CHAPTER-I

INDRODUCTION :-

A) **1.1 Co-operation.**

1.2 Objectives of co-operative society.

1.3 Co-operative movement in India.

1.4 Co-operative credit in India.

1.5 Co-operative credit structure.

1.6 Urban Co-operative Banks.

1.7 Features of Urban Co-operative Banks.

1.8 History and Development of Urban Co-operative Banks.

1.8.1 Urban Co-operative credit movement in the world.

1.8.2 Urban Co-operative banks in India.

1.8.3 Urban Co-operative banks in Maharashtra.

1.8.4 Urban Co-operative banks in Karad.

I) About Karad.

II) Urban Co-operative banks in Karad.

1.9 Profile of Koyana Co-operative bank Ltd., Karad.

I) Introduction.

II) Origin and History.

III) Objectives of the bank.

IV) Location of the bank.

V) Organization structure of the bank.

VI) Social commitments of the Bank.

VII) Financial position of the bank.

B) **1.10 Financial Analysis.**

I) Introduction.

II) Financial statements.

i) Objectives of financial statements.

ii) Importance of financial statements.

iii) Limitations of financial statements.

III) Financial Analysis & interpretation.

i) Types of Analysis.

ii) Significance and purpose of financial Analysis.

iii) Limitation of financial Analysis.

iv) Methods & Devices of financial analysis.

CHAPTER-I

INTRODUCTION

1.1 : Co-operation :-

Co-operation means working together. The principle of co-operation is old as human society. According to Darwins "Man's evolution has not been competitive in terms of aggression it has been Competitive in Terms of co-operation". co-operation is a group instinct in man which enables him live together, work together and help each other in times of stress and strain.

It may say that it is co-operation which motivates and directs human life towards the pursuit of peace and prosperity. It brings together people and nations and facilitates peaceful co-existence.

In the primitive societies the idea of co-operation could be observed in religious institutions and traditional customs. In the modern technical sense the genesis of co-operative movement and its applications in the economic field can be traced after the industrial revolution which took place in England during the second half of the eighteenth and the first half of the nineteenth century.

Rochdale society of equitable pioneers of England has given rise to the co-operative movement against capitalism, in the early period of the 19^{th}. Century in the world. In India co-operative movement came in to existence, after passing the co-operative credit societies Act 1904. only credit societies and bank was covered by the Act. Afterwards in 1912, another Act was passed to extend the co-operative movement to other sectors also.

Definitions of co-operations :-

a) Mr. Herrick says " Co-operation is the act of persons voluntarily united of utilizing reciprocally their own forces, resources or both under their mutual management to their common profit or loss."

b) Mr. Calvert Concludes " Co-operation, then is a form of organization wherein persons voluntarily associated together as human beings on a basis of equality, for the promotion of the economic interests of themselves"

c) According to the co-operative planning committee (1946) " Co-operation is a form of organization in which persons voluntarily associate together on a basis of equality for the promotion of their economic interests. Those who come together have a common economic aim which they cannot achieve by individual isolated action because of the weakness of the economic position of a large majority of them. This element of individual weakness is overcome by the pooling of their resources, by making self help effective through mutual aid and by strengthening the bonds of moral solidarity between them."

In short, it is a special form of economic organization in which people work together for attaining to their best advantage some common object under certain definite rules.

1.2 : Objectives of co-operative society :-

Every co-operative society comes into existence for the fulfillment of certain specific objectives, which may be termed as its immediate aims. The immediate aims differ from one co-operative to another, while the long run objectives of all the co-operative societies, irrespective of whether they are in the primary, Secondary or tertiary sector are the same. These long term objectives may be called the general objectives or the basic principles of the society.

These are as follows :-

a) Elimination of Middlemen.

b) Raising economic status of the poor.

c) Removal of the Ills of capitalism

d) Raising moral standards of its members.

e) Increasing the prosperity of the whole community.

f) Abolition of social inequalities.

g) Neutrality in Religion and politics.

h) Development of corporate life.

1.3 Co-operative Movement in India :-

In India at the end of 19^{th}. century the peasantry was in the clutches of the sahukar. The rural indebt-ness was at its peak. Increase in population and lack of industrialization caused tremendous burden on agriculture. The economic position of the farmers was deteriorating and the fqrmer did not have the ability to improve his condition. In the words of Daniel Hamilton. “Agriculturist India was in the clutches of Mahajans and Sahukars”

The government felt that the situation can be improved through co-operative efforts. The Government tried various measures to check the growing influence of the money lenders.

Meanwhile at the same time in Germany Frederick William Raiffeisen founded agriculture Banks on the principles of self help and co-operation in order to solve the problems of farmers and agriculturists.

*** Nicholson's Report :-**

In 1892 Madras Govt. deputed sir Frederick Nicholson for finding out possibilities of organizing a system of Agricultural banks in the country. He recommended in the report that, Rural Co-operative Credit Societies should be founded as like Germany. He summed up his report in two words " Find Reiffeisen "

*** The first stage on the Movement :- (1904 to 1911)**

On the recommendations of sir Edward Law, co-operative credit societies Act was passed in the year 1904. The Act permitted the formation of only credit societies. Rural and Urban Banks. There was no provision in the act for the formation of central banks for financing primary societies.

*** Second Stage :- (1912-1918)**

To remedy the defects of 1904 Act, the co-operative societies Act of 1912 was passed. The Act authorized the formation of societies. Other than credit and also the formation of central financing agencies with limited liability.

*** The Third Stage :- (1919-1929)**

With the introduction of Reforms Act 1919, Co-operation became a provincial subject and was placed under the charge of a Minister Bombay passed its own co-operative societies Act in 1925. Which placed greater powers in the hands of the Registrar.

*** Reports of committees and commissions :-**

Several provinces appointed committees of inquiry. The Royal Commission on Agriculture examined the movement in 1922 and advised the desirability of organizing co-operatives for the development of Agriculture. The central and the provincial banking enquiry committees have also made great contributions to the co-operative movement.

* Fifth Stage :- (1929-1939)

During this period the co-operative Movement entered the next phase which was marked by the great depression of the thirties.

*** Period of Recovery :- (1939-46)**

As a result the second world war, there came a period of boom for Agriculture and co-operative movement. In 1944 a committee under the chairmanship of Prof. D. R. Gadgil observed that co-operation would provide the best and the most lasting solution for the problem of agricultural credit in particular and of rural economy in general.

In 1946 the co-operative planning committee under the chairmanship of Shri. R. G. Saraiya, fixed targets to be achieved for the co-operative movement and emphasized the need for the formation and reorganization of the primary credit societies in to multipurpose societies.

*** Post Independence period :-**

The co-operative movement has expanded considerably in the post Independence period. The first five year plan assigned an important place to co-operative organizations and stressed the co-ordination of the activities of village panchayats and the co-operatives.

Since the attainment of Independence, the co-operative movement has been making rapid progress in various directions. The Government has taken steps to reorganize and to develop the co-operative movement in terms of recommendations of various committees like the All India Rural Credit Committee (1954), The Vaikunthlal Mehta Committee (1960) etc. Further the co-operation has been assigned an important role in the country's plan.

Now a days co-operation has been applied in a wide range of activities such as production. Distribution, supply, marketing, housing, banking and insurance. Besides there are several consumers co-operatives who protect the interest of consumers. Amongst these co-operative societies, co-operative banks are the prominent co-operative society catering to the financial needs of the other sectors of the economy.

1.4 : Co-operative credit in India.

In India the system of mutual help through chit funds and Nidhis has been in existence in Madras and Kerala for a long time. These institutions served as the precursors of co-operative credit system in India.

Co-operative banks came into existence with the enactment of the co-operative credit societies Act of 1904 which provided for the formation of co-operative credit societies. Subsequently, in 1912, a new act was passed which provided for the establishment of co-operative central banks. Co-operative credit institutions play a pivotal role in the financial system of the economy in terms of their reach, volume of operations and the purpose they serve.

Co-operative banks fill in the gaps of banking needs of small and medium income groups not adequately met through by the public and private sector banks.

A co-operative bank is a member promoted and has to be registered with the state based Registrar of co-operative societies. It functions with the rule of "one member one vote" and on "no profit no loss basis".

1.5 :- Co-operative credit structure :-

Chart 1.1 : Chart showing Co-operative credit structure.

Co-operative Credit Societies

⇩

Agricultural credit societies ⇩ | Non agricultural credit societies ⇩

Agricultural credit societies:

- ⇩ Short Term & Medium Term ⇩
  - State Co-op. Banks.
  - Central Co-op. Banks.
  - Primary Credit Societies
  - Regional Rural Banks.
- ⇩ Long term ⇩
  - Central Land Develop. Banks
  - Primary Land Develop. Banks.

Non agricultural credit societies ⇩

- State co-op. Banks.
- Central Co-op. Banks.
- Primary non Agri. credit Societies .
  - ⇩ Employees Co-op Credit Societies.
  - ⇩ Urban Co-op Banks.

The above diagram shows, the co-operative credit structure. The structure is federal or pyramidal in Character.

The co-operative credit societies are classified in the two classes, namely agricultural credit societies and non agricultural credit societies. Agricultural credit societies are further classified into institutions providing short term and medium term loans and institutions providing long term loans. The institutions providing short term and medium term loans are state co-op banks, central co-op. banks, primary credit societies and Regional Rural banks and the institutions that provide long term credit are central land Development Banks and primary LDBS.

Institutions providing non-agricultural Credit are State Co-operative Banks, Central co-operative banks, & primary non agricultural credit societies. Primary non agricultural credit societies are further classified into employees co-op credit societies and Urban co-op Banks.

i) Agricultural Credit Societies :-

Agricultural credit societies are the foundation stone of the co-operative credit structure and constitute the largest number of co-operative institutions in India. The objects of these societies show a good deal of variation. Most of them have, however been organized with a view to provide credit facilities and to inculcate the habit of thrift and economy among their members.

ii) Non-Agricultural credit societies:-

The co-operative movement was started in India to improve the conditions of rural masses. However, it was soon realized that co-operation offers a solution to the difficulties encountered not only by the Agriculturists but also by townsman in respect of credit as well as other aspects of his business and life.

1.6 :- Urban Co-operative Banks :-

Among the non-agricultural credit societies urban co-operative banks occupy an important place. They cater to the credit needs of people residing in urban area. They advance loans mostly to the small traders, artisans and salary earners on personal security as well as against gold, silver and produce. They accept deposits of various types and thereby afford Facilities for investment to persons of small means, Like the commercial banks and central banks, many of them provide banking facilities of various kinds to their members and customers.

1.7 :- Features of urban Co-operative Banks :-

a) Area of operation :-

The area of operation of an urban co-operative bank is usually restricted by its bye-laws to a Municipal area or a town. In some cases it exceeds this area.

b) Membership :-

The memberships of urban co-operative banks is composed of persons living in urban area, such as traders, merchants, salaried and professional classes etc. The conditions relating to the membership of these banks are laid down in their bye-laws.

c) Resources :-

Owned funds of UCBS consists of paid-up share capital and accumulated reserves created out of appropriations from profits. Borrowed funds consist mainly of the different types of deposits received from members and non-members as well as borrowings from the central co-operative Banks.

d) Deposits :-

Urban Co-op. Banks have succeeded in attracting deposits from non-members also because of the growing public confidence in their working. These banks generally accept current deposits, savings deposits and fix deposits.

e) Loan Operations :-

Loan operations of Urban Co-operative banks consists of granting fixed loans or cash credit loans to their members against mortgage of immovable property or on the surety of one or more persons who are also members or on the pledge of agricultural produce, industrial goods, gold and silver ornaments, government securities, or on the security of fixed deposits and insurance policies.

f) Banking and other facilities :-

Apart from advancing loans to their members. Most banks provide them with various other banking facilities. Some urban co-operative banks collect money due to their customers such as pay and pensions of Government servants and local bodies and undertake regular payments of insurance premises and rent etc. Certain urban banks discount bills and hundies and a few run chit funds.

1.8 :- History and Development of Urban Cp-operative Banks.

1.8.1 :- Urban Co-operative credit movement in the world.

The co-operative credit movement was started in Germony in the middle of 19th. century. At that time the economic conditions of Germany were extremely deplorable Mr. Herr Franz Schulze (1809 to 1885) took the initiative and started introducing various measures of relief. Mr. Schulze adopted measures for giving relief to the people who used to live in the urban areas. He had seen the miserable condition of the people with his own eyes. In 1849 he organized a friendly society for relief in sickness. In 1850 he formed the first credit association. Two years later, in 1852 schulze formed a society at Delitzsch which was based on co-operative principles.

He secured capital through the sale of shares. He published a book in 1856 which contained the principles of co-operative banking as formulated by him. Number of banks were started by him. In 1959 he organized a congress of these banks. He was also responsible for securing from Prussia the first co-operative law in 1867, which latter on was made applicable to the entire country in 1889. On the basis of this act all co-operative societies were to be organized.

In brief the urban co-operative credit movement started in Germany and then it spread over the world.

1.8.2 :- Urban co-operative Banks in India :-

The first urban co-operative bank was started in the princely state of Baroda on 5th. February, 1889. The promoter, Mr. Vithal Lakshman

Kavthekar, drew inspiration from successful urban co-operative credit Institutions in the European continent. Later Indian Government recognized their importance. A separate co-operative credit societies act was passed in 1904 to facilitate credit institutions. In Madras, the first such society was registered in Oct, 1904 at canjeevaram. The Betagiri co-operative credit society in Dharwar District was then registered in Bombay. In October 1905. Then in Mysore state, the Bangalore city co-operative credit society was registered in December, 1905. But little attention was paid to the development of urban co-operative before the Maclagan committee (1915)

This committee expressed its opinion on co-operation that "Urban Credit Societies might serve a useful purpose in training the upper and middle urban classes in understanding ordinary banking principles " The failure of the swadeshi Joints stock banks in the country at that time created an opportunity for co-operative banking for mobilizing the savings of persons of modest means and helping those whom financial distress caused by high living cost and unemployment had driven in to the clutches of money lenders.

Later the economic boom created favorable conditions for the growth of urban banks in India. The usefulness of urban banks in financing artisans small traders, factory workers and urban middle classes was recognized by various committees. In 1984 a separate urban co-operative banks department was created in the Reserve Bank of India, for regulating the growth and management of these banks. From time to time, many expert committee were appointed and legislative measures were taken to consolidate the development and growth of urban co-operative Banks. Thus in 1966, the banking regulation Act of 1949 was made applicable to urban co-operative Banks.

It is clearly seen that the spread of urban co-operative bank is not uniform in all the states. Most of banks (nearly 79 per cent) are concentrated in Maharashtra, Gujrat, Karnataka, Andhra Pradesh and Tamil Nadu. 670 UCBs are located in Maharashtra, which is nearly 32 % of total UCBs in India. Even in Maharashtra, these are mainly located in western regions. This unbalanced development has been mainly due to lack of initiative on the part of co-operative leadership and the state co-operative departments.

1.8.3 :- Urban co-operative Banks in Maharashtra.

Co-operation in Maharashtra has been to the pioneering sector of the Co-operative movement in India. The first urban co-operative credit society named Anyonya Sahakari Mandali was established in Baroda city on 5th. February 1889, under the guidance of Mr. Vithal Lakshman Kavathekar in middle class Maharashtra family. Twenty one Maharashtrians became founder members with a subscription Rs. 2 per month. It was a mutual aid society of subscribing members.

After passing of co-operative societies Act 1904. The co-operative movement in Maharashtra took speeds. No. 1 Defence Accounts Co-operative Bank Ltd., Pune was the first urban co-operative bank in Maharashtra formed by the employees of the defence department on 9th. January 1906. The second urban co-operative bank was formed in Maharashtra in Pune under the title "Cosmos Co-operative Bank Ltd., Pune " on 8th. January 1906. The third urban co-operative bank was formed in

Solapur District at Barshi under title "Barshi Central Urban Bank Ltd., Barshi" on 24th. April 1906. The fourth urban co-operative bank was started in Bombay on 27th. December 1906 "The Shamrao Vithal Co-operative Bank, initiated by Rao Bahadur S. S. Talmaki". The recommendations and reports of the Maclagan Committee 1915, Central Banking Enquity Committee 1931, Reserve Bank of India in their review of co-operative movement in India 1939-1940, co-operative planning committee, 1946 Varde Committee 1963, Madhavdas Committee 1979, Hate Committee 1981 etc. created favourable circumstances for the development of co-operative banking activity.

In Maharashtra the progress of urban co-operative banks has been very much impressive due to their proper planning and direction. There were nearly 670 urban co-operative banks in Maharashtra as on 31st. Mar. 2003. Also there is rapid progress in respect of number of members, share capital, deposits, working capital and loans and advances.

1.8.4 :- Urban co-operative Bank in Karad.

i) About Karad. :-

The Karad is located in south Maharashtra which come under western Maharashtra. Karad is one of the Tahsil of Satara district. Karad is well known as marketing centre. The city has been an important commercial centre of the Satara district as well as in south Maharashtra Since remote past, from past Karad is well known as agricultural market centre and it is gratifying to note that Karad is also known as wholesale cloth market centre. As Karad is situated on Poona-Bangalore Highway as is one of the important place for connection with Kokan areas.

Karad city has made a remarkable progress in respect of commercial fields, industries, small scale industries, co-operative movement, banking business, insurance etc. This rapid growth took place due to favourable market surrounding, active co-operative movements, availability of financial support, marketable activities of political leaders, favourable natural resources.

According to the progress and development of such commercial firms and small scale industries had a favourable background to increase banking business in Karad city. To fulfill the credit requirements and financial support to the above firms and industries various banks started their banking business in Karad city. These banks provide efficiently banking facilities such as mobilization of deposits, advancing loans, banking facilities, agency services, guarantees and other necessary facilities.

TABLE NO. 1.1

The table showing the No. of co-operative societies in Karad Taluka as on 31st. March 2008

Sr. No	Name	No.
1	Employees credit society.	36
2	Credit societies (Urban + Rural)	198
3	Fruits & vegetables marketing society.	7
4	Sugar factories	3
5	Service Development Society.	136
6	Urban Banks.	6
7	Other Agriculture Goods processing society.	3
8	Spining Mills.	10
9	Other Rural Industries.	6
10	Other Industrial Societies.	23
11	Balutedar Samstja	1

12	Industrial Colonies	2
13	Consumer Stores (Central)	6
14	Consumer Stores (Primary)	18
15	Grih Nirman Sanstha.	91
16	Labour Society	40
17	Transportation Society.	5
18	Co-operative Education.	1
19	Other Social Societies.	49
20	Nursing Home.	1
21	Water Utilisation Society.	1
22	Irrigation Society.	69
23	Taluka Cadre	1
24	Construction goods manufacturing Society.	2
25	General Machine Mills Society	5
26	Oil Factories.	1
27	Agricultural Society	1
28	Animal Husbandry Society	1
29	Purpose & Sale Federation (Sangli)	1
	Total	725

(Source : Sub Registrar Office, Karad.)

There were 725 co-operative societies in Karad Taluka as on 31st. March 2008, amongst which 6 societies are Urban Co-operative Banks.

iii) Urban co-operative banks in Karad.

Due to this historical and basic point as well as active leadership Karad city is always in position of an advance city in Satara District. Further it is to note that due to active and glorious leadership in co-operative movement in karad city, the co-operative mind of karadkar creates a favourable results in urban co-operative banking sector.

First urban co-operative bank was established on 24th. Jan. 1917 known as Urban Co-operative Credit Society Ltd., Karad afterwards the name was changed and started knowing as Karad Urban Co-operative Bank Ltd., Karad Hon. Late Shri. Pandurang Keshav Shiralkar and his closer another fifteen friends took initiative.

The introduction of urban co-operative bank and it potentiality own the confidence of the people. Day by day there was rapid expansion of bank field in Karad. The scope for karad market became wider, at the same time population of karad city was also increasing. Banking habit became popular in karad city. Performance of Karad Urban Co-operative Bank Ltd., Karad made confidence in the mind of people about banking business. Thus there was a need of another urban banks to take the advantage of this favourable circumstances and considering the demand for credit facilities, several other urban co-operative banks have been established since then. There were 6 Urban co-op. Banks in Karad Taluka as on 31st. March 2008, amongst which Koyana Co-operative Bank Ltd., Karad is reputed bank in Karad.

Table No. 1.2

Table showing Urban Co-operative Banks in Karad Taluka as on

31st March-2008

Urban Co-operative Bank	Establishment	Place.
The Karad Urban Co-operative Bank Ltd., Karad.	1917	Karad.
The Karad Janta Sahakari Bank Ltd., Karad.	1962	Karad.
Krishna Sahakari Bank Ltd., Rethare Bk.	1971	Rethare Bk.
Pritisangam Co-operative Bank Ltd. Karad.	1973	Karad.
Sahyadri Co-operative Bank Ltd., Karad.	1995	Karad.
Koyna Co-operative Bank Ltd., Karad.	1996	Karad.

(Source : Sub Registrar Office, Karad.)

1.8 :- Profile of Koyana Co-operative Bank Ltd., Karad.

I) Introduction :-

Koyana Co-operative Bank Ltd., Karad is one of the reputed urban co-operative bank catering to the financial needs of the small businessmen, self employed persons, middle class people and salaried people and factory workers of karad and its surrounding operational area. The bank was established on 21st. October 1996 in Karad.

II) Origin and History :-

The sincere efforts of Shri. Vilasrao Patil promoted and established The Koyana Co-operative Bank Ltd., Karad on 21st. October 1996 at Karad.

Initially there were only 1163 regular and 30 nominal members. The Authorized and paid up share capital was Rs. 12,44,630/-

The office of the bank started functioning at Surya Complex, 233, Datta Chowk, Karad.

III) Objectives of the Bank :-

The main objectives of the bank are as follows :-

1) To inculcate habits of economy and co-operatives in members.
2) To accept deposits from the members and non-members under various deposit schemes and advance loans to them and to make investments.
3) To expand operations by opening the branches in its area of operation with the permission of the co-operative department and the R. B. I.
4) Providing finance and guidance to the small scale entrepreneurs and help them in establishing their own business.

IV) Location of the Bank :-

The main office of the bank is situated at Surya Complex, 233 Datta Chowk, Karad and following are the sub-branches of the bank.

1) Talmavale, Patan.

2) Satara.

3) Ond

4) Shere-Shenoli Station.

5) Extended hall : Market yard Karad.

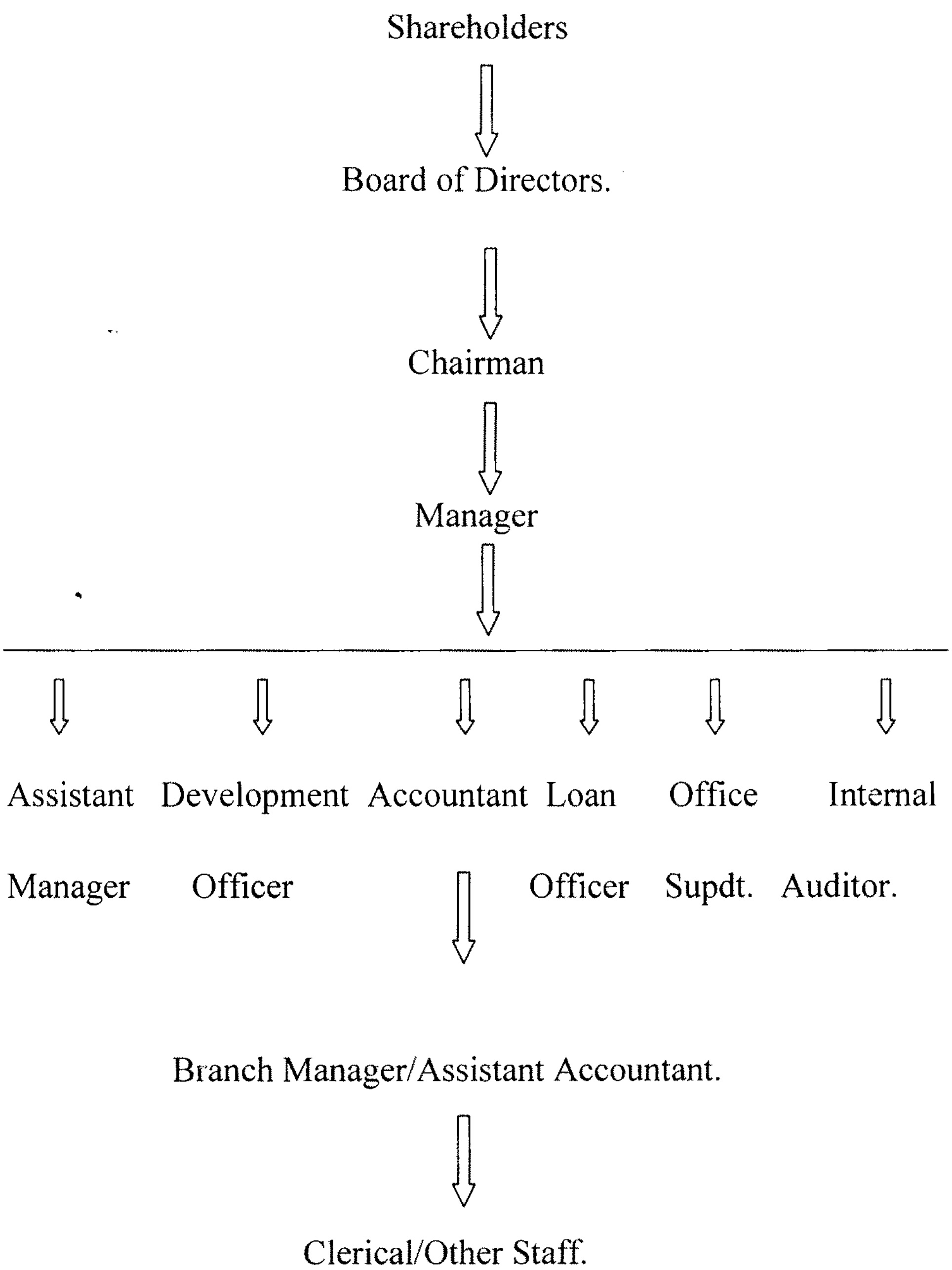
V) Organization Structure of the Bank :-

In the organization structure of the bank at the apex is the top management which comprises shareholders, board of directors and the chairman.

The shareholders are the owners of the bank. The board of Directors are the representatives of the shareholders and the entire administration is vested in Board of directors. They are responsible to the shareholders for framing policies of the bank. As regards administration, the chairman is the top authority of the bank. The manager, branch managers. Departmental Heads have to work under his guidance and supervision. The decisions are taken in the Board of directors meetings and execution of these decisions is made by the chairman through the manager.

The Manager is the Chief Executive of the bank. He has to keep informed about the important developments of the bank to the board of directors. All the branch managers and departmental heads are subordinate to him. He executes the decisions with the help of departmental heads and branch managers. He maintain harmonious relationship between the staff, the chairman and the board of directors.

Chart 1.2 :- Organization structure of the Koyana Co-operative Bank Ltd., Karad.



VI) Other activities of the Bank.

1) The bank runs other activities also. To ecourage the bright children of members, it regularly awards the 10^{th}. and 12^{th}. merit holders among members.

2) The bank gives 0.50 % additional rate of interest to the senior citizens of the society.

3) The bank has undertaken Koyana Deposits, Accident Insurance Policy for its Depositors, it provides a cover up to Rs. 1,00,000/- The premium amount is paid by the bank till the maturity of deposits.

4) Bank has undertaken the accident insurance policy for its borrowers also, but the premium has to be paid by the borrowers. It provides a cover up to Rs. 1,00,000/-

VII) Financial Position of the Bank :-

The Financial positon of the bank at the time of establishment and as on 31^{st} mar 2007, is shown in the following table.

Table No. 1.3

Table showing financial position of the bank as on 31st Mar 1997 & 31st Mar, 2007.

(Rs. In Lakhs.)

Particulars	31st March 1997	31st March 2007	Increase
No. of Members	1193	4242	3049 (255%)
Regular.	1163	2950	1787
Nominal	30	1292	1262
Share capital	12.45	164.82	152.37 (1224%)
Reserve Fund	0.06	35.46	35.40 (59000%)
Deposits	368.18	3002.25	2634.07 (715%)
Loans	32.28	2038.56	2006.28 (6215%)
Investments	183.65	1123.61	939.96 (512%)
Net profit	3.44	5.35	1.91 (56%)

(Source : Audited Financial Statements)

OBSERVATIONS :-

Membership.:-

a) It is observed from the table No. 1.3 that, at the time of establishment i.e. in the year 1996-97 it had 1193 members which increased to 4242 in the year 2006-07, which shows 2.5 times increase.

b) The substantial increase in membership depicts the trust of members in the bank

Share Capital :-

a) It is seen from the table that share capital of the bank shows an increase it has share capital of Rs. 12.45 lakhs in the year of establishment which came to Rs. 164.82 lakhs in the year 2007, it shows a substantial increase of more than 12.5 times.

b) It is seen that the bank has raised a large amount of funds through the issue of share capital. Increase in share capital shows the confidence of its members in the bank.

Reserve Fund :-

a) It is observed that the Reserve fund provision of the bank shows an improvement.

b) In the establishment year. Reserve fund provision was Rs. 0.06 Lakh. it has increased by 590 times and came to this 35.40 lakhs in 2007

Deposits :-

1 The deposit mobilisation of the bank shows an increase. The collection of deposits at the time of establishment was Rs. 368.18 Lakhs, which increased by 7 times and came to Rs. 3002.25 lakhs in the year 2007.

2 The increase in deposits shows that bank has succeeded in attracting investors

Loans :-

1. Loans distributed by the bank Shows an increase.

2. Loans distributed in the year 1996-97 was Rs. 32.28 Lakhs which increased to Rs. 2038.56 lakhs in 2007, it shows 62 fold increase in loans in ten years.

Investments :-

1) The investments made by the bank in various investment avenues reveals an increase.

2) Investments were Rs. 183.65 lakhs in the year of establishment; it has increased by 5 times and become Rs. 1123.61 lakhs during 2007.

Net Profit. :-

1) The profitability of the bank can be depicted by the net profit position. The net profit earned by the bank during the years shows an increase.

2) The profit in the year 1996-97 was Rs. 3.44 lakhs it increased by 56 times and came to Rs. 5.35 lakhs during 2007,

Generally seen the Koyana Co-operative Bank Ltd., Karad reveals the increasing trend of progress in respect of key aspects like members, share capital, reserve fund, deposits and loans & advances, investments & net profit.

The bank is marching on very successfully through the co-ordination and co-operation of depositors, members, management, workers and other well wishers. The success of any bank lies in proper management of finance. Hence financial analysis of such a bank on the path of progress will give direction for other banks also. Hence the bank is selected for study.

B)

1.10 : FINANCIAL ANALYSIS :-

I) Introduction :-

Financial performance of any business concern can be evaluated by financial statement analysis. To understand the financial performance and condition of a firm its stakeholders look at three financial statements Viz. Balance sheet, profit and loss account and the sources and uses of funds statement. Financial analysts depend primarily on these financial statements to diagnose financial performance. If properly analysed and interpreted Financial statements can provide valuable insights into a firms performance. The analysis and interpretation of financial statements is a matter of great interest to all the stakeholders, hence the researcher has undertaken the study entitled.

II) Financial Statements :-

Every entity is interested in knowing as well as understanding the results of its activities. Every day activities are recorded according to some system of accounting. There arises the need to know the results of these activities over a period of time, such results are to be presented to the interested parties in some suitable form.

An entity communicates its financial information to the users through financial statements and reports. The end product of the financial accounting process is a set of reports which are called financial statements.

The two basic financial statements commonly prepared are –

1) Balance sheet (Position Statement)

2) Profit and loss account (Income statement) present trend is to prepare a statement of Retained earnings also.

So the term "Financial statements" as used in modern business world refers to the set of financial statements, reports and schedules which an accountant prepares at the end of a period of time for business entity.

i) Objectivesof financial statements :-

The objectives of financial statements can be stated as follows :-

1) To provide adequate information about the financial performance. Assets and liabilities position of the business entity.

2) To assist in investment decision making.

3) To provide information about economic resources and obligations of a business enterprise.

4) To provide information about changes in net resources of an enterprise that result from profit directed activities.

5) To assist in estimating the earnings potential of the business enterprise.

6) To disclose other information that is relevant to the users of financial statements.

ii) Importance of Financial Statement :-

Financial statements provide valuable information to various users in different ways. The importance of these statements to the following user groups can be stated as follows :-

1) Management :-

Management is responsible for preparing a suitable strategy for its entity for this purpose, they are interested in knowing the existing profits,earnings per share, chances of survival, possibility of growth and diversification etc.

2) Creditors & Financial Institutions :-

Creditors and financial institutions are interested in knowing entity's capability to repay the amount and interest as and when due. So they are interested in knowing profitability and cash flows etc. of the entity.

3) Shareholders :-

Shareholders are interested in knowing the profitability of the business as they are concerned with the dividend payments and capital appreciation possibilities.

The other parties interested in the financial statement information are employees, government and customers.

iii) Limitations of financial statements :-

Financial statements suffer from a number of limitations, these are as follows :-

1) Financial statements ignore non-monetary but significant information.

2) Financial statements are prepared from the accounting records relating to the period which is already over, they disclose the results and the position of the entity of the past.

3) Financial statements are only interim reports. These statements have been prepared on "Accounting period concept" final results can not be known until the life of the entity is over.

4) Financial statements are influenced by accounting concepts and conventions in some case it results in unrealistic information.

5) Financial statements are influenced by personal judgments for e.g. method of depreciation, treatment of deferred expenses, valuation of stock etc. all depend upon the personal judgment of the policy makers.

6) Financial statements ignore the effect of price level changes, it has rendered the financial statements unrealistic and unbelievable.

Despite the limitations and uncertainties stated above, the financial statements still play a useful role and provide valuable insight into the business activities. Therefore well prepared and well audited financial statements are useful in financial decision making.

III) Financial Analysis and Interpretation :-

The information contained in financial statements is used by various users for decision making process. Users can know better about the financial strengths and weaknesses of the firm if they properly analyze the information contained in the financial statements.

Financial Analysis : Meaning. -

" Financial statement analysis is a study of relationship among the various financial factors in a business as disclosed by a single set of statements anda study of the trend of these factors as shown in a series of statements|"

- John Myer.

"Analyzing financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of firms position and performance "

- Metcaff R.W. and Titard P.L.

Analysis and interpretation of financial statements involves compilation and study of financial and operating data and the preparation and interpretation of measuring devices such as ratios, trend and percentages. So the process of analysis may be spilt up in the following stages.

1) Selection of the relevant information.

2) Classification of the information, identifying and segregating of the important factors.

3) Establishing relationship between different factors to convey meaningful and significant co-relation.

4) Evaluation of relationship with a view to answer the questions regarding the entity.

Interpretation means to put the meaning of a statement in to simple terms for the benefit of the user or drawing conclusions to serve as a basis for decision and action. Interpretation and analysis are closely connected because interpretation is not possible without analysis and analysis without interpretation is meaningless.

Financial statements are reports by management. These can be made as "reports on management" with the help of analysis and interpretation.

Analysis of statements consists in separating facts according to some definite plan, arranging them in groups according to certain characteristics and then presenting them in a convenient and easily understandable form.

i) Types of Analysis :-

Types of analysis may be classified either a) on the basis of material used or b) according to the method adopted for the analysis. According to the material used.It may be termed as 1) External and 2) Internal analysis.

1) External Analysis is made by those who do not have access to the detailed records of the company. Such analysis depend entirely upon

published financial statements. The users in this category include investors, creditors etc.

2) Internal Analysis is conducted by those who have access to the books of accounts and other related information from the records of the company. Such analysis is conducted by the executives themselves or by Government and court agencies who assume special powers by virtue of some enactments.

3) Horizontal analysis if the financial statements are reviewed for a number of years the analysis is known as Horizontal analysis. It is also known as " Dynamic analysis "

4) Vertical analysis is that type of analysis where financial statements are reviewed of one period (Year) only. It is also termed as " Static analysis "

ii) Significance and purpose of financial analysis :-

Purpose of analysis and interpretation depends upon the user who is interested in analysis and the object of analysis,different users have theie specific objectives, but the common or general objectives of financial analysis can be stated as follows :-

1) To assess entity's capacity to meet short term liabilities,

2) To assess entity's financial soundness in the long run,

3) To assess operational efficiency and profitability,

4) To assess relative performance of one unit with other units of the same industry.

5) To review the progress of the unit over a period of time,

6) To forecast the future prospect of the unit.

iii) Limitations of analysis :-

Financial statements are the output of accounting. Tools and techniques of analysis have been developed by management accounting. Analysis is to be conducted by the analyst. The accounting, management accounting and analyst, all the three, suffer from limitations and inadequacies. Therefore financial analysis should also suffer from certain limitations.

1) **Financial statements are historic in nature. :-**

They provide information relating to past only past can never be a perfect guide for future. Past may be helpful in estimating future. But it must be remembered that future has its own uncertainties.

2. Reliability of analysis shall depend upon the financial statements - Manipulations in the financial statements, window-dressing, accounting policies relating to depreciation, valuation of assets, providing of reserves etc. affect the figures and their reliability.

3. Static analysis is not much valuable analysis. It can be useful and effective only when comparison is made possible either over a period of time or with different units for the same time.

4. Analysis can't substitutes sound judgements :-

One should not take the results of the analysis as judgement or conclusions. Analysis is only means which can be used or misused depending upon the user.

5. Perceptions of the users are different :- Even if the results are same the interpretation of the different users shall not be the same for e.g. a high current ratio shall draw favorable comment from short term creditors but a unfavorable comment for the management.

6. Pitfalls of inter firm comparisons :-

Comparisons are far more difficult when the performance, efficiency, profitability etc. of different firms are being studied. The adoption of different accounting policies, different classification, different terminology are obstacles in the utility of interfirm comparison.

iv) Methods and devices used in analysis of financial Statements.

The fundamental objective of any analytical method is to simply or reduce date under review in a more understandable form. The analytical methods or devices are used to ascertain or measure the relationships between component parts of financial statements to obtain a better understanding of the firms position or performance.

The various methods and devices used in analyzing financial statements are as follows :-

1) Comparative financial statements.

2) Common size financial statements.

3) Trend Analysis.

4) Ratio Analysis.

5) Statement of changes in working capital.

6) Funds flow and cash flow analysis.

7) Cost volume profit analysis.

1) Comparative Financial Statements :-

Comparative financial statements are statements of the financial position of a business so designed as to facilitate comparison of different accounting variables for drawing useful interferences. Financial statements of two or more business enterprise may be compared over a period of years, this is known as Inter-Firm comparison.

Financial statements of a particular business enterprise may be compared over a period of years, this is known as Inter-Period comparison.

The elements of financial statements are shown in a comparative form so as to give an idea of financial position at two or more periods.

The comparative financial statements may show absolute figures changes in absolute figures, increase or decrease in absolute figures in terms of percentages. The two comparative statements prepared are balance sheet and Income statement.

2) Common size financial Statements :-

Common size financial statements are those in which figures reported are converted in to percentages to some common base. This facilitates comparison of two or more business entities with a common base. In the case of balance sheet, total assets or liabilities or capital can be taken as the common base and in the case of income statement, net sales can be taken as the base.

Thus, the statement prepared to bring out the ratio of each asset or liability to the total of the balance sheet and the ratio of each item of expenses or revenue to net sales is known as the common size statements.

3) Trend Analysis :-

Trend percentages as a tool of analysis are employed when it is required to analyze the trend of data shown in a series of financial statements of several successive years. Trend obtained by such an analysis is expressed as percentages.

Trend percentage analysis moves in one direction either upward or downward, [progression or regression. This method involves the calculation of percentage relationship that each statement bears to the same item in the base year. The base year may be any one of the periods involved in the analysis but the earliest period is mostly taken as the base year.

4) Ratio Analysis :-

Ratio analysis is a widely used tool of financial analysis. Ratio analysis is defined as the systematic use of ratio to interpret the financial statements, so that the strengths and weaknesses of a firm as well as its historical performance and current financial condition can be determined.

The term ratio refers to the numerical or quantitative relationship between two items/variables. This relationship can be expressed as i) Percentages, ii) Fraction and iii) Proportion of numbers. These ratios enable analysts to draw conclusions regarding financial operations. A single ratio like absolute figures fails to reveal the true position. Comparison with related facts is therefore the basis of ratio analysis. Four types of comparisons are involved. I) Trend ratios, ii) Inter firm comparison iii) Comparison of items within a single years financial statement of firm and iv) Comparison with standards or plans.

Ratios can be classified into four fundamental types which are as follows :-

a) Liquidity Ratios

b) Leverage Ratios

c) Activity Ratios

d) Profitability Ratios

5) Statement of changes in working capital :-

Statement of changes in working capital depicts the increase or decrease in working capital over a period of time. The main objective of this statement is to derive a fairly accurate summary of the events that affected the amount of working capital.

The amount of net working capital is determined by deducting the total of amount of current liabilities from the total amount of current assets, but the statement does not explain the detailed reasons for the changes in working capital.

6) Funds flow analysis :-

The balance sheet of a company reveals its financial status at a certain point of time. It does not focus those major financial transactions which have been behind the balance sheet changes. The financial executive must know the funds flows underlying the balance sheet changes. For this purpose a statement of movement of funds is prepared. This is known as funds flow statement.

Funds flow statement is a statement prepared to indicate increases in the cash resources and the utilization of such resources of a business. Thus funds flow statement is a report of the financial operations of a business undertaking. The creditors, share holders, bankers, investors and management are interested in this statement.

The funds flow statement is not a supporting schedule to the balance sheet, the income statement or the statement of allocation of earnings, although it is technically based upon the same accounting data. It is instead a complementary statement an important report to present information which can not be obtained from the other financial statements.

7) Cash Flow Statement :-

Cash plays an important role in the business firms economic life. In any business there is a constant inflow and outflow of cash. The essence of finance function is found in the provision of cash in sufficient amount and in proper time to meet the needs of the business.

A cash flow statement can be defined as a statement which summarizes sources of cash inflows and uses of cash outflows of a firm during a particular period of time. A funds flow statement is very much similar to cash flow statement. A cash flow statement focuses attention on cash instead of working capital.

Cash flow statement is useful for the management in assessing the capability of business to meet its short term commitments to words, creditors for goods and expenses, it also enables the management to see whether the long term funds are adequate to finance major fixed assets expansion. The information conveyed from the statement is also useful to the share holders. As also, the long term lenders can use the statement as a means of estimating the firms ability to service their debts.

The financial analysis carried out using the above mentioned techniques can be of an immense use to all the people who are interested in the affairs of business. Therefore an attempt is made in the forth coming chapters to make the Financial analysis of Koyana Co-operative Bank Ltd., Karad by using some of the selected techniques.