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EVALUATION OF POSITION STATEMENT OF INDIAN OIL CORPORATION LIMITED

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Abstract: The balance sheet is an important part of any organization this has to be compulsorily prepared as per provisions of the Indian Company's Act. The assets of the organization reflect the economic resources which the business organization possess, and from where these resources have come are reflected through the liabilities. The Balance sheet provides information about nature and value of assets, nature and extent of liabilities as well as gives information whether the business organization has sufficient funds to pay off the liabilities of the business organization. It also provides information that the stability position of the organization is satisfactory or not. In this research article we have applied the fixed assets turnover ratio, total assets turnover ratio, solvency ratio & debt equity ratio for judging the efficiency with which the fixed assets are utilized by the organization, finding the efficiency with which the total assets are used and also to find the relationship between the total assets & total outsiders liabilities & assessing the extent to which debt financing has been used from 2010-11 to 2014-15.

Key words: outsiders liabilities, stability, organization

Introduction: The position statement gives vital information of the nature and value of assets as well as the nature and value of liabilities through which the solvency position of the organization can be assessed. If the asset exceeds the external liabilities it indicates that the business enterprise can pay off its liabilities. Through our study the interrelationship between the total assets & total outsiders liabilities could be checked in order to know the solvency position during the study period. The inter relationship between the total assets and the turnover helps in representing the utilization of the total assets made by the business organization and it also helps in assessing the efficiency with which the total assets are utilized. It is presumed that if this ratio is low it indicates inefficiency of utilization of total assets and vice- versa. We have also studied the utilization of the fixed assets through fixed assets turnover ratio. In order to judge the efficiency of utilization of the total assets we have used the total assets turnover ratio during the study period. The relationship between the debt and equity is generally used to measure the claims of outsiders and the owners against the assets of the organization. The relationship between the external equities and the internal equities is judged through this ratio. This ratio helps in knowing the extent to which debt financing has been used. Through our study the debt & equity relationship can be assessed during the study period.

Review of Literature

One of the effective ways of communicating financial information about a business is through financial statements. Thus, the recording and summarizing of financial data are necessary part of accounting information system. However, no matter how well prepared and presented, financial statements need to be analyzed and interpreted to unveil the truths hidden in them and enhance decision-making. Interestingly, such analysis and interpretation can be made by means of ratios and comparisons. Therefore, in this part, expert opinion on the role of ratio analysis in business decisions with particular reference to financial statement analysis is reviewed.

Myez (**1984**) says financial statement analysis is largely a study of relationship among the various financial factors in a business, as disclosed by a single set of statements, and a study of the trends of these factors, as shown in a series of statements. **Kennedy and Muller (1989)** says that the analysis and interpretation of the financial statements are an attempt to determine the significance and meaning of financial statement data so that the forecast may be made of the prospects for future earnings, ability to pay interest and debt maturities (both current and long term) and profitability and sound dividend policy.

Hermason et al. (1992:846), “financial analysis relies heavily on informed judgment. Percentages and ratios are guides to aid comparison and useful in uncovering potential strengths and weaknesses. However, the financial analysis should seek the basic causes behind and established trends”. **Mario W.Cardulla (1996)**282 page, the financial analysis techniques that are useful to a manager are some of the major financial appraisal techniques and not the total set of these techniques. A financial statement often referred to, as the trading and profit loss account, matching revenues against expense to show the profitability or operational results of an enterprise over a period of time, such as a month or year. (**Hermanson et al.1992:25)**.

According to **Needles et al. (1996:770)** financial statement analysis is used to achieve two basic objectives: (1) Assessment of past performance and current position, and (2) Assessment of future potential and related risks of a business. According to **Hermanson et al (1992:824)**, “financial statement analyses consist of applying analysis tools and techniques to financial statements and other relevant data to show important relationships and obtain useful information.” Therefore, financial statement analysis can be defined as the breaking down, interpretation, and translation of data contained in financial statements to provide information and show important relationships among the items of financial statements and drawing conclusion about the past performance, current financial position, and future potentials of a business.

Essien (2006:144) observed: Financial statements carry lots of financial information that are hidden in the figures. The figures in financial statements become more useful when they are related to each other or to some other relevant financial data. Therefore, users of financial information go a further step to establish relationships (or ratios) among selected data in financial statements.

Objectives Of Study

The study fulfils the following objectives:

(i) To study the concept of fixed assets, total assets, total liabilities and debt & equity of IOCL during the study period.

(ii) To study the reasons responsible for changes in position statement of IOCL

Hypothesis

In order to achieve the above objectives, the following null hypothesis is prepared for testing:

Ho: There is no significant difference in the solvency position of IOCL during the period of study.

Limitations

(i) The findings drawn on the basis of ratio analysis can have different opinions as there are no standards set in case of solvency position, Debt Equity position etc.

(ii) The findings of ratio may not produce correct results as no considerations are made to the impact of price level changes.

Position Statement Analysis Of Iocl

For studying the position statement of IOCL from the year 2010-11 to 2014-15 we have applied the fixed assets turnover ratios, total assets turnover ratio, debt equity ratio, solvency ratio etc.

Fixed Assets Turnover Ratio

The fixed assets turnover ratio helps in studying the utilization of fixed assets made by the organization and it also helps in finding the efficiency with which the fixed assets are used. It is stated that higher the ratio higher would be the efficiency of the fixed assets and vica- versa. The formula for calculating fixed assets turnover ratio is:

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

TABLE NO. 1: STATEMENT SHOWING FIXED ASSETS TURNOVER RATIO (Rs. In Crores)

Year	Net sales	Fixed Assets	Fixed Assets Turnover Ratio
2010 - 11	328092	46746	7.02
2011-12	438829	73554	5.97
2012-13	447096	86863	5.15
2013-14	437210	96828	4.52
2014-15	437526	102574	4.27
Mean	417750.60	81313.00	5.38
SD	50283.82	22240.88	1.13
CV	12.04	27.35	20.92
Growth %	33.35	119.43	-39.23
Average Annual Growth %	6.67	23.89	-7.85

Source: Compiled from Annual reports of the IOCL

Interpretation

As per the above table the fixed assets turnover ratio is showing a decreasing trend during the study period. Initially it was at 7.02 times and it got decreased to 5.15 times by 2012-13. There was a further decrease in this ratio in the next two years and it got reduced to 4.27 times by 2014-15. The mean was at 5.38 times where as the co-efficient of variance was at 20.92 times. The growth reflected at -39.23 % and the average growth was at -7.85 %.

Total Assets Turnover Ratio

The total assets turnover ratio helps in representing the utilization of the total assets made by the business organization and it also helps in assessing the efficiency with which the total assets are utilized. It is stated that if this ratio is low it indicates inefficiency of utilization of total assets and vice- versa. The Total Assets turnover ratio is calculated by the following formula.

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

TABLE NO. 2: STATEMENT SHOWING TOTAL ASSETS TURNOVER RATIO (Rs. In Crores)

Year	Net Sales	Total Assets	Total Assets Turnover Ratio
2010 - 11	328092	173679	1.89
2011-12	438829	209859	2.09
2012-13	447096	223995	2.00
2013-14	437210	252413	1.73
2014-15	437526	219849	1.99
Mean	417750.60	215959.00	1.94
SD	50283.82	28431.55	0.14
CV	12.04	13.17	7.03
Growth %	33.35	26.58	5.35
Average Annual Growth %	6.67	5.32	1.07

Source: Compiled from Annual report of the IOCL

Interpretation

As per the above table the total assets turnover ratio is showing an increasing trend till 2011-12. Initially it was at 1.89 times and it got increased to 2.09 times by 2011-12. There was a decrease in this ratio in the next two years and it got reduced to 1.73 times by 2013-14. The mean was at 1.94 times where as the co-efficient of variance was at 7.03 times. The growth reflected at 5.35% and the average growth was at 1.07%.

Debt –Equity Ratio

The Debt –Equity ratio is generally used to measure the claims of outsiders and the owners against the assets of the organization. The relationship between the external equities and the internal equities is judged through this ratio. This ratio helps in finding the extent to which debt financing has been used.

Debt-Equity ratio =Outsiders fund/ Shareholders fund.

Outsiders fund includes all debts & liabilities payable to outsiders.

Shareholders fund includes share capital, reserves, accumulated profits, capital reserves etc.

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

TABLE NO. 3: STATEMENT SHOWING DEBT-EQUITY RATIO (Rs. In Crores)

Year	Debt	Equity	Debt-Equity Ratio
2010 - 11	23123	55332	0.42
2011-12	32157	57876	0.56
2012-13	38737	61124	0.63
2013-14	51101	65992	0.77
2014-15	55078	67969	0.81
Mean	40039.20	61658.60	0.64
SD	13214.68	5320.23	0.16
CV	33.00	8.63	25.20
Growth %	138.20	22.84	93.91
Average Annual Growth	27.64	4.57	18.78

Source: Compiled from Annual report of the IOCL

Interpretation

As per the above table no. 3 the debt equity ratio of this organization seems to be increasing. Initially it was at 0.42:1 and it got increased to 0.63:1 by 2012-13. There was a further increase in this ratio as it was at 0.81:1 by 2014-15. The mean was at 0.64: 1 where as the co-efficient of variance was at 25.20 %. The growth reflected at 93.91% and the average growth was at 18.78%.

Solvency Ratio

The solvency ratio is applied for studying the interrelationship between the total assets & total outsiders liabilities. It is stated that if this ratio is high this means more satisfactory is the solvency position of the organization and in case of lower ratio it reflects less stability of the solvency position.

$$\text{Solvency Ratio} = \frac{\text{Total Assets}}{\text{Total Outsider's Liabilities}}$$

TABLE NO. 4: STATEMENT SHOWING SOLVENCY RATIO (Rs. In Crores)

Year	Total Assets	Total outsiders liabilities	Solvency Ratio
2010 - 11	173679	118346	1.47
2011-12	209859	151982	1.38
2012-13	223995	160870	1.39
2013-14	252413	186421	1.35
2014-15	219849	151879	1.45

Mean	215959.00	153899.60	1.41
SD	28431.55	24382.61	0.05
CV	13.17	15.84	3.37
Growth %	26.58	28.33	-1.36
Average Annual Growth	5.32	5.67	-0.27

Source: Compiled from Annual report of the IOCL

Interpretation

As per the above table no.4 the solvency ratio of this organization seems to be decreasing. Initially it was at 1.47:1 and it got decreased to 1.39: 1 by 2012-13. There was a further decrease in this ratio as it was at 1.35: 1 by 2013-14. However in the last year it got increased to 1.45: 1. The mean was at 1.41: 1 where as the co-efficient of variance was at 3.37:1. The growth reflected at -1.36% and the average growth was at -0.27%.

Testing Of Hypothesis

In this study the hypothesis has been analyzed by t-test as the significance of data can be analyzed by means of statistical tools. Hence correlation & t- test have been applied in this study.

Null hypothesis H_{01} There is no significant difference in the solvency position of IOCL for the years 2010-11 to 2014-15

Interpretation of t-test

Table No.5 Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Debt	40039.20	5	13214.68	5909.79
	Equity	61658.60	5	5320.23	2379.28

Table No.6 Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Debt & Equity	5	.997	.000

Table No.7 Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Debt - Equity	-21619.40	7921.36	3542.54	-31455.07	-11783.73	-6.103	4	.004

Interpretation

$$t = -6.103,\ t_{0.05} = 2.132$$

$$t < t_{0.05}$$

When the degree of freedom (df) is 4 and level of significance is 5%, the critical value of t0. 05 is 2.132. Since the calculated value of t is -6.103 which less than the table value, we conclude that there is no significant difference in the solvency position of IOCL for the years 2010-11 to 2014-15. Hence, the null hypothesis is accepted.

Suggestions

- IOCL should try to reduce its outsider's liabilities for the improvement of solvency position as it had shown a decreasing trend during the study period.
- IOCL should try to improve its debt equity position of the as it was less than 1: 1 during the study period.
- The fixed assets of the corporation were not efficiently utilized as the ratio was reflecting decreasing trend during the last five years hence corporation should try to utilize its fixed assets efficiently .
- IOCL should try to effectively utilize its total assets as it is reflecting a mixed trend hence the corporation should have better policies to increase its turnover and utilize its assets.
- IOCL should improve the composition of the current assets like inventories, debtors, loans & advances, other current assets & cash and bank balances.

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