FINANCE is the fuel of administration. Without adequate financing no business enterprise can reach its full potentials for growth and success. It is the dynamic power which keeps the enterprise going, keeps men and machine at work, encourages management to make production plans and creates wealth in the form of goods and services. Highlighting the importance of finances for all types of organisations, M.J.K. Thavaraj points out that finance is the life blood of all monetised socio-economic organisations. The co-operative institutions too like other types of business organisations need finances to establish, operate, expand and maintain their production, distribution and other allied functions. Their financial needs can be met by capital provided through internal and external sources.

The Federation, right from its inception, realised the need and necessity for both types of sources, i.e., internal and external sources.


and external sources. Its bye-laws provide that finances can be raised by it through shares, deposits, loans, grants and subsidies.

**INTERNAL SOURCES**

The contributions made by the member co-operative societies in the form of share capital constitute as one of the basic sources of capital in Markfed. It is a convenient and cheap source of finance as no payment of interest is involved.

Markfed began functioning with 15 societies as members which contributed ₹65,000 towards its share capital. With the increase in the interest of its members in its operations and their desire to lend support for their expansion, the share capital rose up to ₹69.61 million in 1980-81. In this context, G.S. Kamat rightly points out that the size of the share capital of co-operative organisation indicates the stake of members and their eventual loyalty to the organisation. 3

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*Bye-law 14 reads as follows:

The federation may raise funds by:

(a) issuing of shares of the value of ₹500 each;

(b) raising of loans from Co-operative Banks, and with the previous approval of the Registrar, Co-operative societies, from the Commercial Banks and others;

(c) accepting deposits from members and non-members; and

(d) accepting grant or subsidy or financial assistance from the Government or other institutions or individuals.

**VIGNA: The Veikumth-

National Institute of Co-operative Management, Pune (India).**

Besides co-operative societies, the State Government has been an active member of Markfed, right from its inception. With a view to strengthening Markfed's finances, the Government has been contributing in an increasing measure to its share capital, as can be seen from Table 7-1.

Table 7-1
Share Capital of Markfed

<table>
<thead>
<tr>
<th>Year</th>
<th>Share Capital</th>
<th>Government's Contribution</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rs in million)</td>
<td>Absolute</td>
<td></td>
</tr>
<tr>
<td>1975-76</td>
<td>25.55</td>
<td>22.44</td>
<td>87.8</td>
</tr>
<tr>
<td>1976-77</td>
<td>31.86</td>
<td>27.38</td>
<td>85.9</td>
</tr>
<tr>
<td>1977-78</td>
<td>32.11</td>
<td>27.38</td>
<td>85.2</td>
</tr>
<tr>
<td>1978-79</td>
<td>17.86</td>
<td>13.13</td>
<td>73.5</td>
</tr>
<tr>
<td>1979-80</td>
<td>19.31</td>
<td>13.28</td>
<td>68.8</td>
</tr>
<tr>
<td>1980-81</td>
<td>69.61</td>
<td>63.59</td>
<td>91.3</td>
</tr>
</tbody>
</table>

(Source: Data compiled from the Balance-sheets and the office records of Markfed.)

The data in Table 7-1 confirms that a substantial part in Markfed's share capital has been contributed by the State Government. Further, its contribution has shown a rising trend. Although it came down to 68.8 per cent in 1979-80, but, in subsequent year, it rose to 91.3 per cent, a record contribution. It is obvious that Markfed could not have functioned at the present scale without Government's big contribution towards its share capital.
Working Capital

Working capital is that capital which enables an enterprise to carry on its day to day activities. It is impossible to carry on any business with only fixed assets. If the fixed assets form the skeleton, the working capital is the flesh and blood of an enterprise.

between cash inflows and outflows. Thus, working capital is essentially a circulating capital like a river which is flowing every day, but the water in it is constantly changing.4

Markfed's nature of activities requires a reasonable working capital uniformly throughout the year. A substantial part of the working capital is required to be paid in the form of money to farmers for purchasing their agricultural produce; to buy agricultural implements for distribution among farmers; to finance inventories, followed by loans and advances; and to meet the need for liquid cash in that order. The office records indicate that Markfed's working capital has considerably gone up over the years. It has gone up from Rs 750 million in 1970-71 to Rs 2641 million in 1980-81. The actual position is however, different. The working capital represents the

excess of current assets over current liabilities.\(^5\)

Current assets are the assets which can be converted into cash within an accounting year, whereas current liabilities are those claims of outsiders which are expected to mature for payment within the same accounting year. In the light of preceding discussion on working capital if the current assets and current liabilities of Parktex (Table 7-6) are compared, the working capital shows a negative trend. In other words, the current liabilities have been in excess of current assets. I.K. Pandey opines that such a position poses threat to the solvency of a business organisation and makes it unsafe and unsound.\(^6\) A negative working capital may result due to the mismanagement of current assets. It was found that management has been making excessive investments in current assets which impaired organisation's profitability, as idle investment earns nothing.

**Sales Turnover**

As Table 7-4 indicates,

The sales turnover of Parktex has considerably increased during the period under review. It has almost increased three times, i.e., from ₹ 804.07 million in 1975-76 to ₹ 2958.87 million in 1980-81, as may be

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Table 7-4
Sales Turnover of Markfed

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales Turnover</th>
<th>Per cent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>804.07</td>
<td>—</td>
</tr>
<tr>
<td>1976-77</td>
<td>1145.77</td>
<td>42.4</td>
</tr>
<tr>
<td>1977-78</td>
<td>1430.20</td>
<td>24.8</td>
</tr>
<tr>
<td>1978-79</td>
<td>1482.56</td>
<td>3.6</td>
</tr>
<tr>
<td>1979-80</td>
<td>2331.62</td>
<td>57.2</td>
</tr>
<tr>
<td>1980-81</td>
<td>2958.97</td>
<td>26.9</td>
</tr>
</tbody>
</table>

(Source: Data compiled from the Balance Sheets and office records of Markfed)

Sundry Debtors

The term sundry debtors represents the amount of money which outsiders owe to an institution. It generally represents such debts as are outstanding for a period exceeding six months. The position with respect to sundry
debts of Markfed can be assessed from Table 7-5. It shows that Markfed's liquid resources had been heavily blocked. A big chunk of the old debts was due to the recoveries outstanding against the member co-operative societies and governmental agencies including the Food Corporation of India. The official records indicate that the Markfed's attempts to recover the amount had not been very successful.

FINANCIAL RATIO ANALYSIS

Financial analysis of an organisation depends to a large extent on the use of ratios. This technique is commonly known as financial ratio analysis or ratio analysis in short. It is now developing fast and is acquiring a scientific basis. Thus from the crude beginning of a rough comparison of statements, a fairly definite procedure employing measuring devices akin to those used in scientific work, has gradually come into existence. 7

Ratio analysis is the process of determining and interpreting numerical relationships between two figures taken from financial statements. Present and past data are used for the purpose, and whatever extrapolations appear necessary, they are made to provide an indication of future performance. In the opinion of an expert, 7

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J. Batty, "properly used, they can improve efficiency and, therefore, profits." In fact, these ratios may serve many purposes; they can assist the management in its basic functions—forecasting, planning, co-ordination, control, and communication. In this context, N. J. Yasaswy of the Indian Institute of Management has remarked that "financial ratio analysis is the most comprehensive and widely used method." He further said that "its important purpose is to secure a sequential picture of the inter-dependent nature of the business operations."9

However, ratios by themselves do not reveal much and it would be difficult to determine whether a particular ratio is favourable or unfavourable. It is, therefore, always desirable to compare similar ratios of several years determined from the data of the same business enterprise for making standard interpretations or inferences. Some of the significant ratios as applied to the balance sheets of Marks & Spencer are now discussed in details and the same may be glanced from Chart 12.

Current Ratio

Current ratio (or working capital ratio) is the most widely used of all analytical devices based on the balance sheets. It is regarded as an indicator of credit-


worthiness of an enterprise. It measures the ability of the organisation to fulfill short term commitments out of its liquid assets. It also shows the relationship between its total current assets and total current liabilities. Mertzfed's current ratio may be perused from Table 7-6.

Expressed as a formula, the current ratio is as follows:

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

Table 7-6
Current Ratio of Mertzfed

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Assets</th>
<th>Current Liability</th>
<th>Current Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>1144.94</td>
<td>1353.68</td>
<td>0.8:1</td>
</tr>
<tr>
<td>1976-77</td>
<td>1571.11</td>
<td>1833.11</td>
<td>0.8:1</td>
</tr>
<tr>
<td>1977-78</td>
<td>1425.52</td>
<td>1870.45</td>
<td>0.7:1</td>
</tr>
<tr>
<td>1978-79</td>
<td>1419.84</td>
<td>1526.60</td>
<td>0.9:1</td>
</tr>
<tr>
<td>1979-80</td>
<td>1867.43</td>
<td>2072.43</td>
<td>0.9:1</td>
</tr>
<tr>
<td>1980-81</td>
<td>1853.86</td>
<td>2153.18</td>
<td>0.8:1</td>
</tr>
</tbody>
</table>

(Source: Data compiled from the Balance Sheets and the office records of Mertzfed.)

The analysts generally agree that a current ratio of 2 to 1 is the minimum safety factor. In other words, if the current assets are two times the current liabilities, it indicates a strong financial position.

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liabilities, there will be no adverse effect on business
operations when the payment of current liabilities is
made. In Harkfed, as Table 7-6 indicates, the ratio was
significantly less than 2. In other words, there was
lack of safe margin between current assets and current
liabilities. On the other hand, current assets should
be sufficiently in excess of current liabilities to
constitute a margin for maturing obligations within the
ordinary operating cycle of a business.

According to J. Batty, the rule of thumb implied by
the term 2 to 1 ratio can be very misleading because
conditions vary so much from one business to another. 11
At present, in India many companies are safely managing
their affairs with a current ratio around 1.25:1.
Even from this viewpoint, the position in Harkfed was
not sound. Throughout the period under review, the
current ratio has been less than 1:1, i.e., the current
liabilities have remained more than current assets. In
such circumstances, recovery from these assets get
delayed and as such commitments are not discharged in
time to maintain the credit worthiness of the business. 13
Therefore, prompt and timely action may be taken by the
management to improve and correct the imbalances in the-

11 J. Batty, op. cit., p. 435.
12 N. Yasawy, op. cit., p. 34
13 Rajendra D. Pasad, Accountancy and Financial
Accordingly, two profitability ratios in relation to investment can be calculated. These are:

**Return on Capital Employed:** This ratio indicates the effective utilisation of funds (supplied by creditors and owners) invested in business in terms of profits earned on it. It can be calculated as follows:

\[
\text{Return on Capital Employed} = \frac{\text{Net Profit}}{\text{Net Capital employed}} \times 100
\]

The higher the ratio, the more efficient is the firm in using funds entrusted to it. The position of Markfed in this respect can be assessed from Table 7-6. As already discussed, during all these years, Markfed had been running into huge losses. Therefore, the return on capital employed is nil. Hence, this ratio cannot be calculated.

**Return on Shareholders' Equity:** The return on shareholders' fund is another effective measure to assess the profitability of an enterprise. It is the ratio of net profit to the proprietors' funds. In other words, it shows the percentage of profit earned by the shareholders on the amount invested by them in the business. In fact, this ratio is one of the most important relationships in ratio analysis. The earning of a satisfactory return is the most desirable objective of the management of an enterprise.

Table 7-8 shows that shareholder's funds in Markfed...
had almost depleted, due to the adjustment of net losses against it. On personal enquiries it was found that a substantial amount of finances had been locked up in sundry debts with no chances of recovery. In other words, the funds raised internally by Markfed had been eroded.

A brief study on the functioning of the financial management reveals that Markfed has incurred accumulated losses to the tune of Rs 226 million during the period under review. There are a number of causes responsible for its unsatisfactory performance. The State government keeps on imposing its policies and Markfed has no alternative but to submit. It has to maintain a heavy inventory of both foodgrains and agricultural inputs thereby blocking huge funds for working capital purposes. The circulation of working capital has also been held up due to the failure of debtors to repay their dues for years together without any cogent reasons. Above all, Markfed's investment plans lack systematic planning. It has been making huge capital investments especially when the return on investment over

* Refer Chapter 3, for details.
the years has almost been nil. In such circumstances, Markfed has been left with no alternative but to exhaust its shareholders' funds which is neither economically wise nor morally tenable.

It is suggested that all out efforts may be made towards realising long standing debts for which strict financial discipline needs to be observed. The management may give importance to the techniques of inventory control. Decision regarding fresh investments may also be made on the principles of financial analysis. If the social considerations demand unviable investments on the part of the Markfed, the State Government may stand by the federation in the form of subsidies, easy credit, etc.