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ANALYSING TO PREPARE EFFECTIVE FUNDS FLOW STATEMENT TO DEVELOP THE PRESENT BUSINESS SECTOR: A STUDY

I Satyanarayana[1]*, N B C Sidhu[2] and Thudumu Dhinesh[3]

*Corresponding Author: **N B C Sidhu** ✉sidhunaga@gmail.com

The basic financial statements i.e., the balance sheet and profit and loss account to income statement of business reveal the net effect of the various transactions on the operational and financial position of the company. The balance sheet gives a summitry of the assets and liabilities of an undertaking at a particular point of time. It reveals the financial status of the company. The assets side of a balance sheet shows the development of resources of an undertaking while the liabilities side indicates its obligation, i.e., the manner in which these resources were obtained. The profit and loss account reflects the results of the business operation for a period of time. It contains a summary of expenses incurred and the revenue realized in an accounting period. Both these statements provide the essential basic information on the financial activities of business, but their usefulness is limited for analysis and planning purpose.The balance sheet gives a static view of the resources (liabilities) of business and used (assets) to which these resources have been put at a certain point of time. It does not disclose the causes for profit and loss account, in a general way, indicates the resources provided by undertaking and which do not operate through profit and loss account. Thus, another statement has to be prepared to show the change in the assets and liabilities from the end of one period of time to the end of another period of time. The state is called a statement of changes in financial position or a funds flow statement.The funds flow statement is a statement, which shows the movement of funds and is a report of the financial operations of the business undertaking. It indicates various means by which funds were obtained during a particular period and the ways in which these funds were employed. In simple words, it is a statement of sources and application of funds.

Keywords: Basic elements of funds flow statement analysis, Requirements of funds flow statement

INTRODUCTION

A financial statement is a collection of data organized according to logical and consistence accounting process .Its purpose is to conveyer an understanding of some financial aspects of a business firm. Its may show a position at a

[1] Principal, Sri Indu Institute of Engineering & Technology, Sheriguda (Vill), Ibrahimpatnam (MD), Ranga Reddy (Dt), Telangna State, India.

[2] Associate Professor & HOD of Master of Business Administration , Sri Indu Institute of Engineering & Technology, Sheriguda (Vill), Ibrahimpatnam (MD), Ranga Reddy (Dt), Telangna State, India.

[3] Student of Master of Business Administration,Sri Indu Institute of Engineering & Technology, Sheriguda (Vill), Ibrahimpatnam (MD), Ranga Reddy (Dt), Telangna State, India.

moment in time, as in the case of an income statement. Thus the term "Financial statements" generally refers the statements.

i) The position statement or the balance sheet and

ii) The income statement or profit and loss account

These statements are used to convey to management and other interests outsiders the profitability and financial position of a firm.

Nature of the Financial Statements

The financial statements are prepared on the basis of recorded facts. The recorded facts are those which can be expressed in monitory terms.

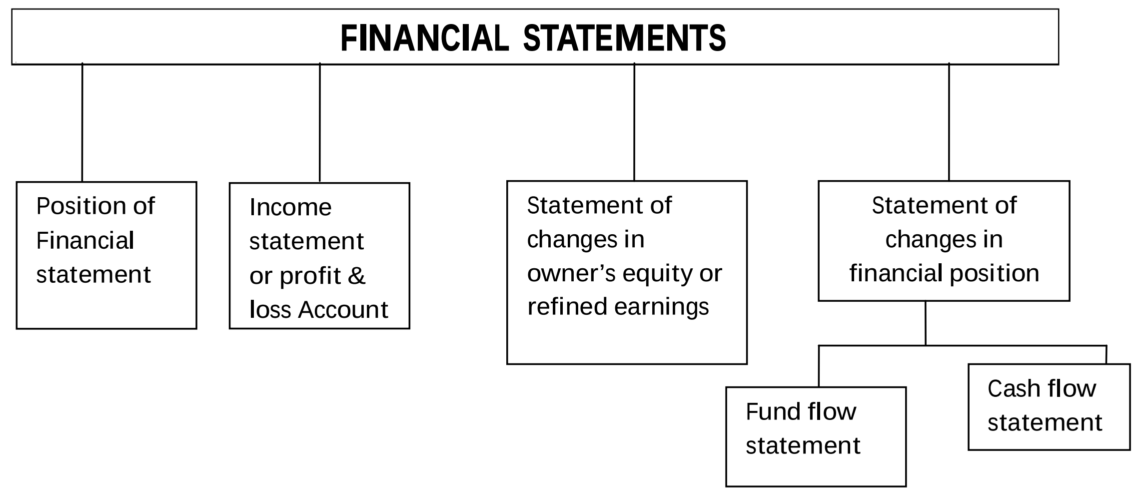
I) Recorded Facts: The terms and 'recorded facts' refers to the date taken out from the accounting records. The records are maintained on the basics of actually cost data.

II) Accounting Conventions: Certain accounting conventions are followed while preparing financial statements. The conventions of valuing inventory at cost are market price, whichever is lower, is followed.

III) Postulates: The accounting makes certain assumption assumptions while making accounting records. One of these assumptions is that the enterprise while making accounting records. One of these assumptions is that enterprise is treated as a going concern. The other alternative to this postulate is that the concern is to be liquidated. Another important assumption is to presume that the value of money will remain the same in different periods. While remain the remain the same in different periods. While preparing profit and loss account the revenue is treated in the year in.

The term flow means movement & includes both 'inflow' and 'outflow'. The term flow of funds means transfer of economic values from one asset of equity to another. Flow of funds is said to have taken place when any transaction makes changes in amount of funds available before happening of transactions. If the effect of transaction results in increase of funds. It is called a "source of funds" and it is results in decrease of funds, it is known as an application of funds.

Figure 1: xxxxxxxxxxxx



1. **Balance Sheet:** The American institute of certified public contents defines balance sheet as" A tabular statement of summary of (Debits and Credits) carried forward after an actual and constructive closing or books of account and kept accounting to principles of accounting".

2. **Income Of Statement Accounting): Ent (Profit And Loss):** Income statement is prepared to determine the operational position of the concern. It is a statement of revenue earned and expenses, incurred for earning that revenue.

3. **Statement Of Changes In Owners'equity (Retained Earnings):** The terms' owners equity' refers to the claims of the owners' of the business (share holders) against the assets of the firm. It consists of two elements 1) paid up share capital,2) retained earnings or reserves and surplus.

4. **Statement Of Financial Position:** The basic financial position i.e.., the balance sheet and the profit and loss account are income statement of a business reveals the net effect of the various the transactions operational and financial position of the company.

   A) **Funds Flow Statements:** The Funds flow statements is designed to analyze the changes in the financial condition of business two periods. The word "Fund" is used to denote working capital. This statement will show the sources from each the funds are received and the uses to which these have been put.

   B) **Cash Flow Statements:** A statement of changes in the financial position of a firm on cash basis is called cash flow statements. It summarizes the causes of changes in cash position of a business enterprises between dates of two balance sheets This statement is very much similar to the statement of changes in working capital i.e. Funds flow statements.

INDUSTRY PROFILE

Banking in India originated in the last decades of the 18th century. The oldest bank in existence in India is the State Bank of India, a government-owned bank that traces its origins back to June 1806 and that is the largest commercial bank in the country. Central banking is the responsibility of the Reserve Bank of India, which in 1935 formally took over these responsibilities from the then Imperial Bank of India, relegating it to commercial banking functions. After India's independence in 1947, the Reserve Bank was nationalized and given broader powers. In 1969 the government nationalized the 14 largest commercial banks; the government nationalized the six next largest in 1980.Currently, India has 96 scheduled commercial banks (SCBs) - 27 public sector banks (that is with the Government of India holding a stake), 31 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 38 foreign banks. They have a combined network of over 53,000 branches and 17,000 ATMs. According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75 percent of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively

EARLY HISTORY

Banking in India originated in the last decades of the 18th century. The first banks were The General Bank of India which started in 1786, and the Bank of Hindustan, both of which are now defunct. The oldest bank in existence in India is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company. For many years the Presidency banks acted as quasi-central banks, as did their successors. The three banks merged in 1921 to form the Imperial Bank of India, which, upon India's independence, became the State Bank of India.

Indian merchants in Calcutta established the Union Bank in 1839, but it failed in 1848 as a consequence of the economic crisis of 1848-49. The Allahabad Bank, established in 1865 and still functioning today, is the oldest Joint Stock bank in India. It was not the first though. That honor belongs to the Bank of Upper India, which was established in 1863, and which survived until 1913, when it failed, with some of its assets and liabilities being transferred to the Alliance Bank of Simla.When the American Civil War stopped the supply of cotton to Lancashire from the Confederate States, promoters opened banks to finance trading in Indian cotton. With large exposure to speculative ventures, most of the banks opened in India during that period failed. The depositors lost money and lost interest in keeping deposits with banks. Subsequently, banking in India remained the exclusive domain of Europeans for next several decades until the beginning of the 20th century.Foreign banks too started to arrive, particularly in Calcutta, in the 1860s. The Comptoired'Escompte de Paris opened a branch in Calcutta in 1860, and another in Bombay in 1862; branches in Madras and Pondicherry, then a French colony, followed. HSBC established itself in Bengal in 1869. Calcutta was the most active trading port in India, mainly due to the trade of the British Empire, and so became a banking center.

The Bank of Bengal, Which Later Became the State Bank of India

The first entirely Indian joint stock bank was the Oudh Commercial Bank, established in 1881 in Faizabad. It failed in 1958. The next was the Punjab National Bank, established in Lahore in 1895, which has survived to the present and is now one of the largest banks in India.

Around the turn of the 20th Century, the Indian economy was passing through a relative period of stability. Around five decades had elapsed since the Indian Mutiny, and the social, industrial and other infrastructure had improved. Indians had established small banks, most of which served particular ethnic and religious communities.The presidency banks dominated banking in India but there were also some exchange banks and a number of Indian joint stock banks. All these banks operated in different segments of the economy. The exchange banks, mostly owned by Europeans, concentrated on financing foreign trade. Indian joint stock banks were generally under capitalized and lacked the experience and maturity to compete with the presidency and exchange banks. This segmentation let Lord Curzon to observe,*"In respect of banking it seems we are behind the times. We are like some old* *fashioned sailing ship, divided by solid wooden bulkheads into separate and cumbersome compartments."*The period between 1906 and 1911, saw the establishment of banks inspired by the Swadeshi movement. The Swadeshi movement inspired local businessmen and political figures to found banks of and for the Indian community. A number of banks established then have survived to the present such as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India.The fervour of Swedish movement lead to establishing of many private banks in Dakshina Kannada and Udupi district which were unified earlier and known by the name **South Canara** (South Kanara) district. Four nationalized banks started in this district and also a leading private sector bank. Hence undivided Dakshina Kannada district is known as "Cradle of Indian Banking".

Post-Independence: The partition of India in 1947 adversely impacted the economies of Punjab and West Bengal, paralyzing banking activities for months. India's independence marked the end of a regime of the Laissez-faire for the Indian banking. The government of India initiated measures to play an active role in the economic life of the nation, and the industrial policy resolution adopted by the government in 1948envisaged a mixed economy. This resulted in to greater involvement of the state in different segments of the economy including banking and finance. The major steps to regulate banking included:The reserve bank of India, India's central banking authority, was nationalized on January 1st 1949 under the terms of the Reserve Bank of India (transfer to public Ownership) Act, 1948 (RBI, 2005b). In 1949, the banking regulation act was enacted which empowered the Reserve Bank of India (RBI) "to regulate, control and inspect the banks in India."

The banking regulation act also provided that no new bank or branch of an existing bank could be opened without a license from the RBI, and no two banks could have common directors.

Nationalization: Banks nationalization in India: Newspaper Clipping, Times of India, July 20, 1969Despite the provisions, control and regulations of Reserve bank of India, banks in India expect the State Bank if India or SBI, continued to be owned and operated by private persons. By the 1960s, The Indian banking industry had become an important tool to facilitate the development of the Indian economy. At the same time, it had emerged as a large employer, and a debate had ensued about the nationalization of the banking industry. Indira Gandhi, the prime Minister of India, expressed the intention of the government of India in the annual conference of the All India Congress meeting in a paper entitled "stray thoughts on banking nationalization." The meeting received the paper with enthusiasm.

Thereafter, her move was swift and sudden. The Government of India issued an ordinance and nationalized the 14largest commercial banks with effect from the midnight of July 19, 1969. Jayaprkash Narayan, a national leader of India, described the step as a "masterstroke of political sagacity." Within two weeks of the issue of the ordinance, the parliament passed the Banking Companies Bill, and it received the presidential approval on 9 August 1969.

A second dose of nationalization of 6 more commercial banks followed in 1980. The stated reason for the nationalization was to give the government more control of credit delivery. With the second dose of nationalization, the government of India controlled around 91% of the banking business of India. Later on, in the 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalized banks from 20 to 19. After this, until the 1990s, the nationalized banks grew at a pace of around 4%, closer to the average growth rate of Indian economy.

Liberalization: In the early 1990s, the then Narsimha Rao government embarked on a policy of liberalization, licensing a small number of private banks. These came to be known as New Generation tech-savvy banks, and included Global Trust Bank (the first of such new generation banks to be set up), which later amalgamated with Oriental Bank of Commerce, Axis Bank (earlier as the UTI Bank), ICICI Bank and HDFC Bank. This move, along with the rapid growth in the economy of India, revitalized the banking sector in India, which has seen rapid growth with strong contribution from all the three sectors of banks, namely, government banks, private banks, foreign banks.

The next stage for the Indian banking has been set up with the proposed relaxation in the norms for Foreign Direct Investment, where all Foreign Investors in banks may be given voting rights which could exceed the present cap of 10%, at present it has gone up to 74% with some restrictions.The new policy shook the Banking sector in India completely. Bankers, till this time, were used to the 4-6-4 method (Borrow at 4%; Lend at 6%; Go to home at 4%) of functioning. The new wave ushered in a modern outlook and tech-savvy methods of working for traditional banks. All this led to the retail boom in India. People not just demanded more from their banks but also received more.Currently (2007), banking in India is generally fairly mature in terms of supply, product range and reach-even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean strong and transparent balance sheets relative to other banks in comparable economies in its region. The reserve Bank of India is an autonomous body, with minimal pressure from the government. The stated policy of Bank on the Indian Rupee is to manage volatility but without any fixed exchange rate-and this has mostly been true.

With the growth in the Indian economy expected to be strong for quite some time-especially in its services sector-the demand for banking services, especially retail banking, mortgages and investment services are expected to be strong. One may also expect M&As, takeovers, and asset sales.In March 2008,the Reserve Bank of India allowed WardurgPincus to increase its stake in Kotak Mahindra Bank (a private sector bank) to 10%. This is the first time an investor hasbeen allowed to hold more than 5% in a private sector bank since the RBI announced norms in 2005 that any stake exceeding 5% in the private sector banks would need to be vetted by them.In recent years critics have charged that the non-government owned banks are too aggressive in their loan recovery efforts in connection with housing, vehicle and personal loans. There are press reports that the bank's loan recovery efforts have driven defaulting borrowers.

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Hyderabad, INDIA. Ph: +91-09441351700, 09059645577
E-mail: editorijmrbs@gmail.com or editor@ijmrbs.com
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