

An Evaluation of Financial Management System in Gulati Institute of Finance and Taxation an Autonomous Institution, Thiruvananthapuram, Kerala

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Abstract

Finance being an important function of business, is very crucial to meet various financing and investment activities in it. The wide scope of financial management should be considered to include three major finance functions like investment decisions, financing decisions and dividend decisions respectively. In all organizations financial management system involves a sound judgment, combines with a logical approach to decision making. Different alternatives having different implications are available to a business enterprise in the process of decision making. Gulati Institute of Finance and Taxation is an organization that is specialized in research, training, consultancy and provision of fiscal and social policy inputs to the Government of Kerala and the South Indian states in general. Financial management system in GIFT will not only determine the performance of the GIFT but will contribute much towards the transparency and accuracy of the institute. So its the need of the hour to evaluate the performance of Computerized Accounting System especially its reliability and consistency part considering its use by the various stakeholders. An effective financial reporting system in any organization requires a well designed defect free system along with the trained staff and sound accounting and information system. The study in this organization was conducted to analyse the effectiveness of financial management practices followed in GIFT and based on the analysis and discussion of the data evaluated, to give appropriate suggestions to GIFT for the betterment of financial management practices. The study is descriptive and analytical in nature and it is a fact finding study. The data used for Analysis is the Audited Financial Statements of GIFT for the financial years 2012-13 to 2015-16. The present work entitled "An Evaluation of Financial Management System in Gulati Institute of Finance and Taxation, Thiruvananthapuram was conducted for a period of 2 months. The study was organized mainly to study the Financial Management System of the organization. The data for the study were collected through secondary sources. With the help of several tools the data were easily interpreted. The objectives of the study have been accomplished with the help of primary data collected from the administrative of the GIFT.

Key words: financial management system, ratio analysis, financial reporting, balance sheet analysis.

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Introduction

In today's heightened economy, finance departments are regularly challenged to deliver more in less time. In order to advance the productivity of financial departments-use of a financial management system as a single source for all the financial data can create a meaningful impact for the organization. Finance is an important function of any business as money is required to meet various activities in it. The scope of financial management is very wide and it should not be considered to be merely restricted for raising of capital. In all organizations financial management system involves a sound judgment, combines with a logical approach to decision making. Different alternatives having different implications are available to a business enterprise in the process of decision making.

Gulati Institute of Finance and Taxation is envisaged as a centre of excellence, specializing in research, training, consultancy and provision of fiscal and social policy inputs to the Government of Kerala and the South Indian states in general. GIFT was formed by upgrading Centre for Taxation Studies (CTS), an autonomous institution formed by Government of Kerala for undertaking research, training, consultancy, and publication in the area of public economics. GIFT is named after Professor Iqbal Singh Gulati (1924-2002), an eminent economist who was closely associated with public policy making in various capacities, notably as Chairman

of the Kerala State Planning Board. Financial management system in GIFT will not only determine the performance of the GIFT but will contribute much towards the transparency and accuracy of the institute. GIFT occupies a predominant position in the state, the effective management of GIFT and its financial reporting is utmost important. It is the need of the hour to evaluate the performance of Computerized Accounting System especially its reliability and consistency part considering its use by the various stakeholders.

Objectives of the study

- To analyse the effectiveness of financial management practices followed in GIFT
- To give appropriate suggestions to GIFT for the betterment of financial management practices based on the findings of the study.

An effective financial reporting system should be continuous process in order to reduce waste and evolve better methods. Proper financial reporting system of the organization requires a well designed defect free system along with the trained staff and sound accounting and information system.

Review of Literature

The review of the available literatures have been done by referring to a number of journals, magazines, research papers, project reports, dissertations, conference and seminar proceedings, books and websites. Mohan (2014) examined the emerging issues of financial management system in India in the light of changing economic and technological environment of the Indian markets. This study observed that there is a felt need for customizing the broad educational needs of the financing profession as well as business and industry. Hunziker (2013) studied about the accounting practices of financial institutes and the analysis revealed that no empirical researches had been undertaken about neither the financial disclosure format of the financial institutes nor the implications of these disclosures for the potential stakeholders. Shafii and Zurina (2013) examined the relationship between Shariah issues and IFRS with respect to the reporting Islamic financial transactions in the IFRS financial report. The analysis revealed that issues related to delay in reporting transactions are due to gap in understanding the applicability of time value of money and the terminologies used in IFRS and IAS. Zaire (2013) studied the role of accounting information systems and found that it significantly affect financial statements of companies. Steinbart, (2013) focused on information security from professionals' perspective about the nature of the relationship between the information security and internal audit functions in the organization. The result of the study revealed that the quality of the relationship between the internal audit and information security functions is positively associated with their perceptions.

Bhagat (2012) stated that there are so many aspects relating to IFRS convergence which still need to be clarified, such as IFRS first time adoption standard, compliance of comparative previous period figures with IFRS, changes required to the Companies Act to comply with IFRS, changes to the Income-Tax Act, the Reserve Bank of India's requirements for banks, etc. Milburn (2012) has produced a measurement framework for financial reporting practice of profit oriented entities. On account of publicly available information, by examining the competitive interaction of willing buyers and traffickers in an overt, active and orderly market, this work proposes a definition of the current market value of the present exchange price. It is concluded that the market values should be expected to play a critical role in the financial reporting measurement theory. It is premised on the belief that a substantial improvement in the conceptual underpinnings of the financial reporting measurement is possible, and urgently needed.

Sharm and Panigrahi (2012) reviewed the application of data mining techniques for the detection of financial accounting fraud and suggest a framework for data mining technique based accounting fraud detection. The findings of this review demonstrates that data mining techniques like logistic models, neural networks, Bayesian belief network, and decision trees have been applied most extensively to provide primary elucidations to the problems inherent in the recognition and classification of fraudulent data. Patange,(2012) stated that the change in Financial Reporting Standards in Indian economy in the recent past led to a more serious focus and attention in the Accounting Standards for achieving a robust and transparent financial reporting by the Indian business entities. The ASB constituted by the country's premier accounting body, the ICAI contributed immensely in satisfying the expectations by both national and international stakeholders with respect to financial reporting by Indian businesses. Ahmed et al. (2012) stated that previous studies focused on a number of institutional factors that impacted accounting quality. The evidence in previous studies suggested that the accounting quality was generally higher in strong enforcement countries relative to weak enforcement countries. This

in turn suggested that there may have been systematic differences in the effects of the IFRS adoption in strong enforcement versus weak enforcement countries.

dani (2012) the paper explores the usefulness of accounting information system on organizational performance. The results of this study express that although the accounting information system is beneficial and have an influence on organizational performance of the companies in the financial market, but there is no relationship between accounting information system and performance management. Ray, D.S. (2012) examined the consequences of adoption of IFRS in the preparation of financial statements by considering the challenges. The need for a comparative study of the statements prepared under IFRS and Indian GAAP was emphasized. The study revealed that there was no significant effect on the calculation of return on equity, return on asset, asset turnover ratio, net profit ratio, etc., though there are significant shift in the leverage ratios when IFRS is adopted. The study conducted on the software giant, WIPRO Ltd., revealed that there is no significant variation in the net income position after convergence with IFRS. It was concluded that the Indian Accounting Standard is facilitated by both principles and also rules.

Kabir (2011) examined the development of Positive Accounting Theory (PAT) and compared it with three standard accounts of science by Popper (1959), Kuhn (1996), and Lakatos (1970). The PAT was one of the most influential accounting research programs during the last four decades which examines how far accounting has been successful in imitating natural science. It concluded that accounting could not imitate the success of natural science. Finally, this study identifies some methodological gaps in PAT. Vincent & Sandra (2011) studied about the market risk disclosure and found that market risk disclosure in financial reports is of utmost importance. The study has further highlighted how these market risk disclosures are applied by users. The the Institute analysis and user comments have helped to found the areas where market risk disclosures could be improved. Donna (2011) evaluates whether the International Accounting Standards Board (IASB) and its International Financial Reporting Standards (IFRS) satisfy any or all of the criteria for the effective and efficient financial reporting system of the country. The U.S. Securities and Exchange Commission (SEC) has announced plans to decide whether to require or permit U.S. companies to adopt IFRS for their financial reports. Beke (2011) describes how the accounting standards promote management decisions and influence the business environment in a global scale. The researcher analyzes and values the effects of international standards on the business economic environments. It shows that uniform management accounting standards will increase market liquidity, decrease transaction costs for investors, lower cost of capital, and facilitate international capital formation and flow.

Salzman, (2011) examined the convergence of IFRS with US GAAP. The thesis provides a peep into the history of convergence and touched upon the efforts of FASB and IASB in the matter. The accounting issues that are jointly addressed by these accounting bodies and efforts made to eliminate them were explored. He also examined that there exists some short term risks in the adoption of IFRS. The long-term benefits like lower costs in consolidation of financial statement, better comparability for its users, etc., were highlighted. The suggestions submitted to Securities Exchange Commission (SEC) about the convergence or endorsements of IFRS were also explored. Deepesh (2010) discussed the corporate governance issues in India as well as at international level. The survey found that the corporate governance n India is extremely dissimilar from that of the other country. It is because of the morphological features of the Indian corporate sector. The report comments that the governance issue in the developed countries is basically that of disciplining the management who has stopped to be effectively accountable to the proprietors. Keryn Chalmers and et al (2010) in their study aim to look into whether the accounting reform in China has improved the relevance of China's accounting information system. It seeks to investigate the association between earnings and book value of equity to share the returns before and after the introduction of the Accounting information System for Business Enterprises for A- and A&B-share firms. Molanazari, and Abdolkarimi (2010) this study examined the interaction effects of task uncertainty, decentralization and accounting information systems characteristics on the accounting information system's performance. The results show that a combination of a high degree of decentralization, broad scope and aggregated accounting information system information have a positive impact on the performance of the accounting information systems which act in a low or high task uncertainty situations. Venkateshwaran (2010) stated that, International Financial Reporting Standards (IFRS) is fast becoming the global accounting language. Siregar (2010) investigated the effect of board size, foreign ownership, firm size, profitability and leverage on corporate social responsibility reporting and the possible effect on CSR reporting on a firm's future performance. The conclusion were that a larger board will be able to exercise better monitoring, but too large a board will make the monitoring process ineffective and larger asset base

over which to spread the costs of social responsibility. Hail, (2010) strongly felt that the impact of AS in deciding the quality of corporate reporting was actually very limited than perceived. He suggested that by incentivizing and enforcing the application of standards by companies are equally important as AS in the matter of corporate reporting. Menassa (2010) attempted to identify the type and quality of social information disclosed by Lebanese commercial banks and to report on the extent of these disclosures and their relationship with size, financial performance, and other chosen variables. Results reveal that these banks attribute a greater importance to human resource and product and customers disclosures, whereas the availability and extent of environmental disclosure is still weak. In addition, a strong association is found between these disclosures and size and financial performance variables, whereas the relationship with the bank age is found to be a weak one. Srinivas (2009) in his article has embarked upon the present system of accounting came into practice. Rajkumar (2009) in his paper highlighted the role of an efficient and transparent system of accounting as one of the main tools for good governance. Paananen and Lin (2009) gave a contrary view to prior research that IFRS adoption ensures better quality of accounting information. Their analysis of German companies reporting showed that accounting information quality has worsened with the adoption of IFRS over time. They also suggested that this development is less likely to be driven by new adopters of IFRS but is driven by the changes of standards. Day (2009) determined the extent to which disclosure in published annual reports of organizations within the financial services sector complies with their sector guidelines. Here content analysis was used to investigate the disclosure of major banks, building societies and insurance providers, using their Annual Report and Accounts and, if published annually, their stand-alone CSR reports for the same period. A Molland and R Cliff, (2008) in their paper, "Has the Management of Infrastructure Assets Improved with the Use of the Accrual Method in financial institutions", examined how senior accounting staffs in Victorian local authority were recording and reporting infrastructure assets with their related depreciation in general purpose of financial reports and decisions made from the information. Infrastructure assets are long lived assets such as roads, drains and bridges. Sajady et al (2008) in his paper argued the strength of accounting information system. The finding indicates that execution of accounting information systems at sample companies caused the improvement of managers' decision-making process, internal controls, and the quality of the financial reports and facilitated the process of the the Institute's transactions. Wick (2007) examined the state of financial reporting in provincial government departments in South Africa and found out so many obstacles in transforming financial reporting from cash accounting to accrual accounting. It revealed that even though public sector accounting guidelines and legislation are in place, government departments are still using cash accounting. The current accounting information system seems to be unsuitable for accrual accounting. Respondents assigned a poor rating to the potency of public sector financial reporting, and the slow pace at which this scheme is being transmitted.

Stewart & Alison (2006) specified the factors in which there will be systematic variations as part of the transition of accounting standards. The specified factors were the firm size, industry background, expected impacts on financial performance etc. The general results of the study indicated that many of the respondents have not been well prepared for the transition and are generally very skeptical about the claimed benefits of IFRS as enunciated in the government's Corporate Law Economic Reform Program. Tarca, (2005) initiated a study on the use of Accounting Policies as per the National Standards or IAS those were not acceptable under US GAAP. Wong and Wog (2005) examined the impact of not amortizing goodwill and identifiable intangible assets with indefinite lives on some commonly used valuation multiples of New Zealand listed Companies. The result indicates that non-amortization of goodwill and identifiable intangible assets with indefinite lives have a significant downward effect on the EV/EBIT and PE multiples. Rahman (2004) has sought to provide explanations for corporate decisions to disclose information in annual reports. Bernardino Benito and Isabel Brusca (2004) in their article International Classification of Local Government Accounting Systems, has been attempted to show how accounting systems have evolved in recent years, taking into account that the reforms have been generalized in the OECD countries, with the aim of providing information for improving public service management and increasing the transparency and accountability of governments. Wendy (2004) examined the links between accounting quality with the earnings timeliness, conservatism and the composition of the board of directors. This study has been conducted with the sample of 508 UK firms. These firms have been observed from the year 1993 to 1995. It is revealed that the firms with a higher proportion of outside board members are less able to maintain their potential in earning on a timely basis. Nelson, Elliott, and Tarpley (2003) concluded that the aggressiveness of reporting decisions increased with the imprecision of the relevant reporting standard, based on a survey-based research. In addition, they believed that even in strong enforcement countries, relatively loose standards could result in more opportunistic choices.

Methodology

The study is descriptive and analytical in nature and it is a fact finding study. Review of literature of Policy Documents, Reports, Studies, and research projects in the respective field has been collected as part of study with an intention to formulate a theoretical frame work of the study. The data used for Analysis is the Audited Financial Statements of GIFT for the financial years 2012-13 to 2015-16. The collected data has been transcribed into tables and the same has been analyzed and evaluated in comparison to the approved Accounting Standards and Techniques. Primary Data is the data gathered and assembled specifically for the research project at hand. The data were connected afresh and happened to be in original in character.

The objectives of the study have been accomplished with the help of primary data collected from the administrative of the GIFT. All information from the primary sources was collected voluntarily participation. The study is descriptive and analytical in nature and it is a fact finding scientific study. Secondary data are those, which have already been collected by someone else and have already passed through statistical process. The different secondary source from which data has been collected is the previous three years annual financial statement and annual reports, journals, websites. The tools used for data analysis are

- Ratio analysis
- Trend analysis
- Schedule Of Changes In Working Capital
- Comparative Balance Sheet Analysis
- Common Size Balance Sheet Analysis

Results and discussions

The financial statements become meaningless unless they are analyzed and interpreted. On proper analysis and interpretation of the results, they become of valuable and useful. Managerial decisions often depend on the results of financial statements and their interpretation. The analysis of financial statements is the process of evaluating the relationship between component part of a financial statement to obtain a better understanding of a firm's position and performance".

Working Capital Analysis. Working capital is defined as "as the excess of current assets over current liabilities" all the elements of working capital are quick moving in nature and therefore, require constant monitoring for proper management. For proper management of working capital, it is required that a proper assessment of its requirement is made. It is also known as circulating capital, fluctuating capital and revolving capital.

Gross Working Capital. It is otherwise simply called as working capital, refers to the firm's investment in current assets. Current assets which can be converted in to cash within the accounting year and includes cash, short term securities, debtors, Bills receivable and stock.

Gross Working Capital = Current Assets – Current Liability

Table 1. Table showing Gross Working Capital for the past three years (Rs in Lakhs)

Years	Current Assets	Gross Working Capital
2012-2013	70591686.99	70591686.99
2013-2014	23526930.36	23526930.36
2014-2015	40553376.33	40553376.33

Net Working Capital. It refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders, which are expected to mature for payment within a year and include creditors, Bills payable and outsider's expenses.

Net Working Capital = Current Assets – Current Liabilities.

Table 2. Table showing Net Working Capital for the past three years(Rs in Lakhs)

Years	Current Assets	Current Liabilities	Net Working Capital
2012-2013	70591686.99	57855048.23	12736638.76
2013-2014	23526930.36	9770162.45	13756767.91
2014-2015	40553376.33	26012686.89	14540689.44

Interpretation. The above table shows the Net Working Capital of GIFT for the past three years. Net working capital is the difference between current assets and current liabilities. The working capital shows an increasing trend which reveals that the liquidity position of the organisation is satisfactory.

Liquidity Ratio. It measures the Institute's ability to pay its bills. The denominator of a liquidity ratio is the Institute's current liabilities, i.e., obligations that the Institute must meet soon, usually within one year. The numerator of a liquidity ratio is part or all of current assets. Perhaps the most common liquidity ratio is the current ratio, or current assets/current liabilities. Because current assets are expected to be converted to cash within one year, this liquidity ratio includes assets and liabilities of equal longevity

Current Ratio. The current ratio is a measure of the firm's short-term solvency. It indicates the availability of current assets in rupees for every one rupees of current liability. Current asset are those the amount of which can be realized within a period of one year. It includes cash in hand, cash at bank, bills receivable, sundry debtors etc.

Current liabilities are those the amount of which are payable within a period of one year. Current liabilities are creditors, bills payable, creditors etc.

Current ratio = current assets / current liability

Table 3. Table showing Current Ratio for the past three years (Rs in Lakhs)

YEAR	Current asset	Current liabilities	Current ratio
2012-2013	70591686.99	57855048.23	1.22
2013-2014	23526930.36	97,70,162.45	2.4
2014-2015	40553376.33	260,12,686.89	1.55

Interpretation. The above table shows the relationship between current assets and current liabilities. In the year 2013-14, the current ratio is high compared to 2012-13 and 2014-15. As the average standard is 1.73 times, the current ratio 1.55 replicates below the level of minimum acceptable standard ratio of the Institute, it is desirable to improve its working capital position either by having more current assets or by reducing current liabilities.

The current ratio of the organization measures its short term solvency, i.e., the ability to meets short term obligation. It is an index of the organization's financial stability. This current ratio must not only be equal to current liabilities but should leave a comfortable margin of working capital after paying of the current liabilities. A high ratio indicates sound solvency and a long ratio indicates inadequate working capital.

Quick Ratio. Acid test ratio is a measure of liquidity calculated dividing current asset minus inventory and prepaid expense by current liabilities. The term quick asset refers to current asset which can be converted into cash immediately. It is the relationship between quick assets to current liabilities. It is determined by dividing quick asset by current liabilities.

Quick ratio= quick assets/current liabilities

Table 4. Table showing Quick Ratio for the past three years (Rs in Lakhs)

Year	Liquid Asset	Current Liabilities	Quick Ratio
2012-2013	69852031.89	57855048.23	1.21
2013-2014	22749113.32	97,70,162.45	2.33
2014-2015	39704409.48	260,12,686.89	1.53

Interpretation. The above table shows the relationship between liquid asset and current liabilities. In 2012-13, the quick ratio is low that is 1.21. During 2013-14, the quick ratio is high .ie.2.33. Quick ratio shows that it is lower than the Institutional average which means that indicates the funds are locked up in inventories. Therefore, the Institute could use inventory control to improve its current asset management cycle. The ratio serves as a supplement to current ratio in analyzing the liquidity. In 2013-2014 the Institute showed a better position because of satisfactory inventory level management. This test is more vigorous measure of the liquidity position of the Institute

Absolute Liquid Ratio. This ratio is also called the Absolute liquidity ratio, Cash ratio. Since cash is the most liquid asset a financial analyst may examine cash ratio and its equivalent to current liabilities. Trade investment or marketable securities are equivalent of cash; therefore they may be included in the computation of cash ratio.

Absolute liquid ratio = cash/current liabilities.

Table 5. Table showing Absolute Liquid Ratio for the past three years (Rs in Lakhs)

Year	Cash and bank balance	Current Liabilities	Cash Ratio
2012-2013	69809561.89	57855048.23	1.21
2013-2014	225,10,093.32	97,70,162.45	2.30
2014-2015	39331760.48	260,12,686.89	1.51

Interpretation. The above table shows the relationship between cash and current liabilities. In 2012-13, the quick ratio is low that is 1.21. During 2013-14, the quick ratio is 2.30. The absolute liquid ratio is below norms of standard ratio 1:2 the Institute have to focus more on cash flow analysis. The organisation should synchronize the cash flow and try to reduce its transaction cost, borrowing cost etc.

Expenses incurred as a result of short duration costs are high. Organisation has to prepare quarterly cash budget to prepare cash flows for a given period of time. This test is more vigorous measure of the institute's liquidity position.

Turnover Ratios. The turnover ratios are also called activity ratios. The funds of creditors and owners are invested in various assets to generate sales and profits. The better the management of assets the larger will be the amount of sales. These ratios are called turnover ratios because they indicate the speed with which the assets are being converted or turned over into sales. Activity ratios thus involve a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are managed well. Several activity ratios can be calculated to judge the effectiveness of asset utilisation.

Working Capital Turnover Ratio. A firm may also like to relate net current assets (or net working capital gap) to sales. This ratio reflects the turnover of the firm's net working capital in the course of the year. It is a good measure of over trading and under trading. It may thus compute net working capital turnover by dividing net sales by net working capital.

Working capital turnover ratio = Net sales/ Net working capital

Table 6. Table showing Working Capital Turnover Ratio for the past three years (Rs in Lakhs)

Year	Net Sales	Net Working Capital	Working Capital Turnover Ratio
2012-2013	51,42,310	12736638.76	0.404
2013-2014	100,51,105	137,56,767.91	0.731
2014-2015	56,72,695	14540689.44	0.39

Interpretation. This replicates that the organization is not using working capital effectively for increase in sales turnover. When compared with previous year 0.731 times current year have been reduced to 0.39 times which means working capital efficiency have been decreased for increase in sales. Current working capital position is not satisfactory, so that organisation could improve its working capital position either by having more current assets or by reducing current liabilities.

Fixed Assets Turnover Ratio. The firm may wish to know its efficiency of utilizing fixed assets and current assets separately. Fixed asset turnover ratio determines the extent to which investment in fixed asset contribute towards sales. If compared with a previous year, it indicates whether the investment in fixed asset has been judicious or not. The ratio is calculated as follows. Fixed assets turnover ratio = Sales/ Fixed Assets

Table 7. Table showing Fixed Asset Turnover Ratio for the past three years (Rs in Lakhs)

Year	Sales	Fixed Asset	Fixed Asset Turnover Ratio
2012-2013	51,42,310	148274721.24	0.346
2013-2014	100,51,105	206451207.1	0.0487
2014-2015	56,72,695	247134946.6	0.023

Intrepretation. The fixed assets turnover ratio is decreasing in compared to the total income flow (Sales) of the Institute from 0.0487 times in the previous year to 0.023 times in the current year. In 2012-2013, the ratio of fixed asset to sales is high compared to 2013-2014 and 2014-2015. It means that the organization generate less income in 2012-13 and the same may be monitored with caution.

Profitability Ratios. Profitability is the overall measure of the companies with regard to efficient and effective utilization of resources at their command. It shed light upon the overall effectiveness of management regarding the returns generated on sales and investment. Profitability ratios are of utmost importance for a concern. These ratios are calculated to enlighten the end results of business activities which are the sole criterion of the overall efficiency of business concern.

Net Profit Ratio. Net profit ratio establishes a relationship between net profit and sales and indicates the efficiency of the management in selling, administration and other expenses of the firm. In this context, the term net profit means, "interest and tax but before dividend".

Net profit ratio = (net profit after tax /net sales) *100

Table 8. Table showing Net Profit Ratio for the past three years (Rs in Lakhs)

Year	Net profit	Sales	Net profit ratio
2012-2013	3,29,544.28	51,42,310	00.065
2013-2014	20,00,171.38	100,51,105	0.199
2014-2015	24359387.16	56,72,695	4.2

Interpretation. In 2014-2015 the net profit ratio is high compared to other 2 years. This ratio helps to measure the overall profitability and it very useful to the organization. Higher the ratio better is the overall efficiency of the concern.

Gross Profit Ratio. Gross profit plays an important role in management areas. In the area of financial management, the ratio serves as a valuable indicator of the firm's ability to utilize effectively outside sources of fund. Secondly, this ratio also serves as an important tool in shaping the pricing policy of the firm. This ratio expresses the relationship between gross profit and sales.

Gross profit=Gross profit/Net sales*100

Table 9. Table showing Gross Profit Ratio for the past three years (Rs in Lakhs)

Year	Gross Profit	Net Sales	Gross Profit Ratio
2012-2013	23,18,168.38	51,42,310	0.45
2013-2014	31,32,926.56	100,51,105	0.3117
2014-2015	22118818	56,72,695	3.89

Interpretation. In 2015 the gross profit is very high. This helps in ascertaining whether the average percentage of profit on the goods is maintained or not.

Solvency Ratio. Solvency ratio indicates the relationship between total outside liabilities to total assets. Total assets does not include fictitious asset .Generally, lower the ratio of ratio of total liabilities to total assets, more satisfactory or stable is the long term solvency position of a firm.

Solvency ratio=Total liabilities to outsiders /Total assets

Table 10. Table showing solvency ratio for the past three years (Rs in Lakhs)

Year	Total Liabilities	Total Assets	Solvency Ratio
2012-2013	57855048.23	257629724.61	0.225
2013-2014	9770162.45	230164432.5	0.0425
2014-2015	26012686.89	287861997.9	0.09

Interpretation. The above table shows the relationship between total liabilities to outsiders to total assets. If the ratio of total liabilities to total assets is lower, more satisfactory or stable is the long term solvency position of the Institute.

Operating Ratio. To check the general profitability of the concern. It is calculated by dividing the total operating cost by net sales. Operating ratio = Operating cost/Net sales*100

Table 11. Table showing Operating Ratio for the past three years (Rs in Lakhs)

Year	Operating Cost	Net Sales	Operating Ratio
2012-2013	26,47,712.66	51,42,310	0.52
2013-2014	40,37,280.94	100,51,105	0.402
2014-2015	22, 034,736	56,72,695	3.88

Interpretation. The operating ratio is high in 2014-2015 which means that all the operating cost is increasing disproportionately in compared to the sales which further indicates the inefficient management of the revenue generation activities of the Institute. Therefore, urgent steps may be initiated to increase the revenue or reduce the expenditure to ensure control over increasing operating cost of the Institute. Reverse is the position when the ratio is lower. It is one of the most important efficiency ratios.

Trend Analysis. Table 13. Table showing Trend analysis of Balance Sheet for the past three years

Particulars	Actual Figures From Balance Sheet			Trend Percentages(Base Year 2012-13)		
	2012-13	2013-14	2014-15	2012-13	2013-14	2014-15
Assets						
Current Assets:						
Cash In Hand	1000	1000	3500	100	100	350
Cash At Bank	69808561.89	22509093.32	39328260.48	100	32.24402954	56.337302
Stock In Hand	7,39,655.10	7,77,817.04	848966.85	100	105.1594236	114.77875
Total Current Asset	705,49,216.99	232,87,910.36	40180727.33	100	33.00945263	56.954179
Fixed Asset	148274721.24	206451207.1	247134946.6	100	139.2356063	166.67369
Other Asset	42,470.00	2,39,020.00	372649	100	562.7972687	877.44055
Deposit And Advances	1,74,711	1,86,295.00	173675	100	106.6303782	99.407021
Total Asset	2190,41,119.23	2301,64,432.45	287861997.9	100	105.078185	131.41916
Liabilities						
Current Liabilities:						
Sundry Creditors	20745.4	16,226.00	16,226.00	100	78.21492957	78.21493
Other Liabilities			35,665.00	100		
Total Current Liabilities	20745.4	16,226.00	51,891.00	100	78.21492957	250.13256
Capital Fund	161186071.00	220394270	261849311	100	136.732826	162.45157
Reserve And Surplus	57834302.83	97,53,936.45	25960795.89	100	16.86531344	44.888232
Other Liabilities(Total)	219020373.83	2301,48,206.45	287810106.9	100	105.0807294	131.40792
Total Liabilities	219041119.23	2301,64,432.45	2878,61,997.89	100	105.078185	131.41916

Interpretation. The trend analysis of Balance Sheet shows an increasing trend in the case of all the assets which is a good indication that the Institute is generating assets in every year and thereby maintains steady growth in the capital expenditure / asset formulation. Similarly, the reserve and surplus, capital fund etc are also shows a steady growth thereby the Institute is maintaining a prudent policy in retaining the reserves & funds for meeting the anticipated future commitments of the Institute.

Schedule for Changes in Working Capital

Table 14-Schedule for changes in working capital of GIFT for the year ended 31st March 2013-2014

Particulars	Financial Year		Effect On Working Capital	
	2012-2013	2013-2014	Absolute Increase	Absolute Decrease
A. Current Assets				
Cash in Hand	1000.00	1000	0	0
Cash at Bank	69808561.89	22509093.32		47299468.57
Closing Stock of Publications in Hand	7,39,655.10	777817.04	38161.94	
Other Current Assets	42,470.00	239020.00	196550.00	
Total	70591686.99	23526930.36		
B. Current Liabilities				
Reserve and Surplus	57834302.83	9753936.45	48080366.38	
Sundry Creditors	20745.4	16226.00	4519.40	
Total	57855048.23	9770162.45		
Net Working Capital (A-B)	12736638.76	13756767.91		1020129.15
Increase in Net Working Capital	1020129.15			
Total	13756767.91	13756767.91	48319597.72	48319597.72

Interpretation. Cash at bank decreased by Rs. 47299468.57, closing stock of publications in hand increased by Rs. 38161.94 and other current assets increased by Rs. 196550. Reserve and surplus increased by Rs. 297.94. Sundry creditors increased by Rs. 4519.40. The net increase in working capital is Rs. 1020129.15.

Table 15. Schedule for changes in working capital of GIFT for the year ended 31st March 2014-2015

Particulars	Financial Year		Effect On Working Capital	
	2013-2014	2014-2015	Absolute Increase	Absolute Decrease
A. Current Assets				
Cash In Hand	1000	3500	2500	
Cash At Bank	22509093.32	39328260.48	16819167.16	
Closing Stock Of Publications In Hand	777817.04	848966.85	71149.81	
Other Current Assets	239020.00	372649	133629	
Total	23526930.36	40553376.33		
B. Current Liabilities				
Reserve And Surplus	9753936.45	25960795.89		16206859.44
Sundry Creditors	16226.00	16,226.00	0	0
Other Liability		35,665.00		35665.00
Total	9770162.45	26012686.89		
Net Working Capital (A-B)	13756767.91	14540689.44		
Increase In Net Working Capital	783921.53			783921.53
Total	14540689.44	14540689.44	17026445.97	17026445.97

Interpretation. Cash in hand increased by Rs. 2500.00, Cash at bank increased by Rs. 16819167.16, Closing stock of publications in hand increased by Rs. 71149.81, Other current assets increased by Rs. 133629. Reserve and surplus during the period decreased by Rs. 16206859.44 and Other liability decreased by Rs. 35665.00. The net increase in working capital is Rs. 783921.53.

Comparative Financial Statements. Comparative Balance Sheet.

Table 16. Comparative Balance Sheet, of GIFT for the year ended 31st March, 2013-2014 (Rs in Lakhs)

	2013-14	2012-13	Increase/ Decrease	Percentage Change
Assets				
Cash In Hand	1000	1000.00	0	0
Cash At Bank	22509093.32	69808561.89	-47299468.57	-67.75
Closing Stock Of Publications In Hand	777,817.04	739,655.10	38161.94	5.15
Deposits And Advances	186,295.00	174,711	11584	6.63
Other Current Assets	239,020.00	42,470.00	196550	462.79
Fixed Assets	206,451,207.09	148274721.24	58176485.8	39.23
Total	230164432.5	219041119.23	208260313.3	95.07
Liabilities				
Capital Fund	220394270	161186071.00	59208199	36.73
Reserve And Surplus	9,753,936.45	57834302.83	-48080366.38	-83.13
Sundry Creditors	16,226.00	20745.4	-4519.4	-21.78
Other Liabilities	Nil	Nil	Nil	Nil
Total	230164432.5	219041119.23	11123313.3	5.07

Interpretation. The reserves and surpluses of the organization have decreased by Rs. 48080366.38. Cash at bank is decreased by Rs. 47299468.57 this conveys that the organization does not invest cash in bank completely utilized for the development of the institute.

Table 17. Comparative Balance Sheet, of GIFT for the year ended 31st March, 2014-2015 (Rs in Lakhs)

	2014-15	2013-14	Increase/ Decrease	Percentage Change
Assets				
Cash in hand	3500	1000	2500	250
Cash at bank	39328260.48	22509093.32	16819167.16	74.72
Closing stock of publications in hand	848966.85	777,817.04	71149.81	9.14
Deposits and advances	173675	186,295.00	-12620	-6.77
Other current assets	372649	239,020.00	133629	55.90
Fixed assets	247134946.6	206,451,207.09	40683739.6	19.70
Total	287861997.9	230164432.5	57697565.4	25.06
Liabilities				

Table 17. (Cont). Comparative Balance Sheet, of GIFT for the year ended 31st March, 2014-2015

Capital fund	261849311	220394270	41455041	18.80
Reserve and surplus	25960795.89	9,753,936.45	16206859.44	166.15
Sundry creditors	16,226.00	16,226.00	0	0
Other liabilities	35,665.00	Nil	35,665.00	100
Total	287861997.9	230164432.5	57697565.4	25.06

Interpretation

- The organisation is in a position to pay of its current liability, as the current assets of the Institute current liability has increased.
- The reserves and surpluses of the organisation have increased by Rs.16206859.44 this signifies that the Institute is in a position to issue bonus shares to the shareholders.
- The deposits and advances of the organisation decreased by Rs. 12620 which means that the current year the advances loan and the amount of deposits are less.

Comparative Income And Expenditure

Table 18 Comparative Income and Expenditure, of GIFT for the year ended 31st March,2013-2014 Rs in Lakhs)

	2013-14	2012-13	Increase/ Decrease	Percentage Change
Income				
By granting aid from Government of Kerala	14500000.00	13278000.00	1222000.00	9.20
By Course income(DST and PGDT)	645,740.00	836,275.00	-190535.00	-22.78
Publication income	663,865.00	803,620.00	-139755.00	-17.39
Project income	8,741,500.00	3,502,415.00	5239085	149.58
Interest income	1,066,426.83	962,001.00	104425.83	10.85
Sale of scrap	3,200.00	5,020.00	-1820	-36.25
Miscellaneous income	1,050.00	2,999.25	-1949.25	-64.99
Reimbursement of training expense from CTD	Nil	888,558.00	-888,558.00	-100
Reimbursement of ICSSR visiting expense	150,000.00	Nil	150,000.00	100
Seminar expense	150,000.00	Nil	150,000.00	100
Closing stock of publication in hand	777,817.04	739,655.10	38161.94	5.15
Total	26,699,598.87	21018543.35	5681055.52	27.02
Expenditure				
Opening stock of Publications in hand	739,655.10	515787.72	223867.38	43.40
Employees cost	17101205.00	15269265.00	1831940.00	11.99
Course expenses(PGDT AND DST)	89,682.00	175,983.00	-86301.00	-49.03
Project and publication expenses; Seminar and training expense	2,772,469.00	1,592,543.00	1179926.00	74.09
Office expenses	1,175,129.94	879,186.66	295943.28	33.66
Pre and post budget discussion expense	117,660.00	159,984.00	-42324.00	-26.45
Repairs and maintenance	205,618.00	173,773.00	31845	18.32
Fuel charges	146,144.06	132,596.34	13547.72	10.21
Depreciation	1,031,713.15	875,149.36	156563.79	17.88
Excess of income over expenditure	3,094,764.62	521,947.27	2572817.35	492.92
Insurance and taxes	16,485.00	18,105.00	-1620.00	-8.94
Honorarium	7,500.00	2,500.00	5000.00	200.00
Professional charges(accounts etc)	181,573.00	660,526.00	-478953.00	-72.51
Registration or affiliation expenses	20,000.00	20,000.00	0	0
NUALS research centre expenses	Nil	13,893.00	-13,893.00	-100
Audit fee	Nil	7,304.00	-7,304.00	-100
Total	26,699,598.87	21018543.35	5681055.52	27.02

Interpretation. From the above comparison it reveals that the course income for the year 2013-14 were decreased by Rs.190535.00.This signifies that for the current year the institution has low income from the courses. The publication income also decreased in the current year.

Table 19. Comparative Income and Expenditure, of GIFT for the year ended March, 2014-2015 (Rs in Lakhs)

	2014-15	2013-14	Increase/ Decrease	Percentage Change
Income				
By granting aid from Government of Kerala	23730000.00	14500000.00	9230000.00	63.65
By Course income(DST and PGDT)	816,425.00	645,740.00	170685.00	26.43
Publication income	907,270.00	663,865.00	243405.00	36.66
Project income	3,949,000.00	8,741,500.00	-4792500.00	-54.82
Interest income	Nil	1,066,426.83	-1,066,426.83	-100
Sale of scrap	Nil	3,200.00	-3,200.00	-100
Miscellaneous income	2,069,840.16	1,050.00	2068790.16	197027.63
Reimbursement of training expense from CTD	Nil	Nil	Nil	Nil
Reimbursement of ICSSR visiting expense	Nil	150,000.00	-150,000.00	-100
Seminar expense	Nil	150,000.00	-150,000.00	-100
Closing stock of publication in hand	848,966.85	777,817.04	71149.81	9.14
Total	32,321,502.01	26,699,598.87	5621903.14	21.05
Expenditure				
Opening stock of Publications in hand	777,817.04	739,655.10	38161.94	5.15
Employees cost	21832321.3	17101205.00	4731116.3	27.66
Course Expenses(PGDT AND DST)	263,572.00	89,682.00	173890.00	193.89
Project and publication expenses; Seminar and training expense	1,976,997.00	2,772,469.00	-795472.00	-28.69
Office expenses	84,082.00	1,175,129.94	-1091047.94	-92.84
Pre and post budget discussion expense	30,124.00	117,660.00	-87536.00	-74.39
Repairs and maintenance	203,034.00	205,618.00	-2584.00	-1.25
Fuel charges	167,628.70	146,144.06	21484.64	14.70
Depreciation	771,301.53	1,031,713.15	-260411.62	-25.24
Excess of income over expenditure	6,203,857.44	3,094,764.62	3109092.82	100.46
Insurance and taxes	Nil	16,485.00	-16,485.00	-100
Honorarium	Nil	7,500.00	-7,500.00	-100
Professional charges(accounts etc)	Nil	181,573.00	-181,573.00	-100
Registration or affiliation expenses	Nil	20,000.00	-20,000.00	-100
NUALS research centre expenses	10,767.00	Nil	10,767.00	100
Audit fee	Nil	Nil	Nil	Nil
Total	32,321,502.01	26,699,598.87	5621903.14	21.05

Interpretation. In the current year project income decreased by Rs. 4792500.00, Interest income decreased by Rs. 1066426.83, Sale of scrap decreased by Rs. 3200.00, Miscellaneous income increased by Rs. 2068790.16. Reimbursement of ICSSR visiting expense during the period decreased by Rs. 150000.00 and Seminar expense decreased by Rs. 150000.00. Project and publication expenses; Seminar and training expense decrease by Rs. 795472.00.

Common Size Financial Statements. Common size financial statements are those in which figures reported are converted into percentages to some common base. In the income statement the sales figures is assumed to be 100 and all figures are expressed as percentage of this total.

Common Size Balance Sheet

- The common size balance sheet analysis reveals proportionate of fixed assets to current assets and current assets to total assets, proportions of long term funds to current liabilities and provisions
- Composition of current liabilities to total liabilities which helps in making inter firm comparison and highlights the financial health and long term solvency, ability to meet short term obligations and liquidity position of the Institute.

Table 20. Common Size Balance Sheet of GIFT for the year ended 31st March 2013-14 (Rs in Lakhs)

Assets				
Cash in hand	1000.00	1000	0.45	4.34
Cash at bank	69808561.89	22509093.32	31.87	9.77

Table 20. (Cont). Common Size Balance Sheet of GIFT for the year ended 31st March 2013-14

Closing stock of publications in hand	739,655.10	777,817.04	0.34	0.33
Deposits and advances	174,711	186,295.00	0.08	0.08
Other current assets	42,470.00	239,020.00	0.02	0.10
Fixed assets	148274721.24	206,451,207.09	67.69	89.69
Total	219041119.23	230164432.5	100	100
Liabilities				
Capital fund	161186071.00	220394270	73.58	95.75
Reserve and surplus	57834302.83	9,753,936.45	26.40	4.23
Sundry creditors	20745.4	16,226.00	0.94	0.70
Other liabilities	Nil	Nil	Nil	Nil
Total	219041119.23	230164432.5	100	100

Interpretation. From the above common size balance sheet it reveals that the fixed asset for the year 2012-13 constitute 67.69% of the total asset and during the year 2013-14 it has become 89.69%. This signifies that for the current year the institution has low sales. In the year 2013-14 the Institute have undergone purchases as there is an increase in the percentage of fixed assets.

Table 21 - Common Size Balance Sheet of GIFT for the year ended 31st March 2014-15 (Rs in Lakhs)

	2013-14	2014-15	2013-14 Percentage	2014-15 Percentage
Assets				
Cash in hand	1000	3500	4.34	0.12
Cash at bank	22509093.32	39328260.48	9.77	13.66
Closing stock of publications in hand	777,817.04	848966.85	0.33	0.29
Deposits and advances	186,295.00	173675	0.08	0.06
Other current assets	239,020.00	372649	0.10	0.12
Fixed assets	206,451,207.09	247134946.6	89.69	85.85
Total	230164432.5	287861997.9	100	100
Liabilities				
Capital fund	220394270	261849311	95.75	90.96
Reserve and surplus	9,753,936.45	25960795.89	4.23	9.01
Sundry creditors	16,226.00	16,226.00	0.70	0.02
Other liabilities	Nil	35,665.00	Nil	0.01
Total	230164432.5	287861997.9	100	100

Interpretation. From the above common size balance sheet it reveals that the fixed asset for the year 2013-14 constitute 89.69% of the total asset and during the year 2014-15 it has become 85.85%. This signifies that for the current year the institute has undertaken sales.

Findings and Suggestions

The present work entitled "An Evaluation of Financial Management System in Gulati Institute of Finance and Taxation, Thiruvananthapuram was conducted for a period of 2 months. The study was organized mainly to study the Financial Management System of the organization. The data for the study were collected through secondary sources. With the help of several tools the data were easily interpreted. The study was carried out with the main objectives such as:

- To understand the Financial Management System of the GIFT.
- To study the liquidity position of the organisation for last three years.
- To evaluate the performance of cash management, financial planning and management control of GIFT.
- To examine the various functions/activities in GIFT.
- To evaluate the extend of compliance of accounting standards followed in the financial accounting and reporting system in GIFT.
- To analyse the effectiveness of financial management practices followed in GIFT.
- To examine the audit system followed in GIFT.
- To give appropriate suggestions to GIFT for the betterment of financial management practices based on the findings of the study.

Findings. Through the analysis of past three years' financial data, following were the list of findings:

- Current ratio of GIFT is showing a downward trend, which is below level of minimum acceptable standard ratio of the Institute for providing working capital finance.

- The quick ratio of the Institute is below the organisation average which shows the funds of the organisation were locked in inventories.
- The absolute liquid ratio is below norms of standard ratio the Institute, have to focus more on cash flow analysis. The organisation should synchronize the cash flow and try to reduce its transaction cost, borrowing cost etc.
- The net profit ratio of the organisation shows an upward trend which means organisation have efficient and effective utilization of resources at their command and efficient control over management regarding the returns generated on sales and investment.
- Based on trend analysis it is found that provision for reserves have been increasing year by year which shows good indicators of creating reserves for meeting contingencies.
- The operating ratio found to be increasing which means that all the operating cost is increasing disproportionately in compared to the sales which further indicates the inefficient management of the revenue generation activities of the Institute .
- The investments in fixed assets of the organisation have been increased which leads to increased in provision for depreciation.
- Reserves and surpluses of the organisation are increasing year by year which denote that the organisation may issue bonus shares in future.
- The organisation's fixed asset is increasing which means it should have been purchased from Govt assistances .
- Liquidity position is reasonably good as the organisation can pay off its current liability from the current assets.
- The gross profit ratio of the organisation shows upward trend this helps in ascertaining that the average percentage of profit on the goods is maintained.
- Solvency ratio reveals the relationship between total liabilities to the outsiders to total assets. Here the ratio is decreasing shows that the ratio of total liabilities to total assets, more satisfactory or stable is the long term solvency position of organisation.

Suggestions And Recommendations. From the present study number of inferences has been drawn based on analyzing and interpreting the data using various tools like Ratio analysis, Trend analysis, Comparative analysis. The following are some of the suggestions and recommendations put forward as a part of the study. They are as follows:

- Organisation can improve its working capital position either by having more current assets or by reducing current liabilities.
- The Balance Sheet analysis shows an increasing trend in the case of all the assets which is a good indication that the Institute is generating assets in every year and thereby maintains steady growth in the capital expenditure / asset formulation. However, the increased infrastructure is found to be underutilised. Therefore, more activities may be undertaken for ensuring the fair utilisation of available infrastructure.
- Similarly, the reserve and surplus, capital fund etc are also shows a steady growth thereby the Institute is maintaining a prudent policy in retaining the Reserves & Funds for meeting the anticipated future commitments of the Institute .However, specific provision for pension, gratuity and other staff welfare benefits are not made so far.
- Audited Statement of Accounts are not available for the years 2015-16 & 2016-17 and latest position of the Institute could not be ascertained. It is recommended that the Audit may be finalised on real time basis.
- The income analysis shows a decreasing trend in all the years under consideration and therefore it is recommended to revamp the courses and training programmes to ensure more income in the coming years.
- More than 70% of administrative and accounting functions of the Institute are at present monitored manually. Therefore, it is recommended to introduce e-Governance & E platform in view of the investment in IT infrastructure carried out in the Institute.

Conclusion

This study was an effort initiated to know the Financial Management System in Gulati Institute of Finance and Taxation, Thiruvananthapuram. The study was organized for a period of 2 months with many objectives.

- The data and other information were collected through secondary sources taking into consideration the availability and accessibility of information. Although several limitations were outlined during the study, best

effort of the investigator has been put across in overcoming the drawbacks. The data were analyzed and interpreted through relevant tools.

- The study revealed that the liquidity position of the organisation is reasonably good and it was also found that provision for reserves have been increasing year by year which shows good indicators of creating reserves for meeting contingencies.
- The balance sheet analysis shows an increasing trend in the case of all the assets which is a good indication that the Institute is generating assets in every year and thereby maintains steady growth in the capital expenditure /asset formulation. However, the increased infrastructure is found to be underutilised. Therefore, more activities may be undertaken for ensuring the fair utilisation of available infrastructure
- Similarly, the reserve and surplus, capital fund etc. are also shows a steady growth thereby the Institute is maintaining a prudent policy in retaining the reserves& funds for meeting the anticipated future commitments of the Institute. However, specific provision for pension, gratuity and other staff welfare benefits are not made so far.
- The income analysis shows a decreasing trend in all the years under consideration and therefore it is recommended to revamp the courses and training programmes to ensure more income in the coming years.
- Working capital position of the Institute can be improved either by having more current assets or by reducing current liabilities. The overall success of the Institute depends upon the working capital position. So it should be balanced properly because it shows the efficiency and the financial strength of the Institute. Therefore, the Institute should adhere to strict measures in every sphere of its activities to bring the organisation back to sufficient working capital position and improve its financial performance for better prospects in the coming days.

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