

Financial Liquidity Position of Waroli Co-operative Society of Taluk-Kaprada

Patel Dilipkumar¹ And Patel Alkaben²

Abstract

The Financial Statements are generally prepared for the measurement of financial position of a particular company for a particular period of time. The financial statements i.e. (i) Profit and loss account and (ii) Balancesheet provide useful information regarding financial situation of company. The information has its own value, but if some one wants to have better judgment of the concern, he has to analyse them. This paper provides the guidelines about analysis of Profitability ratio of The Waroli Co-operative society. located at Valsad District.of Backward area Kaprada Taluka.

Keyword : Current ratio , Quick ratio , Stock,Averagestock , Current Assets

Introduction

Liquidity ratios are the ratios that measure the ability of a company to meet its short term debt obligations. These ratios measure the ability of a company to pay off its short-term liabilities when they fall due. The liquidity ratios are a result of dividing cash and other liquid assets by the short term borrowings and current liabilities. They show the number of times the short term debt obligations are covered by the cash and liquid assets.

If the value is greater than 1, it means the short term obligations are fully covered. Generally, the higher the liquidity ratios are, the higher the margin of safety that the company possesses to meet its current liabilities.

¹ Research Scholar, Pacific University, Udaipur (Rajasthan) India. Email : dilipatel757@gmail.com

² Associate Professor, Arts & Commerce College, India. E-mail: Prof.alka1@gmail.com

Liquidity ratios greater than 1 indicate that the company is in good financial health and it is less likely fall into financial difficulties.

Review of Literature

Ramesh Chander (2010) in the Research

“ FINANCIAL VIABILITY AND PERFORMANCE EVALUATION OF CO-OPERATIVE CREDIT INSTITUTIONS IN HARYANA (INDIA) ” Co-operative Banks are organized and managed on the principals of co-operation, self-help , and mutual help. These have been playing imperative role in Indian financial system with broad network in both urban and rural areas. Around three hundred and seventy two District Central Co-operative Banks (DCCBs) with large number of branches and extension counters cater to the needs of nearly one lakh societies in rural India. In Haryana nineteen DCCBs with more than two hundred branches have been facilitating self-sufficiency in food grain production, creation of better employment opportunities and organizational strength to the rural people through banking services. Recently, the scams in co-operative sector, failure and closure of unviable branches, imposition of penalty by the regulators and payment of heavy money claims due to bankruptcy of co-operative banks etc. are few significant reasons which persuade to inquire into the financial affairs of these institutions.

Many co-operative banks became insolvent and others are on the brink of mergers or acquisition. The present study was conceptualized to examine the financial viability, efficiency and performance of four DCCBs operating in Gurgaon division in Haryana (India), viz. Gurgaon, Faridabad, Mahendergarh and Rewari for a period of twelve years (1997-98 to 2008-09) by financial analysis and z-score analysis. The financial parameters here taken are profitability, liquidity, efficiency, solvency, risk and bankruptcy. The results reveal that four DCCBs with approximately fifty branches have not been performing well on all financial parameters taken for study. The banks performed well on one parameter but deteriorated on another and in different years as well.

All the banks have been a part of bankruptcy zone (weak performance zone) throughout the study period. The banks need to visualize their operations, policies and strategies for effective utilization of available financial and human resources. The banks should amend their vision and act accordingly for sustenance in fierce competitive financial environment.

However District Central Co-operative Banks (DCCBs) play pivotal role in the rural banking system yet failure/bankruptcy of these banks raise many doubts about their viability and sustenance. In the present study financial efficiency and performance of four DCCBs operating in Gurgaon division have been identified and analyzed on five parameters viz. profitability, liquidity, solvency, efficiency and risk. The results reveal that banks performed better on one parameter but weakened on other which led to a dwindling situation. Mahendergarh CCB has performed well on profitability, liquidity and risk parameters but declined on efficiency and solvency parameters. Rewari needs to make improvements on all parameters but it performed well on liquidity. The profitability and efficiency have been quite better in Faridabad, but it should improve on all other fronts. Except liquidity, the Gurgaon has to make improvements on all other fronts. The derivation from the Z-score analysis reveals that all the banks have been declined to become a part of weak performance or bankruptcy zone. Long term sustenance and efficient operations have been big questions before these banks. Overall score depicts that Mahendergarh CCB has been the best and Gurgaon the worst one. In fact all the banks have been suffering from financial mismanagement and underutilization of resources, so these banks should change their vision and bring competitiveness besides transparency in their working to sustain and become vivacious co-operative credit institutions.

Objective of the Study

1. To study the financial Liquidity Position Study of the selected co-operative society.
2. To analyze the Liquidity performance of selected Co-operative society.

Research Methodology

The study is based on secondary sources only. The secondary data were collected from , Co-operative society Waroli, Tal-kaprada Dist : Valsad, And personal Meeting of cooperative society's Manager Mr. Nathu bhai Dalvi. The study period was during the year 2008-9 to 2012-13.

Ratio Analysis

Liquidity Ratios

The term liquidity refers to the ability of the Cooperative Society to meet its current liabilities. Liquidity ratios assess capacity of the firm to repay its short term liabilities. Thus, liquidity ratios measure the firms' ability to fulfil short term commitments out of its liquid assets. The important liquidity ratios are :

1. Current Ratio
2. Quick Ratio
3. Stock Turnover Ratio

(i) Current Ratio :

Current ratio is a ratio between current assets and current liabilities of a firm for a particular period. This ratio establishes a relationship between current assets and current liabilities. The objective of computing this ratio is to measure the ability of the firm to meet its short term liability. It compares the current assets and current liabilities of the firm. This ratio is calculated as under:

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

Current Assets are those assets which can be converted into cash within a short period i.e. not exceeding one year. It includes the following: Cash in hand, Cash at Bank, Bill receivables, Short term investment, Sundry debtors, Stock, Prepaid expenses Current liabilities are those liabilities which are expected to be paid within a year. It includes the following:

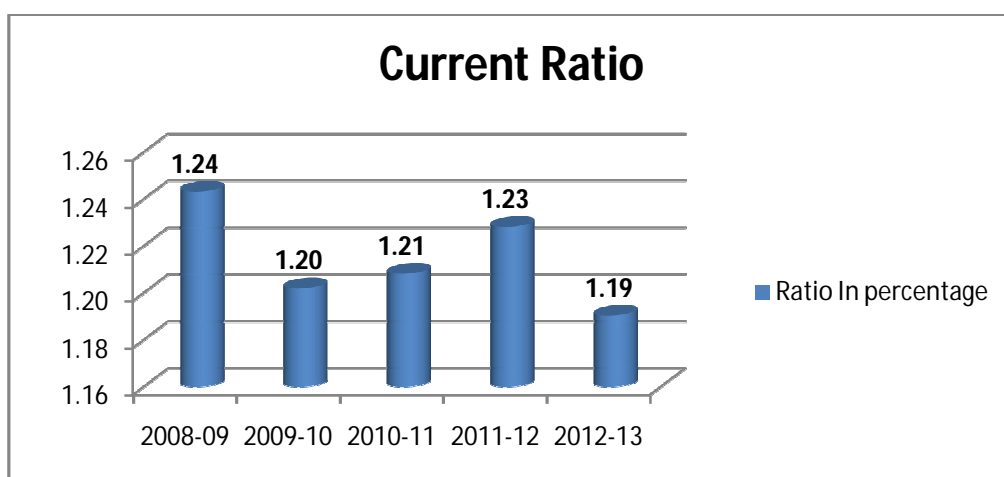
Bill payables, Sundry creditors, Bank overdraft, Provision for tax, Outstanding expenses The current ratio indicates the amount of current assets available for repayment of current liabilities. Higher the ratio, the greater is the short term solvency of a firm . However, a very high ratio or very low ratio is a matter of concern. If the ratio is very high it means the current assets are lying idle. Very low ratio means the short term solvency of the firm is not good.

Thus, the ideal current ratio of an organisation is 2 : 1 i.e. to repay current liabilities, there should be twice current assets. Atleast the organization should maintain 1.5: 1.

Year	Current Assets	Current Debt	Ratio
2008-09	8508302	6843570	1.24
2009-10	9260121	7703923	1.20
2010-11	9128787	7555731	1.21
2011-12	10575272	8610484	1.23
2012-13	11221367	9426568	1.19

Source: Compiled Calculated Data

It is clear from the above calculations that the current ratio is Medium Average. We cannot say that the Co operative society,waroli is having higher solvency. Hence steps have to be initiated to increase the sales as well as liquidity of the society. During the year 2012-13 the current ratio was not good. The current assets are just equal to the current liabilities. However during the year 2008-9 there was great improvement in the liquidity position of the society. It is concluded that the overall Liquidity is Good of the Cooprative society has to be increased and the management has to Improv its current ratio and current responsibility Position.



(ii) Quick Ratio:

Quick ratio is also known as Acid test or Liquid ratio. It is another ratio to test the liability of the concern. This ratio establishes a relationship between quick assets and current liabilities. This ratio measures the ability of the firm to pay its current liabilities. The main purpose of this ratio is to measure the ability of the firm to pay its current liabilities. For the purpose of calculating this ratio, stock and prepaid expenses are not taken into account as these may not be converted into cash in a very short period. This ratio is calculated as under :

$$\text{Liquid Ratio} = \frac{\text{Liquid or quick assets}}{\text{Current liabilities}}$$

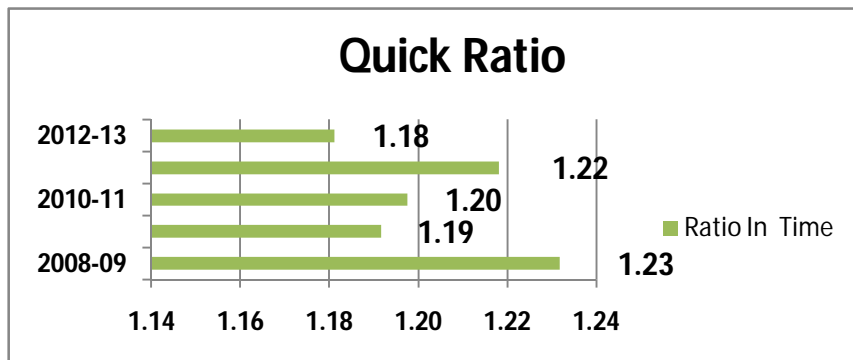
where, liquid assets = current assets – (stock + prepaid expenses)

Quick ratio is a measure of the instant debt paying capacity of the business enterprise. It is a measure of the extent to which liquid resources are immediately available to meet current obligations. A quick ratio of 1 : 1 is considered good/favourable for a Cooperative Society.

Year	Quik assets	Quik Debt	Ratio
2008-09	8428983	6843570	1.23
2009-10	9179639	7703923	1.19
2010-11	9048305	7555731	1.20
2011-12	10487390	8610484	1.22
2012-13	11133285	9426568	1.18

Source: Compiled Calculated Data

It is clear from the above table that the quick ratio is as per the standards and the society is above to meet the current liabilities at any point of time as it is maintaining liquid resources or funds to meet the immediate obligations. The quick ratio was good during the year 2008-9, 2011-12 and 2010-11 when compared with other years.



Turnover Ratios

Activity ratios measure the efficiency or effectiveness with which a firm manages its resources. These ratios are also called turnover ratios because they indicate the speed at which assets are converted or turned over in sales. These ratios are expressed as 'times' and should always be more than one.

Stock Turnover Ratio:

Stock turnover ratio is a ratio between cost of goods sold and the average stock or inventory. Every firm has to maintain a certain level of inventory of finished goods. But the level of inventory should neither be too high nor too low.

It evaluates the efficiency with which a firm is able to manage its inventory. This ratio establishes relationship between cost of goods sold and average stock. The Stock Turnover Ratio show how many times over the business has sold the value of its stocks during the year.

Inventory turnover ratio measures the velocity of conversion of stock into sales. Usually a high inventory turnover/stock velocity indicates efficient management of inventory because more frequently the stocks are sold, the lesser amount of money is required to finance the inventory. A low inventory turnover ratio indicates an inefficient management of inventory. A low inventory turnover implies over-investment in inventories, dull business, poor quality of goods, stock accumulation, accumulation of obsolete and slow moving goods and low profits as compared to total investment. The inventory turnover ratio is also an index of profitability, where a high ratio signifies more profit, a low ratio signifies low profit.

Sometimes, a high inventory turnover ratio may not be accompanied by relatively a high profits. Similarly a high turnover ratio may be due to under-investment in inventories. It may also be mentioned here that there are no rule of thumb or standard for interpreting the inventory turnover ratio. The norms may be different for different firms depending upon the nature of industry and business conditions. However the study of the comparative or trend analysis of inventory turnover is still useful for financial analysis. It is calculated by :-

$$\text{Stock Turnover Ratio} = \frac{\text{Cost of goods Sold}}{\text{Average Stock}}$$

$$\text{Cost of goods sold} = \text{Opening stock} + \text{Purchases} + \text{Direct expenses} - \text{Closing Stock}$$

Or

$$\text{Cost of goods sold} = \text{Sales} - \text{Gross Profit}$$

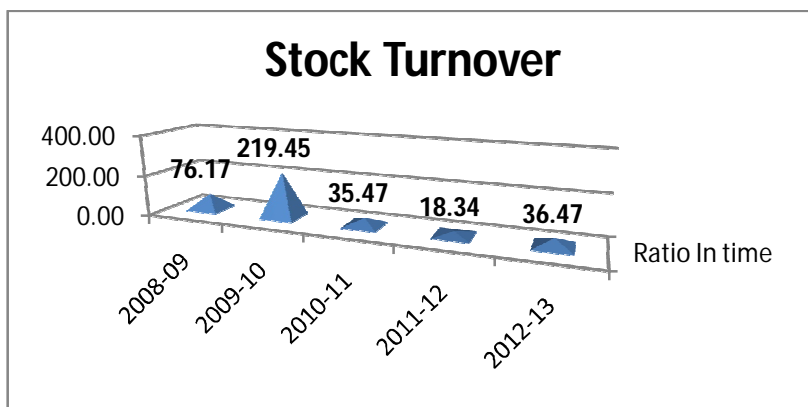
$$\text{Average stock} = \frac{\text{Opening stock} + \text{Closing stock}}{2}$$

If cost of goods sold is not given, the ratio is calculated from the sales. (ii) If only closing stock is given, then that may be treated as average stock. The higher the stock turnover the better, because money is then tied up for less time in stocks. A quicker stock turnover also means that the firm gets to make its profit on the stock quicker, and so the firm should be more competitive. However, it will vary between industries and so it is important to compare within an industry. This means that an average one rupee invested in stock will turn into ten times in sales.

Year	Cost of goods sold	Average stock	Ratio
			In time
2008-09	3465140	45495	76.17
2009-10	4058337	18493	219.45
2010-11	3483392	98205	35.47
2011-12	3368265	183663	18.34
2012-13	4224419	115839	36.47

Source: Compiled Calculated Data

It is clear from the above table that the stock turnover ratio is very high during the year 2009-10 and 2008-9 when compared to the previous years. According to the above discussions and calculation with the given data the Cooperative Society,waroli is able to do very good inventory management. However it is appreciated as far as stock turnover is concerned. It is also possible to express the ratio as a number of days, which is sometimes an easier way to understand it.



Analysis Findings & Suggestion

- ✘ The Current ratio is Medium Average. We cannot say that the Co operative society,waroli is having higher solvency. Hence steps have to be initiated to increase the sales as well as liquidity of the society. During the year 2012-13 the current ratio was not good. The current assets are just equal to the current liabilities. However during the year 2008-9 there was great improvement in the liquidity position of the society.
- ✘ The stock turnover ratio is very high during the year 2009-10 and 2008-9 when compared to the previous years. According to the above discussions and calculation with the given data the Cooperative Society,waroli is able to do very good inventory management.
- ✘ The quick ratio is as per the standards and the society is above to meet the current liabilities at any point of time as it is maintaining liquid resources or funds to meet the immediate obligations. The quick ratio was good during the year 2008-9, 2011-12 and 2010-11 when compared with other years.

Conclusion

It can be concluded from the study of 5 financial periods of Co operative society ,Waroli in Kaprada taluka that the maximum Financial Indicators of co operative society are not at a very good position but Medium average. From the analysis of main Financial Indicators it is clear that Stock Turnover Ratio, Current Ratio, And Liquidity Ratio, etc are at a Average position.

References

- Dr. M.A. Dhandapani, M.P.Ganesh Babu (2013) in the article "Financial Performance of Cotton Mills - A Special Case in Andhra Pradesh " GRA - GLOBAL RESEARCH ANALYSIS Volume : 2 | Issue : 12 | Dec 2013 • ISSN No 2277 – 8160
- Mrs. K. Parimala Kanthi, Dr. M. Ashok Kumar(2013) in the article "The Impact of Business Strategies on Readymade Garments Market at Thrissur District in Kerala " GRA - GLOBAL RESEARCH ANALYSIS, Volume : 2 | Issue : 1 | Jan 2013 ISSN No 2277 – 8160
- NIRMAL CHAKRABORTY, MAHISHADAL RAJ COLLEGE (2013), WORKING CAPITAL PERFORMANCE: A CASE STUDY ON DABUR INDIA LTD. INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories OLUME NO. 4 (2013), ISSUE NO. 10 (OCTOBER) ISSN 0976-2183
- Dimple, Ritu jain (2013) in the research article "Volume : 2 | Issue : 12 | Dec 2013 • ISSN No 2277 – 816,
- GRA - GLOBAL RESEARCH ANALYSIS, A Comparative Study of Working Capital Management of Infosys and Tata Consultancy Services Ltd.
- Dr. Ramesh A. Dangar(2012) in the research article A Comparative Analysis on Profitability of Selected Petroleum Industries" PARIPEX - INDIAN JOURNAL OF RESEARCH , Volume : 1 | Issue : 5 | May 2012 ISSN - 2250-1991
- M.Sridhar,B.Ramchandara Reddy (2013) in article "Structure of Working Capital in Sample Micro, Small and Medium Enterprises in Kurnool District of Andhra Pradesh " INDIAN JOURNAL OF APPLIED RESEARCH, Volume : 3 | Issue : 12 | Dec 2013 | ISSN - 2249-555X
- Pawankumar, DR. V. K. GUPTA, DR. ANIL KUMAR GOYAL (2013) in the article "FINANCIAL ANALYSIS OF INDIAN OIL CORPORATION LIMITED " INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT, VOLUME NO. 4 (2013), ISSUE NO. 07 (JULY) ISSN 0976-2183
- Dr. M.S. Ramananda*(2012) in the article " RATIO ANALYSIS OF HYDERABAD AGRICULTURAL COOPERATIVE ASSOCIATION OPERATIONAL FUNCTIONS " *International Journal of Advanced Research in Management and Social Sciences*. Vol. 1 | No. 2 | August 2012 www.garph.co.uk IJARMSS |

- Dimple, Ritu jain (2013) in the research article "Volume : 2 | Issue : 12 | Dec 2013 • ISSN No 2277 – 816, GRA - GLOBAL RESEARCH ANALYSIS, A Comparative Study of Working Capital Management of Infosys and Tata Consultancy Services Ltd.
- Dr. Ramesh A. Dangan(2012) in the research article "A Comparative Analysis on Profitability of Selected Petroleum Industries" PARIPEX - INDIAN JOURNAL OF RESEARCH , Volume : 1 | Issue : 5 | May 2012 ISSN - 2250-1991
- M.Sridhar,B.Ramchandara Reddy (2013) in article " Structure of Working Capital in Sample Micro, Small and Medium Enterprises in Kurnool District of Andhra Pradesh " INDIAN JOURNAL OF APPLIED RESEARCH, Volume : 3 | Issue : 12 | Dec 2013 | ISSN - 2249-555X
- Dr. M.A. Dhandapani, M.P.Ganesh Babu (2013) in the article "Financial Performance of Cotton Mills - A Special Case in Andhra Pradesh " GRA - GLOBAL RESEARCH ANALYSIS Volume : 2 | Issue : 12 | Dec 2013 • ISSN No 2277 - 8160
- Mrs. K. Parimala Kanthi, Dr. M. Ashok Kumar(2013) in the article "The Impact of Business Strategies on Readymade Garments Market at Thrissur District in Kerala " GRA - GLOBAL RESEARCH ANALYSIS, Volume : 2 | Issue : 1 | Jan 2013 • ISSN No 2277 – 8160
- Pawankumar, DR. V. K. GUPTA, DR. ANIL KUMAR GOYAL (2013) in the article "FINANCIAL ANALYSIS OF INDIAN OIL CORPORATION LIMITED " INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT, VOLUME NO. 4 (2013), ISSUE NO. 07 (JULY) ISSN 0976-2183

Books Refferances

1. Agrawal N.P.
Analysis of Financial statements
National publishing House,New Delhi
2. Chaudhari S.B.
Analysis of company financial statement
Asia publishing House,London
3. Gupta R.L.
Financial Statement Analysis
Sultan chand And sons,New Delhi
4. Jain P.K.Fi management of State enterprise in india
National Publishing House,Jaypur
5. Guthmanan H.G.
Analysis of Financial Statement
Prentiese Hall of india Pvt.Ltd,New Delhi
6. kuchhal S.C.
Financial Management
Chetanya Publishing House,Alhabad

7. Khan & Jain
Financial management
Tata mcgrew Hill publishing Co.ltd,New Delhi
8. Leopold A.Bernstein
The Analysis Of Financial Statement
Richard D. Irwin Inc USA
9. Pande I.M.
Financial management
Vikas publishing House p.Ltd,new delhi
10. P.Saravanel
Research Methdology
Kitab Mahal,Alhabad