

CHAPTER THIRD

CHAPTER 3

SOURCES OF FUNDS

INTRODUCTION

Finance is the lifeblood of business. The business unit cannot run efficiently if it does not have adequate finance to meet its requirements. The function of raising of funds investing them in the assets and distributing returns earned from assets to shareholders are respectively known as financing, investing and dividend decisions.

The Finance function covers financial planning, forecasting of cash receipt and disbursements. The realizing of funds, use and allocation of funds and financial control. The finance function included financing or capital mix decision, Investment or long term asset mix decision, Dividend or profit allocation decision, liquidity or short term asset mix decisions. This chapter covers the financing or capital mix decision of Gokul Sahakari Doodh Utpadak Sanstha Ltd., Gadmodshingi.

FINANCING DECISION

Financing decision involves that the financial manager must decide where, when, how to acquire the funds to meet the firms investment needs. For this purpose he has to determine the proportion of equity and debt. The proportion of equity and debt is known as the firms 'capital structure'.

In short capital structure means financial planning according to which the assets of the units have been financed.

According to K.C. Kuchal capital structure is only a part of financial structure with in the framework of equating the rate of return and cost of capital. The capital structure is sought by using proportion of

debt such that is correct degree of trading on equity leading finance leverage will cause highest market value of ordinary shares.

Capital structure means long term source of finance from which assets of the firm have been financed. It is the liabilities side of the Balance sheet excluding trade creditors and other short term sources of funds.

To analyze the capital structure of business the following capital structure ratios are calculated.

- 1 Debt to equity ratio
- 2 Total Debt to total assets ratio
- 3 Debt to capital ratio
- 4 Net worth to total assets/proprietary ratio.

The financial requirement of the business can be classified into two categories as follows.

Short Term Financial Requirement

Long Term Financial Requirement

SHORT TERM FINANCIAL REQUIREMENT

Funds are required for meeting working capital needs. They are usually required for the period up to one year. They are raised from the sources from which they can provide fund only for a short period and at reasonable cost.

LONG TERM FINANCIAL REQUIREMENT

Long term funds are required for meeting the fixed capital requirements of the business. They are required for the period exceeding one year. They are classified as

Medium term funds

Long term funds

Medium term funds required for the period of before 3 & 5 years while long term funds are required for the period exceeding 5 years.

SOURCES OF LONG TERM FINANCING

Owned Capital Shares (Ordinary & preference)

Borrowed Capital Debentures and Bonds

ORDINARY SHARE CAPITAL

The capital represented by the ordinary shares is called share capital or equity share capital. It appears on the left hand side of the Balance sheet.

The holder of the ordinary shares is called as shareholders. They are the legal owners of the company. It is the permanent capital. The rate of dividend is not fixed, it is decided by the Board of Directors. Therefore it is known as variable income security.

DETAILS OF THE SHARE CAPITAL

AUTHORISED SHARE CAPITAL

It is the maximum amount of share capital which a company can raise from shareholders.

ISSUED SHARE CAPITAL

The portion of authorized share which has been offered to shareholders is called as issued share capital.

SUBSCRIBED SHARE CAPITAL

It represents the part of issued capital which has been accepted by the shareholders.

PAID UP SHARE CAPITAL

It is the amount of subscribed share capital actually paid by shareholders of the company.

SHARE CAPITAL

The following table shows the share capital of the sanstha.

TABLE NO 3.1
SHARE CAPITAL

YEAR	SHARE CAPITAL AMOUNT (Rs.)	INCREASE/DECREASE AMOUNT (Rs.)
2000-2001	20,630	-
2001-2002	17,840	-2790
2002-2003	20,530	+2690
2003-2004	18,200	-2330
2004-2005	22,490	+4290
	INCREASE	+1860

SOURCE ANNUAL REPORTS

TABLE NO.3.1

The table shows Share Capital of Gokul Sahakari Doodh Utpadak Sanstha Ltd., Gadmodshingi. for the period covered under study 2000 to 2005.

The amount of issued and paid up share capital in the year 2000-2001 was Rs.20,630. This amount was decreased to Rs.17,840, Rs.20,520 & Rs.18,200 respectively for the year 2001-2002, 2002-

2003 & 2003-2004. And in the year 2004-2005 it was increased to Rs.22,490.

The amount of share capital is decreased by Rs. 2790 in the year 2001-02 and Rs.2330 is in the year 2003-04. The amount of share capital is increased by Rs.2680 in the year 2002-2003 and Rs.4290 in the year 2004-05. The total increase in the amount was Rs.1860.

From the table it is clear that the amount of share capital shown in the table is issued by the santha to its member in the year 200-2001 and 2001-02. The membership decreased up to 116 members in the year 2004-2005.

RESERVE FUND

Every society which does or can derive a profit from its transactions shall maintain a Reserve Fund and shall contribute at least one forth of the net profits each year to this fund.

The reserve fund cannot be utilized for the payment of dividend or bonus.

The following table shows the Reserve funds of the sanstha for the five years.

Table No.3.2
RESERVE FUND

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Reserve	2,33,971	2,33,171	2,52,731	2,80,461	2,92,960
Building	6,15,141	6,16,022	6,38,021	6,65,023	6,87,076
Cattle feed	73,447	73,447	81,270	93,130	97,983
Charity fund	16,017	16,017	18,625	22,578	24,196
Debt fund	10,000	10,000	10,000	15,000	9,101
Total	9,48,577	9,49,458	10,00,649	10,78,194	11,11,318

SOURCE ANNUAL REPORTS

TABLE NO 3.2

The above table shows Reserve funds of Gokul Sahakari Doodh Utpadak Sanstha Ltd., for the period covered under study.

The table shows that the amount of Reserve funds was increased each year.

The total amount for the year 2000-01 is Rs. 9,48,577 out of which much more amount spent on Building funds.

The total amount of Reserve funds for the year 2001-02 is Rs. 9,49,458. As compare to the last year amount increased due to the increase in the amount of Building fund by Rs.

The amount of Reserve funds for the year 2002-03 is Rs.10,00,649. As compare to the last year amount increased due to increased by Rs.

Table No.3.3
RESERVE FUND

YEAR	RESERVE FUND	INCREASE/DECREASE
2000-2001	9,48,577	-
2001-2002	9,49,458	+881
2002-2003	10,00,649	+51,191
2003-2004	10,78,194	+77,545
2004-2005	11,11,318	+33,124
	INCREASE	+1,62,741

SOURCE ANNUAL REPORTS

TABLE NO.3.3

The table shows the amount of Reserve funds of the Gokul Sahakari Doodh Utpadak Sanstha Ltd., for the period covered under study.

From the table it is clear that the amount of Reserve funds for the year 2000-2001 was Rs.9,48,577 and for the year 2004-05 Rs.11,11,318. The total increase in the amount was Rs.1,62,741.

The amount of Reserve fund increased by Rs.881 in the year 2001-2002, Rs.51,191 in the year 2002-2003, Rs.77,545 in the year 2003-2004, and Rs.33,124 in the year 2004-2005.

MEMEBR DEPOSIT

The had undertaken a programme of Member deposit to increase the capital of sanstha.

Member deposits are returned to the members at the end of the year.

Table No.3.4
MEMBER DEPOSIT

YEAR	DEPOSIT AMOUNT(Rs.)	INCREASE/DECREASE AMOUNT (Rs.)
2000-2001	4,725	-
2001-2002	4,725	-
2002-2003	4,725	-
2003-2004	4,725	-
2004-2005	1,050	-3,675
	DECREASE	-3675

SOURCE ANNUAL REPORTS

TABLE NO.3.4

From the above table it is clear that the amount of Member Deposits of the sanstha is Rs.4,725 for the year 2000-01 to 2003-04. And Rs.1,050 for the year 2004-05. The amount decreased by Rs.3,975 due to increase in the Share Capital of the sanstha.

PROFIT

The following table shows the profits of the sanstha for the period covered under study.

Table No.3.5

PROFIT

YEAR	PROFIT AMOUNT (Rs.)	INCREASE/DECREASE AMOUNT(Rs.)
2000-2001	4,468	-
2001-2002	75,042	+75,574
2002-2003	1,11,974	+36,932
2003-2004	49,984	-61,990
2004-2005	34,751	-15,233
	INCREASE	+30,283

SOURCE ANNUAL REPORTS

TABLE NO.3.5

The shows the amount of profits earned by the Gokul Sahakari Doodh Utpadak Sanstha Ltd., for the period covered under study 2000-2005.

From the above table it is clear that the amount of the profits for the year 2000-01 was Rs. 4,468 & for the year 2004-05 was Rs.34,751. The total increase in the amount of profit was Rs.26,983.

The amount of profit was increased by Rs.67,274 for the year 2001-02 & Rs.36,932 for the year 2002-03. The amount of profit decreased by Rs.61,990 for the year 203-04 & Rs.15,233 for the year 2004-05.

DEBT TO EQUITY RATIO

It is a measure of relative claims of creditors & owners against the assets of the firm. It is calculated as under.

$$\text{Debt to Equity ratio} = \frac{\text{Total Debts}}{\text{Net worth/Owners equity}}$$

The term total debt include short term debts, where as the term net worth included equity share capital, reserve & surplus i.e. Proprietors fund. 1:1 ratio is considered or acceptable.

SIGNIFICANCE

It is measure of financial strength of a concern. Lower the ratio greater is the security available to creditors.

The purpose of this ratio is to derive an idea of amount of capital supplied by the owners and assets 'cushion' available to creditors on liquidation.

Too much reliance on external equities may indicate under capitalization where as too much reliance on internal equities may lead to over capitalization.

TABLE NO. 3.6
TOTAL DEBTS TO NET WORTH

YEAR	TOTAL DEBTS Amount (Rs.)	NET WORTH Amount (Rs.)	Ratio
2000-2001	70,349	9,73,932	0.07:1
2001-2002	1,19,453	9,72,023	0.12:1
2002-2003	84,514	10,25,904	0.08:1
2003-2004	1,26,810	11,01,119	0.11:1
2004-2005	89,785	11,34,850	0.07:1
		Average ratio	0.09:1

SOURCE ANNUAL REPORT

TABLE NO.3.6

The above table shows the debt equity ratios of the sanstha during the period under study.

The table shows that the debt equity ratio is below the 1:1 in all the five years. Average ratio is 0.09:1 which is less than the norm. It means the creditors have sufficient cushion for their claims.

On the basis of the above analysis it can be concluded that the capital mix of the sanstha is appropriate.

It is clear that sanstha gives too much reliance on internal equity which leads to overcapitalization.

PROPRIETARY RATIO/ EQUITY RATIO

The ratio of tangible net worth to the total assets is called as proprietary ratio or capital to total assets ratio. It is calculated as

$$\text{Proprietary Ratio} = \frac{\text{Proprietor's funds}}{\text{Total Assets}}$$

INTERPRTATIONS

This ratio indicates the extent to which total assets are being fancied by the shareholders & by the creditors.

It is useful tool as it indicated the margin of safety. Greater is the percentage⁴ of proprietor's fund the stronger is the financial position of the concern. This ratio is normally test of strength of credit worthiness of the sanstha.

SIGNIFICANCE

A higher proprietary ratio indicates stronger financial position. And the low ratio will indicates less owned fund & more borrowed funds. It means the under capitalization and the excessive use of the creditors fund to finance business.

TABLE NO. 3.7
PROPRIETAY RATIO

YEAR	PROPRIETARS FUND Amount (Rs.)	TOTAL ASSETS Amount (Rs.)	RATIO
2000-2001	9,73,932	9,11,271	106%
2001-2002	9,72,023	9,47,929	102%
2002-2003	10,25,904	9,30,661	110%
2003-2004	11,01,119	9,79,882	112%
2004-2005	11,34,858	9,92,664	114%
		AVERAGE RATIO	108%

SOURCE ANNUAL REPORT

TABLE NO.3.7

The table shows the propriety ratios of Gokul Sahakari Doodh Utpadak Sanstha Ltd., during the period covered under study.

The table shows the proprietary ratio is above the norm i.e. 100% in all the five years. Average ratio is 108% which is high. It indicates more owned fund & less borrowed funds.

Higher the proprietary ratio is frequently indicates of over capitalization & excessive investment in fixed assets in relation to actual needs.

On the basis of above analysis it can be concluded that the financial position of the sanstha is strong or good.

TOTAL DEBT TO TOTAL ASSETS RATIO

It indicates the percentage of assets that are financed through debt. The ratio should be 1:2 implying more supply of funds by an outsider without showing the risks & profit of business.

Total Debts

Total Debts to =-----*100

Total assets Ratio Total Assets

The term total debts include short term debts. Total Assets includes fixed & current assets.

TABLE NO.3.8
TOTAL DEBT TO TOTAL ASSETS RATIO

YEAR	TOTAL DEBTS Amount(Rs.)	TOTALASSETS Amount (Rs.)	RATIO
2000-2001	70,349	9,11,271	7.71%
2001-2002	1,19,453	9,47,929	12.60%
2002-2003	84,453	9,30,661	9.08%
2003-2004	1,26,810	9,79,882	12.94%
2004-2005	89,785	9,92,664	9.04%
		AVERAGE RATIO	10.27%

SOURCE ANNUAL REPORT

TABLE NO.3.8

The table shows total debt to total assets ratio of Gokul Sahakari Doodh Utpadak Sanstha Ltd., during the period covered under study 2000 to 2005.

The table shows total debt to total assets ratio in the year 2000-2001 is 7.71% and 9.04% in the year 2004-05. The average ratio is 10.27%. This ratio is far from the standard norm i.e.1:2.

It can be concluded that the more supply of funds from outsider.

DEBT TO CAPITAL RATIO

This ratio gives the idea of internal source which will remain in the concern for a long period and recommended that long term debt should not be more the 6% of permanent capital.

TABLE NO.3.9
DEBT TO CAPITAL RATIO

YEAR	TOTAL DEBT Amount (Rs.)	CAPITAL Amount (Rs.)	RATIO
2000-2001	70,349	20,63,	3.41%
2001-2002	1,19,453	17,840	6.69%
2002-2003	84,514	20,530	4.11%
2003-2004	1,26,810	18,200	6.96%
2004-2005	89,785	22,490	3.99%
		AVERAGE RATIO	5.32%

SOURCE ANNUAL REPORT

TABLE NO.3.9

DEBT TO CAPITAL RATIO

The table shows Debt to capital ratios of Gokul Sahakari Doodh Utpadak Sanstha Ltd., during the period covered under study 2000 to 2005.

The table shows debt to capital ratio is 3.41% in the 2000-01. The average ratio is 5.32%.

From the above analysis it can be concluded that the sanstha has maintained debts in good condition because the debts should not be more than 6% of capital.

Balance Sheet as on 31st March 2000-2001

Particulars	Amount (Rs.)	Amount(Rs.)
1 Funds Employed		
Share Capital	20,630	
Reserve Funds	9,48,577	
Member Deposit	4,725	
Profit	4,568	
Total		9,78,400
2 Application of Funds		
A Fixed Assets	13,498	
Dead stock	28,400	
Milko Tester	29,540	
Stabilizer	975	
Land	21,000	
Library	152	
Total A		65,165
B Investments		1,37,475
C Current Assets		
Cash in hand	3,383	
Cash at Bank	5,983	
Stock	452	
Prepaid Expenses	8,35,572	
Sundry Debtors	716	
	8,46,106	
Less Current Liabilities		
Sundry Creditors	45,593	
Unpaid Expenses	9,417	
Provisions	15,339	
	70,349	
Total C Net Current Assets		7,75,757
Total A+B+C		9,78,400

Profit & Loss A/c for the year ended 31st March 2000-2001

Particulars	Amount (Rs.)	Amount (Rs.)
Net Sales		79,003
Less- Cost of goods Sold		
Opening Stock	30,617	
Add Purchases	-	
	30,617	
Less Closing Stock	452	30,165
Gross Profit		48,838
Less Operating Expenses		
Administrative Expenses	46,368	
Financial Expenses	280	
Selling Expenses	2,200	
Notional Expenses	-	48,848
Operating Profit		10
Incomes		
Management Charges	7,615	
Rent	8,900	
Interest on Debenture	2,133	
Interest on Deposit	7,800	
Dividend	7,260	
Advance Interest	8,239	41,947
		41,937
Less Non operating Expenses		37,469
Net Profit		4,468

Balance Sheet as on 31st March 2001-2002

Particulars	Amount (Rs.)	Amount(Rs.)
1 Funds Employed		
Share Capital	17,840	
Reserve Funds	9,49,458	
Member Deposit	4,725	
Profit	75,042	
Total		10,47,065
2 Application of Funds		
A Fixed Assets		
Dead stock	12,688	
Milko Tester	26,700	
Stabilizer	29,540	
Land	21,000	
Library	1,128	
Total A		61,516
B Investments		2,18,589
C Current Assets		
Cash in hand	17,248	
Cash at Bank	68,209	
Stock	17,248	
Prepaid Expenses	7,81,459	
Sundry Debtors	2,249	
	8,86,413	
Less Current Liabilities		
Sundry Creditors	86,655	
Unpaid Expenses	10,260	
Provisions	22,538	
	1,19,453	
Total C Net Current Assets		7,66,960
Total A+B+C		10,47,065

Profit & Loss A/c for the year ended 31st March 2001-2002

Particulars	Amount (Rs.)	Amount (Rs.)
Net Sales		6,24,966
Less- Cost of goods Sold		
Opening Stock	3,383	
Add Purchases	5,69,713	
	5,96,096	
Less Closing Stock	17,248	5,55,848
Gross Profit		69,118
Less Operating Expenses		
Administrative Expenses	36,946	
Financial Expenses	5,988	
Selling Expenses	1,818	
Notional Expenses	4,249	49,001
Operating Profit		20,117
Incomes		
Management Charges	15,663	
Rent	15,168	
Interest on Debenture	7,236	
Interest on Deposit	5,259	
Dividend	8,610	
Advance Interest	11,788	63,724
		83,841
Less Non operating Expenses		8,796
Net Profit		75,045

Balance Sheet as on 31st March 2002-2003

Particulars	Amount (Rs.)	Amount(Rs.)
1 Funds Employed		
Share Capital	20,530	
Reserve Funds	10,00,649	
Member Deposit	4,725	
Profit	1,11,974	
Total		11,37,878
2 Application of Funds		
A Fixed Assets		
Dead stock	15,513	
Milko Tester	25,365	
Stabilizer	930	
Land	21,000	
Library	540	
Total A		63,348
B Investments		2,91,730
C Current Assets		
Cash in hand	3,930	
Cash at Bank	52,188	
Stock	387	
Prepaid Expenses	7,92,929	
Sundry Debtors	17,879	
	8,67,313	
Less Current Liabilities		
Sundry Creditors	56,792	
Unpaid Expenses	3,922	
Provisions	23,800	
	84,514	
Total C Net Current Assets		7,82,800
Total A+B+C		11,37,878

Profit & Loss A/c for the year ended 31st March 2002-2003

Particulars	Amount (Rs.)	Amount (Rs.)
Net Sales		7,40,434
Less- Cost of goods Sold		
Opening Stock	1,185	
Add Purchases	6,28,476	
	6,29,661	
Less Closing Stock	387	6,29,274
Gross Profit		1,11,160
Less Operating Expenses		
Administrative Expenses	49,541	
Financial Expenses	2,990	
Selling Expenses	1,895	
Notional Expenses	2,196	56,662
Operating Profit		54,538
Incomes		
Management Charges	17,703	
Rent	13,200	
Interest on Debenture	5,604	
Interest on Deposit	17,078	
Dividend	10,338	
Advance Interest	715	64,638
		1,19,176
Less Non operating Expenses		7,202
Net Profit		1,11,974

Balance Sheet as on 31st March 2003-2004

Particulars	Amount (Rs.)	Amount(Rs.)
1 Funds Employed		
Share Capital	18,200	
Reserve Funds	10,78,194	
Member Deposit	4,725	
Profit	49,984	
Total		11,49,103
2 Application of Funds		
A Fixed Assets		
Dead stock	16,162	
Milko Tester	24,095	
Stabilizer	883	
Land	21,000	
Library	3,611	
Total A		65,753
B Investments		2,96,031
C Current Assets		
Cash in hand	15,486	
Cash at Bank	73,468	
Stock	3,458	
Prepaid Expenses	8,07,344	
Sundry Debtors	14,373	
	9,14,129	
Less Current Liabilities		
Sundry Creditors	96,738	
Unpaid Expenses	6,252	
Provisions	23,820	
	1,26,810	
Total C Net Current Assets		7,87,319
Total A+B+C		11,49,103

Profit & Loss A/c for the year ended 31st March 2003-2004

Particulars	Amount (Rs.)	Amount (Rs.)
Net Sales		6,60,035
Less- Cost of goods Sold		
Opening Stock	387	
Add Purchases	5,51,339	
	5,51,726	
Less Closing Stock	3,458	5,48,268
Gross Profit		1,11,767
Less Operating Expenses		
Administrative Expenses	56,422	
Financial Expenses	1,825	
Selling Expenses	3,916	
Notional Expenses	2,165	64,328
Operating Profit		47,439
Incomes		
Management Charges	-	
Rent	17,800	
Interest on Debenture	1,812	
Interest on Deposit	20,272	
Dividend	14,462	
Advance Interest		54,146
		1,01,585
Less Non operating Expenses		51,602
Net Profit		49,984

Balance Sheet as on 31st March 2004-2005

Particulars	Amount (Rs.)	Amount(Rs.)
1 Funds Employed		
Share Capital	22,490	
Reserve Funds	11,11,318	
Member Deposit	1,050	
Profit	34,751	
Total		11,69,609
2 Application of Funds		
A Fixed Assets		
Dead stock	27,922	
Milko Tester	22,891	
Stabilizer	977	
Land	21,000	
Library	5,177	
Total A		77,829
B Investments		2,66,730
C Current Assets		
Cash in hand	7,741	
Cash at Bank	1,16,855	
Stock	2,919	
Prepaid Expenses	7,82,298	
Sundry Debtors	5,022	
	9,14,835	
Less Current Liabilities		
Sundry Creditors	63,653	
Unpaid Expenses	6,812	
Provisions	19,320	
	89,785	
Total C Net Current Assets		8,25,050
Total A+B+C		11,69,609

Profit & Loss A/c for the year ended 31st March 2004-2005

Particulars	Amount (Rs.)	Amount (Rs.)
Net Sales		4,63,009
Less- Cost of goods Sold		
Opening Stock	4,034	
Add Purchases	4,01,814	
	4,05,848	
Less Closing Stock	5,022	4,00,826
Gross Profit		62,182
Less Operating Expenses		
Administrative Expenses	56,217	
Financial Expenses	1,496	
Selling Expenses	2,059	
Notional Expenses	2,058	61,830
Operating Profit		353
Incomes		
Management Charges	-	
Rent	15,989	
Interest on Debenture	16,076	
Interest on Deposit	12,165	
Dividend	-	
Advance Interest	-	56,798
		57,151
Less Non operating Expenses		22,400
Net Profit		34,751