



## Fund Flow Analysis of Jalgaon District Central Co-operative Bank Ltd, Jalgaon

### KEYWORDS

fund flow analysis, sources and application of fund, short term fund and long term fund, JDCC bank Jalgaon

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**ABSTRACT** Fund flow analysis can reveal the strength and weakness in utilization of available fund for business purpose. This is an attempt to identify and analyze these aspects with reference to Jalgaon District Central Co-operative Bank LTD, Jalgaon. The objective of undertaking this study is to identify the strength and weakness in fund management both short term and long term. This study is based entirely on secondary data i.e., financial statement of Bank for 3 years viz., 2010-11, 2011-12, 2012-13, annual reports for these three years and important feedback from key employees of the bank. This study will provide important aspects regarding how its fund is utilized for the banking and non banking operation. It will provide valuable sense on its performance resulted from its operation. From this analysis, I have concluded that fund management at JDCC Bank (both short term & long term) is adverse. And this is narrowing the profit margin of Bank.

### I. Introduction:

Government or cooperative firms operate at much leisure and in absence of competitive pressure as compared to private firms. These firms are generally said to be associated with poor performance due to inefficient utilization of available funds. Good performance of any business firm is subject to good utilization of fund in hand. The available fund should be utilized mostly for the purpose of core operation of the firm. This utilization of fund can be measured with the help of fund flow statement.

Fund Flow analysis is the technique to identify various sources and application of funds during the two accounting year. As well as it can reveal the alignment between various sources and application of fund (short term and long term).

### II. JDCC Bank Ltd, Jalgaon - at a Glance:

The Jalgaon District Central CO-OP Bank LTD, Jalgaon was established on 27th May 1916 and it is situated in Jalgaon City. The Bank has 247 Branches well established in Maharashtra State. It includes an ideal Head Office situated in Jalgaon. Currently bank is providing various services like Agriculture Loan Facility, Seasonal Loan Facility, Swarna Jayanti Gram Swarogjar Yojna, Home Loan Facility, Vehicle Loan Facility, General Loan Facility, as well as Saving & Current Account Facility.

### III. Fund Flow Analysis:

The purpose of measuring trading performance, operational efficiency, profitability and financial position of a concern revealed by Trading, Profit and Loss Account and Balance Sheet. These financial statements are prepared to find out the Gross Profit or Gross Loss, Net Profit or Net Loss and financial soundness of a firm a whole for a particular period of time. In the true sense they do not disclose the nature of all transactions. Management, Creditors and Investors etc. want to determine or evaluate the sources and application of funds employed by the firm for the future course of action. Based on these backgrounds, it is essential to analyze the movement of assets, liabilities, funds from operations and capital between the components of two year financial statements. The analysis of financial statements helps management by providing additional information in a meaningful manner.

### Meaning of Fund

The term "Fund" refers to Cash, to Cash Equivalents or to

Working Capital and all financial resources which are used in business. These total resources of a concern are in the form of men, materials, money, plant and equipments and others.

In a broader meaning the word "Fund" refers to Working Capital. The Working Capital indicates the difference between current assets and current liabilities. The term working capital may be:

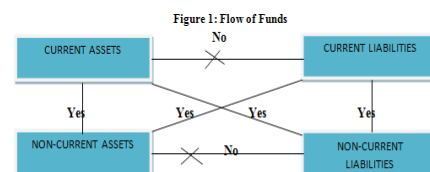
- Gross Working Capital and
- Net Working Capital.

"Gross Working Capital" represents total of all Current Assets and "Net Working Capital" refers to excess of Current Assets over Current Liabilities.

**In a narrow sense the word "Fund" denotes cash or cash equivalents.**

### Meaning of Flow of Funds

The term "Flow of Funds" refers to changes or movement of funds or changes in working capital in the normal course of business transactions. The changes in working capital may be in the form of inflow of working capital or outflow of working capital. In other words, any increase or decrease in working capital when the transactions take place is called as "Flow of Funds." If the components of working capital results in increase of the fund, it is known as Inflow of Fund or Sources of Fund. Similarly, if the components of working capital effects in decreasing the financial position it is treated as Outflow of Fund. For example, if fund raised by way of issue of shares will be taken as a source of fund or inflow of fund. This transaction results in increase of the financial position. Like this, the fund used for the purchase of machinery will be taken as application or use of fund or outflow of fund because it stands to reduce the fund position. (Gowda, 2009)



Source: Pg 412, Financial Accounting & Financial Statement Analysis – Study Guide, ICAI University.

**Current and Non-current Accounts**

It is essential to classify various accounts and balance sheet items into current and non-current categories to understand how the flow of funds takes place. Current accounts can either be current assets or current liabilities. Current assets are those assets which in the ordinary course of business can be or will be converted into cash within a short period of normally one accounting year. Current liabilities are those liabilities which are to be paid in the ordinary course of business within a short period of normally one accounting year out of the current assets or the income of the business. (ICFAI University, July, 2005)

**Statement of Changes in Financial Position**

It is a statement prepared on the basis of all financial resources, i.e., assets, liabilities and capital. This statement is attempt to measure changes in both current and non-current accounts. The changes in financial position may occur in deal with following transactions:

- a) Involves between current assets and non-current assets (fixed assets or permanent assets).
- b) Involves between current liabilities and non-current assets.
- c) Involves between current assets and non-current liabilities (long-term liabilities and capital)
- d) Involves between current liabilities and non-current liabilities. (Gowda, 2009)

Rule: The Flow of Funds occurs when a transaction changes on one hand a non-current account and on the other a current account and vice-versa. (ICFAI University, July, 2005)

**Fund Flow Statement**

It is a statement summarizing the significant financial changes in items of financial position which have occurred between the two different balance sheet dates. This statement is prepared on the basis of "Working Capital" concept of funds. Fund flow Statement helps to measure the different sources of funds and application of funds from transactions involved during the course of business.

The fund flow statement also termed as Statement of Sources and Application of Fund, Where Got and Where Gone out Statement, Inflow of Fund or Outflow of Fund Statement.

**Importance or Uses of Fund Flow Statement**

- 1. It highlights the different sources and applications or uses of funds between the two accounting period.
- 2. It brings into light about financial strength and weakness of a concern.
- 3. It acts as an effective tool to measure the causes of changes in working capital.
- 4. It helps the management to take corrective actions while deviations between two balance sheets figure.
- 5. It also presents detailed information about profitability, operational efficiency and financial affairs of a concern.
- 6. It serves as a guide to the management to formulate its dividend policy, retention policy and investment policy etc.
- 7. It helps to evaluate the financial consequences of business transactions involved in operational finance and investment.
- 8. It gives the detailed explanation about movement of funds from different sources or uses of funds during a particular accounting period. (Gowda, 2009)

**IV. Objective:**

- 1. To know the various sources and Application of Funds in JDCC Bank, Jalgaon.
- 2. To study and analyze the Working Capital position and changes in it.
- 3. To study and analyze the pattern of Fund Flow for long term sources and application.
- 4. To analyze the alignment between sources and applica-

tion of fund for short term as well as long term.

- 5. To identify the strength and weakness and reasons of that, in JDCC Bank, Jalgaon in the perspective of fund flow analysis.
- 6. To suggest the appropriate actions to overcome the same.

**V. Research Methodology:**

- 1. Type of Research: It is a case study based on the secondary data. Secondary data is processed according to technique of fund flow analysis. And strength and weakness are identified in the purview of fund flow analysis.
- 2. Types of Data:
  - o Primary data: Primary data were collected through informal meeting held with key managerial persons of the bank. Important issues i.e. strength and weaknesses identified during the analysis is discussed with them.
  - o Secondary data: Secondary data were collected from Bank's Annual Report for three years i.e. 2010-11, 2011-12, 2012-13. Secondary data involves financial statement.
- 3. Data Analysis & Interpretation Tools: Financial figures of three year are analyzed with the help of popular technique of fund flow analysis to find out the strength and weakness. Graphs, charts and tables are used for interpretation purpose.

**VI. Data Analysis & Interpretation:**

**VI.I. Short Term Sources and Application of Funds**

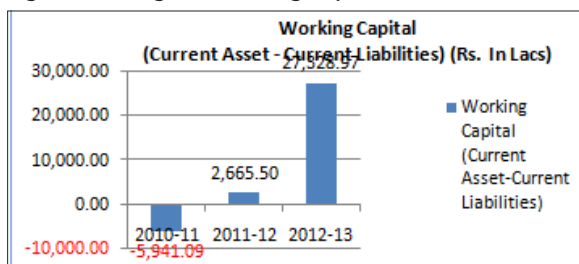
**VI.I.I Working Capital Position Over Three Years:**

**Table 1: Working Capital Position for three years (Rs. In Lacs)**

Particulars	2010-11	2011-12	2012-13
Working Capital (Current Asset-Current Liabilities)	(5,941.09)	2,665.50	27,328.97

Source: Annual Report of 3 years viz. 2010-11, 2011-12 & 2012-13.

**Figure 1: Changes in Working Capital**



Source: Annual Report of 3 years viz. 2010-11, 2011-12 & 2012-13.

**Interpretation:**

- Table 1 and figure 1, reflects funds blocked in working capital over the 3 years are increasing. If compared with deposits and advances (quite stable over 3 years), funds blocked in working capital is increasing unjustifiably. (Read with Table 5 & Figure 5)

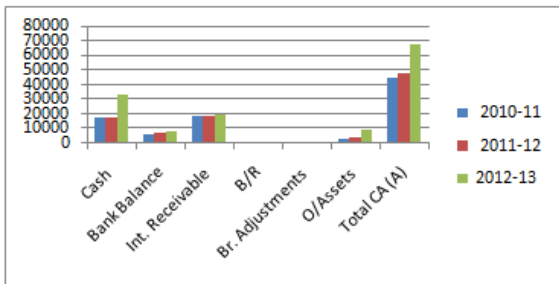
VI.I.II. Schedule of Working Capital:

Table 2: Schedule of Working Capital for Three Years (Rs. In Lacs)

Current Assets:	2010-11	2011-12	2012-13	Current Liabilities:	2010-11	2011-12	2012-13
Cash	17020.49	17620.93	32546.65	Borrowings	25456.13	17897.93	11338.25
Bank Balance	5773.62	7409.26	7269.71	B/P	518.08	701.91	334.71
Int. Receivable	18109.31	17975.02	18956.03	Br. Adjustment	2482.35	1556.9	2731.57
B/R	518.08	701.91	334.71	Res. for O/Interest	13461.13	14857.81	16318.45
Br. Adjustments	-	-	-	Int. Payable	2986.83	3120.55	3663.26
O/Assets	2882.49	3884.88	8534.15	O/Liabilities	5340.57	6791.4	5926.03
Total CA (A)	44303.99	47592	67641.24	Total CL (L)	50245.08	44926.5	40312.27

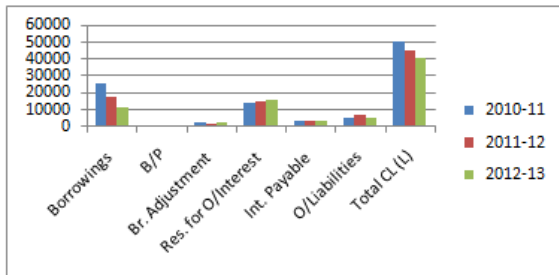
Source: Annual Report of 3 years viz. 2010-11, 2011-12 & 2012-13.

Figure 2.1: Current Assets for three years (Rs. In Lacs)



Source: Annual Report of 3 years viz. 2010-11, 2011-12 & 2012-13.

Figure 2.2: Current Liabilities for Three Years (Rs. In Lacs)



Source: Annual Report of 3 years viz. 2010-11, 2011-12 & 2012-13.

Interpretation:

- Table 2 and figure 2.1 & figure 2.2, reflects funds blocked in current assets over the 3 years are increasing. Major elements are cash balance and interest receivable. Cash balance is unnecessarily high and being kept idle. Interest receivable is also increasing. On the other hand, current liabilities items Bills Receivable, Branch Adjustment, Reserve for Overdue Interest, Interest Payable, and Other Liabilities except borrowings are also increasing. Borrowings are being paid during these three years. Bank has borrowed fund prior to these three years because bank has incurred loss. Reserve for overdue interest and interest payable is increasing which is also associated with borrowings.

VI.II Long Term Sources and Application of Funds:

VI.II.I Long Term Sources:

Table 3: Changes in Equity Share Capital & PSS Partnership Fund (Rs. In Lacs)

Particulars	2010-11	2011-12	2012-13
Called up & Subscribed Capital	10172.76	12137.43	13767.12

Principal Subsidiary State Partnership Fund	7.39	7.39	7.39
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Source: Annual Report of 3 years viz. 2010-11, 2011-12 & 2012-13.

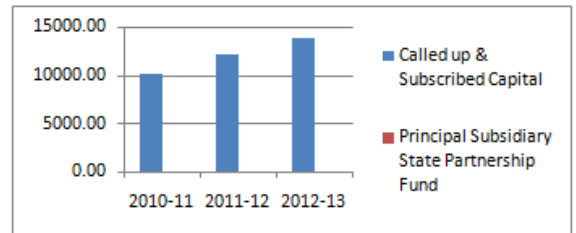


Figure 3: Changes in Equity Share Capital & PSS P Fund (Rs. In Lacs)

Interpretation:

- Table 3 and Figure 3 reflects capital raised through equity share is increasing over three years. But these changes are very marginal if compared with deposits and advance of the bank.

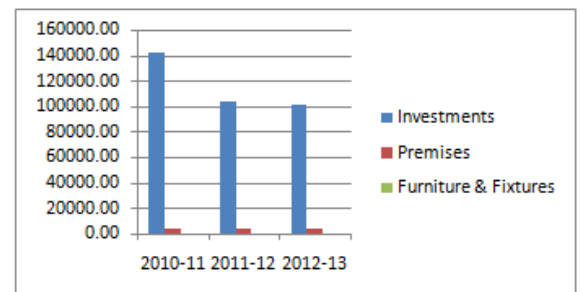
VI.II.II Long Term Applications:

Table 4: Changes in Long Term Applications (Rs. In Lacs)

Particulars	2010-11	2011-12	2012-13
Investments	141833.17	103166.87	101722.57
Premises	4358.03	3569.86	3500.43
Furniture & Fixtures	152.34	247.96	233.71

Source: Annual Report of 3 years viz. 2010-11, 2011-12 & 2012-13.

Figure 4: Changes in Long Term Applications (Rs. In Lacs)



Source: Annual Report of 3 years viz. 2010-11, 2011-12 & 2012-13.

Interpretation:

- Table 4 and Figure 4 reflects Investment in non banking op-

erational avenues is very high over three years. And investments in fixed assets are very marginal. (Read with Table 5).

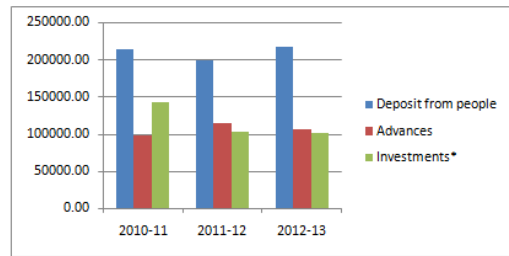
**VI.II.III Operational Sources & Applications:**

**Table 5: Operational Sources & Applications (Rs. In Lacs)**

Particulars	2010-11	2011-12	2012-13
Deposit from people	213762.19	197922.74	216798.47
Advances	96864.79	114718.82	106020.58
Investments*	141833.17	103166.87	101722.57

Source: Annual Report of 3 years viz. 2010-11, 2011-12 & 2012-13.

**Figure 5: Operational Sources & Applications**



Source: Annual Report of 3 years viz. 2010-11, 2011-12 & 2012-13.

**Interpretation:**

- Table 5 & Figure 5 reflect Deposits from people (Source of Fund) is quite stable for three years (changes are very marginal). And advances to people (Application of Fund) are also stable for three year (changes are very marginal). This suggests Turnover of the bank is constant for these three years. And the gap between deposits and advances is near about 50%. Funds available from the deposits of people are not utilized in optimum manner, 50% of which is ideal i.e. being continuously invested by management in other non banking operational investment purpose. It can lead bank to tremendous loss on account of gap between interest paid on deposits from people and interest earned from the investment as well as advances to people.

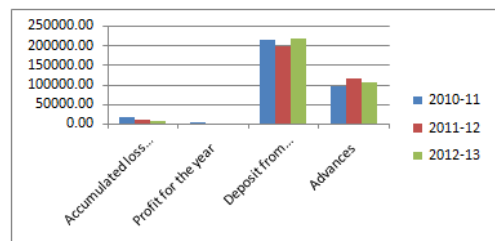
**VI.II.IV Fund from Operation**

**Table 6: Funds from Operation (Rs. In Lacs)**

Particulars	2010-11	2011-12	2012-13
Accumulated loss	15576.32	11020.28	9364.93
Profit for the year	4556.04	1655.35	1251.66
Deposit from people	213762.19	197922.74	216798.47
Advances	96864.79	114718.82	106020.58

Source: Annual Report of 3 years viz. 2010-11, 2011-12 & 2012-13.

**Figure 6: Funds from Operation (Rs. In Lacs)**



Source: Annual Report of 3 years viz. 2010-11, 2011-12 & 2012-13.

**Interpretation:**

- Table 6 and Figure 6 reflects accumulated loss is minimizing due to the profit of these three years. The fund from operation is very marginal if compared with deposits and advances.

**VII. Limitations:**

- Secondary data is somewhat limited to prepare the statement of fund from operation. It is net of depreciation charges. Depreciation charges are added back to Profit and loss account in the preparation of fund flow statement. But these charges are very marginal from the analysis point of view.
- Some important feedback and information is not available from the employee of Bank on account of business secrecy.
- Since accounts are based on historical cost basis, disadvantages of same are also application to this study.

**VIII. Findings:**

**1. Sources and Application of Funds in JDCC Bank, Jalgaon for these Three years of study.**

**Short Term Sources & Application of Fund:**

- Current liabilities are short term sources of fund. Short term application is mainly fund blocked in current assets or working capital.

**Long Term Sources & Application of Funds:**

- Longs term sources of fund are basically equity share capital, deposits from peoples and fund from operation during these three year of study.
- Long term application of fund is mainly associated with advances to people and Non-banking operational investment.

**2. Analysis of Working Capital Position and Changes in It.**

- Fund blocked in working capital is a short term in nature. This is increasing over three years. Increase in working capital reflects application of fund for short term period.
- Major elements are cash balance; balance with other banks, interest receivable and other current assets. Other current assets are miscellaneous in nature. On the other hand, current liabilities items Bills Receivable, Branch Adjustment, Reserve for Overdue Interest, Interest Payable, and Other Liabilities except borrowings are also increasing. Borrowings are being paid during these years. Bank has borrowed fund prior to these three years because bank has incurred loss.

**3. Pattern of Fund Flow for Long Term Sources and Application.**

**Long Term Sources:**

- Fund raised through equity share capital is marginally increasing. And which is not significant from the turnover point of view.
- Deposits from people are major source of long term fund. This is quite constant that means changes are very marginal.
- Fund from operation is also increasing but it is very marginal if compared with deposits.

**Long Term Application:**

- Funds raised through long term sources are mostly utilized for advances to people and non operational investment.
- The proportion of non operational investment is near about 50 % if compared with deposits. That reflects 50 % of fund is idle.
- Funds used for fixed assets are marginal.

**4. Alignment between Sources and Application of Fund**

Alignment between Short term sources and Short term application:

- Sources of short term funds are mainly the current liabilities. This is lesser than current assets. The alignment of short term sources and application of fund is not good.

#### Alignment between Long term sources and Long term application:

- Deposits from people (Source of Fund) are quite stable for three years (changes are very marginal). And advances to people (Application of Fund) are also stable for three year (changes are very marginal). This suggests Turnover of the bank is constant for these three years. Gap between deposits and advances is near about 50%. It reflects 50 % of fund is idle.

#### 5. Strength & Weaknesses in the Perspective of Fund Flow Analysis.

- Fund blocked in working capital is significant in nature as well as it is increasing unjustifiably if compared with turnover.
- The excess of current assets are being financed through external borrowing as well as long term sources of fund.
- Borrowed fund is significant in nature. This external borrowing is increasing the burden of interest payable. Leading towards narrow profit margin.
- Working capital is partially financed through the long term fund. This as well narrowing the gap between interests paid on deposits and borrowing and interest earned. Leading towards narrow profit margin.
- Cash and Bank balances are unnecessarily high and being kept idle.
- Funds available from the deposits of people are not utilized in optimum manner, 50% of which is ideal i.e. being continuously invested by management in other non operational avenues. This as well lead towards narrow gap between interest paid and interest earned. As bank has to paid high interest on borrowing. And advances to people (50 % of deposits) are not sufficiently generating the interest income to satisfy the interest payable.
- Previously bank has incurred huge loss and that is being carry forwarded to current year. Fund from operation is very marginal from turnover point of view.

#### IX. Suggestions:

From the analysis of above scenario, following are some recommendations:

1. Bank has to optimize the funds blocked in working capital by reducing bank and cash balances which are unnecessary.
2. Bank must repay the external borrowing to minimize the burden of Interest on it.
3. Bank must minimize the funds invested in other non operational avenues. This fund can be used to repay exter-

nal borrowing. That will minimize the burden of interest on borrowing. As rate of return on non operational investment is less than rate of interest payable on borrowing.

4. Similarly this fund can be used to enhance the advances to people. This as well will widen the gap between interest paid and interest earned.

#### X. Conclusion:

Fund management is the most important aspect from the business management point of view. As manager has to ensure that available fund is being used for most profitable purpose. If this is not so, it can lead business firm to poor performance. Fund flow statement analysis is the technique through which manager can monitor all these aspect of any business.

The analysis reviled changes in funds raised and used during these three accounting years. It also suggested the degree of alignment between short term source and short term application, as well as long term source and long term application.

From the fund flow analysis of Jalgaon District Central Co-operative Bank, I conclude that fund management at bank (both short term and long term) is not optimum and that is narrowing the gap between interest paid and interest earned and resulting in very marginal profit.

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