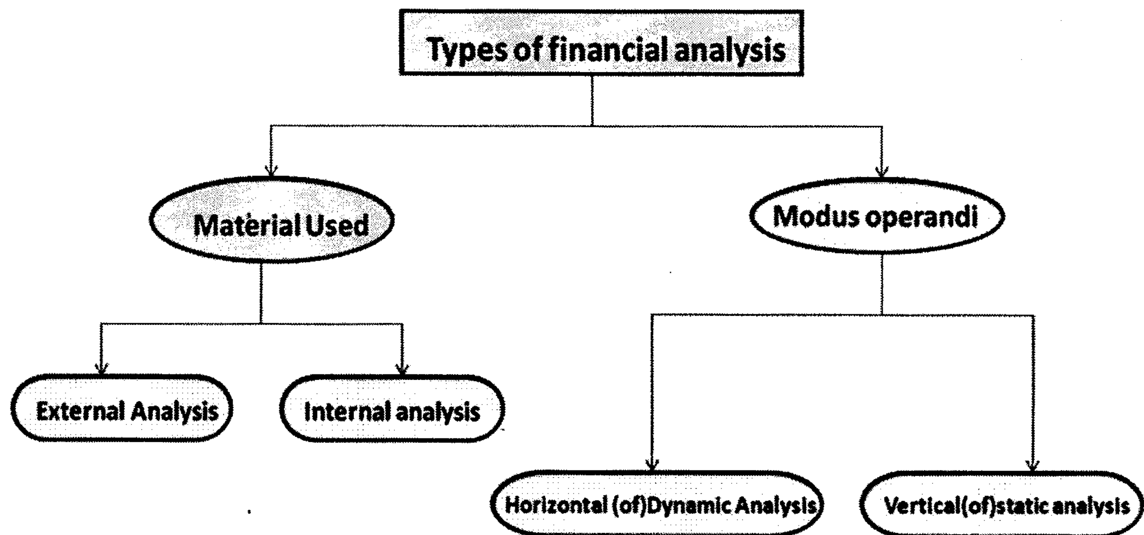

I) External Analysis: This analysis is done by those who are outsiders for the business. The term outsiders include investors, credit agencies and other creditors who have no access to the internal records of the company. These persons mainly depend on the published financial statement.

II) Internal Analysis : This analysis is made by the executive's employees of the enterprise; by the government agencies and courts etc. who have full access to the records of the business and who know full story behind each and every figure in the financial statements.

III) Horizontal or dynamic analysis: When financial information from year to year is considered, reviewed and analyzed, it is known as horizontal order file dynamic analysis. Such analysis is more important and useful than the vertical analysis.

IV) Vertical of static analysis: When figures of a specific period are only considered the analysis is known as vertical order file static analysis. Such analysis is not very useful for comparison as it is based on the figures of a specific period or a firm only.

Steps in financial analysis

The following two steps are involved in financial analysis

I) Methodical classification and arrangement of data

In this step the figures gives in the financial statement are classified so as to bring homogeneous figures under one group. Then the figures are arranged properly either

1) Two column (T-Form) [illegible]der file

2) Single column (Vertical form)

The vertical form is more widely used in practice.

II) Application of different tools of financial analysis

This is the step in which different tools of financial analysis are used to study the various inter-related figures and their significance

Tools of financial analysis

The important tools used for financial analysis are as follows

1. Ratio Analysis
2. Comparative Financial Statements
3. Common Size Financial Statements
4. Trend Percentages
5. Funds Flow Analysis
6. Cash Flow Analysis

The researcher uses Ratio Analysis for the study of a factory. Hence only the ratio analysis is discussed.

RATIO ANALYSIS

Introduction

In the previous chapter we have highlighted the contents and importance of the statement of changes in financial position. The information contained in these statements is used by management, creditors, investors and others to form judgment about the operating performance and financial position of the firm.

Management should be particularly interested in knowing the financial strengths of the firm to make their best use and to be able to spot out the financial weaknesses of the firm to take suitable corrective actions. The future plans of the firm should be laid down in view of the firm's financial strengths and weaknesses.

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Financial analysis can be undertaken by management of the firm, or by parties outside the firm, viz. owner creditors, investors and others. The suppliers of long term debt, on the other hand, are concerned with the firm's long term solvency and survival. Long term creditors do analysis the historical financial statements, but they place more emphasis on the firms projected, or proforma, financialtatements to make analysis about its future solvency and profitability. Similarly investors, who have invested their many in the firm's shares, are most concerned about the firm's earnings.

Meaning of Financial Analysis

1. According to Anthony: Ratio is one number expressed in terms of another.

2. According to John Myer: Financial Statement analysis is(largely)a study of relationship among the various financial factors in a business as disclosed by a single set of statement and a study of the trend of these factors as shown in a series of statement.
3. According to Muscat R.W and Tigard P. L:Analyzing financial statement is a process of evaluating relationship between component parts of financial statement to obtain a better understanding of firms position of performance.

Importance and Utility (order file Advantages) of Ratio Analysis

Ratio Analysis stands for the process of determining and presenting the relationship of items and groups of items in the financial statements. It is an important technique of financial analysis. It is away by which financial stability, health of a concern can be judged. The following are the main points of Utility and importance of ratio analysis.

1. Useful in financial position analysis:
2. Useful in simplifying accounting figures
3. Useful in assessing the operational efficiency
4. Useful in forecasting purposes
5. Useful in locating the weak spots of the business
6. Useful in comparison of performance

1) Useful in financial position analysis

Accounting Ratios reveal the financial position of the concern. This helps the banks, insurance companies and other financial institutions in lending and making investment decisions.

2) Useful in simplify accounting figures

Account ratios simplify, summarise and systematize the accounting figures in order to make them more understandable and in lucid form. They highlight the interrelationship which exists between various segments of the business as expressed by accounting statements.Offen the figures standing alone cannot help them convey and meaning and ratios help them to relate with other figures.

3) Useful in assessing the operational efficiency

Accounting ratios help to have an idea of the working of a concern. The efficiency of the firm becomes evident when analysis is based on accounting ratios. They diagnose the financial health by evaluating etc. This helps the management to assess financial requirements and the capabilities of various business units.

4) Useful in forecasting purposes

If accounting ratios are calculated for number of years, then a trend is established. This trend helps in setting up future plans and forecasting. For example expenses as a percentage of sales can be easily forecasted on the basis of sales and expenses of the past years.

5) Useful in locating the weak spots of the business

Accounting ratio are of great assistance in overall performance may be efficient, weakness in financial structure due to incorrect policies in the part of present are revealed through accounting ratio. For example, if firm funds that increase its distribution expenses are more than proportionate to the results expected or achieved, it can take remedial steps to overcome the adverse situation.

6) Useful in comparison of performance

Through accounting ratio comparison can be made between one department of a firm with another of the same firm in order to evaluate the performance of various departments in the firm manager is naturally interested in such comparison in order to know the proper and smooth functioning of such department ratios also help him to make any change in the organization structure.

Limitation of Ratio Analysis

1. There is clearly some latitude for window dressing within limits; a company may be able to arrange its current assets and liabilities so as to have the desired ratios at the time Balance sheet is presented to stockholders.
2. Financial Standard data and exact statement are only like in interim reports Moreover many management ratios are base. Therefore, to be treated with great caution.
3. Like financial statements ratio also suffer from the inherent weakness of accounting records such as their historical nature. Ratios of the past are not necessarily true indicators of the future.
4. The valuation contained in the final statements does not represent the actual position because it is based on the assumption that the financial statement presents the actual position because it is based on the assumption that the financial statement presents a reasonable picture of what is happening in the business. The information relates only to a particular period and cannot be relied upon excessively. The ratios refer to past events and may not represent the present order file future events.
5. Ratio analysis is merely a tool of financial statements. If separated from the statements from which they are computed.

6. In using ratios computed by others, one should realize that the computation of a particular ratio has not necessarily been standardized.

Types of ratios

Several ratios, calculated from the accounting data, can be grouped into various classes according to the financial activity order file function to be evaluated. As stated earlier, the parties which generally understate financial analysis are short term creditors main interest is in the liquidity position order file the short-term solvency of the firm. Similarly, owners concentrate on firm's profitability and the analysis of the firm's financial conditions management is interested in evaluating every aspect of the firm's performance. They have to protect the interests of all parties and see that the firm group profitably. IN view of the requirements of the various users of ratios, we may classify them into the following four important categories

1. Liquidity Ratios

2. Leverage Ratios

3. Activity Ratios

4. Profitability Ratios

1. Liquidity Ratios

Liquidity Ratios measure the ability of the firm to meet its current obligations, but liquidity ratios, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity. A firm should ensure that it not too much highly liquid. The failure suits resulting in the closure of the company. A very high degree of liquidity is high degree of liquidity is also bad, idle assets earn nothing. The firm's funds will be unnecessarily tied up in current

prospects for an adequate inflow of cash indicated by the amounts of individual components of current assets. It is closely connected with the concept of working capital. A high current ratio and assurance that the firm will have adequate fund to pay current liabilities and other current payments.

2) Quick Ratio

This ratio establishes a relationship between quick, order file liquid, assets and current liabilities. An assets is liquid if it can be converted into cash immediately order file reasonably soon without a loss of value, cash is the most liquid assets. Other assets which are considered to be relatively liquid and included in quick assets are book debts (temporary quoted investments),Inventories are considered to be less liquid. Inventories normally require some time for realizing into cash, their value also has a tendency to fluctuate. The quick ratio is found out by dividing the total of the quick assets by total current liabilities.

Formula

$$\textbf{Quick Ratio} = \frac{\textbf{Current Assets-Inventories}}{\textbf{Current Liabilities}}$$

Significance

Liquid ratio is more rigorous test of liquidity than current ratio since eliminates inventories and prepaid expenses as a part of current assets. A comparison of the current ratio to liquid ratio would indicate the degree of inventory held up. A high liquid ratio compared to current ratio may indicate under. Stocking while a low liquid ratio may indicate overstocking when used in conjunction with current ratio. The liquid ratio gives a better picture of the firm's capacity to meet its short term obligations out of short term assets. However, it is difficult to establish a

assets. Therefore, it is necessary to strike a proper balance between liquidity and lack of liquidity. The most common ratios which indicate the extent of liquidity order file lack of it are 1) current ratio and 2) quick ratio.

1) Current Ratio

Current ratio may be defined as the ratio of current assets to current liabilities. It is also known as working capital ratio, or 2:1 ratio. Current ratio shows the relationship between total current assets and total current liabilities. Expressed as a formula, the current ratio is as follows.

Formula

$$\textbf{Current ratio} = \frac{\textbf{Current Assets}}{\textbf{Current liabilities}}$$

The current ratio measures the ability of the firm to meet its current liabilities- current assets get converted into cash during the operating cycle of the firm and provide the funds needed to pay current liabilities. Apparently, the higher the current ratio the greater is the short-term solvency. However, in interpreting the current ratio the composition of current assets must not be overlooked. A firm with a high proportion of current assets in the form of cash and debtors is more liquid than one with a high proportion of current assets in the form of inventories even though both the firms have the same current ratio.

Significance

Current ratio is an index of the firm's financial stability, i.e an index of technical, which means excess of the strength of working capital, which means excess of current assets over current liabilities. The logic behind current ratio is that cash need not be immediately available to meet all current liabilities on a particular date but there should be good

standard for this ratio and also dangerous to rely too much on a 1.1 standard suggested without further investigation. A reasonable standard for the liquid ratio may be from season to season, and also from business to business. For example manufacturing company may have a weak liquid ratio in time of prospering for increased activity may result in huge stocks and holding of less cash. Hence, it should be remembered while arriving at conclusions that though technically inventories are not immediately available to meet current liabilities, they do, to a measurable extent, generate cash during the normal course of business.

2) Leverage /Capital Structure Ratio/Financial Ratios

Financial leverage refers to the use of debt finance, while debt capital is a cheaper source of finance. Leverage ratios help in assessing the risk arising from the use of debt capital. Two Types of ratios are commonly used to analyses financial leverage, one structured ratios and second, coverage ratios. These ratios in the first group are based on the proportion of debt and equity in the financial structure of the firm. The important structure ratios are debt equity ratio and debt assets ratios.

A coverage ratio shows the relationship between debt servicing commitments and the sources for meeting these burdens. Interest coverage ratios and cash flow coverage ratio are important ratios of this type.

The following leverage ratios are calculated for the unit under study.

1. Debt Equity Ratio
2. Proprietary Ratio
3. Fixed Assets to Net Worth Ratio

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1. Debt Equity Ratio

Debt to equity ratio relates all external liabilities to owners recorded claims. It is also known as external, internal equity ratio. It is determined to measure the firm's obligations to creditors in relation to the funds invested by the owners,

Formula

$$\textbf{Debt Equity ratio} = \frac{\textbf{Outsiders funds}}{\textbf{Shareholders Funds}}$$

Significance

This ratio enables one to ascertain the proportion of shareholders stake in the business. Excessive liabilities tend to cause insolvency. The ratio indicates the extent of assets, cushion available to creditors on liquidation. However, the interpretation of the ratio depends upon the financial and business policy of the company. While the owners investment is more in the business.

In other words, the business position is highly solvent. In the analysis of the long-term financial position of business. It enjoys the same importance as the current ratio in the analysis of the short-term financial position.

2. Proprietary Ratio

Ratio of tangible Net worth total assets is called proprietary ratio order file capital to total assets ratio. The ratio establishes the relationship between proprietary funds and total assets, 100%.less percentage of this ratio ratio of total liability to total assets. If this ratio is 80%, it means ratio of total liability to total assets is 20%.

Formula

$$\text{Proprietary Ratio} = \frac{\text{Shareholders Funds X 100}}{\text{Total assets}}$$

This is a variant of the debt –equity ratio. This ratio relater the shareholders funds to total assets. It is calculated by dividing shareholders funds by the total tangible assets. This ratio indicates long-term order file future solvency position of the business.

Significance

This ratio throws light on the general financial strength of the company. It has come to be regarded as a test of the soundness of the capital structure. It enable them to find out the proportion of shareholders funds in the total assets used in the business, while a high proprietary ratio indicates a relatively, an proprietary ratio will include greater risk to the creditors.

3. Fixed Assets to Net Worth Ratio

Fixed assets ratio is calculated as under.

Formula

$$\text{Fixed Assets Ratio} = \frac{\text{Fixed Assets}}{\text{Proprietary fund}}$$

Significance

Normally a proprietor should provide all the funds required to purchase fixed assets. If the ratio exceeds 100% it indicates that the company has used borrowed funds for acquiring fixed assets, when amount of proprietary fund exceed the value of fixed assets i.e. when the ratios is less than 100%,a part of Net working capital is supplied by the

shareholders. Though it is not possible to lay down a rigid standard as regard the percentage of capital which should be invested in fixed assets in each industry, there is always a maximum limit that should not be exceeded so that the harmony among the fixed assets, debtors and stock is not disturbed. This ratio should generally be 65%.

3) Activity Ratio/Turnover Ratios

Activity ratio helps to know the efficiency of the unity in utilizing present available resources. The main aim of every management is to know the efficiency of the unity. The efficiency of every unit is judged in relation to its contribution towards sales. Activity ratio measures how efficiency the assets are employed by the firm. They are based on the relationship between the level of activity (represented by sales order file cost of goods sold) and levels of various assets.

The generally used activity ratios are

1) Fixed Assets Turnover Ratio

2) Total Assets Turnover Ratio

3) Current Assets Turnover Ratio

1) Fixed Assets Turnover Ratio

The ratio helps to know the efficiency of the management in using the fixed assets. The ratio is arrived at as under

Formula

$$\textbf{Fixed Assets Turnover Ratio} = \frac{\textbf{Sales}}{\textbf{Fixed Assets}}$$

This ratio indicates significance and utilization of fixed assets. This ratio is supposed to measure the efficiency with which fixed assets

and a falling trend means inadequate use of assets. This ratio may be expressed by three ways .i.e. .ratio, rate, and percentage.

Significance

This ratio measures the efficiency in the utilization of fixed assets. This indicates whether the fixed assets are being fully utilized. It is an important measure of the efficiency and profit earning capacity and excessive investment in fixed assets.

2) Total Assets turnover Ratio

This ratio is arrived at dividing sales by the total assets i.e.

Formula

$$\text{Total Assets Turnover Ratio} = \frac{\text{Net sales}}{\text{Total Assets}}$$

A high ratio is an indicator of overtrading of total assets while a low ratio can be segregated into.

Significance

1) It shows the firm's ability of inefficient utilization of total assets.
2) The ratio indicates the sales generated per rupee of investment in total assets.

3) Current Assets Turnover Ratio

Formula

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

This ratio indicates circulation of current assets frequent repetition of operating cycle and more liquidity in current assets. The higher the turnover ratio of the, the more efficient the management and utilization of

the assets and vice-versa. To determine the efficiency of the ratio it should be compared across time as well as with the industry average. In using the assets turnover ratio one point must be carefully kept in mind. The concept of assets/fixed assets is net of depreciation. As a result, the ratio is likely to be higher in the case of an old and established company.

4) Profitability ratio

Profitability ratio reflects the final results of business operation. There are two types of profitability ratios. Profit margined ratio and rate of return ratios, profit margined ratio show relationship between profit and sales. The two popular profit margined ratio and net profit margin ratio. The rate of return ratio reflects the relationship between profit and investment.

1) Net Profit Ratio

This is the ratio of net income order file profit after taxes to net sales.Net profit, as used here, is the balance of profit and loss account which arrived at after considering all non-operating income such as interest on investments, dividend received etchant non-operating expense like loss sales of investments, provision for contingent liabilities etc.

Formula

$$\textbf{Net profit ratio} = \frac{\textbf{Net profit x 100}}{\textbf{Net Sales}}$$

Significance

Net profit ratio is considered to be the most significant of all revenue ratios. Because it is a measure of overall profitability and is very useful to the proprietors in judging the prospects of return on their

investment. When this ratio is read along with the operating ratio.Net efficiency and profitability of the businee. It indicates as to what portion of Net sales is available for the proprietors it is read with the gross profit, Net profit ratio provides deeper insight into the business operations. Net profit expressed as a percentage to sales gives N.P.Ratio.Although O.P. ratio is a better indicator of operational efficiency,N.P ratio is a better guide for study of profitability, as it shows how much per 100 rupees of sales is ultimately left for shareholders after meeting all costs and charge.