

CHAPTER - ONE

Introduction

1.1. Background of the study:

Micro-finance has emerged as an important financial product of formal, semiformal and informal financial institutions. It is a new development paradigm, which is used as an effective tool for poverty alleviation. The poor people have been struggling to service on less than Us \$ 1 a day and there are round 900 million poor people in the Asia and pacific region alone and 500 million in south Asia. In Nepal, out of 23 million, 38% people live below poverty line. Most of the rural poor live in rural areas having no any opportunities. Since Nepal has already spent 45 years in planned development, every plan has failed to set targeted goal of poverty alleviation. Its poverty reduction rate is low. Main reasons of the low poverty rate:

- i) low per capita income
- ii) Urban concentrated growth.
- iii) High population growth rate.

Micro-finance delivery mechanism could help to these poor people who have no any collateral but have willingness to work, and want to do some business from which they will get employment as well as income.

1.1.1. Introduction of Forum for Rural Ardency Development (FORWARD)

Forum for Rural Women Ardency Development (FORWARD) is a nongovernmental organization which has been headed by professional women group. The organization begins its working through Sunsari and Morang districts eastern part of Nepal. The organization has been working in Socio-economic development to the poor vulnerable people and their communities. FORWARD plays an affective role to their target groups on poverty reduction since fourteenth anniversaries assortment with socio-economic programs, FORWARD's major program is microfinance, similarly as others programmes: formal/non formal education, enterprises development, agriculture development with its new technology, awareness campaign on health nutrition, capacity building to client and staff and other associate stakeholders.

Forum for Rural Women Ardency Development (FORWARD) established in Paush 2051(Dec 1994), and formally registered in 18 Baisakh, 2052 (May 1995). And it was licensed by Nepal Rasta Bank (Central Bank of Nepal) as a financial intermediary Act in 15-paush, 2059 (Dec 2002), affiliated in social welfare council, NGO Federation of Nepal, also the organization has membership in many other Networks / Societies like NGOCC, RMDC, Local Trust Fund Board and linkages with GOs, NGOs, INGOs and financial Institutions.

FORWARD is located in the eastern part of Nepal as a Non - Governmental Financial Intermediary Organization, managed by compatible and committed women professional groups. FORWARD works for backward vulnerable, indigenous people and communities on awareness with right based approaches for their empowerment in a sustainable manner. The Organization develops trust from their supporters through the cooperation and collective views in order to play significant role in poverty alleviation and to help against poverty through microfinance program, awareness against the domestic violence of women/Child, community health and hygiene, Improvement of traditional practices of agriculture and livestock productivity, livelihood services, natural resources and environment management and micro enterprises developments etc in eastern-mid Nepal. FORWARD pay attention to empower the deprived communities and protect their ethnic values, that ultimately enhances access to the economic resources. To cover the above fields, FORWARD has set up its Vision and objectives.

1.2. Focus of the study:

This study is focused on the analysis of the financial performance of FORWARD. Financial analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statements.

Financial ratios are evaluated with the help of accounting data and financial statements like balance sheets and profit and loss accounts to find out the financial strength and weakness. The ratio analysis is most powerful tools to analysis the financial performance therefore the focus of this study is to find out the financial performance, financial strength and weakness of micro-finance.

1.3. Statement of problem:

Micro-finance business is very sensitive and risky business this day's, its getting popular and it has earned high profit in spite of high risk too. The economic environment of the country is highly unfavorable that affect all sectors of the economy. The micro-finance too can't remain untouched. It is so difficult to survive in such a situation and weak enterprises would die out too. The fluctuation in economic environment affects the earning and stability of the banking business. The variation on overall financial performances also brings fluctuation on other important aspects such as return on shareholders equity, dividend payout ration, earning per share and market value per share which send negative impact to the shareholders.

On the other hand the mushrooming of banking and financial institution and about a dozen of rural banks and co-operatives in a Short span of time has brewed. Now competitive scenario has posed a challenge to his previous monopolistic micro-finance like nirdhan utthan bank, swablamban bank, FORWARD and nerude bank which are making attractive profits. In the changed scenario these microfinance need to explore their strength and weakness and improve their performance because their success depends up on their ability to boost there productivity and financial performance.

Keeping these points in view, the present study concentrates to explore the weakness and efficiency of FORWARD. The following study will be focused on revealing following specific problems.

- What is the current position of financial performance of FORWARD?
- What is the financial growth trend of this micro-finance?
- What are the liquidity, capital structure activity, capital adequacy and profitability position of this micro-finance?
- Whether this micro-finance audits their annual reports legally?

1.4. Objectives of study:

The main objectives of the study are to measure the financial performance of FORWARD. It obtains the true and exact result about the financial performance of this micro finance. The specific objectives of this study are as under:-

- To analyze the financial performance of the FORWARD.
- To conduct cash flows analysis and measure the operating efficiency, stability and profitability of FORWARD.

- To measure the ability to meet the short term and long term obligation.
- To provide the information about the capacity of microfinance for paying the loan and interest theorem.
- To provide further suggestions for improvement.

1.5. Limitations of the study:

This research work has some permanent boundaries be ride the boundaries the topic concentration is not diversified theses boundaries are called limitation of the study. The study has the following limitations.

- a) This study is limited of financial performance of FORWARD.
- b) This study covers only five year's trend and data analysis but due to unavailability of the trend and data it has covered only four years.
- c) This study is only for partial fulfillment of M.B.S. program.
- d) Secondary data depend up on the comprehensibility and accuracy of the data.
- e) Limited resources and time at the disposal of the research would not been allowed a much more extensive analysis of the subject questions.
- f) Limited types of financial tools and techniques have been applied for this study.
- g) The limitations of secondary as well as primary data also prevail.

1.6. Research Methodology:

The research methodology of the current study divides the entire techniques in to following components.

1.6.1. Research design:

This is a descriptive research design. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and control variance.

Thus for this research work, the respondents were interviewed through secondary data, different development approaches including community forestry and socio-economic impact.

1.6.2. Research procedure:

Both primary and secondary data are basically depends on collection combination of the study. The primary data will be collect through field survey, direct personal interview mainly by the help of sampling procedures. The statistical information of the study is therefore, primary and secondary statistical data by their nature. Secondary data will be gathering from already published and unpublished books, Journals reports etc.

1.6.3. Size of sample:

Since the census technique is costlier and time consuming by their nature and there by a suitable sampling technique has only been taken into account and analysis the different issues of the study. The statistical random sampling has been exercised to collect the varieties of statistical information regarding the topic of the study.

1.6.4. Methods of data collection

a) Interview:

Interview techniques will be used called the primary data. Both structured and unstructured questionnaires will be designed for whatever the situation fitted. The interview is a face to face in which one person the interviewed, the responded questions designed to obtain answer pertinent to the purpose of the research problem.

b) Observation:

Observation is one of the most important techniques of data collection. This method helped the researcher to understand the people and their culture and collect different kinds of data.

c) Questionnaires:

The questionnaires will be used for the collection of information. However the unstructured questionnaire will be also used in order to get some other additional necessary information.

1.6.5 Analysis and presentation:

After the collection of data from various sources proper analysis and interpretation of the data. In fact the descriptive and analytical vision will be supported by some of the mathematical and statistical tools such as diagrammatic presentation of data will be exercised analyze, highlight and evaluate the different sensitive issues of the study.

1.7. Organization of study:

The study has been organized in to five chapters. Each chapter deals some important factors of financial performance. The title of each of these chapters is listed bellow:

- Chapter 1: Introduction of study
- Chapter 2: Review of literature
- Chapter 3: Research methodology
- Chapter 4: Presentation and analysis of data
- Chapter 5: Summary, conclusion and recommendation

Chapter 1 : Introduction

This is introduction chapter of this study. This chapter includes background of the title, focus of the study, statement of problem, objective of the study, limitation of the study, research methodology and organization of study.

Chapter 2 : Review of literature

This chapter is review of literature with conceptual framework of the financial performance, review of book and thesis work.

Chapter 3 : Research methodology

This chapter contains the research methodology. This chapter deals introduction, research design and population and sample, sampling method, sources of data, method of data collection, tests for analysis and statistical analysis.

Chapter 4 : Presentation and analysis of data

This chapter deals with presentation of data and analysis of the liquidity position, leverage position and profitability position of Forward.

Chapter 5 : Summary, conclusion and recommendation

This chapter includes summary, conclusion and recommendation of the study. Bibliography and Appendix are at the end of the study.

CHAPTER – TWO

REBIEW OF LUTERATURE

2.1. Concept

The second chapter highlights about the relevant literature to make the vase of knowledge for the study. The scholars in respect of financial performance have expressed different vision. Review of literature comprises with to chapters first conceptual review and second review of related study. Financial performance of any company or business is assumed greater significance not only from the view point of archiving the organizational goals but also from the angle of generating the surplus for contribution to the national exchequer. It determines the secures or failure of an enterprise about the financial statements and necessary financial tools in brief. The theory of the financial performance and financial aspects and statistical tools are discussed in this chapter depending upon review of books, journals and articles, it is also attempted to present out come of similar past research works.

2.2. Concept of financial management

Profit is essential for enterprise for its survival and growth and to maintain capital adequacy through profit retention. Profit is one of the indications of second financial performance. It is usually the result of sound business management. Financial performance significance not only from the view point of achieving the organizational goals but also from the angle of generation the surplus for contribution to the national exchequer.

Finance is the blood of any institute or business firm. The firm without finance is like and engine with out fuel. There fore, it is regarded as the back bone of business. Finance is the study of these principles and methods concerned with acquisitions and utilization of fund to carry out certain short term as well as long term pre-determined goals. Some definitions of finance are

"Finance can be defined as art and science of managing money"

(Gitman: 1982:7)

"Finance is the means by which the funds are obtained and the methods by which these funds are managed and allocated" (Astevenson: 1985: 5)

"Put simply finance is the body of facts, principles, and theories dealing with rising (for example by borrowing) and using of money by individuals, business, and governments" (Joshi & Dangol : 2056: 2)

Financial management is one of the management sub-systems of the fatal organizational setup. Financial management should interface with other management like, production, marketing and personal management in order to archive the desirable goals of the firm.

"Financial management is concerned with the acquisition financing and management of assets with some overall goal in mind."

(Van Horne & Wachowicz: 1961: 2)

Financial management involvers the solution of three major interrelated decisions of a firm namely investment decisions, financing decisions and dividend decisions. Financial management can be further high lighted by its basic and incidental finance functions. What financial manager performs in his work are finance functions. Finance functions are based on mainly three decisions: investment decisions, financing decisions and dividend decisions.

For understanding the concept of financial management clearly, other definitions are mentioned below:

"Financial management is that management activity which concern with the planning and controlling of the firms financial reserves." (Pandey : 1992: 1)

"Financial management involves the application of general management principles to a particulars financial operation." (Kulkarni: 1992: 3-1)

2.3. Concept of financial statement

A firm communicates financial information to the users through financial statements and reports. The financial statements contain summarized information of the firm's financial affairs, organized systematically. As these statements are used by investors and financial analysts to examine the firm's performance in order to make investment decision, these should be prepared very core fully and contain as much information as possible.

"Two basic financial statements prepared for the purpose of external reporting to owners, investors and creditors are:-

1. Balance sheet or (statement of financial position)
2. Profit and loss a/c or (income statement)." (Pandey : 1992: 30)

To these statements are added the statement of retained earnings and some other statements as funds flow statement. Cash flow statement to give a fuller view of the financial affairs.

Financial statements are prepared for the purpose of presenting a periodical review by the management and deal with the state of investment in business and results achieved during the period under review. Financial statement are affected by three i.e. Recorded facts accounting conventions and personal judgments.

i) Balance sheet:

A balance sheet is a statement of assets and liabilities of the business enterprises at a given date. It depicts the financial position of the business at the close of the accounting period. It is called a balance sheet because it is a sheet of ledger account balances which were not transferred to trading. Profit and loss appropriation accounts.

In the world of palmer "Balance sheet is a statement of a particular date showing on one side the trader's property and possession and on the other hand the liabilities." (Pandey: 1999: 85)

In conclusion we can say that Balance sheet is a statement prepared at the end of each accounting year to show how financial position for a firm which is very useful for investors. Debtors and creditors.

ii) Profit and loss account:-

Profit and loss account is prepared to ascertain the net profit (loss) from the business operations. It contains all the items of revenue or gains. Losses and operation expense relating to the accounting period but emphasis in this account is on indirect expenses.

Profit and loss account is a summary of a firm's revenues and expenses over a specific period, ending with net income or loss for the period.

-) It is influenced by accounting concept.
-) It fails to disclose the adequate information.
-) It ignores the effect of price level changes.
-) It is prepared primarily for shareholders.

Needs of financial statement

The information given in the financial statement is very useful to a number of parties. These are the following.

1. For owner/ importance for the owners: the owners provide funds for the operations of a business and they want to know whether their funds are being properly utilized or not. The financial statements satisfy their curiosity.
2. For creditors/ importance for the creditors: creditors (i.e. suppliers of goods and service on credit, bankers) want to know the financial position of a concern before giving loans or granting credit so that in future they can easily get returns.
3. For employers/ importance of the employers: they would like to know that the bonus being paid to them is correct, so they become interested in the preparation of correct profit and loss account.
4. For Government / Importance for the Government: Control and state governments are interested in the financial statements because they reflect the earnings for a particular period for purpose of taxation.
5. For managers / Importance for the management: financial statements are an aid in good management because they serve the manager in appraising the performance of the subordinates. Actual result achieved by the employees can be measured against the to achieved by the employees can be measured against the to achieve and remedial action can be taken if the performance is not up to the marks.

2.5. Objectives of financial statement

Basic objective of financial statements is to assist in decision making in regard of financial information. The other major objectives are:

- i) To provide reliable financial information about economic resources and obligations of a business enterprise.
- ii) To provide reliable financial information about changes in net resources and enterprise that result from the profit- directed activities.
- iii) To provide financial information that assists in establishing the earning potential of the enterprise.
- iv) To provide other essential information about changes in economic resources and obligations.
- v) To disclose, to the extent possible, other information related to the financial statement that is relevant to statement users.

2.6 Important of financial statements

Financial statement provides valuable financial information to various users for different purposes. The important of financial statements can be pointed out as follows.

-) It provides the information relating to existing profit, earning per share, possibility of growth, cost information and other necessary financial information.
-) It provides the information relating to the chances of business promotion and capacity of the business.
-) It provides the information to the employees relating to chances increments of salary, bonus, job security, employee's welfare schemes etc.
-) It provides the information to the creditors and bankers and other financial institutions to know the capability to repay the amount and interest as and when repayment becomes due.
-) It provides the information to the government to know the amount of tax on the revenues.
-) It provides the information to the customs about new product research, social responsibility and other polices of the business.
-) It provides the information to the potential investors to know the earning potential of the business.

2.7. Limitations of financial statement

The following are the main limitations of financial statement:

-) It provides the information relating to only monetary facts.
-) It records the financial information relating to historical in nature.
-) It is only interim report.
-) It is influenced by accounting concept.
-) It fails to disclose the adequate information.
-) It ignores the effect of price level changes.
-) It is prepared primarily for shareholders.

2.8. Concept of financial performance

Financial performance contains summarized information of the firm's financial affairs organized and systematically. The chief executive requires the financial performance to see the accurate financial situation of the firm

especially for owners. Creditors and general public. To measure the financial performance of the firm. The financial tools and techniques are used.

"Financial Analysis is the process of identifying the financial strength and weakness of any corporation. By properly establishing relationships between the items of balance sheet and profit and loss account."

(Pandey: 1997: 26)

Conclusion, financial performance is concerned with analyzing the financial statements of the firms. With the help of it, one can form feature expectation, selection. Relation and evaluation about the company's financial condition. In this study, the financial performance of FORWARD has been evaluated based on past five years (2063/64 to 2067/68) financial statements.

2.9. Financial Statement Analysis

The figures of the organization's financial statement particularly the profit and loss account and the balance sheet do not communicate to the user much unless they are properly analyzed and interpreted. The company's profit and loss account shows only the absolute figures of revenues, expenses and profits or loss occurred during a particular period. It does not, however, reveal whether the company's revenues and expenses have increased over the years of its net profit has been satisfactory as compared to past years or other companies of the similar nature. Similarly, the company's balance sheet also does not reveals more than what is the position of its assets, liabilities and shareholders' equity at a certain point of time. Therefore, it is essential to analyze the figures of financial statement so that important financial can information can be obtained thereof.

The analysis of financial figures contained in the company's profit and loss account and balance sheet by employing appropriate techniques is know as financial statement analysis. Formally, financial statement analysis is defined as the process of analyzing and interpreting the financial figures contained in the statement by developing some relationships among the figures in such a manner that meaningful information can be obtained about the liquidity, efficiency, profitability and leverage position of the organization. Thus, the analysis of financial statement is concerned with arranging, classifying and grouping of financial data in a purposeful manner whereby a user can easily understand about the survival, stability, profitability and growth prospect of the company. The analysis of financial statements includes the following activities:

) Arranging and classifying financial data in a purposeful manner.

-) Judging the inter relationship of financial figures in a meaningful manner.
-) Obtaining information in a conclusive manner for the purpose of decision-making.

2.10. Objectives of financial Statement Analysis

The following are the important objectives of financial statement analysis:

-) To know about profitability: The financial statement analysis provides information about the profitability of the company in terms of sales and investment. The profitability scenario helps shareholders to decide whether to invest in its shares or not.
-) To judge solvency: An analysis of financial statements is helpful for judging the short-term and long-term solvency of the company. The banks with such information will be in a position to decide whether it should extend loan or not.
-) To measure strengths and weakness: The analysis of financial statements and weakness of the company, which is essential for deciding its future course of action.
-) To assess managerial performance: The financial statement analysis is essential for measuring the company's managerial performance, which is important to decide about rewarding the management or taking action against it.
-) To make future planning: The financial statement analysis provides relevant information about the present position of the organization. The present position of the organization provides guidelines for making future plans of the company by deciding what courses of action it should take to achieve its objectives.

2.11. Tools and techniques of financial statement Analysis

The financial statement is analyzed with the help of various financial tools and techniques. They are as follow:-

2.11.1. Ratio Analysis:-

A ratio can be defined as a numerical relationship between this numbers expressed in terms of (a) Proportion (b) Rate (c) Percentage. It is also defined as a financial tool to determine and interpret numerical relationship based on financial statement. It is also defined as a statistical yardstick that provides a

measure of relationship between two variables or figures. Different types of ratios are as under:

a. Liquidity ratio:

Liquidity Ratio measures the firms liabilities to meet current obligations it reflect the short- term financial strength of the business. There are two ratios under liquidity ratios which are as follows:

- i. Current Ratio
- ii. Quick Ratio

Liquidity refers to the ability of a firm to meet its short-term of current obligations as and when they fall due to the payment. A firm should ensure that it does not suffer from the liquidity crunch, and also that it is not too much highly liquid. The failure of a company due to lack of sufficient liquidity will result in bad credit image and loss of creditor's confidence. A high degree of liquidity is also not good. Liquidity ratio measures the ability to meet the short-term obligations and reflects the short-term financial strength and solvency of the firm.

b. leverage ratio:

Leverage ratio shows the proportions of debt and equity in financing the firm's assets long term creditors, like debenture holders, financial strength. In fact, a firm should have a strong short as well as long term financial position of the firm, financial leverage, or capital structure ratios are calculated. The following ratios are included in leverage ratios.

- i. debt ratio
- ii. debt-equity ratio
- iii. debt to total capital ratio
- iv. interest coverage ratio
- v. fixed charged coverage ratio
- vi. debt-assets ratio

c. Activity Ratio

Activity ratios are employed to evaluate the efficiency with which the firm managers and utilizes its assets. These ratios are also called turnover ratios because they indicate the speed with which the assets are being converted or turned over ratios because they indicate the speed with which assets are being converted turn over into sales. A proper balance between

sales and assets generally reflects that assets are managed well. The following ratios are included in activity ratios.

- i. Inventory turn over ratio.
- ii. Debtors turnover ratio
- iii. Average collection period
- iv. Fixed assets turnover ratio
- v. Total assets turnover ratio
- vi. Capital employed turnover ratio
- vii. Investment to total deposit ratio

d. Profitability ratio:

Profit is the difference revenues and expenses over a period of time. A company should earn profit to service and grow over a long period of time, an it will have no future it if fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of its company in terms of profits. The profitability ratios are calculated to measure the operating efficiency of a company. Besides management of the company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interests and repayment of principle regularly. Owners want to get a reasonable return on their investment. This is possible only when the company earns enough profits.

The ratio analysis generally focuses on these basic areas of interest namely.

- i. Company's earning power which is important for those interested in long term growth of the company.
- ii. Company's ability to meet the current liabilities.
- iii. Company's ability to meet the long term obligation and current interest charges.

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2.11.2 Funds flow statement

a. Concept:

The term fund flow statement consists of two terms "fund" and "flow". The term "fund" has different meanings. It may be meant as cash or net working capital or all financial resources. Here, fund is interpreted as net working capital which is calculated as

Fund (working capital) = current assets – current liabilities

The term "flow" means "change" therefore, the terms flow of funds means "change in funds" or "change in working capital". In other words, any increase or decrease in working capital is the flow of funds. It consists the sources of funds. It consists the sources of funds, uses of funds and changes in net working capital. It is also called as statement of inflow and outflow of funds or statement of sources and applications of funds.

In the word of R.N. Anthony, "funds flow statement is a statement prepared to indicate the increase in the cash resources and the utilization of such resources of business during the accounting period."

According to Roy Foulke, "A statement of sources and application of funds is a technical device designed to analyze the changes in the financial condition of a business enterprise between two dates."

Fund flow statement is called by a variety of names, such as, statements of source and application funds, summary of financial operation, where got-where gone statement. Analysis of working capital changes, statement of funds supplies and applied, funds received and disbursed etc.

In conclusion, funds flow statement can be defined as the statement of inflow and outflow of funds which studies the two balance sheets of two different years of an organization for the analysis the financial position.

b. Objectives:

A fund flow statement is called by several names- as statement of sources or acquisition of funds. Statement of deviation and disposition of derivation and dispositions of the means of operation" and Where got where gone statement. This is the most useful statement which indicates changes in working capital. It tells the management of the sources from which a company has been financed. Whether any excess credit has been taken and whether there is any weakness due to lack o internal capitalization. Thus the purpose of this statement is to show how funds are represented between different assets and equity items during an according period. It is means of analyzing in detail the

items contained in the balance sheets and linking in the analysis. In the process. It highlights the changes in the financial structure of in under taking.

a. Advantages:

A funds flow statement offers the following advantages:

- a. it provides information about how funds are obtained and how they are put to actual use.
- b. it registers changes in the flow of funds during a given period of time.
- c. it is supplementary to the conventional financial statement.
- d. it depicts changes in the financial structure of the corporation.
- e. it may enable the management to take decisions on planning a dividend policy or on chalking out a programmed of financial reorganization.

b. Preparation of funds flow statement

The purpose of preparing statement of sources and application of funds is to explain the reasons for the change in the working capital during a specified period. The first step taken in the preparation of such statement is showing change in working capital. The current assets and liabilities are listed in the statement and the difference represents the increase or decrease in working capital. Decrease in current assets will appear as application. The following rules may be remembered for current assets and current assets and current liabilities:

- a. general rules of working capital is $\text{working capital(W.C.)} = \text{Current assets (CA)} - \text{Current liabilities(C.L)}$
- b. an increase in CA causes an increase in WC
- c. an decrease in CA causes decrease in WC
- d. an increase in CL causes a decrease in WC
- e. an decrease in CL causes an increase in WC

The second step opens the necessary ledger accounts for non-current liabilities (like share capital, debentures, provision for taxation) to find out the sources and application of the funds. If there have been any sales during the year. Necessary entire should be passed in the account for i) the sales ii) transfer from provision for depreciation account of the amount of accumulated depreciation on the assets. And iii) transfer to profit and loss account of any profit or loss sale. The difference in that account will represent additions to the fixed assets, which will be taken to application. And the sale proceeds will be taken to source. In respect of provision for depreciation on fixed assets. Separate accounts for each of the fixed assets should be opened. After transfer

of the accumulated depreciation to the respective assets accounts. The balance in the account will represent the depreciation for the year, and the same will be transferred to the debit side of the adjusted profit and loss account.

If the balance sheet contains provisions for taxation and the same are included in the opening and closing balance sheet, they will ordinarily be taken to statement of working capital but, if it is noted that tax for a certain amount was paid during the year, provision for taxation account should be prepared. The opening and closing balances of provision should be noted in the account. The amount of provision made for the year will be noted in the credit side, will be transferred debit of adjusted p/l a/c. similarly an account will be opened in respect of investments to ascertain the amount of purchase or sale of investments during the year.

The third step will be the preparation of adjusted profit and loss a/c. the opening and closing balance of this account will be noted in this account. Non-cash item like depreciation. Write off of good will, discount on debentures, preliminary expenses, provision for income tax and declaration of dividends and loss on sale of assets and profit on sale of assets, should be adjusted to arrive at the profit from operations to be taken to application.

The next step involves the scrutiny of the long term liabilities and non-current assets balances (having no additional information about them) at the beginning and at the end of the year to know whether any changes in these accounts have taken place between the periods. They should be listed either as a sources of as an application.

In respect of dividends provision for the previous year and appearing as opening balance. If paid during the year. Should be shown under application and balance appearing in the closing balance being provision created for the current year should be charged to the adjusted profit and loss account. Interim dividend paid. If any, during the year should be charged to the adjusted profit and loss account and shown under application.

The last step is to prepare funds flow statement. In this statement, left hand side is for sources of funds and right hand side of applications of funds. The items of sources and applications are given as under:

a) Sources of funds can be:-

- a) Funds from operation
- b) decrease in working capital (calculated from 1st step)
- c) Issue of a loan (bank loan and mortgage loan)
- d) sale of fixed assets and long term investments
- e) Refund of tax

b) Uses (or application) of funds can be:-

- a) Loss from business operations
- b) Increasing in working capital
- c) Redemption of share and debentures
- d) Repayment of long term loans
- e) Purchases of fixed assets and long term investments.
- f) Payment of cash dividends
- g) Payment of taxes
- h) Drawing in case of proprietary or partnership business
- i) Loss of cash by embezzlement.

2.11.3. Cash flow statement:-

Every organizations performances cash transactions re for to cash inflow and cash out flows. Cash inflow and outflows help to review success, failure of a firm and its ability to meet maturing debts. Such review and evaluation are possible if the statement of cash flow is prepared. The statements of cash flows are prepared for a specific period normally at the end of each year.

The statement that shows cash in flows and outflows of a firm for a specified period is called the statement of cash flows. It demonstrates where the cash has done with available cash. Therefore, cash flow statement shows a picture of cash movement occurred in and out from a firm during a year in a summarized form. It gives a picture of sources and application of cash of a firm for a year.

The statement of cash flows is not a cash book because it demon states inflows and outflows of cash and near to cash items. Cash and near to cash cover entire items of current assets and current liabilities. The statement of cash flows report increase and decrease in cash by listing in meaningful categories in terms of operating. Investing and financial activities.

Cash flow from operating activities

Operating activities refer to the day to day revenue generating activities of a firm. These activities are considered to be the major sources of internally generated cash. Cash in flows form operating activities include the cash from sales and collections from debtors. Cash outflows for operating activities include cash purchase, payment to suppliers, payment for other operating expenses, payment for interest and taxes thus consist of all cash revenue

expenses. Cash flows from operating activities could be determined by using two methods:

- i) Direct method
- ii) Indirect method.

1. Cash flow from operating activities under direct method

Under direct method only those items from income statement are selected that result into actual flow of cash. So, non cash expenses such as depreciation and amortized amount appeared in income statement are ignored. The changes in some components of current assets and current liabilities except cash balance are also incorporated that result into cash inflows and outflows. This method classifies cash from operating activities into five categories.

A. Cash sales and collection from debtors

It includes cash from sales and cash inflows or outflows resulted from change in debtors (net of provision for bad debts) and bills receivable.

B. Cash purchases and payment to suppliers

It includes cash outflow resulted from purchase of raw materials or cost of goods sold. The changes in creditors and bills payables of two balance sheet dates are adjusted to the amount of purchase of raw materials or cost of goods sold. Note that if cost of goods sold figure is used instead of purchase of raw material the change in inventory also must be incorporated.

C. Payment to employees and other operating expenses

In includes cash outflow resulted from payment of wages, salaries, manufacturing expenses, administrative expenses, selling and distribution expenses, including insurance and other operating expenses. The changes in outstanding and prepaid balances of these items are also included.

D. Payment for interest and taxes

It includes the cash outflow occurring out of payment of interest and taxes. The change in outstanding interest and taxes are also included.

E. Cash from extra-ordinary activities

It includes all the cash inflows and outflows arising on account of short-term bank loan, bank overdraft, and marketable securities. Alternatively, however, marketable securities and short term investment may also be categorized as cash flow linked with investing activities instead of cash flows

from operating activities. Such options are available since those are on – regular activities of every firm.

Difference between funds flow statement and cash flow statement.

Funds flow and cash flow statement look similar. There are some differences between funds flow and cash flow statements are as

Basic of difference	Funds flow statement	Cash flow statement
1. concept	It is based on working capital	It is based on cash
2. Accounting	It is based on accrual basis of accounting.	It is based on cash basis of accounting.
3. schedule of changes in working capital	It is necessary to prepare the schedule of changes of working capital separately under funds flow statement to show the increase or decrease in current assets and current liabilities.	Both current and non current accounts appear in the cash flow statement. Hence, separate working capital statement is not necessary.
4. Method of preparation	The information about sources and uses of funds can be obtained with the help of funds flow statement. The net difference between sources and uses represent net increase or decrease in working capital.	It is prepared by taking opening balance of cash and the difference between sources and uses represent the closing balance of cash.
5. Usefulness	It is useful for long term financial planning.	It is useful for short-term cash planning.
6. Purpose	The main purpose is to get information about changes in working capital between two balance sheet dates.	The main purpose is to know the changes in cash position of a firm between two balance sheet dates.

The following specimen shows the calculation of cash flows from operating activities under direct method:

"Cash flows from operating activities" (Dangol & Dangol : 2064: 659)

For the year ended.....

Particular	Amount	Amount
Cash Flows from Operating Activities:		
(A) Cash collection from customers and cash sale:		
Net sales		*****
Add: Opening Debtors	***	
Opening Bills Receivable	***	
Provision for Doubtful Debt of Current Year	***	
Provision for Discount of current year	***	
Bad Debts Recovered	***	*****
		<u>*****</u>
Less: Closing Debtors	***	
Closing Bills Receivable	***	
Provision for Doubtful Debt of Last year	***	
Provision for Discount of last year	***	
Bad Debt current year	***	
Discount Allowed	***	*****
(A) Total		<u>*****</u>
(B) Cash Purchase and Payment to Supplier:		
Material and Supplies (Cost of Goods sold)		*****
Add: Closing Inventory	***	
Opening Bills payable	***	
Opening Sundry Creditors	***	*****
		<u>*****</u>
Less: Opening Inventory	***	
Closing Bills Payable	***	
Closing Sundry Creditors	***	*****
(B) Total		<u>*****</u>
(C) Payment to Employees and Other Expenses:		
Add: Direct Labour	***	
Manufacturing Overhead	***	
Administrative Overhead	***	
Selling and Distribution Overhead	***	
Prepaid of Current year	***	
Outstanding Expenses of Last Year	***	*****

2. Cash flows from operating activating under Indirect Method

Note that indirect method to determine cash flows from operating activities is used if net income is available instead of sales revenue in the income statement information. Under indirect method first the funds from operation is ascertained by adjusting the net income by non-cash expenses and non-operating incomes and expenses included in the income statement. The fund from operation so ascertained is again adjusted by the changes in current assets (except cash) and the changes in current liabilities to determine cash flows from operating activities. To apply this method all the amount of non-operating and non-cash expenses are added to the net income and then the amount of non-operating incomes are deducted. The resulting figure is known as funds from operation. The changes in current assets, other than cash and the changes in current liabilities are adjusted to fund from operating so that the resulting figure is known as cash from operating activities.

The Cash from Operating Activities under Indirect Method is determined as under

Particular	Amount	Amount
Net Profit for the period		****
Add: Non-cash and Non-operating Expenses and losses (Item wise)		****
Less: Non-cash and Non-operating Income and Gain (Item wise)		(****)
Fund from operation		****
Add: Decrease in current Assets, other than Cash	***	
Increase in Current Liabilities	***	****

Less: Increase in Current Assets other than Cash	***	
Decrease in Current Liabilities	***	****
Cash From Operating Activities		****

Cash Flow from Investing Activities

"Investing activities refer to those activities which are concerned with purchase or sales of long term assets or investment. Cash in flows form investing activities include the cash received from sales of fixed assets as well

as investment and cash outflows include cash paid for the purchase of fixed assets and investment made. The specimens showing the determination of cash flow from investing activities are as following."

(Koirala: 2006:201)

Particular	Amount	Amount
Proceeds from sale of fixed Assets	***	
Cash Receipt from Sale of Equity or Debt instrument of Other Enterprises	***	
Cash Receipt from the Repayment of Advance and loan made to Other Parties	***	****
Total		****
Less: Cash payment to Acquire Property	***	
Cash payment to Acquire Equity or debt instrument of Other Enterprises	***	
Cash payment for Advances and Loan Made to Other parties	***	****
Cash from Investing Activities		****

Cash Flow from Financing Activities

"Financing activities are concerned with cash collection by issuing shares and debentures, raising long-term loan and so on. It also involves cash outflows in terms of redemption of debentures and preference shares repurchase of shares, repayment of long-term loan and payment of cash dividend. The specimens showing the determinations of cash flows from financing activities are as follows." (Koirala : 2006:201)

The following statement is prepared for the determination of cash flows from Financing Activities

Particular	Amount	Amount
Issuing of shares	***	
Issuing of Debentures and Bonds	***	
Cash collection from Loan and Mortgage	***	****
Total		****
Less: Redemption of shares	***	
Redemption of Debentures and bonds	***	
Repayment of loan and mortgage	***	
Dividend Paid	***	****
Cash from financing Activities		****

2.12 Importance of Financial Statement Analysis:-

The financial statement analysis is important for different reasons:

- Holding of share: Shareholders are the owners of the company. Time and again, they may have to take decisions whether they have to continue with holding of the company's shares or sell them out. The financial statement analysis is important as it provides meaningful information to the shareholders in taking such decisions.
- Decision and plans: The management of the company is responsible for taking decisions and formulating plans and policies for the future. They, therefore, always need to evaluate its performance and the effectiveness of their actions to realize the company's is important to the company's management.
- Investment decision: The prospective investors are those who have surplus capital to invest in some profitable opportunities. Therefore, they often have to decide whether to invest their capital in the company's shares. The financial statement analysis is important to them, because they can obtain useful information for their investment decision making purpose.
- Extension of credit: The creditors are the providers of loan capital to the company. Therefore, they may have to take decisions as to whether they have to extend their loans to the company and demand for higher interest rates. The financial statement analysis provides important information to them for their purpose.
- Higher benefits: The employees of the company sometimes may have to decide whether they have to demand for higher benefits such as wages

and salaries from management. The financial statement analysis is significant to them, because it provides them with meaningful information to them for their cause.

- Short –term loans: The banks provide short-term loans to the company for meeting its working capital needs. Therefore, they may have to decide whether to extend or increase short-term loans to the company. In such a situation, they may have to resort to financial statement analysis as it provides them relevant information to reach a decision.
- Anticipating future price: The stock analyses are those who anticipate the future market price per share of the company's stock by looking into its profitability, solvency, performance, stability and future prospect. Therefore, analysis of the company's financial statements is important to them to forecast the trends of its stock market price.
- Compliance with law: The financial statement analysis is significant to government, as it has to ensure whether the company's financial statements comply with the prevailing rules and laws. The analysis may also be used to assess corporate taxes.

2.13. Limitations of Financial Statement Analysis

Although analysis of financial statement is essential to obtain relevant information for making several decisions and formulating corporate plans and policies, it should be carefully performed as it suffers from a number of the following limitations:

- ❖ Mislead the user: The accuracy of financial information largely depends on how accurately financial statements are prepared. If their preparation is wrong. The information obtained from their analysis will also be wrong which may mislead the user in making their decisions.
- ❖ Not useful for planning: Since financial statement are prepared by using historical financial data, therefore, the information derived from such statements, may not be effective in corporate planning if the previous situation does not prevail.
- ❖ Qualitative aspects: The financial statement analysis provides only quantitative information about the company's financial affairs. However, it fails to provide qualitative information such as management labour relation, customer's satisfaction, management's skill and so on which are also equally important for decisions making.
- ❖ Comparison not possible: The financial statement are based on historical data. Therefore, comparative analysis of financial statements of different

years cannot be done as inflation distorts the view presented by the statements of different years.

- ❖ Wrong judgment: The skills used in the analysis without adequate knowledge of the subject matter may lead to negative direction. Similarly, biased attitude of the analyst may also lead to wrong judgment and conclusion.

The limitations mentioned above about financial statements analysis make it clear that the analysis is a means to an end and not an end in itself. The users and analysts must understand the limitations before analyzing the financial statements of the company.

2.14. Review of Related Past Research Works:-

Review or related study is also important part of the study. In this section, an attempt is made to present review of related study based on several past studies.

In the researcher's knowledge, there are many research studies related to financial performance analysis of different financial institution/bank.

However, a few researches have been made about the financial performance analysis of Agricultural Development Bank, Nepal. Therefore, the literature relating to this study was received and views expressed by the various researchers have been presented in this section.

(a) Mr. Rajib Raj Joshi (2001) reports on the financial performance of Nepal Arab Bank Limited (NABIL) and Nepal Grindlays Bank Limited (BGBL) in the following words

1. The liquidity analysis reveals that overall liquidity position of NABIL is better than that of BGBL.
2. The activity ratio analysis reveals that BGBL is more efficient than NABIL in managing and utilizing its resources.
3. The overall profitability of BGBL is better than that of NABIL because it pays less interest to its depositors than it earns interest on deposits.
4. The average price-earning ratio of NABIL is higher which reveals that NABIL was higher market price per share over earning per share and the investor will prefer to invest in stock (share) of NABIL because they will recover their investment quickly.
5. The stock of NABIL is highly priced than of BGBL since it has higher book value per share.
6. Average dividend payout ratio indicates that BGBL pays more dividend to its shareholders than NABIL where as NABIL retains more earning.

(b) An another research conducted by Mr. Prem Bahadur Mungmen, on the topic of financial performance of Purwanchal Grameen Bikash Bank Ltd. Pointed out the following results and findings

1. Borrowing is the main source of fund. Although the main resources of fund are used in loan disbursement, it is used for the recovery of losses.
2. Financial ratio indicates poor financial position over the period of 2051 to 2059 B.S.
3. Trend of operating expense is increasing day by day in comparisons with operating profit.
4. The growth of net loss is negative. It is the sign of gradually improvement in financial performance.
5. Loan has not been timely recovered from clients.
6. The relationship between deposit and investment is not in acceptable condition.
7. Overdue loan has increased year to year.
8. Share capital remains same during the study periods.
9. Loan disbursement by the bank quite small in amount, it is not practicable to go legal action against the defaulters.

the PGBBL is going to break even level in the next coming year. Its activities are also expanding day to day

(c) Similarly, a research study carried out by Dipak babu mainali, about comparative financial performance of Nepal Bangladesh Bank (NBB) and Bank Of Kathmandu (BOK) limited carried out following conclusion.

1. NBB is more consistent in maintaining over all liquidity than BOK Ltd
2. The capacity of providing long-term loan and advance is greater in NBB.
3. Return on net worth of NBB is significantly higher than BOK Ltd.

(d) An another research carried out by Mr. Bhaba Nath Ghimire about Financial performance of Nepal Insurance company Ltd. Concluded as follows.

1. The current assets are sufficient.
2. Co. has only ownership capital i.e. no creditor ship capital has been used.
3. Its net worth is slightly poor.
4. The profitability position is satisfactory to some extent any because the company has not earned sufficient profit from its underwriting function.

(e) Similarly, another researcher Mr. Yadav Pd. Pokharel has measured the financial performance of Agricultural Development Bank Nepal from F.Y. 2041 to 2052 B.S. on his research work about 'financial performance of

Agricultural Development Bank Nepal major tools for measuring its performance were funds flow analysis, ratio and trend analysis. The major finding was.

1. The funds flow analysis shows the precaution care of fund in the bank for future growth of the bank.
2. The liquidity position of the bank over the 11 years for 2041 to 2052 B.S. is quite poor.
3. The debt equity ratio is unbalanced since the rising tendency of the ratio is due to rapid yearly increase in borrowing but equity is increasing very slowly.
4. The over-due loan and interest receivable amount are increasing every year.
5. Overall profitability position of the bank over 11 years from F.Y. 2041 to 2052 B.S. is very weak. The bank has been facing the problem of loss during the period.
6. Total trend analysis of loan activities of the bank shows the mixed result. Every year loan disbursement. Collection, interest collection have been increased but on the other side overdue and interest receivable have also been increasing which shows the inactive position on of ADBN.

CHAPTER- THREE

Research Methodology

3.1. Introduction:

Research methodology is the way to store systematically about the research problem a statement of the purpose of research is made in the form of a problem so formulated of be tackled.

The main objectives of this research are to analyzed, interpret the budgeting and control and it's effectiveness of the organization with the help of various financial statements, statistical tools and non financial subject matters. In accordance with the basic objectives, other sub objective in also formulated the objectives of this research paper. In the course of this dissertation, following are the major contents of research methodology.

3.2 Research design:

Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and control variance. Generally research design means definite procedures and techniques, which guide to study and propound ways for research viability. The study aims at portraying accurately upon the financial performance of FORWARD. The first slip of the study is to collected necessary information and date concerning the micro-finance. The task will be full filled by the collection regarding this context. Especially balance sheet and other reports published so far will be used for the study. On the basis of presented data and facts analytical research design will used for assuring the financial position.

Thus for this research work, secondary data are collected from different financial statements of different financial year and analyzes, examines and interprets different functional budget applied as tools for financial performance of FORWARD. The design of this study is analytical as well as descriptive approaches. This research high light the degree concept and it mainly related with quantitative data and account of FORWARD.

3.3 Nature and sources of data:

Information is the life blood of any research. Together the information data collection is a major task. To achieve the objectives of this study secondary data has been used. The various required data for the study is collected from the concerned published from different publishers as well as forward and microfinance.

The data and in for mention that have been used in this research study are collection from following sources.

3.3.1 Primary data:

Data necessary information about the company, question names with the manager are obtained orally, regarded as primary sources used in this study.

3.3.2 secondary data:

Annual report and balance sheets published by FORWARD have been used in this study as secondary data, other secondary data collected from net and periodic bulletins published by other micro finance have been used. The data for per five (From FR 2063/64 to 2067/68) which are available in the branch office of chimadi (sunsari) are used in this study.

3.4 Population and sample of the study:

The forward branch has open all over the Nepal. Chimadi branch one of them which composed the population of this study. The forward completed its operations more than 10 years.

Similarly, a sample of five years (FY 2063/64 to 2067/68) financial statement has been used in this study taken from the population.

3.5. Period covered:

The data extracted from annual financial report are of only five years. The time period of the study in five years so the data of (FY 2063/64 to 2067/68) are taken.

3.6 Data collection procedures:

For giving the concrete shape of this research work, annual report and balance sheet for post five fiscal year are collected through FORWARD branch chimadi and Duhabi. Some secondary data have also been collected from academic same including microfinance companies.

3.7 Data processing procedures:

In this study the data extracted from annual financial reports published by forward and other sources is processed and interpreted considering the requirement of the study. The financial and statically tools and techniques are applied in data processing procedure. The relevant data office years are re-arranged presented, analyzed and interpreted.

3.8 Tools and techniques used in this study:

The financial data are collected from secondary sources are processed and analyzed by using following financial tools techniques.

3.8.1. (A) Ratio analysis: -

The ratio analysis is the most powerful tool of financial analysis. A financial ratio is a relationship between two financial variables or figures. This relationship can be expressed in percentage or times. It helps to ascertain the financial condition of a firm. It is a process of identifying the financial strengths and weakness of a firm. This may be accomplished through a comparison of the firm's ratio with some standard or with ratio of similar firm.

In the other word a ratio is an expression of relationship between two variables. It is a yard stick, which measures relationship between two variables. It is an assessment of the significances of any figure in relation to another. It is only a guide to the analysis of financial statement and not end in them selves. In this study financial ratio has been grouped as follows.

3.8.1.1 Liquidity Ratio:

The purpose of this ratio is to test the solvency position for the payment of short term liabilities. Solvency position or liquidity denotes ability for payment of short term liabilities.

Liquidity ratios measure the firm's ability to fulfill short term commitments out of its liquid assets. Assets are liquid if they are either cash or relatively easy to convert into cash. Short term creditors are generally very interested in the liquidity ratios. The current ratio and the quick ratio are the most commonly used liquidity ratios. But, sometimes cash ratio is also used to the measure the most liquid condition.

There are two ratios under liquidity ratios which are as follows:

- i. Current ratio
- ii. Quick ratio

i. Current ratio:-

A ratio between current assets and current liabilities is known as current ratio. Current assets are those assets which can be converted in cash within short period of time. Normally not exceeding one year. Cash in hand, cash at bank, bills receivable, marketable securities, short term investment, inventory, debtors prepaid or paid in advance, accrued or outstanding income, loan and advances, accounts receivables etc are current assets.

Current liabilities are those obligation which are payable within a short period, normally not exceeding one year. Creditors, bank overdraft, short term loan, bills payable, provision for tax, provision for dividend, received in advance, outstanding expenses, accounts payable etc are current liabilities.

The calculation is made by dividing total of current assets by total of current liabilities. Thus

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

ii. Quick ratio:-

The purpose of this ratio is to test the ability of the firm for immediate payment of current liabilities. This ratio calculated by deducting inventories and prepaid expenses from current assets and dividing the remainder by current liabilities. Inventories are excluded because it may be difficult to liquidate (less liquid) them at their full book value.

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory} - \text{Prepaid expenses}}{\text{Current liabilities}}$$

3.8.1.2. Leverage ratio:

Leverage ratios show the proportions of debt and equity in financing the firm's assets. Long term creditors, like debenture holders, financial institution etc, are more concerned with the firm's long term financial strength. In fact, a firm

should have a strong short as well as long term financial position of the firm, financial leverage, or capital structure ratios are calculated. The following ratios are included in leverage ratios.

- a. Debt ratio
- b. Debt-equity ratio
- c. Debt to total capital ratio
- d. Interest coverage ratio
- e. Fixed charge coverage ratio.
- F. debt assets ratio

a. Debt Ratio:-

A ratio between total debt to capital employed or net assets is known as debt ratio. Several debt ratios may be used to analyze the long-term solvency of a firm. It can be computed by following formula.

$$\text{Debt Ratio} = \frac{\text{Total Debt}}{\text{Capital Employed}} \quad \text{or} \quad \frac{\text{Total Debt}}{\text{Net Assets}}$$

$$\begin{aligned} \text{Total debt} &= \text{Current liabilities} + \text{Long term debt} \\ \text{Capital employed (Permanent capital)} &= \text{Long term debt} - \text{Shareholders equity} \\ &= \text{Total liabilities} - \text{Current liabilities} \end{aligned}$$

b. Debt equity ratio:-

A ratio between borrowed fund and owner's equity is known as debt-equity ratio. It is calculated in following way.

$$\text{Debt-equity ratio} = \frac{\text{Long term debt}}{\text{Share holder equity}} \quad \text{Or} \quad \frac{\text{Total debt}}{\text{Share holder equity}}$$

Where,

$$\text{Total debt} = \text{Long term debt} + \text{current liabilities}$$

$$\text{Shareholder equity} = \text{Ordinary share capital} + \text{Preference share capital}$$

$$\text{Ordinary share capital} = \text{Ordinary share} + \text{Reserve \& surplus} + \text{Retained earning.}$$

c. Debt to total capital ratio:-

A ratio between long –term debt and total capital is known as debt to total capital ratio. It is calculated in the following way.

$$\text{Debt to total capital ratio} = \frac{\text{Long term debt}}{\text{Permanent capital}} \quad \text{Or} \quad \frac{\text{Total Debt}}{\text{permanent capital} + \text{Current Liabilities}}$$

Where,

Permanent capital = share holders equity + Long term debt

d. Interest coverage ratio:-

A ratio between earning before interest and tax and interest is known as interest coverage ratio. It measures the debt servicing capacity of a firm. It is also known as times interest earned ratio. It is calculated in following ways.

$$\text{Interest coverage ratio} = \frac{\text{Earning before interest \& Tax}}{\text{Interest}}$$

e. Fixed Charge coverage ratio:-

A ratio between earning interest and tax to fixed chare is known as fixed coverage ratio.

It is calculated as follow.

Fixed chare coverage ratio =

$$\frac{\text{EBIT} + \text{Lease Payments}}{\text{Interest charge} + \text{lease payment} + \frac{\text{sinking fund payment}}{(1-\text{tax rate})}}$$

F. debt-assets ratio:-

It measures the contribution of creditors to own the assets of the organization. This ratio is computed by applying the following formula.

$$\text{Debt assets ratio} = \frac{\text{total debt}}{\text{Total assets}}$$

Where,

Total debt = long term debt + current liabilities

3.8.1.3 Assets Management Ratio:

Asset management ratios are also known as activity ratios or efficiency ratios or turnover ratios or performance ratios. A set of ratios, which measure how effectively a firm is managing its assets whether or not the level of those assets is properly related to the level of operations as measured by sales. The following ratios are included in assets management ratio.

- a. Inventory turnover ratio
- b. Debtors turnover ratio
- c. Days sales outstanding (DSO)
- d. Fixed assets turnover
- e. Total assets turnover
- f. Capital employed turnover
- g. Investment to total deposit ratio

a) Inventory turnover ratio:-

The inventory turnover ratio is defined as cost of goods sold divided by inventories. It is often necessary to use the average inventory figure rather than the year end figure especially if a firm's business is highly seasonal or if there has been a strong upward or downward sales trend during the year. It measures the efficiency of inventory utilization.

$$\text{Inventory turnover ratio} = \frac{\text{cost of goods sold}}{\text{Average Inventory}}$$

The denomination is the cost of goods sold (i.e. Net sales-gross profit) and not the net sales. This is because the inventory account is carried at cost and it must be compared with the other figure at cost level only. However, in case the value of cost of goods sold is not available, then it may be replaced by the amount of net sales.

$$\text{Inventory turnover ratio} = \frac{\text{Sales}}{\text{Inventory}}$$

b) Debtors turnover ratio:-

Debtor's turnover indicates the number of time debtors' turnover each year. Debtor's turnover ratio is found by dividing credit sales by average debtors.

$$\text{Debtors turn over} = \frac{\text{Credit sale}}{\text{Average Debtors}}$$

Where,

$$\text{Average debtors} = \frac{\text{Opening debtors} + \text{Closing debtors}}{2}$$

If the information about opening and closing balance of debtors or account receivable and credit sales is not available, it can be calculated by the following way.

$$\text{Debtors turnover} = \frac{\text{Total sales}}{\text{Closing debtors}}$$

c) Days sales outstanding:-

Another measurement of receivables management is days sales outstanding. The day's sales outstanding (DOS) is used to evaluate the first firm's ability to collect its credit sales in a timely manner. DSO is also known as the average collection period(ACP). It is calculated by dividing accounts receivables by average credit sales per days. This measures efficiency in collection of accounts receivable. Thus, the DSO represents the average length of time that the firm must wait after making a sale before receiving cash.

d) Fixed assets turnover ratio:

A ratio between sales and fixed assets is known as fixed assets turnover ratio. It shows the efficiency of utilizing fixed assets. It can be calculated in the following way.

$$\text{Fixed assets turnover} = \frac{\text{sales}}{\text{Net fixed assets}}$$

e) Total assets turnover ratio:

This ratio is employed to make information on total assets for generating sales in operation of business by the firm. It shows the relationship between total assets and sales. The total assets include current assets, fixed assets and investment. In ascertaining the total assets, fictitious assets and deferred expenditures must be excluded. Its formula is as follows:

$$\text{Assets turnover ratio} = \frac{\text{net sales}}{\text{Total assets}}$$

f) capital employed turnover ratio:

A ratio between sales and capital employed is known as capital employed turnover ratio. It can be calculated in following way.

$$\text{Capital employed turnover ratio} = \frac{\text{sales}}{\text{Capital employed}}$$

g) Investment to total deposit ratio:

This ratio is calculated by dividing total deposit to investment.

$$\text{Investment to total deposit ratio} = \frac{\text{investment}}{\text{Total deposit}}$$

3.8.1.4 Profitability ratio:

Profitability ratio measures the success of the firm in earning, net return on sales or on investment. Since the profit is the ultimate objective of the firm, poor performance here indicates a basic failure that, if not corrected, would probably result in the firms going out of business. Profitability ratios show the combined effects of liquidity, asset management, and debt management on operating results. It measures the earning of the company for a certain period. Generally, two major types of profitability ratios are calculated.

- a. profitability in relation to sales
- b. profitability in relation to investment

a. Profitability in relation to sales:-

The following ratios can be ascertained considering the sales as basis:

- i. Gross profit ratio
- ii. Net profit ratio
- iii. Operating ratio

i. Gross profit ratio or gross profit margin:-

A ratio between gross profit to sales is known as a gross profit ratio. Generally, it is expressed in percentage. It is computed by following way.

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales}}$$

Where,

$$\text{Gross profit} = \text{sales revenue} - \text{cost of goods sold}$$

$$\text{Cost of goods sold} = \text{Net purchase} + \text{manufacturing expenses} + \text{Opening stock} - \text{closing stock.}$$

ii. Net profit margin:-

A ratio between net profit after tax to sales is known as net profit ratio. Generally, it is also expressed in percentage. It is computed by following way.

$$\text{Net profit margin} = \frac{\text{Net profit after tax}}{\text{Sales}}$$

iii. Operating ratio :

A ratio between operating expenses to sales is known as operating ratio. Generally, it is also expressed in percentage. It is computed by following way.

$$\text{Operating ratio} = \frac{\text{Operating expenses}}{\text{Sales}}$$

Where,

Operating expenses = cost of Goods sold+ Administrative expenses + selling and distributions expenses.

b. Profitability in relation to investment:

The following ratios can be ascertained considering the investment as basis:

- i. Return on assets
- ii. Return on share holder's equity
- iii. Return on capital employed
- iv. Return on common share holder's equity
- v. Earning per share
- vi. Earning yield ratio
- vii. Price earning ratio
- viii. Dividend per share
- ix. Dividend pay out ratio
- x. Dividend yield ratio
- xi. Earning power ratio
- xii. Interest earned to total assets ratio

i. return on total assets:-

a ratio between net profit to assets is known as return on total assets. It is computed by following different formula.

$$\text{Return on assets} = \frac{\text{net profit after tax}}{\text{Total assets}}$$

$$\text{Or} \quad \frac{\text{Net profit after tax} - \text{Preference Dividend}}{\text{Total assets}}$$

$$\text{Or} \quad \frac{\text{Net profit after tax} + \text{Interest}}{\text{Total Assets}}$$

$$\text{Or} \quad \frac{\text{Net profit after tax} - \text{Preference dividend}}{\text{Total tangible Assets}}$$

ii. Return on shareholder's equity:-

A ratio between net profit after tax to share holder's equity is known as return on shareholder's equity.

$$\text{Shareholder's equity} = \text{Equity share capital} + \text{preference share capital} + \text{Reserve and Surplus} + \text{Reserve fund} + \text{General reserve} + \text{capital}$$

It is computed by following way.

$$\text{Return on shareholder's equity} = \frac{\text{Net profit after tax}}{\text{Shareholders equity}}$$

iii. Return on capital employed:-

A ratio between net profit to capital employed is known as return on capital employed. The return on capital employed can be computed in as under.

$$\text{Return on capital employed} = \frac{\text{Net profit after tax} + \text{Interest}}{\text{Capital employed}}$$

iv. Return on common share holder's equity:-

A ratio between net profit after tax minus preference shares dividend to common shareholders equity is known as return on common share holders equity. The common shareholders are the real owners of the company.

So, the common shareholders are the real owners of the company. So, the common shareholders bear all the risk. It can be computed in following way.

$$\text{Return on common shareholders equity} = \frac{\text{NPAT} - \text{preference share dividend}}{\text{Common share holder's equity}}$$

v. Earning per share:-

The income of per common share is known as earning per share. It can be calculated by the following way.

$$\text{Earning per share} = \frac{\text{Net profit after tax} - \text{preference dividend}}{\text{Number of common shares}}$$

vi. Earning Yield ratio:-

A ratio between earning per share and market value per share is known as earning yield ratio. It can be calculated by the following way.

$$\text{Earning yield ratio} = \frac{\text{Earning per share}}{\text{Market value per share}}$$

vii. Price earning ratio:-

The reciprocal of the earning yield is called the price earning (P/E) ratio. It can calculate by the following way.

$$\text{Price earning ratio} = \frac{\text{Market value per share}}{\text{Earning per share}}$$

The price –earning ratio is widely used by the security analysis to value the firm's performance as expected by investors. It indicates investor's judgment or expectations about the firm's performance. Management is also interested in this market appraisal of the firm's performance and will like to find the causes if the P/E ratio declines.

viii. Dividend per share:-

The dividend per share is considered excellent when it is higher large number of present and potential investors may be interested in DPA rather than EPS.

$$\text{Dividend per share} = \frac{\text{Dividend paid to Equity share holders}}{\text{Numbers of Equity shares}}$$

ix. Dividend pay out ratio:-

A ratio between dividend per share (DPS) to earning per share (EPS) is known as dividend payout ratio. It can be computed by the following way.

$$\text{Dividend payout ratio} = \frac{\text{DPS}}{\text{EPS}}$$

Earnings not distributed shareholders are retained in the business. Thus retention ratio is 1- dividend pay out ratio.

x. Dividend Yield Ratio:-

A ratio between dividend per share (DPS) to market value per share (MVPS) is known as dividend yield ratio. It evaluates the shareholder's return in relation to the market value of share. It can be computed by following formula.

$$\text{Dividend yield} = \frac{\text{Dividend per share}}{\text{Market value per share}}$$

xi. Earning power ratio :-

The profitability of a firm can be measured either in relation to investment or operating efficiency. The overall profitability can be measured on the basis of combination of these two ratios, which is known as earning power ratio. Earning power ratio has two elements. Those are:

- a) Net profit margin
- b) Investment turnover

Therefore, earning power ratio

= Net profit margin x Investment turnover.

$$= \frac{\text{NPAT}}{\text{Sales}} \times \frac{\text{sales}}{\text{Investment}} = \frac{\text{NPAT}}{\text{Investment}}$$

Investment may refer to total assets. Hence, the earning power ratio may be calculated in the following way also.

$$\text{Earning power ratio} = \frac{\text{NPAT}}{\text{Sales}}$$

xii. Interest earned to total assets ratio:

It is computed by the following formula.

$$\text{Interest earned to total assets ratio} = \frac{\text{interest earned}}{\text{Total assets}}$$

(B) Cash flow statement:-

Every organizations performance cash transactions are for to cash inflow and cash out flows. Cash inflow and outflows help to review success, failure of a firm and its ability to meet maturing debts. Such review is evaluation is possible if the statement of cash flows is prepared. The statements of cash flows are prepared for a specific period normally at the end of cash year.

The statement that shows cash inflows and outflows of a firm for a specified period is called the statement of cash flows. It demonstrates where the cash has done with available cash. Therefore, cash flow statement shows a picture of cash movement occurred in and out from a firm during a year in a summarized form. It gives a picture of sources and application of cash of a firm for a year.

The statement of cash flows is not a cash book because it demon states inflows and outflows of cash and near to cash items. Cash and near to cash cover entire items of current assets and current liabilities. The statement of cash flows report increase and decrease in cash by listing in meaningful categories in terms of operating. Investing and financial activities.

3.8.2 Statistical tools:-

The simple statistical tools used for this research work is described below:

i. Arithmetic Mean (A.M.)

It is the most widely used average. It is obtained by dividing the sum of variables by the number of variables. It is denoted by \bar{x}

In symbol, $\bar{X} = \frac{\sum X}{N}$

3.8.3 Trend Analysis

The general tendency of the time series data to increase or decrease or stagnate during a long period of time is called the secular trend or simply trend.

It should be clearly understood that trend is the general, smooth, long term average tendency. It is not necessary that the increase or decline should be in the same direction.

It may be possible that different tendencies of increase, decrease or stability are observed in different sections of time. However, the overall tendency may be upward, downward or stable.

Trend analysis is the most important statistical tool to interpret the trend of various components stated in financial statement. Trend is a graphical approach in which time period is measured on x-axis and the percentage change in component's value is kept in y-axis and the percentage change in component's value is kept in y-axis. The time series (also called trend analysis) of ratios indicates the direction of change. The analyst can know the direction of movement of the with the help of trend values.

The technique involves the calculation of percentage relationship that each statement item bears to the same item in the "base year". It helps to identify controllable items of the given period and future forecast can be made for ongoing company.

CHAPTER – FOUR

Presentation and Analysis of data

4.1 Introduction:

It is the main part of the study. The researcher comes to know in the ground of reality about the financial performance of FORWARD where he tests the data with financial and statistics tool. Financial performance is the matter of interest in the inner of the organization. All different stakeholder and concerned parties look into it with different views on their interest. The stakeholders are integrated in creditor is interested to know whether the firms is in position to meet up its obligation like current liabilities on the other hand the long term creditors give interest to know the working capital and fixed assets of it. Especially the financial management is interested in the fact that the resources of the firm are used effectively and most efficiently.

Management should particularly be interested in working the financial position of the firm to make their best use and to be able to spot out the financial weakness of the firm to take correct action for future. If financial statement is properly analyzed it shows the financial strength and weakness. The important part of the study is presentation and analysis of data that helps to find out the fact matter about organization so to get fact results, researcher uses the modern tools such as Ratio Analysis, Cash Flow Statement common size statement Analysis and Trend Analysis have been applied the data of past five years i.e.(FY 2063\64 to 2067/68).

4.2 Ratio Analysis:

Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performance of an organization by creating the ratio from the figures of different accounts consisting in balance sheet and income statement is known as ratio analysis. "One cannot arrive at a definite conclusion about the financial health of an enterprise simply by studying and scanning the absolute figures contained in the conventional form of financial statement viz revenue statement (i.e. P/L account) and balance sheet. The same is possible only when the absolute figures are analyzed further in terms of ratios.

Ratio analysis is an important tool of financial analysis. A ratio is a statistical two figures tape that measures the relationship between is used as a measuring tape evaluating the financial position and performance of an enterprise and by its help we can make proper qualitative judgment according. We are calculating the following ratio in this study.

A) Liquidity Ratio:

Under this method, only current ratio is calculated and it is shown in table No. 1.

$$\text{Current Ratio} = \frac{\text{current Assets}}{\text{Current Liabilities}}$$

Table No. 1
FORUM FOR RURAL WOMEN ARDENCY DEVELOPMENT
(FORWARD)
Current Ratio (FY 2063/64 to 2067/68)

S.N.	Years	Current Assets	Current liabilities	Current Ratio
1	2063/64	11004534	36718006	0.30:1
2	2064/65	29401206	73314137	0.40:1
3	2065/66	53496323	117412713	0.46:1
4	2066/67	35949518	167382336	0.21:1
5	2067/68	56921704	249920597	0.22:1

Source:- Annual Report of FORWARD From FY 2063/64 to 2067/68

Generally, Current Ratio 2:1 is considered to be satisfactory. if the current ratio is less than two times difficulty may be created in the payment of current liabilities and daily operations of the business may suffer. The current ratios of micro finance during five years periods are 0.30:1, 0.40:1, 0.45:1, 0.21:1 and 0.22:1. in F.Y. 2063/64 to 2067/68 not meet the general standard during this study period. It indicates insufficient liquidity. The current ratio represents a margin of safety, i.e. cushion of protection for creditors. So the current ratio can also be called the card and quick measure o the firm's liquidity. According to present liquidity analysis it is cleared that the immediate power of current assets to bear the short term liabilities has been very poor.

B) i. Leverage Ratio:

Its measures the financial soundness of the Bank, under this, debt assets ratio is used.

$$\text{Debt asset Ratio} = \frac{\text{Total Debt}}{\text{Total assets}}$$

Table No. 2
FORUM FOR RURAL WOMEN ARDENCY DEVELOPMENT
(FORWARD)

Debt assets Ratio (FY 2063/64 to 2067/68)

S.N.	Years	Total Debt	Total assets	Debt ratio
1	2063/64	161490656	181212107	0.89:1
2	2064/65	254227269	296369177	0.86:1
3	2065/66	315814026	387747795	0.82:1
4	2066/67	437438481	539616594	0.81:1
5	2067/68	660922909	808836299	0.82:1

Source:- Annual Report of FORWARD From FY 2063/64 to 2067/68

The debt assets ratio from the F.Y. 2063/64 to 2067/68 are 0.89:1, 0.86:1, 0.82:1, 0.81:1 and 0.82:1. the proportion of forward is found decreasing way but last year 2067/68 is increased. It means the assets of the micro finance have increased by more proportion with comparison to their debt. This types of decreasing ratios indicates favorable condition.

C) Assets Management Ratio:

The following ratios is used to analyzed the assets management ratio of forward during study period.

i. investment to total deposit ratio:

this ratio is calculated by dividing total deposit to investment.

$$\text{Investment to total deposit ratio} = \frac{\text{investment}}{\text{Total deposit}} \times 100$$

Table No. 3
FORUM FOR RURAL WOMEN ARDENCY DEVELOPMENT
(FORWARD)

Investment to total deposit ratio (FY 2063/64 to 2067/68)

S.N.	Years	Investment	Total deposit	Ratio %
1	2063/64	9351198	36718006	25.47 %
2	2064/65	23918714	73314137	32.63 %
3	2065/66	26125000	117412713	22.25 %
4	2066/67	14500000	167382336	8.66 %
5	2067/68	17875000	411002312	4.35 %

Source:- Annual Report of FORWARD From FY 2063/64 to 2067/68

It is expressed as percentage. It shows the relationship between investment and total deposit. A sound investment policy of micro finance such that its funds are distributed on different types of assets with good profitability in one hand provides maximum safety and security to the deposits and the micro finance on the other hand, the objectives of a micro finance are to earn maximum profit by giving facility loans and the micro finance. On the other hand, the objective of business is to earn maximum profit by giving facility loans and qualitative services to rural area's public. Its income accrues mostly from its investment in store, loan etc. this ratio reveals fluctuation of first years to last years respectively. The above calculate ratio figures shows the pitiable condition of the bank in the following last two year of the study period. i.e. F.Y. 2066/67 and 2067/68 is low ratio. Where the investment has decreased less than 1 % the ratios show the negative result on aspect of the investment. Therefore the micro finance must be increasing its investment because highest ratio is preferable for firms.

D) Profitability Ratio:-

Profitability Ratio measures managements overall effectiveness as shown by the returns generated on sales and investment. The following ratios are used to analyze the profitability condition of FORWARD during study period.

$$i. \text{ Return on Assets Ratio} = \frac{\text{Net Profit after Tax}}{\text{Total Assets}} \times 100$$

This ratio measured the earning capacity of the company by proper utilization of fixed Assets. Below table shows the situation of return on Assets of FORWARD

Table No. 4
FORUM FOR RURAL WOMEN ARDENCY DEVELOPMENT
(FORWARD)
 Return on Assets Ratio (FY 2063/64 to 2067/68)

S.N.	Years	Net Profit After Tax	Total Assets	Ratio %
1	2063/64	8599095	181212107	4.75 %
2	2064/65	17589262	2963699177	5.93 %
3	2065/66	30270310	387747795	7.81 %
4	2066/67	23368465	539616594	4.33 %
5	2067/68	39861378	808836299	4.93 %

Source:- Annual Report of FORWARD From FY 2063/64 to 2067/68

The above ratio point out the average position of the organization. Net profit to total assets ratio indicates whether the total asset of the business has been properly used or not. The given figures show that the banks have to pay more attention for utilization assets properly in right track. The ratio of F.Y. 2065/66 is high.

$$\text{ii. Interest earned to total asserts ratio} = \frac{\text{Net Profit after Tax}}{\text{Total Assets}} \times 100$$

Table No. 5
FORUM FOR RURAL WOMEN ARDENCY DEVELOPMENT
(FORWARD)

Interest earned to total asserts ratio (FY 2063/64 to 2067/68)

S.N.	Years	Interest earned	Total assets	ratio
1	2063/64	22563756	181212107	12.45
2	2064/65	44371784	296369177	14.97
3	2065/66	66767064	387747795	17.22
4	2066/67	90325657	539616594	16.74
5	2067/68	141601188	808836299	17.51

Source:- Annual Report of FORWARD From FY 2063/64 to 2067/68

The ratio is expressed also percentage basis. The higher ratio is preferable and favorable on the financial institution. The interest earned to total assets of forward is 12.45, 14.97, 17.22, 16.74 and 17.51 in study period respectively. It has not seen increased than 17.51 % reveals bad financial performance of micro finance.

4.3 Cash Flow statement

Every organizations performances cash transactions refer to cash inflow and cash outflows. Cash inflow and outflows help to review success, failure of a firm and its ability to meet maturing debts. Such review and evaluation are possible if the statement of cash flows is prepared. The statement of cash flows is prepared for a specific period normally at the end of each year. The statement that shows cash inflow and outflows of a firm for a specified period is called the statement of cash flows. It demonstrates where the cash has done with available cash. Therefore, cash flow statement shows a picture of cash movement occurred in and out form a firm during a year in a summarized form. It gives a picture of sources and application of cash of a firm for a year. The statement of cash flows is not a cash book because it demon states inflows and outflows of cash and near to cash items. Cash and near to cash cover entire items of current assets and current liabilities. The statement of cash flows report increase and decrease in cash by listing in meaningful categories in terms of operating. Investing and financial activities.

Cash Flow from Operating Activities

Operating activities refer to the day to day revenue generating activities of a firm. These activities are considered to be the major sources of internally generated cash. Cash inflows from operating activities include the cash from sales and collections from debtors. Cash outflows for operating activities include cash purchase, payment to suppliers, payments for other operating expenses, payment for interest and taxes thus consist of all cash revenue expenses.

Cash Flow from Investing Activities

Investing activities refer to those activities which are concerned with purchase or sales of long term assets or investment. Cash inflows from investing activities include the cash received from sales of fixed assets as well as investment and cash outflows include cash paid for the purchase of fixed assets and investment made.

Cash Flows from Financing Activities

Financing activities are concerned with cash collection by issuing shares and debentures, raising long-term loan and so on. It also involves cash outflows investments of redemption of debentures and preference shares repurchased of shares, repayment of long and payment of cash dividend.

Cash flow statement is shown in table No. 8 which is collected with the help of annual report of FORWARD during five years (FY 2063/64 to 2067/68) for showing an insight on the picture of cash outflows and cash inflows of the Organization.

Table No. 6
FORUM FOR RURAL WOMEN ARDENCY DEVELOPMENT (FORWARD)
Cash Flow Statement FY 2063/64 to 2067/68

Particular	2063/64	2064/65	2065/66	2066/67	2067/68
A. Cash Flow From Operation Activities	(5694320)	(2645854)	1153104	10253399	13656464
1. Cash Inflow (1.1+....1.5)	26007521	48055395	69416080	94581194	149751278
1.1 Interest Income	22563756	44371784	66767064	90325657	141601188
1.2 Commission and Discount Income					
1.3 Foreign Exchange Transaction Income					
1.4 Income From Loan Write-off					(1429221)
1.5 Other Income	3443765	3683611	2649016	4255537	9579311
2. Cash Outflow (2.1+.....2.5)	17408425	30466133	41780119	61744928	103220256
2.1 Interest Expenses	5658243	11684264	18075398	26462284	48641014
2.2 Personal Expenses	6360357	10750376	16516163	24356754	40562237
2.3 Office operational expenses	3705412	5851462	7188558	12324739	16499608
Less: Depreciation				(1398850)	(2482603)
2.4 Income tax payment					
2.5 Other expenses	1684413	2180031			
a. Cash flow before working capital activities(1-2)	8599095	17589262	27635961	32836266	46531022
b. Decrease/(Increase) in Current Assets	(108222357)	(115839401)	(90342323)	(149165792)	(260814993)
Decrease/(Increase) in money at call and short notice	(9391197)	(17567516)	(22657448)	(21621909)	(20093415)
Decrease/(Increase) in short term Investment	(20000000)	(1125000)		(11625000)	-
Decrease/(Increase) in Loans and Advances	()78375442	(93573346)	(66568840)	(173999539)	(233280743)
Decrease/(Increase) in Other Assets	(495718)	(3573539)	(1116035)	(8413154)	(7440835)

c. (Decrease)/Increase in Current Liabilities	93928942	95604285	63859466	126582935	227937435
(Decrease)/Increase in Deposits	21407323	36596131	44098576	49969623	82568261
(Decrease)/Increase in Certificate of Deposit					
(Decrease)/Increase in short term borrowing	70635917	56140482	17488181	71654833	140946167
(Decrease)/Increase in Other liabilities	1885701	2867672	2272709	4958469	4453007
B. Cash Flow from Investing Activities(1+2+3+4)	(953931)	(628544)	(1722169)	(8095711)	(14198215)
1. Decrease/(Increase) in Term Investment					(3375000)
2. Decrease/(Increase) in Fixed Assets	(953931)	(628544)	(1722169)	(8095711)	(10823215)
3. Interest Income From Long Term Investment					
4. Dividend Income					
C. Cash Flow from Financing Activities	2877584	4143554	2006734	1917409	1423522
1. Increase/(Decrease) in long term borrowing (Bond, debenture etc)					
2. Increase/(Decrease) in Share Capital					
3. Increase/(Decrease) in long term liabilities	2877584	4143554	(1610230)		
4. Increase/(Decrease) in other reserves			3616964	1917409	1423522
D. Gain/Loss from Foreign Exchange defference with cash					

balance and deposit with banks					
E. Cash Flow from Total Activities of the year (A+B+C+D)	(3770667)	869156	1437670	4075097	878770
F. Opening Cash and Bank balance(Current a/c + cash in hand)	5384003	1613336	2482492	3920162	7995259
G. Closing cash and bank balance (E+F)	1613336	2482492	3920162	7995259	8874029

Source:- Annual Report of FORWARD From FY 2063/64 to 2067/68

Position at ending F.Y. 2063/64

The net change in cash balance of financial year 2063/64 is Rs. (3770667). The net cash flow from operating activities in this year is Rs. (5694320). The net cash flow from investing activities is Rs. (953931) and the net cash flow from financing activities is Rs. 2877584. in this way the organization, net change in cash balance is negative in this year and the ending balance is positive in this year and the ending balance is Rs. 1613336. operating activities and investing activities show the negative balances but financing activities shows the positive balances.

Position at ending F.Y. 2064/65

The net change in cash balance of financial year 2064/65 is Rs. 869156. The net cash flow from operating activities in this year is Rs. (2645854). The net cash flow from investing activities is Rs. (628544) and the net cash flow from financing activities is Rs. 4143554. in this way the organization, net change in cash balance is positive in this year and the ending balance is also positive in this year and the ending balance is Rs. 2482492. operating activities and investing activities show the negative balances but financing activities shows the positive balances.

Position at ending F.Y. 2065/66

The net change in cash balance of financial year 2065/66 is Rs. 1437670. The net cash flow from operating activities in this year is Rs. 1153104. The net cash flow from investing activities is Rs. (1722169) and the net cash flow from financing activities is Rs. 2006734. in this way the organization, net change in cash balance is positive in this year and the ending balance is also positive in this year and the ending balance is Rs. 3920162. Investing

activities show the negative balances but operating activities and financing activities shows the positive balances.

Position at ending F.Y. 2066/67

The net change in cash balance of financial year 2066/67 is Rs. 4075097. The net cash flow from operating activities in this year is Rs. 10253399. The net cash flow from investing activities is Rs. (8095711) and the net cash flow from financing activities is Rs. 1917409. in this way the organization, net change in cash balance is positive in this year and the ending balance is also positive in this year and the ending balance is Rs. 7995259. Investing activities show the negative balances but operating activities and financing activities shows the positive balances.

Position at ending F.Y. 2067/68

The net change in cash balance of financial year 2066/67 is Rs. 878770. The net cash flow from operating activities in this year is Rs. 13656464. The net cash flow from investing activities is Rs. (14198215) and the net cash flow from financing activities is Rs. 1423522. in this way the organization, net change in cash balance is positive in this year and the ending balance is also positive in this year and the ending balance is Rs. 8874029. Investing activities show the negative balances but operating activities and financing activities shows the positive balances.

4.4. Trend percentage Analysis:

Trend analysis is the very important tool for financial performance analysis. It has been conducted for the evaluation of financial performance of forward. The direction of change is shown by the trend analysis. Such analysis reveals at what rate of percentage the item of them.

1. Balance sheet
2. Income Statement

3. Trend Analysis of Activities.

Increase or over a period of FY 2063/64 B.S. has been taken as base year. The measurement of variation in terms of percentage is very much helpful. Such rate of change is often more vital than the absolute change for detecting the trend comparison. The trend comparison is done with the same items of the base year 2063/64 B.S. to 2067/68 B.S. respectively, which shows the result of increase or decrease over a

period of year. Balance sheet, profit and loss A/C and activities of forward are corresponding items in the base year. By help of such analysis we can judge whether the financial performance of forward is improving over five study years considering the base year as 2063/64 B.S. The base year has been considered as 100 percent. The data computation has been done by dividing the amount of each items of the statement with the amount of corresponding items of the base year.

4.4.1 Trend Percentage Analysis of Income Statement:

The following table shows the trends percentage analysis of income statement.

Table No 7
Trend Percentage of Income Statement of FORWARD
2063/64 to 2068/69 B.S. (%)

Particular	2063/64	2064/65	2065/66	2066/67	2067/68
Interest on borrowing and deposit	100	206.5	154.70	146.40	183.81
Staff expenses	100	169	153.63	139.58	159.08
Provision & Doubtful loan and advance	-	-			
Office and other expenses	100	157.92	135.53	171.45	137.70
Bonus	-	-	-	100	256.86
Income tax	-		-	-	-
Average	100	177.81	147.95	157.22	184.36
% increase	0	77.81	47.95	57.22	84.36
Interest earned on loan and investment	100	196.65	150.47	135.42	156.77
Average	100	196.65	150.47	135.42	156.77
% increase	0	96.65	50.47	35.42	56.77

Source: Annual Report of FORWARD

The table no. 7 present the trend percentage figures of income statement. The trend average figures of expenditure of forward are 100, 177.81, 147.95, 157.22 and 184.36 of the study period. The trend average figure of income is 100, 196.65, 150.47, 135.42 and 156.77. In above calculated data about the income has highly increased in F.Y. 2064/65. I.e. by 196.65. Although organization have been made profit in whole study period. Income and expenditure side, average income and average expenditure of trend percentage analysis is positively compared with the base year of both and the average figure is positive compared with the base year when organization has been mode profit.

In totally, income and expenditure is seen on profit and loss account, which indicates the current situation of forward shows strong position. Year to year total expenses are seen increase but the total income has not increased with compared of expenditure. Main source of income is the interest on loan outstanding. It is not being collected sufficiently. Therefore, the trend percentage analysis indicates an average financial performance of the forward.

4.4.2 Trend percentage analysis of Balance sheet

The following table shows the trends percentage analysis of balance sheet.

Table No. 8
Trend percentage analysis of balance sheet of forward
2064/65 to 2068/69 B.S.

Particular	2064/65	2065/66	2066/67	2067/68	2068/69
Share capital	-	-	-	-	-
General Reserves and funds	100	211.58	174.2	139.14	140.33
Debenture and bonds	-	-	-	-	-
Borrowings	100	145	110	136	152.19
Deposits	100	199.67	160	142.56	149.31
Bills payable	-	-	-	-	-
Other liabilities	100	230.49	145	167.57	136.22
Average	100	196.69	147.3	146.32	144.51
Increase %	0	96.69	47.3	46.32	44.51
Cash balance	100	124.84	499	787.48	38.60
Bank/financial institution balance	100	154.06	156	194	115.95
Money at call and short notice	100	287.06	184	147.16	171.88
Investment	100	104.50	100	100	148.97
Loans and advances	100	165.77	128	157.54	149.69
Fixed assets	100	112.30	130	189.74	158.91
Non banking assets	-	-	-	-	-
Other assets	100	517.08	125	251.69	153.31
Average	100	209.37	188.86	261	133.90
Increase %	0	109.37	88.86	161	33.90

Source: Annual Report of forward (F.Y. 2064/65 to 2068/69)

Out of the total liabilities sides of organization General Reserves and funds have increased, it is gradually increase way with compared the base year. It is good sign for the financial performance of the forward. Deposit is highly increased in F.Y. 2064/65. The deposit could be made a vital source of fund for disbursement of loans. This would lead to its profitability scenario because the cost of deposits is cheap then the cost of borrowings. Therefore, the organization should adopt the best policy to increase its deposit. Increasing figure of the deposit shows the good performance of the

organization. Other liabilities also highly increase in F.Y. 2064/65. i.e. 230.49 and other F.Y. increase slowly but it is ever greater than base year. The

Fluctuation on the other liability and provision is due to considerable change in pending interest, sundry creditors and interest increasing in other liabilities.

In other assets side, totals of assets and properties of forward is increased by 100, 209.37, 188.86, 261 and 133.90. such decrease in assets side shows the strong financial performance. The above figure shows that the organization have not invested in government bonds, company shares but only in fixed deposit of commercial bank. As a whole, the investment policy is found to be satisfactory. The cash and bank balance is also increased compared the base year. It means the bank has not efficiently managed its cash and bank balance at appropriate level, if bank has managed its liquidity and idle cash balance, microfinance performance has well.

The other assets include goods inventory (stationary, other goods in transit) receivable assets (sundry debtors, insurance claimed, deposits and interest receivable) and employee's advances and loan, salary, social loan, cycle loan, motorcycle, calculator and medicine advances etc. it is fluctuated but it is higher than the base year always the study period. Decrease in assets is not favorable for the micro finance. This micro finance could earn profit every year of study. It is an opportunity to get expands their activities and transaction.

CHAPTER – FIVE

Summary, Conclusion and Recommendation.

Summary:-

the most important aspects of micro finance company is financial performance. Management became meaningless without best financial performance. To get further success business enterprise must consider the financial performance of its firms. Financial performance is the crucial factor for the micro finance company. Management remains incomplete without good financial performance. Financial performance depends on overall financial tools and techniques used by management to improve the financial conditions.

In this study research studies the financial performance of forward. This study is divided into five chapters. First chapter is an Introduction, second chapter is review of literature, third one is research methodology, fourth chapter is presentation and analysis of data and last chapter summary, conclusion and recommendation.

- ❖ Chapter one or first chapter includes background of the study, focus of the study. Statement of problem, objectives of the study, importance of the study and limitation of the study.
- ❖ In second chapter review of literature includes conceptual framework i.e. concept of financial management, concept of financial statement, tools and techniques of financial statement analysis etc. and it is related to the past review work.
- ❖ The third chapter research method consists of research design, nature and sources of data population and sample of the study and tools and techniques used in data analysis.
- ❖ In the fourth chapter an attempt is made to analyze and interpret the data by using financial tools like ratio analysis and cash flow statement analysis and trend percentage analysis.

- ❖ In fifth chapter summary, conclusion and recommendation of the study is presented. In brief this research paper has tried to examine the financial performance of forward.

5.2 Conclusions

After analyzing in detail the present practices of financial performance of Forum for Rural Women Ardency Development, this study concludes the following:-

- a) Liquidity positions analysis:- The Liquidity position of the organization is floating during period. Therefore the liquidity situation of the organization is not satisfactory the current ratio standard not meet by the organization.
- b) Leverage positions analysis:- FORWARD is the best performance in the terms of debt ratio. It is so because the organization has not negative ratio at any financial year under the study period.
- c) Assets management position analysis :- FORWARD is the best performance in terms on investment to total deposit ratio. because the company has not negative ratio at any financial year under the study period.
- d) Profitability position analysis:- FORWARD is the best performance in terms of return on assets and interest earned to total assets. It is so because the micro finance company has not negative return at any financial year under the study period.
- e) Cash flow statement analysis:- The net change in cash balance of financial year 2063/64 is Rs. (3770667). The net cash flow from operating activities in this year is Rs. (5694320). The net cash flow from investing activities is Rs. (953931) and the net cash flow from financing activities is Rs. 2877584. in this way the organization, net change in cash balance is negative in this year and the ending balance is positive in this year and the ending balance is Rs. 1613336. operating activities and investing activities show the negative balances but financing activities shows the positive balances
The net change in cash balance of financial year 2064/65 is Rs. 869156. The net cash flow from operating activities in this year is Rs. (2645854). The net cash flow from investing activities is Rs. (628544) and the net cash flow

from financing activities is Rs. 4143554. in this way the organization, net change in cash balance is positive in this year and the ending balance is also positive in this year and the ending balance is Rs. 2482492. Operating activities and investing activities show the negative balances but financing activities shows the positive balances.

The net change in cash balance of financial year 2065/66 is Rs. 1437670. The net cash flow from operating activities in this year is Rs. 1153104. The net cash flow from investing activities is Rs. (1722169) and the net cash flow from financing activities is Rs. 2006734. in this way the organization, net change in cash balance is positive in this year and the ending balance is also positive in this year and the ending balance is Rs. 3920162. Investing activities show the negative balances but operating activities and financing activities shows the positive balances.

The net change in cash balance of financial year 2066/67 is Rs. 4075097. The net cash flow from operating activities in this year is Rs. 10253399. The net cash flow from investing activities is Rs. (8095711) and the net cash flow from financing activities is Rs. 1917409. in this way the organization, net change in cash balance is positive in this year and the ending balance is also positive in this year and the ending balance is Rs. 7995259. Investing activities show the negative balances but operating activities and financing activities shows the positive balances.

The net change in cash balance of financial year 2066/67 is Rs. 878770. The net cash flow from operating activities in this year is Rs. 13656464. The net cash flow from investing activities is Rs. (14198215) and the net cash flow from financing activities is Rs. 1423522. in this way the organization, net change in cash balance is positive in this year and the ending balance is also positive in this year and the ending balance is Rs. 8874029. Investing activities show the negative balances but operating activities and financing activities shows the positive balances.

- f) Trend percentage analysis:- under income statement, The table no. 25 present the trend percentage figures of income statement. The trend average figures of expenditure of forward are 100, 177.81, 147.95, 157.22 and 184.36 of the study period. The trend average figure of income is 100, 196.65, 150.47, 135.42 and 156.77. In above calculated data about the income has highly increased in F.Y. 2064/65. I.e. by 196.65. Although organization have been made profit in whole study period. Income and expenditure side, average income and average expenditure of trend percentage analysis is positively compared with the base year of both and

the average figure is positive compared with the base year when organization has been made profit.

In totally, income and expenditure is seen on profit and loss account, which indicates the current situation of forward shows strong position. Year to year total expenses are seen increase but the total income has not increased with compared of expenditure. Main source of income is the interest on loan outstanding. It is not being collected sufficiently. Therefore, the trend percentage analysis indicates an average financial performance of the forward.

Under balance sheet, Out of the total liabilities sides of organization General Reserves and funds have increased, it is gradually increase way with compared the base year. It is good sign for the financial performance of the forward. Deposit is highly increased in F.Y. 2064/65. The deposit could be made a vital source of fund for disbursement of loans. This would lead to its profitability scenario because the cost of deposits is cheap then the cost of borrowings. Therefore, the organization should adopt the best policy to increase its deposit. Increasing figure of the deposit shows the good performance of the organization. Other liabilities also highly increase in F.Y. 2064/65. i.e. 230.49 and other F.Y. increase slowly but it is ever greater than base year. The fluctuation on the other liability and provision is due to considerable change in pending interest, sundry creditors and interest increasing in other liabilities.

In other assets side, totals of assets and properties of forward is increased by 100, 209.37, 188.86, 261 and 133.90. such decrease in assets side shows the strong financial performance. The above figure shows that the organization have not invested in government bonds, company shares but only in fixed deposit of commercial bank. As a whole, the investment policy is found to be satisfactory. The cash and bank balance is also increased compared the base year. It means the bank has not efficiently managed its cash and bank balance at appropriate level, if bank has managed its liquidity and idle cash balance, microfinance performance has well.

The other assets include goods inventory (stationary, other goods in transit) receivable assets (sundry debtors, insurance claimed, deposits and interest receivable) and employee's advances and loan, salary, social loan, cycle loan, motorcycle, calculator and medicine advances etc. it is fluctuated but it is higher than the base year always the study period. Decrease in assets is not

favorable for the micro finance. This micro finance could earn profit every year of study. It is an opportunity to get expands their activities and transaction.

5.3 Recommendation

After the detail analysis of financial performance of forward some suggestion have been recommended on the base of major finding to improve the financial performance of forward in other words, the following are some of the recommendations, which could be considered for improvement of the financial performance of forward.

1. Principal collection and interest collection rate of forward is nearly 100 %. The over due amount increasing. For this, the loan reform programmed should be strictly implemented by forward. The micro finance should be more careful about the problems on implementation of the reform program in time and should lunch the necessary corrective actions.
2. The problems about the qualitative lending and profit are other types of problems. In the situation of recession, decreasing interest rate, day to day increasing competition and limit opportunity for the better project, qualitative investment is major problems and another side the avoid this problem micro finance adopt the better principle of portfolio management for the investment properly.
3. Problems relating the employees are also other types of problem existed in the micro finance. Efficient and intelligent employee is most necessary for any kind of organization. The employee's selection and recruitment process must be effective and transparent. Similarly, the evaluation of employees must be performance based. The selected employees should be trained time to time.
4. The communication process of the micro finance must be effective. The communication gap is the major problem for the micro finance. The

lower level must understand the plan policies and strategies made by the higher level, immediately in the same manner.

5. Most of branch of forward different program of its have been urbanizing because of the lack of peace and security in the rural area. Therefore, this program and the sub-branch micro finance must be lunched in the rural area.the forward also opening it micro credit programs through branch branches in rural area as well as urban.
6. The micro finance should be restructured as per the suitability to the present situation/ environment.
7. The micro finance should improve management information system with new equipment and technology.
8. The existing staffs should be evaluated on performance basis and regular appraisal is needed. Again, they should be trained regularly.
9. The micro finance must give its efforts on the cost minimization, as it is financial institution. It should emphasis on efficient use of resources particularly through the human resources development.
10. The micro finance should focus on the transparent operation and management for enhancing ownership of stakeholder's and staff at all levels center, district and village.
11. They should be emphasized in innovation in operation and portfolio management for efficiency, effectiveness and impact.
12. The micro finance needs to develop theirs business in global perspective considering the international standard banking indicators.
13. Forward is doing its business more than 18 districts and it should have to expand its business nationally.
14. A new management information system and financial management system should be adopted. Similarly, to control the economic activities financial management and accounting management should be managed.

15. Current ratios should be increased by the micro finance because low level of current assets may not fulfill the liabilities of the micro finance.
16. The fixed assets should be valued properly as per the current market values and depreciate them accordingly.
17. The micro finance should emphasis on the clear and true recording of financial transaction and other financial statement.

At last, all micro finance of Nepal have to do more exercise for reducing the member duplication.

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Web sites

1. WWW.forward.org.np (web site of forward)
2. WWW.nrb.org.np (Web site of Nepal Rastra Bank)

Appendix -1
Forum For Rural Women Ardency Development (FORWARD)
Summarized balance sheet for 5 years (FY 2063/64 to 2067/68)

Particular	2063/64	2064/65	2065/66	2066/67	2067/68
Capital and Liabilities					
Share capital					
Reserves and funds	17523832	37076617	64595769	89881642	131166542
Debenture and bonds					
Borrowings	124772650	180913132	198401313	270056145	411002312
Deposit Liabilities	36718006	73314137	117412713	167382336	249920597
Bills payable					
Proposed and payable Dividend					
Income tax liabilities					
Other Liabilities	2197620	5065292	7338001	12296470	16746848
Total Liabilities	181212107	296369177	387747795	539616594	808836299
Assets					
Cash balance	10457	13054	65111	512735	197910
Nepal Rastra Bank balance					
Bank/Financial institution Balance(current)	1602879	2469438	3855051	7482523	8676119
Money at call and Shirt Notice(Saving & Call)	9351198	26918714	49576161	27954260	48047675
Investments (FD,Share,Debenture)	25000000	26125000	26125000	14500000	17875000
Loans And Advances (Loan loss Reserve)	142277760 (2998760)	235851106 (5178791)	302419946 (7302336)	476419485 (15371287)	709700228 (19558328)
Fixed Assets	5111770	5740315	7462483	14159345	690141900
Non Banking Assets					
Other Assets	856804	4430343	5546378	13959532	21397738
Total Assets	181212107	296369177	387747795	539616594	808836299

Source :- Annual Report of FORWARD From F.Y. 2063/64 to 2067/68

Appendix -2
Forum For Rural Women Ardency Development (FORWARD)
Summarized Income and expenditure account for 5 years (FY 2063/64 to 2067/68)

S.N.	Particulars	F.Y. 2063/64	F.Y. 2064/65	F.Y. 2065/66	F.Y. 2066/67	F.Y. 2067/68
1	Interest Income	22563756	44371784	66767064	90325657	141601188
2	Interest /finance expenses	5658243	11684264	18075398	26462284	48641014
	a. net interest income	16905512	32687519	48691666	63863373	92960174
3	Commission and discount	-	-	-	-	-
4	Other operational income	3259110	3683611	3556270	4255537	9579311
5	Foreign exchange deficit	-	-	-	-	-
	b. Total operational Income (a+3+4+5)	20164622	36371130	52247936	68118910	102539486
6	Personal expenses	3660357	10750376	16516163	23053859	37215562
7	Other personal expenses	3705412	5851461	7188558	12324739	16499608
8	Foreign exchange deficit	-	-	-	-	-
	c) operational surplus before loan loss provision (b-6-7-8)	10098853	19769293	28543215	32740312	48824315
9	Loan loss provision	1684413	2180030	2184402	8068951	5616262
	d) operational surplus (c-9)	8414440	17589262	26358813	24671360	43208054
10	Non operational surplus/deficit	-	-	-	-	-
11	Reversed from specific fund	-	-	-	-	-
12	Reversed from loan loss provision	-	-	-	-	-
	e) surplus from regular operation (d +10+11)	8599095	17589262	30270310	24671360	43208054
13	Extraordinary operation gain/deficit	-	-	-	-	-
	f) surplus from regular operation (e+12)	8599095	17589262	30270310	24671360	43208054
14	Provision for employees bonus	-	-	-	1302895	3346675
15	Income tax provision	-	-	-	-	-
	Net surplus/deficit (C/F)	8599095	17589262	30270310	23368465	39861378

Source :- Annual Report of FORWARD From F.Y. 2063/64 to 2067/68