CHAPTER - I

INTRODUCTION
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INTRODUCTION AND DESIGN

INTRODUCTION:

Business firms are existing in a world of rapid changes and extensive interactions which necessitated radical reforms especially in the field of financial management. Finance is said to be the circulating system of an enterprise making possible the need for co-operation between diverse activities. It plays an extremely crucial role in the continuity and growth of the business.

The proper financing of an enterprise and the skilful management of its assets are crucial to the continued success of the firm.

Careful management of a firm’s assets and financial resources is important for its success in a free market economy.

"Financial management is concerned with the duties of the financial managers in the business firm. Financial managers actively manage the financial affairs of any type of business, namely, financial and non-financial, private and public, large and small, profit seeking and not-for-profit. They perform such varied tasks as budgeting financial
forecasting, cash management, credit administration, investment analysis, funds management and so on."*

The basis for financial planning and analysis is the financial information as contained in the financial statements. It is needed to predict, compare and evaluate the firm's earning ability. If is also required to aid in economic decision making, investment and financing decision making.

**OBJECTIVES OF FINANCIAL STATEMENTS:**

The main objectives of financial statement analysis are to spotlight the significant fact and relationship concerning managerial performance, corporate efficiency, financial strength and weaknesses.

Financial statement analysis is a fundamental process which aims to evaluate the current and past financial position and the result of operations of an enterprise. The primary objective is to determine the best possible estimates and predictions about the future. It also aims at formation of an opinion with respects to the financial positions of the enterprise relating to the status of that business in the economic world.

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According to AICPA, "Financial statements are prepared for the purpose of presenting a periodical review or report on the progress by the management".

The main object of financial statement is to provide information for decision making for all those who are interested in the affairs of the business enterprise.

The various class of people who look forward to the financial statements are the management, investors, prospective investors, creditors etc. However it is to be emphasized that financial statement can not be tailor - made to suit all categories of persons who are interested in the business. There has to be some compromise in the preparation of financial statements. There can be preparation of only one financial statement to meet the requirements of shareholders. But it must give such significant and material information which is beneficial to the other parties as well particularly those who make decisions for the future.

The precise objects of financial statements as envisaged by Accounting Principles Board (APB) of America are as follows:

- To provide reliable financial information about economic resources and obligations, i.e., inflow of cash.

• To provide the net result i.e. profit and loss of an enterprise arising from its activities.

• To provide financial information that assist in earning capacity of the business.

• To provide other needed information about changes in economic resources or obligations, such as change in working capital, fund flows etc.

• To provide other information related to financial statements to others who are in need of it.

NATURE OF FINANCIAL STATEMENTS:

Financial statements are prepared to portray the results and financial position of an enterprise. They reflect the totality of recorded facts, accounting principles and personal judgements.) According to American Accounting Association “Every corporate statement should be based on accounting principles which are sufficiently uniform, objective and well understood to justify opinions as to the condition and progress of business enterprise. Its basic assumption is that the purpose of financial statement is to furnish information that is necessary for the formation of dependable judgements.” The nature of financial statements can be explained under the following points:
• **Recorded facts**: The term recorded facts means those transactions which are recorded in the books of accounts. Such transactions relate to cash in hand, bills receivable, debtors, creditors, fixed assets, sales, purchases, wages, capital etc. There transactions are recorded on historical basis. Those facts which are not part of accounting books are not shown in financial statements, whatever may be its relative importance to the business.

• **Accounting conventions**: These relate to accounting principles which are applied as a long standing practice, for example, the convention relating to conservatism, a provision is made for anticipated loss but not for anticipated profit. Accounting conventions are used for valuation of inventory, allocation of expenses between capital and revenue, valuation of assets etc.

• **Postulates**: Postulates related to assumptions which accountant makes while adopting conventions. One such assumption is relating to continuation of business even beyond the period which is covered by financial statements. This assumption is known as “going concern of the business”. According to this assumption, assets are valued at its cost less depreciation. In the absence of this assumption, assets would have been valued at realizable value which may be negligible. Another assumption relates to stability in
the value of money over a period of time and some accountants do not value assets on the basis of change in the value of money.

• **Personal Judgement:** The application of conventions or postulates depends upon the personal judgement of the accountant. For example, the method of depreciating on asset, the method of valuation of stock, making provision for doubtful debts, the method of amortization of fixed assets etc., depend upon the personal judgement of the accountant. However, the personnel judgement of the accountant is checked by the consistency principle.

• **Accounting Standards and Guiding notes:** Accounting standards and guiding notes help to a large extent in preparing financial statements. Certain accounting standards such as disclosure of accounting policies, Revenue recognition, accounting for fixed assets etc., are compulsory in nature.

**ORGANISATION OF FINANCIAL MANAGEMENT FUNCTION:**

The responsibilities for financial management are spread throughout the organisation in the sense that financial management is to an extent, an integral part of job for the managers involved in planning, allocations of resources and control.
For instance, the production manager (engineer) shapes the investment policy (proposal of a new plant); the marketing manager / analyst provides inputs in forecasting and planning; the purchase manager influences the level of investment in inventories; and the sales manager has to say in the determination of receivable policy.

Nevertheless, financial management is highly specialised in nature and handled by specialists. Financial decisions one of crucial importance. It is therefore, essential to set up an efficient organization for financial management functions.

**IMPORTANTS OF FINANCIAL STATEMENT ANALYSIS:**

Financial statements consists of a study of relationship and trends to determine whether the financial position and results of operations and the financial progress of the company are satisfactory or unsatisfactory.

An attempt to determine the significance of the financial data through analysis and interpretation provides a comprehensive understanding of the business operations and their impact on the financial health of the enterprise.

There are three steps involved in the financial statement analysis and they are selection, classification and interpretation.
The first step involved refers to the selections of information relevant to the purpose of evaluation from the total of information contained in the financial statements.

The second step involved in the classification or grouping of information in such a manner to focus on the significant relationships.

The final step in the interpretation which includes drawing of inferences and conclusions.

In the words of John N. Myer, "The financial statements provide a summary of the accounts of a business enterprise, the balance sheet reflecting the assets, liabilities and capital as on a certain date and the income statement showing the results of operations during a certain period". According to this definition financial accounts are the end products of accounting process.

According to Robert N. Anthony, "Financial statements, essentially, are interim reports, presented annually and reflect a division of the life of an enterprise into more or less arbitrary accounting period-more frequently a year. According to this definition, financial statements are a form of reports which helps management in decision making process. Such report are prepared periodically to enable management to carry out its day-to-day functions".
Kohler in his book Dictionary for Accountants defines financial statements as "A balance sheet, income statement, fund statement or any other supporting statement or other presentation of financial data derived from accounting records." This definition identifies the packages of financial statements.

STATEMENT OF THE PROBLEM:

Development of industries depends on several factors such as financial, personal, technology, quality of the product and marketing. Out of these financial aspects assumes a significant role determining the growth of industries. As the capital in scarce in our country, how for this scarce capital can be effectively utilised in our industries is a debatable point.

Certain aspects of the study unit dealt under the study are mentioned here. Regarding the company – TATA ELXSI Ltd, its origin, growth, production capacity, production facilities, quality control and process control are taken into account. Regarding the financial performance, the sales, purchases, gross profit, net profit, operating profit, operating expenses, interest and tax and also assets and liabilities of the company are analysed.
OBJECTIVES OF THE STUDY:

The main objectives of the present study are:

1. To know the origin and growth of the TATA ELXSI Ltd.,

2. To examine the financial stability and overall performance of Tata Elxsi Ltd.

3. To measure the profitability and solvency position of the company with the existing tools of financial analysis.

4. To analyse the financial performance of the study by using financial tools and statistical tool.

SCOPE OF THE STUDY:

The study covers an overall performance of the company. Financial area is the coverage of the study. Analysis of financial statements of the company is taken into account under the study. Period of the study is six years from 1999-2000 to 2004-2005.

METHODOLOGY:

This is case study. A company namely “TATA ELXSI Limited was selected for the study. The study is fully based on secondary data which were collected from the company’s Annual Audited Reports, Websites and Books.
Financial tools such as Ratio Analysis, Comparative Income Statements, Trend Analysis and also Statistical Tool namely Correlation Analysis were used to analyse the Financial Statements of the Company. Finally, the data were tabulated and interpreted in order to draw inferences for the study.

LIMITATIONS OF THE STUDY:

Under the study, a comparative study is not undertaken. The study did not cover the entire financial management. Except finance area all the other areas of business were not covered. Problems in the finance department were not studied. Primary data were not used in the study.

CHAPTER SCHEME:

CHAPTER I  Introduction and Design of the study.

CHAPTER II  Review of Literature.

CHAPTER III  Profile of the Tata Elxsi Ltd

CHAPTER IV  Analysis of Financial Statements of Tata Elxsi Limited.

CHAPTER V  Summary of Findings, Suggestions and Conclusions.