DIRECTORATE OF COOPERATIVE AUDIT: ORISSA: BHUBANESWAR

CIRCULAR No. 4130 /Dated:- 31.5.08
VI(I)1/08/Audit-8

Sub:- Analysis of Financial Statements of Credit Cooperatives for Management Information System(MIS) based on common Accounting System(CAS).

As per recommendations of prof. Vaidyanathan committee, the important components of Revival package, announced by Govt. of India for credit cooperatives are development of a common Accounting System(CAS) for maintenance of uniform accounts and introduction of Management Information system (MIS) at society level. MIS is a tool for effective internal and external control through generation of appropriate information/data, which is designed to provide information to management to assist in decision making. It also facilitates and supports the basic managerial functions of planning, organising and control, so that the organisational goal can be achieved efficiently, effectively and economically. In the present global banking scenario, evaluation of financial performance is one of the most important aspect of MIS, which not only discloses the current policies and practices followed, but also helps in the management endeavour to bring about desired improvements in financial as well as managerial decissions alongwith control.

The primary functions of credit Cooperatives is mobilisation of resources through deposits and borrowings and lending the same to borrowers there by making profit after meeting the cost. The ratio analysis of different parameters helps in finding out the deligence of credit Institution, Considering the above aspects and keeping at par with the present global banking trend, the procedures for calculation of selected ratios in respect of financial profitability and productivity along with cash flow statement is narrated in the enclosure, which will act as indicators in the Asset liability Management (ALM), quality of Assets, Managerial Efficiency and profitability of the Institution.

P.T.O.

It is impressed upon all concerned that the financial ratio analysis on different parameters along with cas flow statement need be made in their respective chapters in the final Audit Report of Primary Agricultural credit Cooperatives commencing from the year ending 31st March 2008 every year hence forth positively as these are the most essential pre-requisites for the final Audit Reports.

Any lapses in financial analysis will be viewed seriously.

Auditor General of C.S., Orissa.

Encl:-Ratio Analysis ,Cash flow statement defenetions of terminology are annexed herewith for reference.

Memo No. 4131 (16) /Dated:- 31.5.08

Copy forwarded to the Asst.Auditor General of Cooperative Societies of Circles in the State for information and necessary action.They are requested to circulate the contents of the circular instructions amongst the auditors under their administrative control for their guidance at the time of conduct of audit of PACS.

Prasad 30.5.08
Deputy Auditor General of C.S.(O).

Memo No. 4132 (17) /Dated:- 31.5.08

Copy forwarded to the Secretaries of all CCBs for information and necessary action.

Prasad 30.5.08
Deputy Auditor General of C.S.(O).

Memo No. 4133 (3) /Dated:- 31.5.08

Copy forwarded to the R.C.S.(O)/M.D.OSCB/ D.G.M. NABARD,BBSR for information and necessary action.

Prasad 30.5.08
Deputy Auditor General of C.S(O)

Memo No. 4134 /Dated:- 31.5.08

Copy forwarded to the Under Secretary to Govt. of Cooperation Deptt. for information.

Prasad 30.5.08
Deputy Auditor General of C.S(O).

Memo No. 4135 (55) /Dated:- 31.5.08

Copy to all auditors of Central Audit/ Concurrent Auditors for information and guidance.

Dash.

Prasad 30.5.08
Deputy Auditor General of CS(O)

TERMINOLOGY

Working fund:- Working fund is defined as funds deployed in the business. It is calculated by adding the items appearing on the asset side of balancesheet excluding i.Contra itemes ii.intangible assets like accumulated loss iii.Fixed assets like land,building ,fixtures, fittings,furnitures, plant and machinery etc.

Total of the assets:- (Contra items + accumulated loss + Allfixed Assets) = Working fund.

2.Average Working fund:- $\frac{\text{Cummulatives of Monthly working fund for an accounting year.}}{12.}$

3.Net worth/owned fund:-

It is the balance sheet value of owners claim on a accounting concept. The networth is also known as owned fund . It is calculated as follows.

Paid up share capital.
+ Statutory Reserve
+ Other free Reserves
+ Credit balance of P/L A/c if any
+ Provision on standard Assets.

Total:-
(-) Accumulated loss &
short provision if any.

Networth.

N.B.

Free Reserves:- The other reserves not in the nature of outside liabilities such as

a) Agricultural Credit Stabilisation fund.
b) Building fund
c) Dividend Equalisation fund.
d) Common good fund
e) Other funds not in nature of outside liabilities.

P.T.O.

4.Interest Income:- Interest income is defined as income received and receivable on loans and advances and on investments. (execluding overdues Interest.)

5.Interest Ecpenses:-It is also called as financial cost or cost of resources. It is the quantum of interest paid and payable on borrowings and deposits.

6.Net Interest Income:- It is defined as the excess of interest (NII) income over interest expenses.

Interest Income-Interest Expenses=Net Interest Income (NII

7.Miscellaneous Income:- All other incomes other than Interest income and capital gain.It includes non fund based in come like here charges, commission received on procurement business, shall of imputs, commission demand draft,trading income from non credit business etc.This is always expressed as a percentage to Average working fund.

$$\text{Misc. Income} = \frac{\text{Misc. Income}}{\text{Average working fund}} \times 100$$

8.Operating Income:- This includes interest income (excluding O.D. Interest)and Misc. Income.

Operating Income = Interest Income + Misc.Income.

9.Operating cost:- It is defined as aggregate of Interest Expenses and cost of Management

Operating cost = Interest Expenses +Cost of Management.

10.Operating Profit:-Operating profit is defined as the excess of operating income over operating cost.

Operating Profit= Operating Income-Operating cost

If there is no operating profit the audit has to mention the reasons along with fixation of responsibilities.

11.Capital gain and other Income:- This includes profit on sale of properties like land,building,furniture etc and reversal of provisions made for O.D. Interest and NPA. P.T.O.

12.Gross Income:- Gross Income includes Interest Income, Miscellaneous Income; Captial gain and other income during a particular period.

13.Total Expenses or Gross Expenses:- It includes Interest expenses, cost of Management, provisions and other expenses if any during a particular year.

14.Net Income:- Net income is defined as excess of Gross Income over Gross expenses. It is also called as net profit.

Net Income = Gross Income-Gross Expenses.

15.Non performing Assets:-(NPA) NPA is an asset which Ceases to generate income to the society NPA are classified to sub-standard, doubtful and loss assets depending upon the period of assets become over due.

16.Current assets:- Current asset comprises of cash and other Resources commonly identified as funds which are reasonably expected to be realised in cash or sold or consumed or turned over during the operating cycle of business usually ~~xx~~ not exceeding one year. The current assets can be grouped under following heads.

i. Inventories:-Raw materials, stock in process and finished goods.

ii. Receivables:-Sundry Drs. Bills receivable and Bills discounted at Bank.

iii. Other current Assets:- Cash, Investment (only those which can be classified as per RBI guidelines) Advances, pre paid expenses, Advance payment of Tax etc.

P.T.O.

206

17.Current Liabilities:-

Current liabilities are other wise known as short term liabilities .All liabilities which are repayable with in a period of one year are grouped under current liabilities.Current liabilities bear a relation ship with current assets, as they normally arise to acquire current assets. The current liabilities have a matching relation ship with current assets. The items grouped under current liabilities are acceptance, sundry creditors,Advance received, un-expired discount, un-claimed dividends,interest accrued but not due on borrowings dividend payable , provision for tac etc.

19.Own Capital:- The own capital of an Institution is the sum total of its paid up share capital + Reserve fund and all other Reserves.

20.Borrowed Capital:- In terms of provision U/s 58 of OCS Act 1962 the borrowed captial of a Cooperative constritutes of deposit tapped + Borrowing availed from financing agencies.

21.Capital fund:- Capital fund of a credit cooperative is calculated for fixation of exposure limit.This fund can be segregated into two broad groups / tiers.

A)Tier-ICapital or core capital:- It includes following items Aggregates of

a)Paid up share capital .
b)Statutory Reserves
c)Other free Reserves not in the nature of out side libilities.
d)Capital Reserves representing surplus arrising out of sale proceeds of assets.
e)Credit side of P/L A/c (un disbursed profit).
(-)Accumulated los and short provision if any.

(B) Tier-II Capital:- This capital includes following items.

Aggregate of a)Un-disclosed Reserve.

b)Revaluation Reserve after allowing a discount of 55%

c)Excess Provision if any may be allowed up to 1.25% of Risk weighted assets included.

d)Investment fluctuation Reserve.

e)Hybrid debt capital investment

f)Sub-ordinate debt if any may be included limiting the amount equal to 50% of Tier-I capital.

It may be noted that the total of Tier-II capital will be limited to a maximum of 100% of Tier-I capital for the purpose of compliance of norm prescribed by RBI.

22.Market value of equity share of members or paid up share capital.

$$\frac{\text{Net worth.}}{\text{Paid up share capital}} \times 100.$$

(If the share value is 100% more the share is fully protected).

A-Calculation of financial Ratio.

1. Average yield:- PURPOSE. It indicates how much return is return is received per Rs.100/- fund deployed in business. This ratio helps the institution to plan its business strategy.

Average yield on assets:- $\frac{\text{Total Intrest received (P/L)}}{\text{Average working fund}} \times 100.$

Verage yield on Advances:- $\frac{\text{Interest income from loan and Advance (P/L)}}{\text{Average loan \& Advance}} \times 100.$

Average yeld on Investment:- $\frac{\text{Intrest in lonefrom investment}}{\text{Average Investment}} \times 100$

2. Average cost of funds:- PURPOSE. Average cost of funds is defined as the cost of funds per Rs.100/-. It is also know as financial cost. It indicates the the ratio for mobilisation of resourses and helps the management of the institution to make resource planning.

Average cost of funds:- $\frac{\text{Total Interest expenses (P/L)}}{\text{Average working fund}} \times 100$

Average cost of deposits:- $\frac{\text{Total interest expenses on deposits (P/L)}}{\text{Avrage deposits}} \times 100$

Av rage cost of borrowings:- $\frac{\text{Total interest expenses on borrowings (P/L)}}{\text{Average borrowing}} \times 100$

3. Gross financial margin=(1-2)= Average yield on Asset- Average cost of funds.

4 Misc. Income (non fund Income):- $\frac{\text{Misc. Income}}{\text{Average working fund}} \times 100$ or $\frac{\text{Total non-fund Income}}{\text{Average working fund}} \times 100$

P.T.O.

5.Risk Cost:-Purpose:-This indicates the quality ... Higher the risk cost, poorer the quality of assets.

Risk cost.= Provision for NPA and standard Assets during the year / Average working fund X 100

6.Net financial margin:-(3+4)-5
i.e Gross financial margin + Misc. income- Risk cost.

7.Transaction cost:-Purpose:- This ratio indicates the cost of transaction per Rs.100/-worth of business. The purpose of such calculation is to know whether the transaction cost is within the manageable limit or notlower the ratio, higher will be the net profit of the institution. This ratio can be brought down byincreasing the ~~value~~ volume of business.

Transaction cost:-Total cost of Management / Average working fuhd. X100

8.Net Margin:-(6-7)Net financial Margin-Transaction cost.
Purpose:- This ratio is calculated to know the working result ,If the margin is positive, the institution earns net profit and if it is negative the institution incurs loss.This helps the management to make appropriate profit planning.

B.Profitability Ratio:- This ratio is calculated to safe-guard the business and ascertain the ~~profit~~ profitability.

a)Net profit as percent to total Income.
b)Return of Assets(ROA):-Net Profit to Total assets.
c)Return of Equity(ROE):-Net profit to capital
d)Net profit as percent to deposit.

P.T.O.

230

C. Productivity/Efficiency Ratio:-

To find out the productivity or efficiency of the staff of the orginisation following ratios are to be calculated. This indicates the chronological growth of the business after making comparision with the figures of corresponding period of previous year.

a) Deposit per Employees:- $\dfrac{\text{Out standing balance of deposit}}{\text{No of employees.}}$

b) Deposit for Branch= $\dfrac{\text{Outstanding balance of deposit}}{\text{No. of branches.}}$

c) Loan and Advances per Employees:-

$\dfrac{\text{Out standing loans \& Advance}}{\text{No of employees.}}$

d) Loan and Advances per Branch:- $\dfrac{\text{Outstanding loans \& Advance}}{\text{No. of Branches.}}$

e) Per Employees business =$\dfrac{\text{Outstanding(Deposits + Loan \& Advance}}{\text{No. of Employees.}}$

f) Per Branch business = $\dfrac{\text{Outstanding(Deposit + Loan \& Advance}}{\text{No of branches.}}$

g) Per Employees voucher= $\dfrac{\text{No. of vouchers during the year}}{\text{No. of employees.}}$

h) Per Branch vouchers = $\dfrac{\text{No. of vouchers during the year}}{\text{No, of branches.}}$

D. Performance Ratio/Performance Indicators.

This ratio indicates the average performance on different paramaters and is to be compared with the previous year performances to know whether the business of the institution is in a increasing trend or not. This will also help the Management to work out the business strategy to improve the ratio.

1. Average deposit per member:- $\dfrac{\text{Total deposits outstanding}}{\text{Total No. of Members.}}$

2. Average loan per borrwing member. $\dfrac{\text{Total loan \& Advance outstanding}}{\text{Total nos of borrwing members.}}$

3. Average loan repayable to financing :- Agencies for borrowing member. $\dfrac{\text{Outstanding Borrowings of financing agency.}}{\text{Total Nos. of borrowing members.}}$

Purpose:- This ratio indicates average loan repayable to financing agency per borrowing member. This has to be compared with the previous corresponding period to know whether the borrowing is increasing or decreasing. This ratio has to be compared with the average loan outstanding per borrowing member. If the borrowing ratio increases while the loan repayable ratio decreases, it indicate that the recoveries are not passed on to the financing agency. In the other hand if the borrwing ratio declines while the loan repayable ratio increases, it indicates that the OD of Members is increasing or the institution is deploying the deposits in the loans and advances port folio. This can be verified by comparing the deposit ratio. This also helps the Management to take necessary corrective action as deemed fit.

4. Ratio of Borrowing Members to Total Members:-

$$\frac{\text{Total borrowing members}}{\text{Total No. of Members.}} \times 100$$

Purpose:- This indicates the percentage of members availing credit facilities. In comparision to previous corresponding figure, the dealining ratio indicates the members are availing loan from other sources. Under such circumstances the Management has to prepare strategy to increase the borrowing member alongwith the increase in volume of business.

5. Ratio of Depositors to Broowers:-

$$\frac{\text{Total No. of depositors}}{\text{Total No. of borrowers}} \times 100$$

Purpose:-

This ratio helps the Management to know whether the Society has more depositors or borrowers. Higher ratio indicates more No. of depositors and also the confidence of the people on the services extended by the Institution.. Lower ratio indicates that the Institution is giving more emphasis on lending than the deposit mobilisation.

P.T.O.

6.Ratio of Total lons to Total Assets:-

$$\frac{\text{Total Lons and Advances outstanding}}{\text{Total Assets.}} \times 100$$

Purpose:-

This ratio indicates the proportion of loans and Advances to the Total Assets.Higher proprtion indicates the higher level of earning assets. This ratio is to be compared with previous corresponding period and reasons for ~~varitiex~~ variation, if any ,be analysed.

7.Ratio of total borrowings(Deposits + borrowing) to Total Assets:-

$$\frac{\text{Total borrowings(Deposits + borrowings)}}{\text{Total asset.}} \times 100$$

This ratio indicates the dependancy of the Institution on out side agecies.High ratio indicates the institution is more dependant on borrowing than its own fund.

8.Ratio of Total Deposit to Total assets.

$$\frac{\text{Total deposit outstanding}}{\text{Total Assets.}} \times 100$$

Purpose:-

This ratio indicates the dependancy level of institution is less dependant on financing agencies.

9.Ratio of operating expenses to Average total Asset. :-

$$\frac{\text{Operating expentes}}{\text{Average total assets.}} \times 100$$

Average total Assets:-$\frac{\text{Cumulatives of Monthly assets for the year.}}{12}$

Purpose:-

This ratio is compared with that of the previous corresponding period to analyse the trend in its movement. Increase ratio will erode the profit of the Institution.

10.Ratio of Interest earned to interest paid:-

$$\frac{\text{Interest received on loans and Advances \& Invesment.}}{\text{Interest paid on deposites \& borrowings.}} \times 100$$

Purpose:-

This ratio is to be compared with that of the previous corresponding period to assess the growth of income. If the ratio is 1 or 100% the financial margin will be zero. If it is less than 1 or less than 100% the financial margin is negative and will sustain loss. In the later case the management is able to take steps for its immediate redressal.

11.NPA RATIO TO LOANS AND ADVANCES:-

The ratio indicates the quality of loan portfolio i.e the extent of poor quality ~~kmax~~ loans.Higher the ratio,poorer is the quality of loan.

P.T.O.

NPA Ratio $= \frac{\text{Total NPA}}{\text{Total Loans \& Advances}} \times 100$

The sustainable limit is upto 5%.

The decreasing /increasing trend helps the Management to take immediate remedial measures.

12.Return of Assets $= \frac{\text{Net profit}}{\text{Total Assets}} \times 100$

Purpose:- The ratio indicates the earning per Rs.100/- worth of assets and its earning capacity. The ratio has to be compared with that of the previous corresponding period. Increase trend indicates that quality of assets and the composition of assets are good for which good return is being fetched . Declining trend indicates deterioration in quality of assets and high proportion of non earning /non-productive/non-productive/non-performing assets/Low income generating assets.

13. Capital Adequacy Ratio:-

$\frac{\text{Ownfund /Networth}}{\text{Risk weighted Assets.}} \times 100.$

Purpose:- This ratio indicates the risk bearing capacity of the Institution. Higher the ratio, higher is the risk bearing capacity. The standard ratio is as follows.

For PACS	=7% of RWA	(Calculation of R.W.A is prescribed earlier).
For other credit Coopertive	= 9% of RWA	
for nationalised Banks	= 10% of RWA	

14.Credit deposit Ratio:- $\frac{\text{Total loans outstanding}}{\text{Total deposits outstanding.}} \times 100$

Purpose:- This ratio indicates recovery peformances as well as dependancy on extenal resources. Low ratio indicates that the institution is giving more emphasis on mobilisation of deposits rather than on lending or recovery performance is good or dependency on external resources is low.

P.T.O.

234

E.-Cash flow Analysis:-

A cash flow statement is a statement ~~depic~~ depicting the changes of cash position from one period to another and the same is computed by taking into the account the cash inflow(Sources) and cash outflows (application/uses of cash).Sources of cash can be both internal and external cash from operation i.e Interest income, trading income and Misc.Incomes are internal sources where as issue of share capital,receipt of borrowings,receipt of deposits, collection of loan and Interest, Maturity value of investment and sale value of assets etc, are the external resources.Cash outflow may be on account of purchase of imputs,PDS commodities and Fixed assets, repayment of borrowing & interest there on, fresh investments, payment of interest on deposits payment of dividends and decrease in deposits etc.

The format for preparation of cash ~~How~~ flow statement is furnished below:-

Sl No.	Particulars	Amount(Rs)	Amount(Rs)
1.	Opening Cash & Bank balance		
2.	Cash-inflows.		
a)	i) Repayment of loans Principlal		
	ii) Ingrest.		
b)	Deposit Receipts.		
c)	Sale proceeds of fertiliser/ Seeds/Pesticides.		
d)	Sale proceeds from PDS commodities.		
e)	Dividend/Interest Receipt on Investment.		
f)	Maturity amount of Investment		
g)	Amount borrowed from DCCB		
h)	Amount borrowed from other agencies.		
i)	Other receipts(Commission etc, Specify the items)		
3.	Total inflow during the period (total of items under Sl.2)		

P.T.O.

Sl No.	Particulars	Amount(Rs)	Amount(Rs)
4.	CASH OUTFLOW.		
	a) Repayment of borrowings from DCCB.		
	i) Principal		
	ii) Interest.		
	b) Repayment of borrowings from other agencies.		
	i) Principal		
	ii) Interest.		
	c) Deposit payments		
	d) Purchase of Fertiliser/Seeds/Pesticides.		
	e) Purchase of PDS/essential commodities.		
	f) Purchase of Non-PDS commodities.		
	g) Investment during the period		
	h) Disbursement of loans		
	i) Other payments(Specify)		
5.	Total outflow(Total of items under SL.4)		
6.	Total of cash & Bank balances at the end of the period (1+3 -5)		

F. Break-Even Point:-(BEP)

Break even point is the amount of business at which an institution makes no profit or no loss. In other words it is the level of business at which income generated is equivalent to ~~the cost of~~ the cost of the business . The organisation can earn profit only if its level of business is above the break even point .

In a credit organisation the break even level of operation is as follows.

$$BEP = \frac{\text{Cost of Management} + \text{Risk cost} - \text{Misc. Income}}{\text{Financial Margin.}} \times 100$$