International Journal of Multidisciplinary and Current Research

Research Article

ISSN: 2321-3124
Available at: http://ijmcr.com

Financial Statement Analysis of National Bank for Agriculture and Rural Development (NABARD)

Uosef Mosbah Ali Masoud[1] and Devaraj Badugu[2]

[12]SHIATS-DU Allahabad, U.P, India

Accepted 28 Jan 2015, Available online 01 Feb 2015, **Vol.3 (Jan/Feb 2015 issue)**

Abstract

Financial analysis of bank (NABARD) can be known by studying the financial statements. Financial statements are official records of the financial actions of a company, firm or other unit over a period of time which provide a general idea of a company or person's financial situation in mutually short and long term. They give a precise representation of a company's condition and working results in a reduced form. Financial statements are used for supervision tool mainly by company executives and investor's in assess the overall situation and working results of the company. Analysis of financial statements helps in formative the liquidity situation, long term solvency, financial feasibility and prosperity of a firm. Financial ratio analysis show whether the firm is performing well or not in past years. Furthermore, comparison of unlike aspect of the entire firms can be done efficiently with this. It helps the traders to make a decision in which firm the threat is less or maximum benefit can be earned. NABARD is capital demanding. For this reason a lot of capital is needed to invest invite before taking decisions on investing in such company, one has to cautiously study its financial status and worth This study is conducted from 2010-2011 and various amount were calculated and on the basis of that Comparative statement Analysis position of NABARD has strong solvency position as all the solvency development which plays a prominent role in the rural area of India Specially this plays a very good role in the development of rural and agriculture area.

Keywords: *Financial statement analysis, introductory accounting project, accounting case.*

1. Introduction

The term 'Financial Statements' as used in modern business refers to two statements which the accountant prepares at the end of a period of time. They are balance sheet and Income statement. There are some other statements which are not only important but are essential for the business enterprise to draw useful conclusions regarding the financial position of the concern.

Financial statements are prepared primarily for decision making. They play a dominant role in setting the framework of managerial decisions. But the information provided in the financial statements is not an end in itself as no meaningful conclusions can be drawn from these statements alone. However, the information provided in the financial statements is the immense use in making decisions through analysis and interpretation of financial statements. Financial analysis is "the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account." There are various methods or techniques used to analyze in financial statements such as comparative statements, schedule of changes in working capital, common-size percentages, funds analysis, trend analysis and ratio analysis.

By financial statement analysis we can know the position of any organization make forecasting about his future program (NABARD) is national bank for agriculture and rural

Lastly you can say that NABARD is apex organization to develop rural and agriculture economy . This care all of activities about rural and agriculture development like :- Irrigation, transportation, credit and innovation Act.

1.1 Objective of the Study

1. To obtain a true insight into financial position of the Bank.
2. To study the financial statements of different years.

2. Research Methodology

Research framework

This study is based on the secondary data about NABARD Bank for a detailed study of its financial statements, documents and system ratios and finally to recognize and determine the position of the Bank.

Types of data which helped to prepare this report

The secondary data which was already prepared so these data was only used to reach the aims and objectives of this project. These data has been collected from the financial reports of the Bank.

How the data was collected

The sources of collecting the primary data was through interviews, observation and questionnaire, however the secondary one was collected from the financial statements already available to the employees of the Bank and some of which was published.

Printed and Digital Sources

The secondary data I collected was through the study of the financial statements already existed in the Bank in form of printed files or digital files reserved in the Bank for further references. I had chosen these files because of the reliability and suitability of this information which I was also sure about the accuracy of them.
These files consist of:
1. Annual report of the Bank
2. Financial balance sheets
3. Income statements
4. Financial reports
5. Different reports prepared by Finance Department

3. Concepts of Financial Statements

One of the most important functions of the accounting process is to accumulate and report historical accounting information. The most prominent examples of such reports are general purpose financial statements showing an organizational financial position and results of its operations. These financial statements are the end result of the process of financial accounting in the words of Hampton, "A financial statement is an organized collection of data organized according to logical and consistent accounting procedures."

Therefore, all the statements and accounting reports which the accountants prepare at the end of a period for a business enterprise may be taken as financial statements. But the principal financial statements are the 'Balance sheet' and the 'Profit and Loss account'

The financial statements may be of various types, but according to Miller all the financial statements may be broadly classified in the following manner:
1. The audited statement
2. The interim statement
3. The unaudited year-end statement
4. The 'estimated' statement

The construction of the financial statement is a part of the third phase of accounting techniques. Thus, financial statements summarized periodical reports of financial and operating data accumulated by an enterprise in its books of accounts. The accounting figures which are collected, tabulated and summarized by accounting methods are presented in financial statements.

3.1 Accounting principles and assumptions

The accounting data in financial statements are prepared by the firm's management according to a set of standards, referred to as generally accepted accounting principles (GAAP). The financial statements of a Bank whose stock is publicly traded must, by law, be audited at least annually by independent public accountants (i.e., accountants who are not employees of the firm). In such an audit, the accountants examine the financial statements and the data from which these statements are prepared and attest—through the published auditor's opinion—that these statements have been prepared according to GAAP. The auditor's opinion focuses on whether the statements conform to GAAP and that there is adequate disclosure of any material change in accounting principles.

1. Transactions are recorded at historical cost. Therefore, the values shown in the statements are not market or replacement values, but rather reflect the original cost (adjusted for depreciation, in the case of depreciable assets).
2. The appropriate unit of measurement is the dollar. While this seems logical, the effects of inflation, combined with the practice of recording values at historical cost, may cause problems in using and interpreting these values.
3. The statements are recorded for predefined periods of time. Generally, statements are produced to cover a chosen fiscal year or quarter, with the income statement and the statement of cash flows spanning a period's time and the balance sheet and statement of shareholders' equity as of the end of the specified period. But because the end of the fiscal year is generally chosen to coincide with the low point of activity in the firm's operating cycle, the annual balance sheet and statement of shareholders 'equity may not be representative of values for the year.
5. Statements are prepared using accrual accounting and the matching principle. Most businesses use accrual accounting, where income and revenues are matched in timing such that income is recorded in the period in which it is earned and expenses are reported in the period in which they are incurred to generate revenues.
6. It is assumed that the business will continue as a going concern. The assumption that the business enterprise will continue indefinitely justifies the appropriateness of using historical costs instead of current market values because these assets are expected to be used up over time instead of sold.

7. Full disclosure requires providing information beyond the financial statements.
8. Statements are prepared assuming conservatism. In cases in which more than one interpretation of an event is possible, statements are prepared using the most conservative interpretation.

There are three basic financial statements:
1. Balance sheet
2. Income statement
3. Cash Flow statement

Balance sheet

The balance sheet is a summary of the assets, liabilities, and equity of a business at a particular point in time—usually the end of the firm's fiscal year. The balance sheet is also known as the statement of financial condition or the statement of financial position.

Income Statement

The income statement, usually designated as profit and loss account for the relevant financial year, shows the net profit or net loss resulting from the operations of business during a special field period of time. The items appearing in it are in the nature of 'revenue'.

Limitations of Financial Statements

(1) Financial Statements are normally prepared on the basis of accounting principles, convention and past experiences. Therefore, they do not communicate much about the profit ability, solvency, stability, liquidity etc. of the undertakers to the users of the statements.
(2) Financial Statements emphasize to disclose only monetary facts, i.e., quantitative information and ignore qualitative information
(3) Financial Statements disclose only the historical information. It does not consider changes in money value, fluctuations of price level etc. Thus, correct forecasting for future is not possible.
(4) Influences of personal judgments leads to opportunities for manipulation while preparing of financial statements.
(5) Information disclosed by financial statements based on accounting concepts and conventions. It is unrealistic due to difference in terms and conditions and changes in economic situations.

3.2 Methods of financial statement analysis (1) Comparative statement Analysis

Comparative financial analysis refers comparison of financial statements pertaining to two different periods by putting them side by side and finding out. The change in absolute and relation change.

(2) Common Size Statements:- In order to avoid the limitations of Comparative Statement, this type of analysis is designed. Under this method, financial statements are analysed to measure the relationship of various figures with some common base. Accordingly, while preparing the Common Size Profit and Loss Account, total sales is taken as common base and other items are expressed as a percentage of sales. Like this, in order to prepare the Common Size Balance Sheet, the total assets or total liabilities are taken as common base and all other items are expressed as a percentage of total assets and liabilities.

(3) Trend Analysis:- Trend Analysis is one of the important technique which is used for analysis and interpretations of financial statements. While applying this method, it is necessary to select a period for a number of years in order to ascertain the percentage relationship of various items in the financial statements comparing with the items in base year. When a trend is to be determined by applying this method, earliest year or first year is taken as the base year. The related items in the base year are taken as 100 and based on this trend percentage of corresponding figures of financial statements in the other years are concluded. This analysis is useful in framing suitable policies and forecasting in future also.

(4) Fund Flow Analysis:- Fund Flow Analysis is one of the important methods for analysis and interpretations of financial statements. This is the statement which acts as a supplementary statement to the profit and loss account and balance sheet. Fund Flow Analysis helps to determine the changes in financial position on working capital basis and on cash basis. It also reveals the information about the sources of funds and has been utilized or employed during particular period.

(5) Ratio Analysis:- Ratio Analysis is one of the important techniques which is used to measure the establishment of relationship between the two interrelated accounting figures in financial statements. This analysis helps to Management for decision making. Ratio Analysis is an effective tool which is used to ascertain the liquidity and operational efficiency of the concern

4. Analysis & Interpretation

In this study I will do analysis in the statement of National Bank for Agriculture and Rural Development (NABARD).
Balance sheet as on year 2010 and 2011 Profit and loss account for same year I use the comparative statement analysis one of the methods of financial analysis In this method use formal to calculating the change between the information which given in the statement (balance sheet , profit and loss account)

Comparative analysis = current year – base year figure / base year *100

Table 4.1 Profit & loss account for the year 2010-11

PARTICULARS	SCH NO	YEAR ENDING 31- 03-2010 Rs.	YEAR ENDING 31-03-2011 Rs.	ABSOLUTE CHANGE	PERCENTAGE %
INCOME					
Income from financial service	**8**	**568997**	**220808956**	**21511959**	**3780.68**
Income from operation					
Other income					
Interest on bank deposit		**8383214**	**790580401**	**-477409099**	**-5.69**
Miscellaneous income		**9000**	**44000**	**43910**	**48788.78**
		8952301	**3003076001**	**21078459.01**	**235.55**
Total					
Expenditure:					
Interest & other charges		**322377**	**14832139.83**	**14509762.83**	**4500.87**
Staff expenses	**9**	**1753657**	**6747371**	**4993714**	**284.47**
Establishment expenses	**10**	**912188**	**5095793.37**	**4183605.37**	**458.86**
Depreciation	**11**	**36712**	**311122.14**	**274410.14**	**747.467**
Provision for standard assets	**4**		**1212700**		
		3024934	**28199126.34**	**25174192.34**	**832.22**
BROFIT BEFOR TAX					
Provision for tax					
Current tax					
Deferred tax		**5927367**	**1831633.67**	**-4095733.33**	**-69.09**
BROFIT AFITER TAX		**1835000**	**921.000**	**-91400**	**-49.80**
Short (-)/Excess (+)provision		**2678**	**46600**	**43922**	**1640.10**
for income tax of earlier year					**-78.90**
Brought forward from last year		**4095045**	**864033.67**	**-3231011.33**	**-78.90**
Profits available for appropriation		**25845577.00**	**29120622.00**	**3275045**	**12.67**
Transfer to statutory reserve					
		29940622.00	**29984655.67**	**44033.67**	**0.147**
Balance carried to balance sheet		**820000**	**173000**	**-64700**	**-78.90**
		29940622	**29811655.67**	**691.033.67**	**2.37**
		29940622	**29984655.67**	**44033.67**	**0.147**

Table 4.1 show profit & loss account for the year 2010-11

1. There is a difference of 21511959 in income from operation will represent the 3780.68% increasing this increments is enable and this is beneficial for the bank this has increased so much because public likes this a service.
2. There is a difference of 477409.99 in interest on bank deposit it will represent the -5.69% decreasing this shows that bank has reduced his deposit in the bank has another opportunity to invest his money that is way interest on bank deposit has decreased.
3. There is a difference of 43910 in miscellaneous income it will represent the 48780.89 increment this increment is so high and profitable for bank because bank has increased invested has money in other sources .
4. There is a difference of 14509762.82 in interest and other charges which will represent the 4500.87% increment the bank has enhanced has activities so this interest and other charge has increased.
5. It's necessary to decrease the interest and other charge it will be better to decrease interest and other charge
6. There is an increase of 4993714 in staff expenses which represent 284.76% increment so the bank must reduce staff expenses because the bank has enhanced his size so that expense has increased
7. There is an increase of 4183605.37 in the establishment expenses it will represent 458.63%.
8. There is an increase of 274410.14 depreciation which represent 747.46% increment this shows that bank has increased his fixed assets.
9. There is a decrease of 91400 which represent -49.80% decrement this decrement represents that taxable profit has reduced so the bank must increase the taxable profit.
10. There is a difference of 43922 in deferred tax which represent 164.10% of increment.
11. There is a different of 32310.33 in profit after tax which shows -78.90% decrement this represent that the bank could not earn as profit as last year so the bank must enhance his activities so pay attention on extra expresses.
12. There is a decrease of 647000 in transfer to statutory reserve which represent -78.90% of decrement this reduction is because of not more profit so the bank must enhance his profit
13. There is a difference of 4095733.33 which represent -69.09% decrement this is because of more expenses so profit before tax has decrease.

Table 4.2 Balance sheet for the year 2010-11

PARTICULARS	SCH NO	YEAR ENDING 31-03-2010 Rs.	YEAR ENDING 31-03-2011 Rs.	ABSOLUTE CHANGE	PERCENTAGE %
SOURCE OF FUNDS:					
SHAREHOLDERS FUNDS					
Share Capital	**1**	**63100070**	**160100070**	**9700000**	**153**
Reserves & Surplus	**2**	**36840622**	**37704655.56**	**864033.56**	**2.34**
Grant from NABARD for SHG promotion/linkage		**562500**	**553200**	**5475243**	**9.73**
Borrowings	**3**	**22269326**	**519188260**	**496918.9**	**2.23**
TOTAL		**122772518**	**717546185.56**	**5947736**	**4.84**
APPLICATION OF FUNDS:					
FIXED ASSETS	**4**				
Gross Block					
Less: Accumulated		**580600**	**3164203**	**258360**	**0.44**
Depreciation		**165556.98**	**474464.49**	**3089056**	**18.65**
Net Block					
		41503.02	**2689738.51**	**2274.6450**	**5.54**
DEFERRED TAX (ASSET)		**31388**	**15212**	**-16.176**	**-51.53**
CURRENT ASSETS, LOANS & ADVANCES	**5**				
Cash & Bank Balances	**6**				
Loans & Advances	**7**	**101487256.98**	**231502569.16**	**1300153122**	**1.28**
		22447118	**489151259.89**	**466704141.8**	**2.07**
Less: Current Liabilities & Provisions		**123934374.98**	**720653829.05**	**5967194501**	**4.81**
		1608288	**5782170**	**-4173882**	**-259**
NET CURRENT ASSETES					
TOTAL		**122326086.89**	**714871659.05**	**592554505**	**4.84**
		122772518	**717546185.56**	**594773667**	**48.40**

4.2 Comparative financial statement for NABARD financial services limited balance sheet for the year 2010-11.

1. The bank has increase of share capital in the year of 2011 that you will fund difference from the year 2010 about 9700000 will represent 153.72 that there is more activities in the bank
2. The reserves and slurp it's increase in the 2011 more than 2010 represent 2.34% therefor difference amount 86403.56Gront from NABAR for SHG promotion decrement it's decreased amount -9300 it's show -1065%
3. There is increase from borrowing the bank take more borrowing than 2010 that emphases there are more activities than shows in 2231.40%.
4. Gross block in the bank not more than two year 2011 and 2010 so that show of 444.99% so that the not block shows of represent that 548.06%.
5. Increase after deducted the accumulated depreciation it's show of 186.58.
6. Cash and bank balance there is difference and increase in the cash and bank in the year 2011 that show 128.11% that is position of cash and bank is good
7. Loans and advances the loans and advances the bank give or increase in the 2011that show 20.79% this shows that the bank has taken more loan so liability had increased
8. Current liabilities of the bank has increased of 59671954.7 this represent 481.48% 0f incensement.

Main aspect of the Interpretation shown that the position of bank is not bad but the bank must pay affliction on profit after tax and control on expenses. The assets and liabilities of the bank a good position .The bank incurred so laugh interest and other charge this want extra attention

Conclusion

1. The current financial position of the bank is strong because the current assets has excess on current liabilities .

2. The long term financial position of concern is excellent because the bank has increased his fixed assets and share capital .
3. The profitability of bank has decreased in the 2011 because of extra charge.
4. The bank has increased as activities so there in enough income to incurred the expense . Bank has collected amassable income.
5. The revenue expenditure ha increased more so this make extra burden on income and this has created a negative on profit
6. The profit before tax has decreased in 2011 because the interest and other charges has increased more and in 2011 there is an extra charges of provision for standards assets .

References

[1]. Singla, (2001). How to develop a single index for financial performance*, Indian Management*, Vol.12, No.5, pp.59-62.
[2]. Dabasish Sur (2001). Liquidity Management: An overview of four companies in Indian Power Sector, The Management Accountant, pp.407-412.
[3]. Govindan Rao, D. and MohanaRao, P. (1999). Impact of working capital on profitability in cement industry – *A correlation analysis, New Delhi: Deep and Deep Publishers.*
[4]. Jagan Mohan Rao, P. (1993). Financial Appraisal of Indian Automotive Tyre Industry, *Finance India, Vol.VII, No.3, pp.683-685.*
[5]. Kallu Rao, P. (1993). Inter Bank Financial Analysis of Tea Industry Retrospect and Prospect*, Finance India, Vol. VII, No.3, pp.587-602.*