

CHAPTER XI

FINANCIAL MANAGEMENT PROBLEMS OF
CONSUMERS' COOPERATIVE SOCIETIES

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CHAPTER XI

FINANCIAL MANAGEMENT PROBLEMS OF CONSUMERS' COOPERATIVE SOCIETIES

11.1 Introduction

In this chapter an attempt has been made to understand the management problems relating to financial matters of consumer cooperatives in Pune city. The detailed analysis is made on the basis of information collected through questionnaires and financial statements of consumer cooperatives.

11.2 Paid-up Capital

It is evident from Table 11.1 that the paid-up capital of 9 primary societies is upto Rs.10,000, 8 primary societies have paid-up capital which ranges from Rs.25 thousand to Rs.50 thousand and 2 primary societies have paid-up capital of Rs.50 thousand to Rs.1 lakh, 3 primary societies ranges from Rs.1 lakh to Rs.5 lakhs. Of the federal societies 3 federal societies reported that their paid-up capital ranges from Rs.3 lakhs to Rs.15 lakhs. It shows that the overall paid-up capital position of consumer cooperatives is low.

Table 11.1 : Paid-up share capital in consumers' cooperative societies upto 1982-83

	Federal/ Central Wholesale	Percen- tage	Primary socie- ties	Percen- tage	Total	Percen- tage
Upto 10,000	-	-	9	28.12	9	24.30
10001 - 25000	-	-	6	18.75	6	16.20
25001 - 50000	1	-	2	6.25	3	8.10
50001-100000	-	-	2	6.25	2	5.40
100001-200000	-	-	1	3.13	1	2.70
200001-500000	-	-	1	3.12	1	2.70
500001 & above	2	-	1	3.13	3	8.10
Not given	2	-	10	31.25	12	27.00
Total	5	100.00	32	100.00	37	100.00

11.3 Working Capital Position

The working capital position of many of the consumer cooperatives is very poor. It was seriously pointed out that due to the inadequacy of working capital of these units particularly primary consumer cooperatives, they are not managing their business successfully. A large number of consumer cooperatives are not economically viable units and they cannot compete with the private traders.

11.4 Maintenance of Books of Accounts

The books of accounts and financial statements of the consumer cooperatives under study are properly maintained in their offices.

11.5 Internal Audit

An internal audit is one of the tools of management to exercise financial control on the various activities of consumer cooperatives. In this system the financial transactions are audited by the internal auditors with a view to avoid mistakes, fraud and irregularities in maintaining books of accounts. Table 11.2 shows that more than 68 per cent primary consumer cooperatives do not have internal audit system. But in the case of federal societies this position is satisfactory.

11.6 Annual Budget

Preparation of an annual budget of consumers' co-operative societies is a part of budgetary control. Every business organization whether it is small or large must have annual budget with a view to exercise control over available resources and their effective utilization to attain the objectives of the consumer cooperatives. It was seriously felt that only 2 federal societies and 15 primary societies prepare their annual budgets. It means that more

Table 11.2 : Internal audit

	Federal/ Central Wholesale	Primary societies	Total	Percentage
Yes	5	8	13	
No	-	24	24	
Not given	-	-	1	
Total	5	32	37	

than 54 per cent consumer cooperatives do not prepare their annual budgets which affects their overall performance.

11.7 Financial Controls

It is evident from Table 11.3 that more than 50 per cent of consumer cooperatives are completely ignorant about the financial controls. This is harmful for the sound progress of consumer cooperatives. Naturally, they fail to exercise control on financial dealings.

11.8 Financial Analysis of Selected Federal and Primary Consumers' Cooperative Societies

In this chapter an attempt has been made to analyse the financial position of selected consumers' cooperative societies in the study. This analysis ^{has been} made with the help

Table 11.3 : Financial control applied

	Federal/ Central Wholesale	Primary societies	Total
Yes	2	16	18
No	3	16	19
Total	5	32	37

of financial statements, trading profit and loss accounts and balance sheets of the societies for the financial years 1981-82, 1982-83. For this purpose three federal societies (60 per cent) and 11 primary consumer cooperatives are selected. These units cover all types of business dealt with by the consumer cooperatives. The financial analysis is made with the help of certain standard ratios which are generally used to express efficiency, profitability and overall performance.

Financial Analysis of Federal Consumers' Cooperative Societies

(i) Percentage of Gross Profit to Sales : It is evident from Table 11.4 that percentage of gross profit to sales is very low as compared with other cooperative organizations. The average percentage of gross profit to sales has slightly increased from 3.30 in 1981-82 to

Table 11.4 : Statement showing the financial position of central/wholesale and federal consumers' cooperative societies for the years 1981-82 - 1982-83

Particulars	1981-82			1982-83		
	Society A	Society B	Society C	Society A	Society B	Society C
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1. Paid-up capital	4,34,000	15,93,000	3,47,000	4,36,000	15,93,000	3,47,000
2. Government contribution in paid-up capital	3,00,000	14,20,000	3,08,000	3,00,000	14,20,000	3,08,000
3. Total sales	55,00,000	1,48,13,000	57,45,000	79,68,000	86,96,000	48,77,000
4. Gross profit	2,34,000	5,04,000	1,30,000	2,57,000	3,50,000	2,05,000
5. Net profit	26,000	13,000	70,000*	13,000	1,30,000*	74,000*
6. Current assets	11,11,000	28,22,000	4,20,000	13,75,000	28,89,000	4,20,000
7. Current liabilities	4,88,000	31,23,000	2,29,000	4,88,000	13,13,000	3,20,000
8. Operating expenses	55,02,000	1,49,00,000	58,29,000	80,36,000	90,64,000	49,32,000
9. Average stock	6,00,000	11,81,000	1,80,000	7,18,000	12,12,000	1,25,000
10. Fixed assets	1,27,000	2,51,000	4,10,000	1,27,000	2,79,000	2,16,000

contd.

Table 11.4 (contd.) Statement showing the ratio analysis of financial position of selected federal/wholesale consumers' cooperative societies, 1981-82 - 1982-83

	Society A		Society B		Society C		Average	
	1981-82	1982-83	1981-82	1982-83	1981-82	1982-83	1981-82	1982-83
1. Percentage of Gross Profit to Sales	4.25	3.23	3.40	3.98	2.26	4.20	3.30	3.80
2. Percentage of Net Profit to Sales	0.47	0.16	.09	Nil*	Nil*	Nil*	.19	.05
3. Percentage of Operating Expenses to Sales	100.03	100.80	100.58	103.04	101.46	101.12	100.69	101.65
4. Ratios of Current Assets/Current Liability [⊕]	2.27	2.82	.93	.93	1.83	1.32	1.68	1.69
5. Stock turnover ratio [⊕]	8.68	10.68	11.98	6.95	29.28	35.83	10.65	17.82 [⊕]
6. Percentage of Government contribution in total paid-up capital	69.12	68.80	89.14	89.14	88.76	88.76	82.34	82.23

* Loss * Loss ⊕ Ratio in times

Source : Information collected from Trading, Profit and Loss Accounts and Balance Sheets of the selected federal consumers' cooperative societies, 1981-82, 1982-83.

3.80 per cent in 1982-83.

(ii) Percentage of Net Profit to Sales : Table 11.4

also shows that the net profits of all the federal consumer cooperatives are very low and negligible. The average percentage of net profits to sales has decreased from .19 per cent in 1981-82 to 0.5 per cent in 1982-83. Out of three federal societies, 2 societies are suffering from heavy losses.

(iii) Percentage of Operating Expenses to Sales :

It shows that the total cost incurred for making the sales of goods. The operating expenses consists of cost of goods sold and selling expenses. Higher the percentage of operation expenses, lower the margin of profit. It appears from Table 11.4 that the average percentage to total sales has slightly come down from 101.12 per cent in 1981-82 to 100.69 per cent in 1982-83. It can be pointed out that margin of profit is very less due to heavy expenses on administration, It also indicates that business operations are not carried out effectively and efficiently.

(iv) Liquidity : The success and strength of any business organization depends upon its ability to meet its commitments to the outside parties. It is generally presumed that ratio of current assets to current liabilities

would indicate how the society utilized its borrowings and whether it would be able to repay them on due dates. As the main business of all consumers' cooperative societies under study was buying and selling consumers goods hence the assets involved in the trade were (1) cash on hand, (2) cash at bank, (3) Sundry debtors, (4) Bills receivables, (5) Advances to suppliers, and (6) Pre-paid expenses. As against these current liabilities are those which are to be paid back within a course of one year and accordingly current liabilities were (1) deposits, (2) sundry creditors, (3) bills payable, (4) loans and advances from banker. Table 11.4 gives the information regarding the ratio of current liabilities to current assets.

The optimum ratio of liquidity i.e. current assets to current liability is 2:1. Average ratio of current assets to current liabilities in the case of federal societies was 1.68 in 1981-82 and 1.69 in 1982-83. Society 'A' seems to be in a good position, as its liquidity ratio is above standard.

(v) Stock Turnover Ratio : The stock turnover ratio is another important ratio which indicates the rate at which the inventory is converted into sales. It helps to fix up the position of stock position and avoid the

tendencies of overstocking and understocking. This ratio is expressed in times. If the stock turnover ratio is high it indicates the efficiency while low inventory turnover ratio shows inefficiency in the organization. From Table 11.4 it appears that the average stock turnover ratio in 1981-82 is 10.65 times, it has increased upto 17.82 in 1982-83. It can also be observed that Federal Society 'C' shows high inventory turnover ratio.

(vi) Government Contribution in the Paid-up Capital : Table 11.4 clearly shows that all the federal consumers' cooperative societies are substantially financed by the Government contribution in their paid-up capital. The average percentage of Government contribution in the year 1981-82 is 82.34 per cent which is slightly come down to 82.23 in 1982-83. It also points out that Government contribution is comparatively more than own capital.

Financial Analysis of the Selected
Primary Consumers' Cooperative
Societies

1. Percentage of Gross Profit to Total Sales : From Table 11.5 it is observed that in the year 1981-82 the average percentage of Gross Profit to Total Sales which was 9.68, increased to 9.71 in the year 1982-83. The table also shows that in the case of societies B, C, E,

1981-82 was 9.96 which showed downward trend in the year 1982-83 when the average Current Ratio was 5.33. In the case of only two societies i.e. D and E, the Current Ratio is much higher than the average current ratio in the year 1981-82, while in the case of societies E and F, the Current Ratio is higher than the average Current Ratio in the year 1982-83. The table also reveals that more than 70 per cent of the selected societies the working capital position seems to be very poor. These societies are not able to meet their liabilities satisfactorily.

5. Percentage of Government Contribution to the Paid-up Capital : From Table 11.5 it appears that the average percentage of Government Contribution to the Total Paid-up Capital in the year 1981-82 was 11.36 and it was increased to 11.54 in the year 1982-83. In the case of societies H and I, the percentage of Government Contribution to their Paid-up Capital is higher than the average percentage of Government Contribution to the Paid-up Capital in both the years 1981-82 and 1982-83 respectively. Of the ten selected societies, in the case of four societies (A, C, H and I), the Government has made contribution in their paid-up capital.