

CHAPTER - III

FINANCIAL MANAGEMENT AND STATE TRANSPORT UNDERTAKINGS.

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CHAPTER - III / FINANCIAL MANAGEMENT AND STATE TRANSPORT UNDERTAKINGS.

3.1 Introduction:

In this Chapter on Financial Management, efforts have been made to give its clear theoretical concepts and meaning.

In the next Chapter, detailed working of the Finance Department of the Maharashtra State Road Transport Corporation and the functions of its various financial authorities of the Finance Departments right from the Head Office to Depots, i.e. the entire structure, have been shown.

3.2 The Nature of Financial Management:

Financial Management is the managerial activity, which is mainly aimed at the planning and control of the financial resources of any kind of business concern, industry or public utility activities.

It has got its origin since Industrial Revolution, but it got fully developed in the 18th Century and became a branch of Economics. for its theoretical concepts only. This is very interesting and new subject for the working manager and academicians, as they have to study the problems from the financial point of view of the business concern and take decisions in the matter in the interest of the concern very skilfully.

3.3 Meaning of Financial Management:

Financial Management is an applied branch of the general management that looks after the financial function of business. Management,

in general, deals with the effective procurement and utilization of basic input like men, machines, material, markets and money. Finance is the common thread that passes through a wide spectrum of business activities and management of finance is the key variable that determines the success or failure of any kind of business.

Definitions:

'Financial Management' has been defined by various authors in various ways. The wellknown definitions are:

1. Hogland : "Financial Management deals with how the corporation obtains funds and how it uses them".¹
2. Mock, Schucts and Shukett : "The term 'financial management' refers to the allocation of skills in the manipulation, use and control of funds."²
3. Sherlekar : "Financial Management is the custodian of corporate funds. It helps to plan, organize and control the finance of the enterprise."³

3.4 Scope of Finance Functions:

Every Concern has got the following three activities, viz. (1) Finance, (2) Production/Services, (3) Marketing, which mean to secure capital for investments according to its need with a view to obtain maximum amount of returns by the Production/Services and Marketing activities.

Definition of Finance Function:

"The raising of capital funds and using them for generating returns and paying returns to the suppliers are called 'finance

functions of the firm".

There are two types of funds that a firm raises equity funds and borrowed funds. A firm has to sell shares to acquire equity funds. Shares represent ownership rights of their holders. The buyers of the shares are called shareholders and are the legal owners of the firm whose shares they hold. The return on the shareholders' capital is called dividend.⁴

Shareholders are of two types: (1) Equity Shareholders, and (2) Preference Shareholders. Basically, equity shareholders are the owners of the business. They are getting dividend after distributing to the preference shareholders. They are having right of voting power. Preference shareholders receive dividend at a fixed rate and have priority over equity shareholders in receiving dividends.

Another important source of securing capital is creditors or lenders. Lenders are not the owners of the firm or concern.

3.5 Functions of Financial Management:

Although it may be difficult to separate the finance functions from productions, marketing and other functions, still it can be very easily shown into broad categories:

- 1) Executive finance functions,
- 2) Routine finance functions.

1) Executive Finance Functions : In performing managerial finance functions, he has to use skill in planning, controlling and executing the financial activities.

2) Routine Finance Functions : The routine financial activities are mainly of clerical nature and they are very useful in carrying out managerial finance functions.

1) Executive Finance Functions : Executive finance functions consist of three types, viz. investment, i.e. purchase of assets. Secondly, financing the process of concern and thirdly, to allocate the profit earned and declare the dividend.

In addition to the above, he has to keep his watchful eye over the process of production and marketing activities and other functions of the firm. This will enable him to increase the size growth and profitability and reduce the risk of the firm.

"The functions of financial management is to review and control decisions to commit to re-commit funds to new or on-going uses. Thus, in addition to raising funds, financial management is directly concerned with production, marketing and other functions with an enterprise whenever decisions are made about the acquisition or distribution of asset."⁵

2) Routine Finance Functions : Routine finance functions are the functions of administrative office, which deals with the following:-

1. Supervision of cash receipts and payments and safeguarding the cash balance;
2. Custody and safeguarding the securities, insurance policies and other valuable papers;
3. Taking care of the mechanical details of new outside financing;
4. Record-keeping and reporting.

Generally, the chief finance executive is mainly involved in the managerial finance functions only at higher level and the routine finance functions are carried out by the employees at lower level, i.e. Accountants, Assistants and other clerical staff.

We have seen the nature and functions of the financial management. Let us now consider the functions performed by the Finance Department of the State Transport Undertaking.

3.6 Financial Management of MSRTC:

The Road Transport Corporations Act, 1950, has clearly laid down that the operations of the Corporation to be established under this Act are to be conducted on business principles. Naturally, the responsibility of the financial management of the Corporation is entrusted under the provisions of the Act and the Rules made thereunder. The Chief Accounts Officer to be appointed by the Government of Maharashtra itself from the cadre of Indian Accounts and Audit Service. Till recently, this system was continued, but an exception was made a few years ago when an officer of the Corporation was promoted and appointed as the Chief Accounts Officer and Financial Advisor of the Corporation.

From the designation of the post, it is clear that the C.A.O. and F.A. has to perform two main functions:

- 1) In the capacity of Financial Advisor, he has to record his views on every proposal having financial implications before it is submitted to the Corporation Board for sanction;
- 2) In the capacity as Chief Accounts Officer, he is supposed to help the various heads of Departments in framing proposals

involving large financial expenditure and to introduce and supervise, in general, financial discipline and better utilization of existing resources.

Shri.B.N.Adarkar, ex-Governor of Reserve Bank of India, and ex-Chairman of the MSRTC, has led down nine main functions to be performed by the Chief Accounts Executive of any corporate body and they are exhaustive and nothing more can be added to it.

3.7 Functions of the Chief Accounts Officer-cum-Financial Advisor of State Transport Undertaking:

In the first instance, we will deal with the functions of the CA/FA of MSRTC.

According to Shri.B.N.Adarkar, ex-Chairman of the Maharashtra State Road Transport Corporation, "For efficient financial management of State Transport Undertaking, there are 9 (nine) main functions, which are very important to be carried out by the Chief Accounts Officer-cum-Financial Advisor:

- 1) To maintain accounts in a manner which will reveal the true state of affairs of the organization and to prepare and submit reports within the stipulated time and in the prescribed manner;
- 2) To help in raising adequate resources to meet the corporate obligations to the outside parties in appropriate manner and on the most favourable terms;
- 3) To maintain cash balance at reasonable level at all times to achieve both liquidity as well as economy;
- 4) To ensure that the Corporation meets its obligations to Government and other parties, as and when they fall due;

- 5) To distribute the Corporation's financial business among Banks and other financial institutions in a manner which would best serve the Corporation's business interests;
- 6) To involve a system of performance auditing for proper control purposes;
- 7) To promote financial discipline amongst all levels of management in the organization;
- 8) To promote sound investment policies by laying down guidelines for project composition, project appraisal, project evaluation and project review;
- 9) To carry out social audit and financial audit.⁶

3.8 Working of Finance Department in Maharashtra State Road Transport Corporation:

The Maharashtra State Road Transport Corporation has kept these functions in view and to help the C.A.O. and F.A. to achieve these goals, the following departmental-hierarchy is created.

The C.A.O. and F.A. is assisted in his work by one Deputy General Manager, one Chief Internal Auditor and a number of Accounts Officers and Assistant Accounts Officers in the Central Office, Bombay. At Regional Offices, the finance and accounts officers assist the C.A.O. and F.A. in carrying out the financial functions of the region. At the Divisional level, A.O., and at the Depot level, the Accountants are made responsible for the proper upkeep of accounts and general supervision over all the accounting functions.

Financial management of the MSRTC has to observe the following objectives:

- 1) To ensure that the operations of the Corporation are conducted on business principles;
- 2) To establish a sound financial base, so that as far as possible, the Corporation may be self-supporting in financial matters;
- 3) To develop a sense of financial discipline and cost-consciousness among the supervisory and the managerial staff.⁷

It is the legal responsibility of the C.A.O. and F.A. to prepare annual budget estimate of capital and revenue receipts and expenses and to show the actual financial reasons in the actual Profit and Loss Accounts and Balance Sheet to be audited by an officer appointed by the Accountant General of Maharashtra State. Preparation of cash-flow statements to ensure the availability of adequate finance, to ensure that the expenditure is made according to planned programme and to ensure that the target of performances approved by the Corporation are achieved by all accounting units of Corporation. The C.A.O. and F.A. is expected to act with wisdom, faithfulness and economy while submitting financial proposal to the Corporation and also in general supervision of the whole account and audit procedure.

The main revenue collection centre of the Corporation is the Depot. Revenue, by way of sale of tickets to passenger, is collected through thousands of conductors all over the State and the same is received and accounted by the Depots to which the conductors are attached. Revenue from the sale of tickets to passenger accounts for 98% of the total revenue of the Corporation. Every month, the Depot is to prepare Performance as well as Financial Budgets and the same are consolidated in Divisional Office, to which a number of depots are

attached. Prolonged discussions are made on the achievements, revenue and expenditure of each Depot and the Divisional Budget is sent to the Regional Office where it is consolidated for the number of Divisions attached to each Regional Office, and then it is further sent to the Central Office, Bombay, where it is consolidated for the whole Corporation. At every stage, meetings and discussions are held to review the performance and financial budgets in order to exercise proper control at appropriate time.

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