

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

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Abstract - Financial statement is the official record of a company's financial action, firm and various other units over a specific period of time. This statement is used to acquire an idea of long and short financial situation of a person or a company and the results and working condition of it. The financial statements are also used as a tool of supervision of a company and investors to access all the financial condition and the results of the work. Analysis of financial ratio leads to the understanding of the performance of an organization in past years. It can be used for comparing the aspects of the entire firm, thereby concluding which firm can provide greater benefit and minimum threat for the traders. The NABARD is the capital demand. In this paper, the financial situation of NABARD is analyzed by studying the NABARD's financial statements. The financial statement analysis helps in identifying the fluidity, financial feasibility, long term solvency and prosperity of the bank's firm. The study is done for a duration of 2010-2011 by calculating various measures. Based on that a comparative statement is created which gives NABARD a position of strong solvency in the development of agricultural and rural areas.

Index Terms - Financial statement analysis, tool of supervision, NABARD.

1. INTRODUCTION

The Financial analysis is a process of analyzing the financial situation and its strength and weakness of a company or organization by using the information provided in the balance sheet and the account of gain and loss. Financial Statements includes two types of statements in the modern business environment. One is the income statement and the other is the balance statement. There are also other statements which are essential and important for the organizations for making useful decisions and conclusions concerned

with the financial position. The techniques used for financial statement analysis includes the comparative analysis statement, common size percentages, schedule of working capital changes, fund, trend and ratio analysis. The financial statements are the sources of creating a framework for managerial verdicts. Even though the financial statement is not the only source for decision making, it helps in finding a better decision for an organization by analyzing and interpreting it. By this, the future forecast of any organization and its position among various organizations can be found.

In this paper, the National Bank for Agriculture and Rural Development (NABARD) which is the peak of all organizations in developing the economy of agricultural and rural environment in the way of caring the activities like transportation, irrigation, credit and innovation act.

1.1 Objective of the Study

To acquire a better understanding of the financial position of NABARD.

To analyze and compare the various year financial statements of NABARD.

2. RESEARCH METHODOLOGY

2.1 Research framework

The research framework proposed here is the detailed analysis of financial statements and ratios on the basis of secondary data of NABARD.

2.2 Data used in this analysis

The data used for this analysis of financial condition is the previously available secondary data which are collected from the financial related documents and

records of NABARD in printed or digital format made available for the bank for future references. The reason for choosing the secondary data is due to its reliability and appropriateness and its surety in accuracy. The secondary data used in this analysis includes the bank's annual report, balance sheets, financial reports and various other reports of finance department and income statements.

2.3 Data collection procedure

The data collected for this analysis are the primary data and the secondary data. The primary data are collected by the observation, by conducting interviews and by making answer to the questionnaire, whereas the secondary data are collected from the financial statements which are readily available to the bank employees and some of those data are published.

3. CONCEPT

To know about the financial situation of a business enterprise, the most prominent way is to analyze the historical accounting information. This account includes the financial structure of an organization and the results from the operations carried out by them. According to Hampton, the financial statement is a report having the data that are logical and consistent to the procedure for accounting. Even though the reports prepared by the finance department at the end of a period in an enterprise are called the financial statements, the basic and principal financial statement use for the analysis is the balance sheet and the profit and loss accounts.

The following is the Miller classification of financial statements:

- Audited statement
- Estimated statement
- Interim statement
- Unaudited year-end statement

The financial statement comprises of the collection of accounting figures that are tabulated and briefed by some accounting procedures. Thus, the summary of financial statement consists of the periodical financial reports and operating data of the organization.

3.1 Principles of accounting

The financial statement is prepared by using the accounting data of a company or firm by the

accountant of that company on the basis of Generally Accepted Accounting Principles (GAAP). Even though the financial statements of a public traded enterprise are audited, and the records are maintained by the firm's accountant, it is annually audited by the independent public accountants who are not belonging to that firm. In this audit, the accountant inspects the financial records maintained by the enterprise and the data related to it are valid according to the opinion of the firm's accountant and are prepared based on the GAAP. The transactions mentioned in the financial statement are documented at historical cost. It means the cost is not the market value or the replacement value. But it is the original cost which could be adjusted for variation whenever needed.

3.2 Assumptions used in accounting

The cost is mentioned in dollar. The increase in price and values in historical cost leads to many problems in inferring these values. The reports of a bank are recorded over a pre-defined period of time, usually for a financial year or a quarter of year. The income statement, cash flow statement over a specific period, the balance sheet and shareholder's statement are recorded at the end of that period. But since the end of the financial year usually coincide with the low performance of operating cycle of an enterprise, the annual balance sheet and equity report of the shareholders might not illustrate the annual values. Reports are prepared using aggregate accounting and applicable policy. Most businesses use payroll accounting, where income and earnings are matched over time, i.e. income is recorded over a period of time and expenses are reported over a period of generating revenues.

Trading and business are expected to continue to be a growing concern. The enterprises are assumed to continue forever validates the right to use historical costs instead of values of current marketplace, since when time goes on, these assets are projected to be used rather than being sold. It is required to validate the information other than financial statements also for getting a full exposure. It is also assumed that the reports are prepared based on the conservatism. In some cases, there can be more possible interpretation of an occurrence. In this case, the most conservative interpretation is taken in to account. Three basic forms of financial statements are available. They are, the

Balance sheet, the Cash flow statement and the Income statement.

3.2.1 Balance sheet

The summary of the business equity, the liabilities and the assets over a financial year is known as the balance sheet. It can also be known as financial position or financial condition statement.

3.2.2 Income Statement

The statement related to the total profit and total loss over a financial year is known as the income statement. The contents in the income statement are usually in the form of revenues.

3.2.3 Limitations

- Usually the financial statements are prepared based on the principles of accounting, agreements and experiences. Thus, these statements do not have the information regarding the efficiency, creditworthiness, liquidity, stability, etc. of the beneficiaries.
- The financial statements are said to have only the monetary facts like the quantitative data of the business enterprise instead of the qualitative data of them.
- It has only the historical data and not the value of money, variations in prices etc. This leads to struggle in predicting the future accounting values.
- The impact of personal judgments while making the financial statement leads to chances of manipulation.
- The financial statements are unrealistic since it is prepared by the concept of accounting and resolutions and the fact that it does not consider the variation of terms and conditions and the economic level changes.

3.2.4 Analyzing methods of financial statement

The financial statements can be analyzed by various methods, some of the are as follows:

Analyzing comparative statements: The financial statements of two financial years are compared and the changes in the absolute value and relative value are recorded. The comparative statements have considerable limitations in it.

Analysis of common Size Statements: To avoid the limitations in comparative statement, common size

statements are preferred. This can be done by making a common base and considering others as a percentage of it, i.e., here the total assets are made as a common base and remaining are made as the percentage of total assets.

Trend Analysis: The Trend Analysis is a technique of analyzing and interpreting the financial statement. In trend analysis, a specific period of year is to be selected for comparing the items in the base year and the percentage of the relationship with those items. During trend analysis, the first year is denoted as the base year and the items relevant to it is about 100. This trend can be expressed as a percentage of figures in other years' financial statements. The trend analysis can be used for creating suitable policies projecting them for future purposes.

Analysis of Fund Flow: The fund flow analysis is also an important technique for analyzing and interpreting of financial statements. It acts as a supplement for the profit and loss statement and the balance sheet. This analysis is used to find out the variation in the financial position of a business enterprise and their fund sources used in a specified period based on the cash flow and its working capital.

Ratio Analysis: Ratio analysis is a significant technique for measuring the relationship between two accounting figures that are related to each other mentioned in a financial statement. The ratio analysis also helps in decision making, establishing the liquidity and the efficiency of operations in an enterprise.

4. ANALYSIS AND INTERPRETATION

Here in this study, the analysis of the financial statements of National Bank for Agriculture and Rural Development (NABARD) is carried out by making use of the 2010 and 2011 balance sheet and also the profit and loss account of the year 2010 and 2011. The method used for analyzing the financial statement in this study is the comparative statement analysis by using a formula,

Comparative analysis=

*Current year-(Figure of base year)/(Base year) *100*

For calculating the variation in the balance sheet and the profit and loss account.

Table 4.1 2010-2011 Profit and loss account

| Particulars | SCH No | End of 31-3-2010 (In Rs.) | End of 31-3-2011 (In Rs.) | Change in Absolute value | Percentage (In %) |
|---|--------|---------------------------|---------------------------|--------------------------|-------------------|
| Operation income | 8 | 568997 | 22080895.6 | 21511898.6 | 37.81 |
| Bank deposit interest income | | 8383214 | 7905804.01 | -477409.99 | -0.057 |
| Miscellaneous income | | 9000 | 44060.4 | 35060.4 | 3.90 |
| Total | | 8961211 | 30030760.01 | 21069549.01 | 2.35 |
| Interest and other charges expenditure | 9 | 322377 | 14832139.83 | 14509762.83 | 45.01 |
| Staff expenditure | 10 | 1753657 | 6747371 | 4993714 | 2.85 |
| Establishment expenditure | 11 | 912188 | 5095793.37 | 4183605.37 | 4.59 |
| Expenses due to depreciation | 14 | 36712 | 311122.14 | 274410.14 | 7.47 |
| Standard asset provision | | | 1212700 | | |
| Total | | 3024934 | 28199126.34 | 25174192.34 | 8.32 |
| Profit before tax | | 5936277 | 1831633.67 | -4104643.33 | -0.69 |
| Taxable profit | | 1835000 | 921000 | -914000 | -0.50 |
| Deferred Tax | | 2678 | 46600 | 43922 | 16.40 |
| Profit after tax | | 4098599 | 864033.67 | -3234565.33 | -0.79 |
| Profit brought forward from previous year | | 25845577 | 29120622 | 3275045 | 0.13 |
| Appropriation profit | | 29944176 | 29984655.67 | 40479.67 | 0.0014 |
| | | 820000 | 173000 | -647000 | -0.79 |
| Transfer to statutory reserve | | 29124176 | 29811655.67 | 687479.67 | 0.024 |

The table given above shows the total profit and loss account of NABARD for a duration of year 2010-2011. It is shown that the source of income for NABARD is from the operations or financial services, interest in bank deposits and miscellaneous income. The operation income has a difference of Rs.21511898.6 which is an increase in 37.81% of 2010 in 2011. The interest due to bank deposit is decreased to a percentage of 0.057 in 2011 which is of Rs.477409.99 when compared to that in 2010, so that the deposit is decreased in 2011 so that the interest for deposit is also reduced. There is a 3.90% of increase in miscellaneous income of the bank as a difference of about Rs.35060.4, which is a considerable profit that can be used for investing in various other sources. Thus a total of Rs.21069549.01 is the income of the bank in 2011 which is an increase in the percentage of about 2.35 compared with 2010.

The expenses of the bank are due to the interest and other charges, establishment expenses, staff expenses, depreciation and provision for standard assets. The expenses due to interest and other charges are of a Table 4.2 2010-2011 Balance sheet

| Particulars | SCH No | End of 31-3-2010 (In Rs.) | End of 31-3-2011 (In Rs.) | Change in Absolute value | Percentage (In %) |
|----------------------------|--------|---------------------------|---------------------------|--------------------------|-------------------|
| Share capital funds | 1 | 63100070 | 160100070 | 97000000 | 1.54 |
| Reserves and surplus funds | 2 | 36840622 | 37704655.56 | 864033.56 | 0.02 |
| Promotion decrement funds | | 562500 | 553200 | -9300 | -0.02 |
| Borrowings | 3 | 22269326 | 519188260 | 496918934 | 22.31 |
| Total | | 122772518 | 717546185.56 | 594773667.56 | 4.84 |
| Gross Block | 4 | 580600 | 3164203 | 2583603 | 4.45 |
| Accumulated depreciation | | 165556.98 | 474464.49 | 308907.51 | 1.87 |

difference of about Rs.14509762.83 i.e., 45.01% of 2010 and the staff expenses in 2011 is 2.85% of that in 2010 which is Rs.4993714, the establishment expense is Rs.4183605.37 i.e., 4.59% and the depreciation amount is Rs.274410.14 i.e., 7.47% increase in 2011 from 2010. The standard asset provision is introduced in the year 2011 in NABARD which is not available in 2010 and it is of the amount Rs.1212700. Thus, the total expenditure is of a difference amount Rs.25174192.34 from 2010 to 2011 which is of increase in 8.32%.

The total profit before the tax is decreased in 2010 for Rs.4104643.33 in 2011 which is 0.69% decrease. Then the taxable profit of -0.69%, i.e., Rs.-4104643.33 and -0.50% of deferred tax, i.e., Rs.-914000 is added and the profit after the tax in 2011 is of decrease in Rs.3234565.33 which is 0.79% of 2010. The profit of previous year is of 0.13% increase in 2011 is carried forward and finally the profit for appropriation is of 0.0014%, i.e., Rs.40479.67. The amount transferred to the statutory reserve in 2011 is of increase in 0.024% of 2010, which is of Rs.687479.67.

| | | | | | |
|-----------------------------------|---|--------------|--------------|--------------|-------|
| Net Block | | 415043.02 | 2689738.51 | 2274695.49 | 5.48 |
| Deferred tax | | 31388 | 15212 | -16176 | -0.52 |
| Bank balance and cash | 5 | 101487256.98 | 231502569.16 | 130015312.18 | 1.28 |
| Advances and loans | 6 | 22447118 | 489151259.89 | 466704141.89 | 20.79 |
| Current liabilities and provision | 7 | 123934374.98 | 720653829.05 | 596719454.07 | 4.81 |
| | | 1608288 | 5782170 | 4173882 | 2.60 |
| Current net assets | | 122326086.98 | 714871659.05 | 592545572.07 | 4.84 |

The table given above shows the balance sheet of NABARD for a duration of year 2010-2011. It is shown that the funds for NABARD is form the share capital, reserves and surplus, grant from NABARD for SHG promotion or linkage and the Borrowings. The share capital is increased to a percentage of 1.54 in the year 2011 ie., Rs.97000000 when compared to that in 2010, since the activities carried out in the bank in 2011 is high. The reserves and surplus amount also increased in 2011 by 0.02% of 2010 which is Rs.864033.56 and the promotion or linkage amount grant from NABARD is decreased to an amount of 9300 as 10.65% of 2010. The amount borrowed in 2011 got increased about 22.31% of 2010 that is Rs.496918934. Therefore, a total of 4.84% of funds which is around Rs.594773667.56 got increased from 2010 to 2011 due to share capital, reserves and surplus, promotion or linkage funds and borrowings.

The funds from NABARD are applicable for gross block and accumulated depreciation. The gross block fund is of about 4.45% due to the increase in the amount of around Rs.2583603 from 2010. Then for accumulated depreciation, the fund applicable in 2011 is about Rs.308907.51, which is 1.87% increase of 2010. Finally, the net block fund in 2011 is also increased 5.48% ie., Rs. 2274695.49 that of 2010.

The tax applied for various assets are for bank balances and cash, loans and advances which are given as follows. The deferred tax is decreased to an amount of 16176 which is of 0.52% decrease from 2010 to 2011. But the bank balance and cash in the bank is considerably increased such as Rs.130015312.18 in 2011 which is of 1.28% increase from 2010. Also the advances and loan amount got increased to 20.79% of the amount in 2010. Therefore, the current liabilities and provision in 2011 is of 4.81% increase from 2010 which is of around Rs.596719454.07 in 2011. Thus the current net assets in 2011 is of around Rs.592545572.07 which is a 4.84% increase of 2010. This shows that the position of NABARD is not as much bad, but they are needed to pay affliction on

profit over tax and have to control the expenses. It is also shown that the liabilities and the assets of NABARD are in good condition and earned a higher amount in interest and other charges which required some additional care.

5.CONCLUSION

From this study, it is concluded that currently there is a strong financial position of banks due to the fact that the current assets have more liabilities on them. Since the banks have increased the share capital, the long-term financial position is admirable for the concern. During 2011, the bank's profitability is decreased due to extra charges. Then the banks increased the activities so as to compensate the expenses and to earn enough income. Also, the expenditure is increased which causes a burden for income and produces loss. In 2011 before tax, the profit is decreased due to the increase in interest and other charges and an extra charge named provision charge is introduced for standard assets.

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