

# A Study on Financial Statement Analysis of Primary Agricultural Cooperative Credit Society in Paiyanoor Branch at Chengalpattu District

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## Abstract

*This study discussed the financial statement analysis of Primary Agricultural Cooperative Credit Society in Paiyanoor branch at Chengalpattu district, the study based last five year annual report of 2014 to 2019 form PACCS. The Accounting ratios like Current ratio, Quick ratio, Debit ration, Debit equity ratio, Net assets turnover ratio, Gross profit ratio, Net profit ratio, Return on equity ratio, Return on equity ratio, Solvency ratio used analysis the performance of financial statement analysis of Primary Agricultural Cooperative Credit Society. The study revealed that Debit Ratio highest value in the year 2014-15 is 0.830, Net Profit Ratio highest value in the year 2015-16 is 1.015, Current Ratio highest value in the year 2018-19 is 2.052, Quick Ratio highest value in the year 2018-19 is 2.813, Gross Profit Ratio highest value in the year 2018-19 is 0.134. It shows that the PACCS gradually increase financial performance in last five years from 2014 to 2019.*

**Keywords:** PACCS, Accounting ratios, Finance, Annual report

**JEL Code:** Q14, G21, E24, H83

## Introduction

A bank is a financial institution that offers its customers banking and other financial services. A bank is a financial entity that performs basic banking functions such as receiving deposits and disbursing loans. Non-banking entities also provide certain banking services without complying with regulatory requirements. The financial services industry includes banks as a subcategory. A banking system is a system supplied by a bank that provides clients with cash management services and reports the transactions of their accounts and portfolios throughout the day. The Indian banking system should not only be simple to use, but also capable of meeting new difficulties provided by technology and other external and internal elements. For the past three decades, India's banking system has several outstanding achievements to its credit. The Banks are the main participants of the financial system in India

## Primary Credit Cooperative Society

Primary credit is given to Village or town cooperative societies are founded. Any cooperative society that isn't a primary agricultural credit society is referred to as a primary credit society. It is essentially a group of people that live in the same area. Borrowers and non-borrowers can both be members. The money for this organization comes from the depositors' share capital as well as loans from central co-operative banks.

A Primary Credit Society's paid-up share capital and reserves should be less than Rs 1 lakh, according to the rules. Such a society can conduct banking operations without obtaining a license from the RBI.

The Banking Laws (Amendment) Act of 2012, on the other hand, has given the RBI more regulatory authority over co-operative banks. It also allows the regulator the authority to revoke primary co-operative credit societies' ability to function as banks without an RBI license. The borrowing rights of the members as well as the society are set in the Primary Cooperative Credit Society. Farm inputs, such as grain, fertilizers, and insecticides, are usually given a low credit rating.

### **Cooperative Society**

Cooperative Societies are defined as “an independent group of people who have come together voluntarily to achieve their shared economic, social, and cultural needs and goals through a jointly owned and democratically controlled company.” India is an agricultural country that helped to establish the world's largest cooperative movement. The urge for profit is balanced by the requirements of the members and the larger community's interest. The Cooperative Movement was founded by the weaker sectors of society to safeguard its members from profit-hungry businesses.

### **Cooperative Movement and Cooperative Societies in India**

Cooperative Societies are described as an independent group of people who have come together voluntarily to achieve their common economic, social, and cultural needs and ambitions through a jointly owned and democratically run business. India is an agricultural country that helped to establish the world's largest cooperative movement. For broad knowledge, we are providing a brief overview of the Cooperative Movement and Cooperative Societies in India.

### **Importance of Cooperative Sector for India**

Because it is an organization for the poor, ignorant, and unskilled, cooperatives play a significant role in India. The following is a list of the cooperative sector's relevance to India:

- It offers agricultural finance and financing when the public and private sectors have been unable to contribute significantly.
- It gives strategic inputs to the agriculture sector,

while consumer societies are able to satisfy their consumption needs at reduced prices.

- It aids in the alleviation of agricultural development restrictions.

### **Review Literature**

Viswanath (2001) attempted to analyze the functioning of agricultural loan cooperatives and their overdue difficulties in India. Initially, using the development index, an attempt is made to measure the overall performance of agricultural credit cooperatives. It is followed by a correlation co-efficient technique-based examination of the type and scope of the overdue problem. Finally, it identifies the primary causes of rising overdue and recommends strategies for mitigating them in the next years. It is followed by an analysis relating to the nature and extent of overdue problem, by using correlation co-efficient technique. Finally, it highlights the main factors causing mounting overdue and suggests remedies to mitigate the same in the coming years. They are: (a) credit cooperatives should rigorously adhere to seasonality in loan distribution and recovery; (b) in order to reduce the problem of overdue, urgent actions must be made to establish a recovery cell in each district, led by a district judge.

The function of Kanyakumari District Central Co-operative Bank (KDCCB) in Tsunami Credit was investigated by Oliver Bright. A, (2005). DCCBs provide loans and advances to rural residents for both agricultural and non-agricultural uses, according to him. However, they completely disregard infrastructural assistance. He has proposed that the DCCBs identify the credit plan investment portfolios.

In the study titled “Financing of Women Entrepreneurs by District Central Co-operative Banks in Tamil Nadu,” by Thomas and Chandramohan (2011), found that the women entrepreneurs studied are deserving of enough capacity to obtain loans, and that borrowing and repayment of loans did not pose any difficulties. Select DCCB borrowings were mostly focused on urban women's empowerment. This tendency must be acknowledged, and a concerted effort must be made to provide more. In terms of financial inclusion, some DCCBs have

been delivering excellent services to the women's community by providing loans for the development of new businesses in the study region.

### Objectives of the Study

- To be able to read and understand a Cooperative Credit Society financial statements.
- To understand and evaluate the Cooperative Credit Society financial trends over time.
- To determine if the cooperative bank's finances have improved or declined year over year as a result of its financial policies and actions.

### Research Methodology

Information collected from personal interaction with financial manager and the employees of the Paiyanoor, Primary Agricultural Cooperative Credit Society Limited. The source of information was secondary. Most of the financial information was made available through the annual reports of the Cooperative Credit Society Ltd.

Information gathered via personal interactions with the Paiyanoor, Primary Agricultural Cooperative Credit Society finance manager and staff. The information came from a secondary source. The Cooperative Credit Society annual reports provided the majority of the financial information. There was a lot of help in interpreting the data and coming to relevant conclusions. Theoretical support came from a variety of publications and journals, as well as previous reports and records. Support was also gathered from the internet and other magazines. The analysis was re-evaluated, and required changes were made.

### Ratio Analysis

Instead of comparing line items from each financial statement, ratio analysis examines and compares financial data by creating relevant financial statement figure percentages. Managers and investors use a variety of metrics and comparisons to determine if a firm is profitable and worth investing in. Horizontal, vertical, and ratio analysis are the most frequent methods for analyzing a company's performance. Horizontal and vertical studies analyze a company's performance across time and against a baseline or set of benchmarks.

Ratio analysis is a completely different beast. Ratio analysis evaluates the relationships between accounts in a financial statement. This means one account on the income statement or balance sheet is compared to another. These connections across financial statement accounts will not only provide a management or investor a sense of how healthy company is as a whole, but also provide them with valuable information into how the company operates.

### Liquidity Ratios

#### Current Ratio

Another approach to indicate liquidity is the current ratio, which is the ratio of all current assets to all current liabilities. It is a short-term solvency indicator for cooperative banks. It shows the amount of current assets available in rupees for every rupee of current obligation. If the ratio is larger than one, the cooperative bank has more current assets than current liabilities.

Current Ratio = Current Assets / Current Liabilities

**Table 1: Current Ratio**

Year	Current Assets	Current Liabilities	Ratio
2014-2015	23,38,252.97	45,54,320.85	0.513
2015-2016	17,29,562.35	21,96,865.8	0.787
2016-2017	15,48,068.79	23,42,065.5	0.661
2017-2018	25,48,198.06	38,83,404.54	0.656
2018-2019	52,79,902.80	25,73,249.21	2.052

From 2014-15 to 2018-19, the current ratio of Paiyanoor primary agriculture cooperative credit society limited is shown in table 1. The lowest current ratio was 0.513 in 2014-15, while the highest current ratio was 2.052 in 2018-19, according to the data.

### Quick Ratio

The quick ratio is a measure of a cooperative bank's capacity to satisfy short-term commitments using its most liquid assets and is an indicator of its short-term liquidity situation. It denotes the company's capacity to pay down existing liabilities immediately using near-cash assets (assets that can be converted swiftly to cash). The acid test ratio is another name for it. An acid test is a rapid test that produces fast results, as the name implies.

Quick Ratio =  $\frac{\text{Account Receivable} + \text{Cash}}{\text{Current Liabilities}}$

**Table 2: Quick Ratio**

Year	Account receivable (+) Cash	Current liabilities	Ratio
2014-2015	1381203.73	4554320.85	0.303
2015-2016	651458.96	2196865.8	0.296
2016-2017	317178.49	2342065.5	0.135
2017-2018	2420679	3883404.54	0.623
2018-2019	7238474.55	2573249.21	2.813

Paiyanoor primary farm cooperative credit society, Quick ratio from 2014-15 to 2018-19 is shown in Table 2. The lowest quick ratio in 2016-17 is 0.135, while the highest quick ratio in 2018-19 is 2.813.

### Leverage or Capital Structure Ratios

#### Debit Ratio

This is the proportion of total debts to total assets. This percentage shows the outside fund's contribution to a cooperative bank's total assets. It depicts the percentage of total assets financed by external sources. From the perspective of creditors, a low ratio is preferable since there is a significant margin of safety accessible to term. When this percentage is large, the creditors are put at greater danger. This might be due to asset overvaluation or the mechanism used to charge depreciation on the assets.

$$\text{Debit Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}} * 100$$

**Table 3: Debit Ratio**

Year	Total Debit	Total Assets	Ratio
2014-2015	30452085.6	36684263.85	0.830
2015-2016	24335958.8	30681377.02	0.793
2016-2017	23314628.7	29660046.90	0.786
2017-2018	29202933.1	35791397.28	0.816
2018-2019	30146191.4	37016040.43	0.814

Table 3 shows the Paiyanoor primary agriculture cooperative credit society debit ratio from 2014-15 to 2018-19. The lowest debit ratio was 0.786 in 2016-17, while the highest debit ratio was 0.830 in 2014-15, according to the data.

#### Debt Equity Ratio

The connection reflecting the leader's contribution for each rupee of the owner's investment is referred to as the debt-equity ratio. The debt-to-equity ratio is calculated by multiplying long-term obligations by equity. The greater the degree of protection, the lower the debt-to-equity ratio. A debt-to-equity ratio of 2:1 is recommended.

$$\text{Debt Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

**Table 4: Debt Equity Ratio**

Year	Total Debit	Total Equity	Ratio
2014-2015	30452085.6	6232178.25	4.886
2015-2016	24335958.8	6345418.22	3.835
2016-2017	23314628.7	6345418.22	3.674
2017-2018	29202933.1	6588464.22	4.432
2018-2019	30146191.4	6869849	4.388

Table 4 shows that Paiyanoor primary agriculture cooperative credit society's debt equity ratio decreased from 2014-15 to 2018-19. The lowest debt equity ratio was 3.674 in 2016-17, while the highest debt equity ratio was 4.886 in 2014-15, according to the data.

#### Turnover Ratios

Net Assets Turnover ratio: Net asset is also called capital employed. It is calculated by dividing net assets divide by net sales.

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

**Table 5: Net Asset Turnover Ratio**

Year	Net Sale	Net Assets	Ratio
2014-2015	1851493.7	36684263.85	0.051
2015-2016	1920160.1	30681377.02	0.063
2016-2017	1709074.8	29660046.90	0.058
2017-2018	1718760.6	35791397.28	0.048
2018-2019	1956788.6	37016040.43	0.053

From 2014-15 to 2018-19, the Net Asset Turnover Ratio of Paiyanoor primary agriculture cooperative credit society limited is shown in table 5. The lowest net asset turnover ratio was 0.048 in 2017-18, while the highest net asset turnover ratio was 0.063 in 2015-16, according to the data.

## Profitability

### Gross Profit Ratio

The gross profit ratio is significant because it informs management and investors about the profitability of core company operations without accounting for indirect costs. In other words, it demonstrates how well a corporation can manufacture and market its goods. This provides investors with important information about the company's overall health. A corporation with an apparently good net income on the bottom line, for example, might be on its way out. It's possible that the gross profit % is negative, and the net income is derived from other one-time processes.

$$\text{Gross Profit Ratio} = \text{Gross Profit} / \text{Sale Revenue}$$

**Table 6: Gross Profit Ratio**

Year	Gross Profit	Sales	Ratio
2014-2015	-104674.27	1851493.7	-0.057
2015-2016	40951.27	1920160.1	0.021
2016-2017	52771.95	1709074.8	0.031
2017-2018	-15567.97	1718760.6	-0.009
2018-2019	262669.89	1956788.6	0.134

From 2014-15 to 2018-19, the gross profit ratio of Paiyanoor primary agriculture cooperative credit society was restricted, as shown in table 6. The lowest gross profit ratio was -0.057 in the 2014-15 fiscal year, and the highest gross profit ratio was 0.134 in the 2018-19 fiscal year.

### Net Profit Ratio

The link between profit after taxes and net sales is measured by this ratio. After interest and tax, the profit tax is the entire profit (including operational and non-operating profit). After paying interest and taxes, this ratio shows what proportion of net sales is remaining. This comprises the amount available for apportionment to its owners in exchange for putting their money on the line. The high net profit margin should provide an acceptable return to the shareholders while also allowing the cooperative bank to survive bad economic situations such as lowering selling prices, rising manufacturing costs, and decreasing demand for the product.

$$\text{Net Profit Ratio} = \text{Net Profit} / \text{Net Sales}$$

**Table 7: Net Profit Ratio**

Year	Net profit	Net sales	Ratio
2014-2015	1586713.79	1851493.7	0.857
2015-2016	1948916.35	1920160.1	1.015
2016-2017	1029767.56	1709074.8	0.603
2017-2018	471856.37	1718760.6	0.275
2018-2019	568399.11	1956788.6	0.291

From 2014-15 to 2018-19, the net profit ratio of Paiyanoor primary agriculture cooperative credit society limited is shown in table 7. The lowest net profit ratio was 0.275 in 2017-18, while the greatest net profit ratio was 1.015 in 2015-16, according to the data.

### Return on Equity Ratio

The return on equity ratio, or ROE, is a profitability statistic that assesses a company's capacity to profit from its shareholders' investments. The return on equity ratio, in other words, illustrates how much profit each dollar of common stockholders' equity creates.

$$\text{Return on Equity Ratio} = \text{Net Income} / \text{Shareholder's Equity} * 100$$

**Table 8: Return on Equity Ratio**

Years	Net Income	Shareholder's Equity	Ratio
2014-15	1586713.79	6232178.25	0.255
2015-16	1948916.35	6345418.22	0.307
2016-17	1029767.56	6345418.22	0.162
2017-18	471856.37	6588464.22	0.072
2018-19	568399.11	6869849	0.083

The Return on Equity ratio of Paiyanoor primary agriculture cooperative credit society was limited from 2014-15 to 2018-19, according to table 8. The lowest return on equity ratio in the year 2017-18 is 0.072, while the greatest return on equity ratio in the year 2015-16 is 0.307.

### Return on Assets Ratio

The return on assets ratio, also known as the return on total assets, is a profitability ratio that compares net income to average total assets to determine the net income generated by total assets during a given time. To put it another way, the return on assets ratio, or ROA, assesses how well a corporation can

manage its assets to generate profits over time.

$$\text{Return on Assets Ratio} = \frac{\text{Net Income}}{\text{Total Assets}} * 100$$

**Table 9: Return on Assets Ratio**

Years	Net Income	Total Assets	Ratio
2014-15	1586713.79	36684263.85	0.043
2015-16	1948916.35	30681377.02	0.064
2016-17	1029767.56	29660046.90	0.035
2017-18	471856.37	35791397.28	0.013
2018-19	568399.11	37016040.43	0.015

From 2014-15 to 2018-19, the return on asset ratio of Paiyanoor primary agriculture cooperative credit society was restricted, according to table 9. The lowest return on asset ratio in the year 2017-18 is 0.013, while the greatest return on asset ratio in the year 2015-16 is 0.064.

### Solvency Ratio

The solvency ratio is a crucial indicator used by potential business lenders to assess an organization's capacity to satisfy its debt commitments. The solvency ratio determines whether a company's cash flow is adequate to satisfy its short- and long-term obligations. The lower the solvency ratio of a corporation, the more likely it is to fail on its financial commitments.

$$\text{Solvency Ratio} = \frac{\text{After Tax} + \text{Depreciation}}{\text{Total Liabilities}}$$

**Table 10: Solvency Ratio**

Year	After Tax Net Profit (+) Depreciation	Total liabilities	Ratio
2014-2015	1891176.09	30452085.6	0.062
2015-2016	2363264.51	24335958.8	0.097
2016-2017	1514006.72	23314628.7	0.065
2017-2018	1018589.53	29202933.1	0.035
2018-2019	183432.27	30146191.4	0.006

From 2014-15 to 2018-19, the solvency ratio of Paiyanoor primary agriculture cooperative credit society limited is shown in table 10. The lowest solvency ratio in the year 2018-19 is 0.006, while the greatest solvency ratio in the year 2015-16 is 0.097.

### Findings

- Paiyanoor Primary Agricultural Cooperative Credit Society, Current Ratio was determined to be greatest in the year 2018-19 at 2.052 and lowest in the year 2014-15 at 0.513.
- It was interpreted that the Quick Ratio of Paiyanoor Primary Agricultural Cooperative Credit Society Ltd was lowest value in the year 2016-17 is 0.135 and highest value in the year 2018-19 is 2.813.
- It was analyzed that the Debit Ratio of Paiyanoor Primary Agricultural Cooperative Credit Society Ltd was highest value in the year 2014-15 is 0.830 and lowest value in the year 2016-17 is 0.786
- It was interpreted that the Debt Equity ratio of Paiyanoor Primary Agricultural Cooperative Credit Society Ltd was lowest value in the year 2016-17 is 3.674 and highest value in the year 2014-15 is 4.886.
- Paiyanoor Primary Agricultural Cooperative Credit Society operational Net Asset Turnover Ratio was determined to be at its lowest point in 2017-18, at 0.048, and at its greatest point in 2015-16, at 0.063.
- It was analyzed that the Gross Profit Ratio of Paiyanoor Primary Agricultural Cooperative Credit Society Ltd was highest value in the year 2018-19 is 0.134 and lowest value in the year 2015-16 is 0.021.
- It was found that the Net Profit Ratio of Paiyanoor Primary Agricultural Cooperative Credit Society Ltd was lowest value in the year 2017-18 is 0.275 and highest value in the year 2015-16 is 1.015.
- Paiyanoor Primary Agricultural Cooperative Credit Society Ltd's Return on Equity Ratio was evaluated to be highest in the year 2015-16 at 0.307 and lowest in the year 2017-18 at 0.072.
- It was analyzed that the Return on Assets Ratio of Paiyanoor Primary Agricultural Cooperative Credit Society Ltd was lowest value in the year 2017-18 is 0.013 and highest value in the year 2015-16 is 0.06
- It was found that the Solvency Ratio of Paiyanoor Primary Agricultural Cooperative Credit Society Ltd was highest value in the year 2015-16 is 0.097 and lowest value in the year 2018-19 is 0.006.

## Suggestions

- The liquidity ratios have been over the statutory standard, implying that the company should make better use of its current liabilities. The company has room to improve its utilization of current liabilities.
- They are the seasonality in loan disbursement and recovery that credit cooperatives should closely adhere to in order to reduce the problem of late, prompt efforts must be done to produce recovery.

## Limitations of the Study

The present study has the following limitations

- The difficulty of comparing data from one year to the next owing to differences in circumstances and conditions between the two years, as well as the influence of inflation on trend ratio analysis.
- At various instances, the staff's busy schedule proved to be a communication obstacle.

## Conclusion

The financial performance of the Paiyanoor Primary Agricultural Cooperative Credit Society Ltd was studied and found to be excellent in general. The debt-to-equity ratio has done quite well. The PACCS must take the required actions to efficiently maintain and minimize operational costs. The financial accounts of the Primary Agricultural Cooperative Credit Society Ltd show that the Cooperative Credit Society Ltd has experienced a lot of financial difficulties during the last five years. The profitability of the cooperative bank had plummeted in the years 2014-15, owing to a number of factors. Prior to these years, the cooperative bank did not have a good track record. Despite substantial drops in the cooperative bank's finances and profitability, particularly in the financial years 2014-15, it was able to emerge from the crisis and return to profitability. But PACCS gradually increase financial performance in last five years from 2014 to 2019.

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