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A Study on Ratio Analysis in Toys Industry

Akhilesh Maharala [a], *KhadarBasha Shaik* [b]

[a] *Department of Management Studies, Narayana Engineering College (Autonomous), Gudur*

[b] *Assistants Professor, Department of Management Studies, Narayana Engineering College (Autonomous), Gudur*

ABSTRACT:

The purpose of the research is to investigate the role of ratio analysis in financial assessment, explaining key objectives important for estimating a company's financial performance. It helps in determining the short-term financial position with the help of liquidity ratios. It also measures long-term financial stability through leverage ratios. It evaluates solvency position by examining the solvency ratios. Profitability is assessed by examining the profitability ratios such as return on assets and return on equity. By analyzing these aspects, stakeholders gain comprehensive insights into the company's financial performance, enabling informed decision-making and strategic planning for sustainable growth.

Key words: Financial performance, liquidity, profitability and solvency**.**

INTRODUCTION:

Accounting research has committed important concentration to extrication the utility of financial statement data. This detection holds thoughtful meaning for our profession because one of the main objectives of financial reporting and regulation is to hold managers accountable to investors, thereby facilitating the efficient distribution of capital. The essence lies in ensuring that superior companies secure financing and command higher valuations compared to their inferior counterparts. However, financial statements abound with numerical data, rendering the task of discerning the pertinent figures from the inconsequential ones a formidable challenge in financial analysis and valuation. While it may appear evident in retrospect that a downturn in profit margins for a specific firm carried significance, the question arises: how can we ascertain whether such a signal holds relevance for other firms

REVIEW OF LITERATURE:

(Ak et al., 2013) Financial ratio models usually support investors in steering clear of stocks that are level to major corporate events. Additionally, these models help in discriminating between sound and weak firms when such events happen. However, the effectiveness of these models in forecasting outcomes is often covered by the design of research methodologies. We discover the influence of accounting rule alterations and their growing effect on the prognostic capabilities of these models, offering recommendations for enhancing their accuracy through cross-event analysis.

(Das, 2023) Financial statements serve the crucial purpose of providing decision-makers with a condensed overview of a business enterprise's financial status. The findings underscore the importance of financial ratio analysis in sourcing pertinent financial information for decision-making. Thus, it is imperative for management to ensure that comprehensive financial ratios are included in basic financial statements to facilitate a holistic understanding of business enterprises.

(Alqam et al., 2021) The ability of financial analysts in their professional performance is strongly associated to the level of correlation observed in financial ratios. This relationship directly influences the significance of these ratios in determining key insights and decision-making processes within the financial area.

(Shatnawi & Shukry, 2016) Financial analysis tools enable managers to identify both strengths and weaknesses within a company, empowering them to make informed decisions and effectively address areas needing improvement while monitoring the overall activity of the company.

(Amran & Aripin, 2015) The corporate governance score (CGS) reveals that nearly half of the board of directors are independent, indicating a significant level of independence within the board. With an average shareholding percentage of 80.63%, Malaysian shareholding appears to be concentrated. There exists a positive correlation between Corporate Governance (CG) elements and External Financial Reporting Disclosure (EFRD). The presence of a higher number of independent directors correlates with increased levels of financial ratio disclosures. This suggests that the role of independent directors, as outlined in the Malaysian Code on Corporate Governance (MCCG), is effective in enhancing the quality of financial reporting and adds value to it.

OBJECTIVES OF STUDY:

The paper aims to explores following aspect:

- To determine the long-term financial position limited.
- To analyse The Company's turnover efficiency. The analysis of liquidity.
- To give, if any, measures for enhancing the company's financial performance organization.

SCOPE OF THE STUDY:

- The study's goal is to examine the firm's liquidity status.
- Ratio analysis has been used to examine a firm's financial situation
- It deals with the analysis and interpretation of information gathered from various sources.
- Almost two decades ago, the purpose of financial management was to raise money as necessary, for daily financial decision-making and problem-solving were given significant weight.

NEED OF THE STUDY:

- They are a reflection of a variety of documented facts, accounting practices, and individual judgements.
- Company operations efficiency is depends upon the company policies and decisions.
- Ratio analysis is used to determine a business success or failure.
- capital management for the business This project's primary goals are to understand the financial performance .

Research Methodology and design

SECONDARY DATA

The secondary data are those that have already undergone processing and have been gathered by someone else. In general, secondary data are facts that have already been gathered by an organisation for its own purposes but are now being used by the department. For very different reasons, under reference. The research varies. Since the suggested study is more of an action research, it is based on secondary data.

There are some secondary data are Finance, Books, Magazines, Websites, Newspapers, Government Publications, Journal Articles, Internal Records. The study's statistics are provided by the company. The principal informational resources are used from: the business's internal sources.

Company annual reports for the years 2018–2023.

Profit and loss account and balance sheet.

The supplementary.

Sample Techniques

Average methodology

Ratio techniques

Data Analysis and Interpretation:

Current ratio :

The current ratio establishes the relationship between current assets and current liabilities.

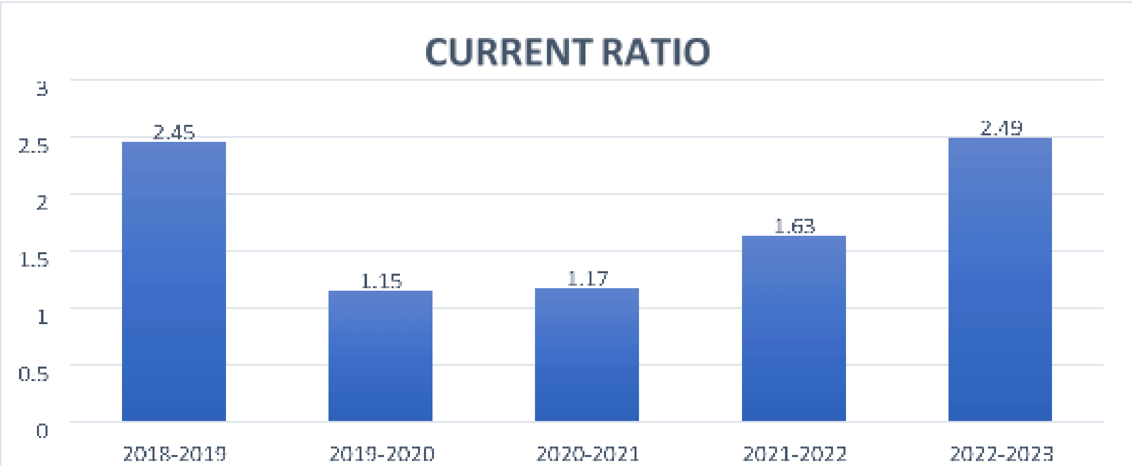
$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

THE FOLLOWING ARE THE TABLE EXPLAINS AS THE LIQUIDITY RATIO IN CURRENT AS FOLLOWS: -

RATIO

YEARS	**CURRENT ASSETS**	**CURRENT LIABILITIES**	**CURRENT RATIO**
2018-2019	4,49,452	22,15,853	2.45
2019-2020	65,94,661	56,96,773	1.15
2020-2021	84,97,426	72,59,690	1.17
2021-2022	1,17,21,701	71,77,256	1.63
2022-2023	1,36,65,121	54,79,776	2.49

THE FOLLOWING ARE THE GRAPH SHOWS THAT LIQUIDITY RATIO IN CURRENT RATIO AS FOLLOWS: -



- GRAPH NO.1: - CURRENT RATIO

INTERPRETATION: -

The current ratio of standard norms in 2:1 considered satisfaction. From the above table & graph shows, the current ratio in the year 2022-2023 has been increased to 2.49 and in the year 2019-2020 has been decreased to 1.15. The above chart clearly indicates that the organization current ratio is below the ideal ratio as a result the liquidity position of the firm is not satisfactory.

Quick ratio

Quick ratio also known as Acid test ratio or liquid ratio is more rigorous test of liquidity than the current ratio.

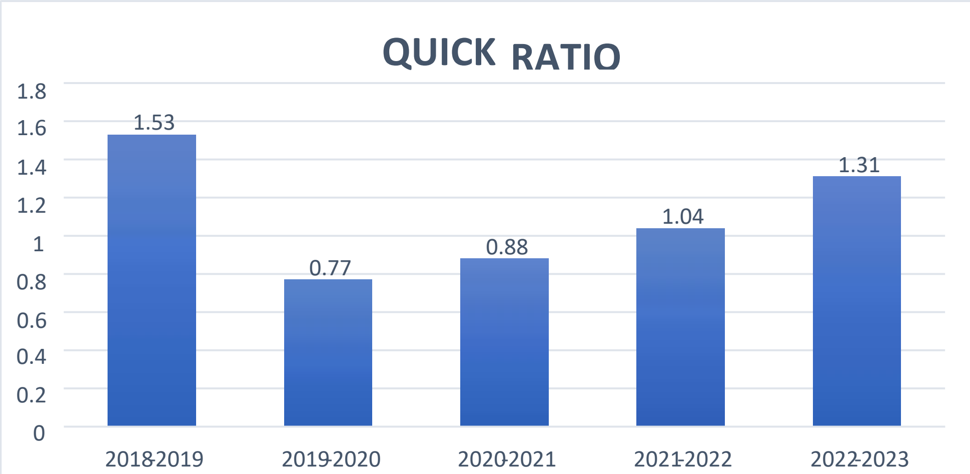
Quick ratio = $\frac{\text{current asset} - \text{Inventory}}{\text{current liabilities}}$

THE FOLLOWING ARE THE TABLE EXPLAINS AS THE LIQUIDITY RATIO IN QUICK RATIO AS FOLLOWS: -

YEARS	QUICK ASSETS	CURRENT LIABILITIES	QUICK RATIO
2018-2019	34,03,865	22,15,853	1.53
2019-2020	43,93,962	56,96,773	0.77
	64,48,550	72,59,690	0.88

2020-2021			
2021-2022	74,73,534	71,77,256	1.04
2022-2023	72,25,790	54,79,776	1.31

THE FOLLOWING ARE THE GRAPH SHOWS THAT LIQUIDITY RATIO IN QUICK RATIO AS FOLLOWS: -



GRAPH NO..2: - QUICK RATIO

INTERPRETATION: - Quick ratio is above the standard norm of 1:1. From the above, graph shows the quick ratio in the year 2018-2019 has been increased to 1.53 and in the year 2019-2020 has been decreased to 0.77.

The above chart clearly indicates that organization quick ratio is keeps changing and it is also evident that organization quick ratio is

INVENTORY TURNOVER RATIO:

Inventory turnover ratio indicates the efficiency of the firm in producing and selling its product.

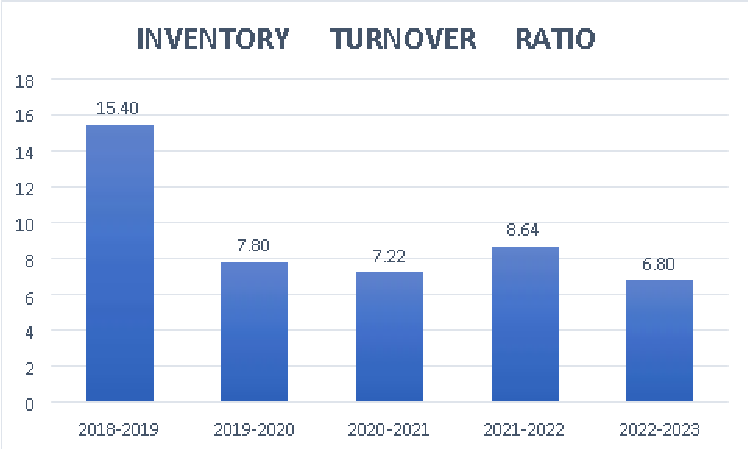
FORMULA: -

$$\text{INVENTORY TURNOVER RATIO} = \frac{\text{SALES}}{\text{AVERAGE INVENTORY}}$$

THE FOLLOWING ARE THE TABLE EXPLAINS AS THE TURNOVER RATIO IN INVENTORY TURNOVER RATIO AS FOLLOWS: -

YEARS	NET SALES	AVERAGE INVENTORY	INVENTORY TURNOVER RATIO
2018-2019	3,15,46,070	20,48,876	15.40
2019-2020	3,31,56,905	42,48,167	7.80
2020-2021	4,65,03,000	64,39,331	7.22
2021-2022	5,62,65,237	65,11,970	8.64
2022-2023	5,88,60,104	86,60,820	6.80

ARE THE GRAPH SHOWS THAT TURNOVER RATIO IN INVENTORY TURNOVER RATIO AS FOLLOWS: -



GRAPH NO.3: - INVENTORY TURNOVER RATIO

INTERPRETATION: -

From the above graph shows, the inventory turnover ratio in the year 2018-2019 has been increased to 15.40 and in the year 2022-2023 has been decreased to 6.80. This ratio is deemed to reflect the efficient the management of inventories and vice versa. This statement need not be always true. A low level of inventory may cause a higher inventory turnover ratio.

CASH RATIO: -

It is the ratio of absolute liquid assets to quick liabilities. However for calculation purposes it is taken as ratio or absolute liquid assets to current liabilities.

FORMULA: -

la

CASH IN HAND AND BANK

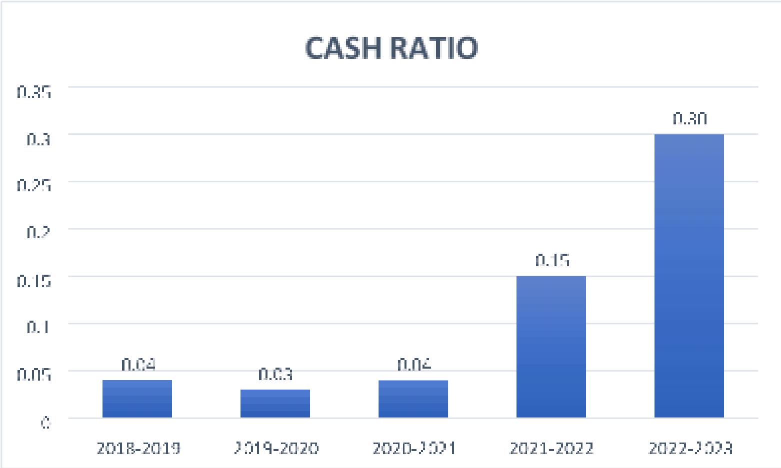
CASH RATIO = --

CURRENT LIABILITIES

THE FOLLOWING ARE THE TABLE EXPLAINS AS THE LIQUIDITY RATIO IN CASH RATIO AS FOLLOWS: -

YEARS	CASH & BANK	CURRENT LIABILITIES	CASH RATIO
2018-2019	1,00,216	22,15,853	0.04
2019-2020	1,91,891	56,96,773	0.03
2020-2021	3,31,011	72,59,690	0.04
2021-2022	11,29,883	71,77,256	0.15
2022-2023	16,67,680	54,79,776	0.30

THE FOLLOWING ARE THE GRAPH SHOWS THAT LIQUIDITY RATIO IN CASH RATIO AS FOLLOWS: -



GRAPH NO.4.: - CASH RATIO

INTERPRETATION: -

From the above graph shows, the cash ratio of the firm is fluctuating throughout out the study of five years the ratio is below the ideal ratio. The organization need to improve the financial performance of the firm.

Recommendation :

- The industry should concentrate current assets and current liabilities and flow the standard ratio.
- The industry should maintain the quick ratio at and control the current assets and current liabilities.
- The industry should maintain net working capital at requirement level in the organization i.e. control the current liabilities.
- The debtor's turnover ratio should control at cash sales and reduced debtors collection period through implementing an optimum credit policy.
- Industry should concentrate on assets and maintain an optimum level in organization operations.
- The industry should decrease over expenditure. The effective liquidity management is needed in the company.

Conclusion:

As per my study about Ratio Analysis, I would state that profitability and turn over position were good during the study period. But over the study period, all of the ratios fluctuated. Therefore, the company's financial performance needs to be better.

Creditors view the owner's equity as a margin of safety; if the equity base is small, the risk to the creditors will be considerable.

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