

Chapter-1

INTRODUCTION

1.1 Focus of the Study

The structure of inequality in Nepalese society in all its complexity ensures that the combined effect of exploitation, suppression and discrimination in the context of general crisis is poverty for the majority. More than 40% of the rural population lives in poverty, which is based on minimum subsistence requirement of rupees 2 per person per day. This would appear to be a highly conservative estimate, more realistic estimates of absolute poverty would appear undoubtedly place at least 60 percent of the rural population in the impoverished. (World Bank)

Reducing poverty is the fundamental objective of economic development. It is estimated that more than one billion people in the developing world are poor, and nearly half of those in extreme poverty line in south Asia.

Nepal's level of income per capita is one of the lowest in the world. More than half of the population survives on less than one dollar than that of the Asia and South Asian countries. More than 80% population lives in rural area in Nepal. People's economic condition is very poor. To improve their economic condition, many NGO's, INGO's, Banks, Co-operative institutes and other related parties have given contribution.

Many Banks like commercial Bank, development Bank and other financial institutions and enterprises play significant role for improving the economic condition. But all of the commercial and development banks are based in Town. So they can't play vital role to improve economic condition of rural people because 80% above people of Nepal are live in rural area. Co-operative institutes are playing important role to alleviate poverty since it is establishment.

With the realization of these facts, urgent need of a program, which is targeted effectively towards poorest of the poor is felt. Formally Co-operative is started in BS. 1900 in the world and B.S. 2010 in Nepal, But Nepalese government didn't play important role for the people. Government also couldn't help it. When the co-operative act 2048 was published it is the important achievement for the Nepalese citizens.

After Co-operative act 2048, many Co-operative institutes are established in Nepal to achieve the above mentioned objective.

The Purba Nepal Multi Purpose Co-operative Institute Limited (PMCIL), Topagachhi, Jhapa is a Co-operative institute registered under Co-operative act 2048 in Jhapa Nepal.

PMCIL established in B.S. 2057 in topagachhi-8, Jhapa, The institute started field based activities from B.S. 2058 Baisakh, selecting 5 V.D.Cs. located in election area number 6 and 7 of Jhapa District. The institute established sub branch office in Gaurigang south eastern part of the Jhapa to easily maintain its objective in its target area.

Upon completion of preparatory work like base line survey, staff selection, motivation to local people for saving and credit on the plan of action. First saving from local people was collected on the first Baisakh 2058 and loan was distributed on the first Jestha 2058. According to 8th annual report, Ashoj 10 2058, the PMCIL is operating one branches office total 1100 members have been formed 5 V.D.C. spread over one district. 10,000 people are gained from PMCIL activities.

Now it collect saving from the member and distribute the loan them. It started micro-finance program in its area, many social activities are also handling the PMCIL like Ambulance service, Health camp, scholarship for S.L.C. student, training on Environmental pollution, agriculture program for farmer like breeding center, passing on the gifts program.

As well as financial and social activities, it earns profit, Its financial performance was over break even level. Financial performance is measured the financial ratio and statistical tools. Financial ratio is used the firm's strength and weakness. If the institute gets the good financial soundness then it can reach its goal like poverty alleviation, top level quality to offer the clients.

1.2 Statement of the problem

The head office of the PMCIL is situated in Topagachhi-8, Jhapa, Eastern development region of Nepal. PMCIL has become first in Jhapa district in about transaction and program within few years of establishment. The institute is still in growing stage. Although it is in growing stage it has been success to gain popularity in its working field. Since it commencement of program, PMCIL has been getting few profit in each year. The share capital of the institutes is 6.1 million rupees. Its reserve fund is Rs. 0.809 million. However we will not say its financial condition is very good. PMCIL is handling many social activities; Comparatively PMCIL present more social programs which never get profit. But

PMCIL have comparatively high position and gain more profit than other. But is not true this condition will go for long term because the main problem of the PMCIL is handling the many financial and social programs without good managing. It is also the problem that only few executive member of the PMCIL are active, so it will break anytime. It must change its non active executive member very soon, Otherwise there maybe loss.

1.3 Significance of the Study.

Over country is the country of rural poverty. To alleviate the poverty PMCIL is playing vital role. The PMCIL is operating its business in the Jhapa district. The profitability study of the organization will be the aid to save the organization for the long life to help to poverty alleviation programs. It also helps to the related organization and concerned top level and functional level organization of management bodies. Financial performance shows its efficiency, capital structure, profitability, liquidity and future progression trend which is helpful for the Bank management client and ministry of finance of Nepal to provide supportive decision.

1.4 Objective of the Study

Objectives are determined according to the nature of study. The study of the financial performance of PMCIL is mainly to identify the existing financial position. The detail objectives of the study are the following:

- I. To identify the existing financial position of PMCIL
- II. To evaluate the sources and application of funds
- III. To test the financial situation with the help of trend analysis
- IV. To compare the present situation with the help of trend analysis
- V. To find out the loopholes in operating its performance
- VI. To find out the relationship among the variable
- VII. To provide reformative suggestion for future improvement.

1.5 Limitation of the Study

Every study is bound by the limitation due to different factors. It different study has different but certain limitation. The following limitations are pointed out to study the financial performance of PMCIL.

- I. This study is base on the seven years data FY 2058/059 to 2064/065

- II. This study is mainly based on secondary data. Its financial performance is based only on the funds flow analysis, ratio analysis, trend analysis and correlation analysis.
- III. This study has not considered the net present value of money during seven years
- IV. Rounding figures in Zero is used mathematically to make simplicity in calculation.
- V. This study is to suggest rather than direct.

1.6 Organization of the Study

A study on the financial performance of PMCIL has been organized into five chapters. They are as follows.

- I. Introduction
- II. Review of Literature
- III. Research Methodology
- IV. Analysis and Interpretation of Data
- V. Summary, Conclusion and Recommendation.

The first chapter is the introduction chapter; it includes focus of the study, statement of problems, need of study, significant of study, Objective of Study, Limitation of the study and other relating studies. Therefore this chapter highlights on the objective and structure of study.

The second chapter, the review of the literature, which was obtained during the library researched. It contains introduction, introduction of financial performance, financial statements, parts of financial statement, use of financial statement, financial statement limitation, financial statement analysis, need of financial analysis and uses of tools and techniques of financial analysis etc.

Chapter three is research methodology; it includes research design, source of data, population and sample of study, data collecting procedures, processing procedures, research question and analytical tools.

Chapter four is analysis and interpretation of the study. Here mainly five type of analysis : ratio analysis, funds flow analysis, trend percentage analysis, trend method of least square analysis and correlation analysis have been presented and interpreted. The last chapter is the summary conclusion and recommendation. This chapter provide for further improvement of the organization.

Chapter 2

REVIEW OF THE LITERATURE

2.1 Introduction

This chapter covers the review of the literature around the analysis of financial performance of PMCIL in Nepal. “The purpose of reviewing the literature is to develop some expertise in one’s area to see what new contribution can be made and to receive some ideas for developing research design.”¹ To get with a purpose reviewing the literature in this chapter contains financial performance, financial statements, financial statements analysis, interpretations of tools, and technique of financial statement analysis and review of research study.

During the study the investigator consulted some thesis presented by various students on related subject. Some of their findings, issues, logics and suggestion are mentioned which are found to be guideline to present the current study. Similarly various books journals, articles, seminar papers, relevant acts and policies etc. are also reviewed.

2.2 Financial Performance

The profit earned and best service offered by the firm is the successful way in 21st century. It is also called financial performance indicator of business enterprises. General profit results can receive mainly from successful financial management, cost control, credit extension, risk management and general efficiency of operation. Profit is affected by many factors. Those factors are inflation and government’s economic policy with regarding interest rates, direct lending and investment, taxes and labor laws etc. “Profit is essential for enterprises to survive and grow as well as to maintain capital adequacy through retained earnings. It is also essential to access market for both debt and equity to provide funds for increased assistance to the productive sector.”²

Liquidity refers to the ability to lay ones hand on cash when it is needed without having to sell long term assets to a loss in an unfavorable market. Enough liquidity is needed to honor the cheque and at same time to enable to make

¹ Wolf, Howard and Pant Prem Raj. “ A Hand Book For Social Science Research and Thesis Writing” Buddha Academy Enterprises, Kathmandu, 2nd Ed. 1996, P.30

² Robinson, Ronald I. “The Management of the Fund” Mc-Graw hill Book Co. New York, Mc- grew – hill Book companying- 1951. Chapter 21-22.

profitable loans when and opportunity arises. A Bank must maintain adequate liquidity to meet wide range of contingencies. Low or excess liquidity is not best for enterprises. If a bank fails to maintain excess liquidity is not best for enterprises. If a bank fails to maintain adequate liquidity it has to face crises. On the other hand, if it maintains excess liquidity capital will be idle which don't produce any return. Consequently profit will be reduced. Excess liquidity is the causes of loss of income and inefficiency of the management in managing funds. So the Bank must maintain adequate and optimum liquidity so as to meet day-to-day requirement of cash and possible contingencies. The liquidity measures the extent to which it can oblige its short-term obligation.

If any Bank fails to manage adequate equity capital than it makes the more risky. Inadequate equity capital structure or composition in the capital structure makes use of more debt of fixed cost and fixed expiration date. If a firm fails to earn revenue sufficiently, it will be unable to meet its obligation like interest. Consequently the firm may fails on insolvency position. One the other hand, lower position of the dept capital structure also reduces the shareholders profit because the cost of debt is always less than the cost of capital as well as cost of equity. In the above –mentioned case, we conclude that neither lower equity capital structure nor higher equity capital structure is best for business and other enterprises. There must be adequate equity capital structure in order to operation smoothly business running.

Long-term creditors, like debentures holders are more concerned with the fund for long-term financial strength or solvency. Therefore while evaluating the financial performance, solvency is widely used which measure the funds supplied by the owners and creditors?

Development Bank is the Bank which helps to make strength national economic. The main business of the development Bank is the mobilization of the resources of national economy, which scatter in different economic level of people, is collected as deposit. The Bank must have utilized its adequate deposits it curtails profitable opportunities. And if it fails to utilize is collected resources it can't generate proper revenue. Resources mobilization is one of the important functions of the co-operative Institutions like PMCIL, which includes resources, collection, investment portfolio, loan and advances, working capital management etc. It measures the extent to which the institute is successful to utilize its resources.

A good financial performance is that performance which has management effectiveness by the returns generated investment, the firm ability to maintain its economic position in the growth of the economy and comparative market. In which it operates and the ability of management to achieve market values in excess of cost outlays. Except it we should consider in operating efficiency and financial policy.

We conclude that if the enterprises have operating efficiency, effective financial policy, management effectiveness by the returns generated on investment ability to achieve market value in excess of cost outlays, its financial performance is better on the competitive age. Financial performance means to generate its reasonable profit by giving high good services offered. In the Banking sectors, the main income sources are the interest on the disbursement loans to public. Its main functions are the collection of the deposits and disbursed loan as investment to receive interest.

2.3 Concept of Financial Statements

The term financial statement as used in modern business refers to the two statements, which the accountant prepares at the end of period of time for a business enterprise. They are the balance sheet or statement of financial position and the income statement or profit and loss account statement. To the statement of corporation, there is added a third statement the retained earning (Surplus) statement, which reconciles the balance in this account at the period with that at the beginning. Some accounts prepare a similar statement for individual proprietorship and partnership, which is called that statement of capital and reconciles the capital at the end of the period with that at the beginning.

The financial statements provide a summary of the accounts of a business enterprise, the balance sheet reflecting the assets, liabilities and capital as of a certain date and the income statement showing the results of operations during a certain period.

A financial statement is a collection of data organized according to logical and consistent accounting procedures; its purpose is to convey on understanding of some financial aspect of a business firm. It may show a position at a moment in time as in the case of balance sheet or may reveal a series of activities over a given period of time, as in the case of an income statement. Financial statements are the

major means employed by firms to present their financial situation to stockholders; creditors and the general public. The majority of firms include extensive financial statements in their annual reports, which receive wide distribution. The proper preparation and use of financial statement requires the financial manager to define and distinguish among certain terms. To avoid any misunderstanding that may arise from terminology, we will carefully define terms as we examine different financial statement requires the financial manager to define and distinguish among certain terms. To avoid any misunderstanding that may arise from terminology; we will carefully define terms as we examine different financial statement. It is summary of the account of assets, liabilities and capital of the firm or a certain date and results of operation during a certain data and result of operation during a certain period. “The financial statement is an organized collection of data organized according to logical and consistent is an organized collection of data organized according to logical and consistent accounting procedures. It may show a position at a moment in time as in the case of balance sheet may reveal a series of activities over a given period of time in case of an income statement”³

The financial statement refers to one two summarized financial reports which the accountant prepares usually at the end of fiscal year of firm, these are balance sheet or statement of financial position and the income statement or profit and loss accounts. The terms financial statements used by itself without qualification usually refuse their principal statements the balance sheet the income statement and a statement of changes in equity analyzing changes on the ownership accounts.”⁴

“Financial Statement contains summarized information of the firm’s financial affairs, organized systematically”.⁵ Thus financial statement is prepared. For the purpose of presenting a periodical review as report on the progress by management and deal with

- (I) The status of investment in the business
- (II) The result achieved during the period under review.

Top management need to see actual financial situation of the firm to owners, creditors, general public balance sheet and income statement is to assist in

³ Eugene Stabley “The Future of under developed countries” Harper and Brother New York, 1954, P.304

⁴ Pandey I.M. “Financial Management” 6th revised edition Vikash Published House Pvt.Ltd., 1993 P.35

⁵ Meigns W.B. & Others, “Intermediate Accounting” Mc-Graw Hill New York, 1978, P.1049

decision-making. Balance sheet, Profit & loss account are traditional basic financial statement of business. Financial statements contain summarized information of firm. Financial affairs organized systematically. They are the means to represent the firm's financial solution to users.

2.4 Parts of the financial statement

The term or parts of financial statement or published accounts refer to the:

- (I) Balance Sheet
- (II) Profits and Loss Account
- (III) Directors Reports
- (IV) A Copy of the chairman speech.

The financial statements contain summarized information of the firm's financial affairs organized systematically. Financial statement is the means to present the firm's financial situation to creditors, investor and general people.

A financial statement is a collection of data organized according to logical and consistent accounting procedures. The main part of the financial statement is prepared for the owner, investors and creditors are.

- (I) Balance sheet or statement of financial position.
- (II) Income statement or profit and loss account.

2.4.1. Balance Sheet:–

The balance sheet shows the assets, liabilities and equity for the firm as of the last day of the accounting period. It is the most important of the financial statement, it convey the financial position of the business at a particular movement of time. It follows that the assets listed on a balance sheet are deferred or un-amortized costs, with the exception of cash and claims to cash, such as receivables and investments in securities. In the course of time, almost all of the deferred costs will be assigned to revenue. Thus from the accounting point of view assets are largely cost residues to be assigned to revenue in the future.

The liabilities are the sum owing to creditors and consist mainly of notes and accounts payable accrued expenses and long-term debt. The estimated liabilities are estimates of certain sum of money that the business will have to pay

in the future or amount of losses it has expected will sustain in which case they are really estimated contrast to the assets.

The capital is the equity or interest of the owners in the business. It is equal to the stated an amount of the assets after deduction of the liabilities. Such balance sheet communicates information about the assets, liabilities and owners equity for a business firm on a specific date. It can measure liquidity and firm's solvency.

It is useful financial tools as a statement of firm's financial condition at a given point in time. It shows balance on permanents accounts and the results of all the accounting transactions since the first day of operation. It lists the accounting (market) value of the firm's assets and shows the portion of the assets financed by debt and equity.

When used in conjunction with an income statement and other financial data, the balance sheet provides valuable information on the firm or enterprises. Financial ratio can be developed to gain an insight into the liquidity and profitability aspects of the business. This is particularly true because most balances and the prior year's balance of each account in two columns. This allows the analyst to compare the beginning and end of year position and to measure the changes in each amount during the course of the year. "Balance sheet contains information about resources and obligation of a business entity and about its owner's interest in the business at a particular point of time".⁶

If properly prepared and certified by an independent auditor (a certified public accountant) the balance sheet can be used as a reasonably accurate picture of a firm's financial position at a moment in time.

Although it provides useful information, the balance sheet has its limitations. It does not show the events or activities that resulted in the balances in each of the accounts or the accounting techniques used to prepare them. Many accounting methods are standard, but some variance is permitted, which would greatly change the amounts reported in certain accounts. Another weakness is that the analyst preparing the balance sheet may make improper assumptions either mistakenly or to distort the picture shown on the balance sheet. Assumptions as to when obligations have been incurred or when revenues have accrued can have marked effects on the final figures on the balance sheet.

⁶ Kennedy, Ralph Dale, "Financial Statement from Analysis and Interpretation" Richard D. Irwin Inc. Chicago, 1947, P.1

The four important facts with respect to the limitation of the statements in point. They are as follows.

- (1) Precision of the financial statement data is impossible because the by conventional procedures developed by the accounting profession through many years of experience implemented by various postulates an assumption and applied by judgment.
- (2) The statement doesn't show the financial condition of a business since there are usually financial statement data that have an important bearing on financial condition. Rather the statements show the position of the financial accountant for a business.
- (3) The assets shown on a balance sheet are largely un-expired or unamortized costs, The balance sheet doesn't usually show the market value of the assets. From this it follows that the balance sheet doesn't show what a business is worth, that is, what might be obtained for it if were sold.
- (4) The net income shown in the income statement is not absolute but relative dependent as it is on the particular conventional procedures in its accounting by the enterprises for which the statement is compiled. These procedures have been selected from coming various alternatives.

2.4.2 Income Statement:–

It is recognized as the profit and loss account. Profit and loss a/c is the statement that shows the results of operation for a period of time. Income statement is the summary of the income and expenditure of a firm within a particular period of time. So it serves as a measurement of its profitability. The income statement is the scoreboard of the firm's performance during a particular period of time.

“The profit & loss account is condensed and classified record, prepared form various subsidiary and nominal accounts of the gains or losses to the business for a period of time”.⁷ The profit and loss account is a statement that represents the sources of incomes of business firm for the specific period. It is also known as the nature of amount of all cost and expanses of operation for this period and net earning or loss for the period.

The income statement is a report of the firm's activities during a given fiscal period, normally one year. It shows the revenue and expenses of the firm, the

⁷ Chaudhary S.B., “Management Accountancy” Kalyani Publisher New Delhi India, 1978, P.21

effect of interest and taxes and the net income for the period. It may be called by other titles, such as the P/L statement or the statement of earning.

“A profit and loss statement (also known as earning or a statement of operations) is a statement sharing over a specified and limited period of life a business, the nature and amount all its income for the period and the nature and the amounts of all its operation costs and expenses”⁸.

The income statement or the profit and loss account reflects the earning capacity and potentials of the firm. It explains the change in retained earnings caused by operations from one balanced sheet to the next. It usually encompasses 12 months operations, although interim statements may be issued for short period such as quarter.

2.5 Uses of financial statements

Financial statement are major tools in understanding what happen to the firm’s money as the firm pursues it business activities when used together the balance sheet, income statement and flow of funds or funds flow statement offer valuable insights into the firms efforts to achieve liquidity and profitability.

Financial statements have two major uses in financial analysis. First they are used to present a historical record of the firm’s financial development when compiled over a number of years, a trained analyst can determine important financial factors that have influenced the growth and current status of the firm. Second they are used to forecast a course of action for the firm. A Performa financial statement is prepared for a future period. It is the financial manager’s estimate of the firm’s future performance. Perhaps the most valuable use of financial statement is to gain an understanding of how funds flow through the organization.

2.6 Limitation of the financial statement

“Although it has many advantages to analytical view in the enterprises or firm, the form important facts with respect to the limitation for the statements are in financial statement. They are as follows”⁹.

⁸ Meigs W.B. and others, “Intermediate Accountancy” New York, Mc-Graw Hill 1978, P1049

⁹ John N. Myer, “John N. Myer, “Financial Statement Analysis”, Prentice Hale of India Private Limited, New Delhi 1974

- 1) Precision of the financial statement data is impossible, because the statements deal with matters that can't be stated precisely. The accounting profession through many years of experience implemented by various postulates or assumptions and applied by judgment produces the data.
- 2) The statement don't show the financial condition of a business since there are usually many factors which are not part of the financial statement data that have an important bearing on financial condition. Rather the statements show the position of the financial accounting for a business.
- 3) The assets shown in a balance sheet are largely un-expired or un-amortized costs. The balance sheet doesn't usually show the market value of assts. From this is follows that the balance sheet doesn't show what a business is worth that is what might be obtained for it if it were sold.
- 4) The net income shown on the income statement is not absolute but relative dependent as it is on particular conventional procedures used in its accounting by the enterprise for which the statement is compiled, these procedures having been selected from among various alternatives.

2.7 Financial statement analysis

Management, creditors, investors and other to form judgment about the operating performance and financial position of the firm use the information contained in these statements. Users of financial statement can get better insight about financial strength and weakness of the firm if they properly analyze information reported in those statements. Financial statement analysis is the starting point for making plans before using any sophisticated forecasting and planning procedures.

“Financial statement analysis is an information processing system designated to provide data for decision making. The process of analysis of financial statement involves the compilation and study financial and operation data and the preparation and interpretation with measuring devices such as ratios, trends and percentages”.¹⁰

“The information generated thought financial statement analysis can be crystallized such way that its implication are classified and attention can be

¹⁰ Agrawal, N.P. “Analysis of Financial Statements” National Publishing House New Delhi, India. 1981, P.5

concentrated upon facts which are, in the usual financial statement completely hidden behind a mass of figures.”¹¹.

Financial statement analysis thus assists the management to take benefit of the strategic management techniques by providing the management with the information regarding the strength and weakness of the enterprises so as to exploit the opportunities lying in the environment and manager the threats posed by the environments. According to the Western and Brigham, “Whatever may the form of financial plans but a good plan, must relate to the firms existing strengths and weakness must be understood before they are to use proper advantages and the weakness must identify to take suitable corrective action.”¹²

“Financial statements analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of balances sheet and the profit and loss account.”¹³

In conclusion financial statement analysis is helpful to the management creditors, investors and other parties for finding out strength and weakness, or favorable and unfavorable. Moreover, we can say that financial statement analysis is the starting point for making plans before using any sophisticated forecasting and planning procedures.

2.8 Types of financial statement analysis

Firms, enterprises and others parties may have different type of objective. They can use different type of financial statement analysis for their convenience. So different types of statement analysis can be used on the basis of their objective. They are as follows:

(1) External analysis :

Those persons who are not concerned with the enterprise make external types of analysis. They don't have access to the enterprises. This type of analysis is made investor, creditor agencies, governmental agencies and research scholars.

¹¹ Mackinon J.A. and Trape L.J.E. “Accounts analysis” Gee and Company Ltd. London. 1984, P.1

¹² Weston, J. Fred and Brigham F. Eugene “Management Finance” Dryden press Hinsdallionis 1981, P. 145

¹³ Pandey I.M. “Financial Statement” 6th revised edition Vikash Publishing House Pvt. Ltd. 1993, P.96

(2) Internal analysis:

Those persons who have to the books of account make internal analysis. They are made of the organization. This type of analysis is financial for managerial purpose.

(3) Short-term analysis :

This type of financial analysis is made to determine the short-term solvency liquidity, stability and earning capacity of the industry or company, enterprises.

(4) Long-term analysis :

Debt to shareholders equity ratio measures the firm long-term solvency. Long-term analysis shows the relative proportionate debt and equity in financing the assets of the firm. It studies the long-term financial stability, solvency earning capacity and liquidity of industry. It is useful for the long term financial planning, which is essential for continuous success of business.

2.9 Need of financial statement analysis

Financial statement is prepared according to generally accepted accounting records maintained by the institution. “Financial statement analysis is helpful in assessing the financial position, performance or profitability of firm”¹⁴. We can't neglect its utility. Financial statement analysis is need for the following points of views are as follows:

- 1) It is pack of information for all party who are related to financial transaction.
- 2) It shows the financial position of the enterprises and firm.
- 3) It helps to solve that how much required capital the firm has been able to generate internally and externally.
- 4) It helps to forecast of future earnings and dividend.
- 5) It tells us about the riskiness of their expected cash flow.

¹⁴ Gupta, R.L. “Advanced Accountancy” vol III 3rd edition, Sultan Chand and Sone Company 1976, P.8

2.10 Tools and techniques of financial statement analysis

The following techniques can be used in related with analysis and interpretation of financial statement.

- 1) Funds flow statement
- 2) Financial ratio analysis
- 3) Trend percentage analysis
- 4) Trend least square method analysis
- 5) Correlation analysis.

In this study, these above tools and techniques are applied to find out financial performance for PMCIL.

2.10.1 Funds flow Statement

The funds flow statement is a financial statement, which reveals the method by which the business has been financed and how it has used in funds between the opening and closing balance sheet date. A fund flow statement is a report on movement of funds explaining where form working capital originates and where into the same goes during an accounting period. This statement consists of two parts:

- 1) Sources of funds and**
- 2) Application of funds**

The difference between the two shows the net change in the working capital of the firm. The fund flow statement is a supplement to the two principle financial statements while supplementing the position statement; it describes the sources from which additional funds were derived and the uses to which these funds were put. The transaction, which increase working capital, are sources of funds and the transactions, which decrease working capital, are application of funds.

According to Foulke “A statement of sources and application of funds in a technical device designed to analyses the changes in the financial condition of a business enterprise between two dates.”¹⁵

¹⁵ Foulke, Roy “A practical financial statement analysis” Tata Mc-Graw Hill Publishing Company, New Delhi P.473

Funds flow statement is called by a variety of names such as statement of source and application funds, summary of financial operations. Where got where gone statement; analysis of working capital changes; statement of funds supplied and applied; funds received and disbursed etc.

The basic object of this statement is to find out increase or decrease in the working capital during a period by showing sources and uses of working capital. Funds flow statement is a useful tool in the financial manager analytical kit. “The basic purpose of this statement is to indicate where funds came from and where it was used during the certain period”¹⁶

Following are the uses of this, which shows its importance.

- i) Funds flow statement determines the financial consequences of business operations. It shows how the funds were obtained and used in the past. Financial manager can take corrective actions.
- ii) The management can formulate its financial policies dividend, reserve etc on the basis of the statement.
- iii) It serves as a control device, when comparing with budgeted figures. The financial manager can take remedial steps; if there is a deviation.
- iv) It points out the sound and weak financial position of the enterprise.
- v) It points out the causes for changes in working capital.
- vi) It enables the bankers, creditors or financial institutions in assessing the degree of risk involved in granting credit to the business.
- vii) The management can rearrange the firm’s financing more effectively on the basis of the statement.
- viii) Various uses of funds can be known and after comparing them with the uses of previous years, improvement or downfall in the firm can be assessed.
- ix) The statement compared with the budget concerned will show to what the resources of the firm were used according to plan and what extent the utilization was unplanned.
- x) It tells whether sources of funds are increasing or decreasing or constant.

Limitations of funds flow Statement

¹⁶ Pilai, R.S.N. and Bhagavati “ Advanced Accountancy” Konark Publishers 2nd revised, 1998, P.1403

- 1) The statement lacks originality because it only rearrange of data appearing in accounts books.
- 2) It indicates only the past position and not figures.
- 3) It indicates fund flow in a summary form and it doesn't show various changes which take place continuously.
- 4) When both the aspects of a transaction are current, they are not considered.
- 5) When both the aspects of a transaction are non-current, even then they are not included in this statement.
- 6) It is not an ideal tool for financial analysis.

2.10.2 Financial Ratio Analysis

A ration may be defined as a fixed relationship in degree or number between two numbers. So “Ratio analysis is techniques 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.”¹⁷

Financial ratio is the mathematical relationship derived from the various figures on the balance sheet and income statement of the business organization. It helps to summaries number of financial data and to make quantitative judgment about financial performance for the business organization.

Ratio analysis is a very useful analytical technique to raise pertinent question and a number of managerial issues. It provides bases or clues to investigate such issued in detail while assessing the financial health of ratio analysis answers to the various question relating to the company's Profitability assets utilization, liquidity financing and strategic capabilities may be sought.

According to the Butters C.J. “The essence of the financial performance of a company lies in balancing its goods, commercial strategy, product mark choice

¹⁷ Dangol, R.M. “Management Accounting” Taleju Prakashan Bhotahity Kathmandu. Ed2053, P.369

and resultant financial needs. The company should have financial capability and flexibility to pursue its commercial strategy”¹⁸

Ratio analysis provides guides and clues especially in supporting trend towards better or poor performance and in finding out significant deviation from any average or relating applicable standard.

“A ratio helps to the researcher to make quality time judgment about the firm’s financial position & performance”¹⁹

In conclusion, ratio analysis is the universally used technique of financial analysis, which helps to know the financial performance of the organization an enterprise or firm. Its objective is to provide necessary information for trade creditors; suppliers of long term debt investors and management of the firms manager.

Various studies have used ratios to analyze financial performance for the study. Ratios are categorized into the following major heading.

- 1) Liquidity ratio
- 2) Activity ratio
- 3) Leverage ratio
- 4) Profitability

- 1) Liquidity Ratio: Liquidity ratios are used to judge the firm’s ability to meet short-term obligation.
- 2) Activity ratio: Activity ratios are used to evaluate the efficiency with which the firm manager and utilize its asset.
- 3) Leverage ratio/Capital structure ratios: It refers to the ratio of debt to equity in the capital structure of the firm. The long-term financial position of the firm is determined by the leverage or capital structure.
- 4) Profitability: Profitability ratio are use to measure the operating efficiency of the company.

¹⁸ Butter, K.I. “et-all case problems in finance” Richard Trawin 1981, P. 3.7, quated Pandey.

¹⁹ Webster’s “New Collegiate Dictionary” Ed. 1975, P. 598

Limitation of Ratio Analysis

The ratio analysis is a widely use technique to evaluate the financial position and performance of a business. But there are certain problems in using ratios. The analyst should be aware of these problems. The following are some of the limitations of the ratio analysis.

- It is difficult to decide on the proper basis of comparison.
- The comparison is rendered difficult because of differences in situations of two companies or of one company over years.
- The price level changes make the interpretations of ratio invalid.
- The differences in the definitions of items in the balance sheet and the profit and loss statement make the interpretation of ratio difficult.
- The ratios calculated at a point of time are less informative and defective as they suffer from short-term changes.
- The ratios are generally calculated form past financial statement and thus are no indicators of future.

2.10.3 Trend percentage analysis

Ratio analysis should not consider merely where the company is at the movement. The analysis and its interpretation should be done in the context of how the company has done over time compared to the industry trend analysis. The changes and deviations on item of financial statement of a number of dates of years can be analysis by determining and studying the data shown on the statements. Trends analysis refers to the position of downward or upward of variable in the given period of the base and its helpful to identify the controllable items of financial and operational data contained in the balance sheet and profit and loss account. Trend relationship is also used informing a future opinion for an ongoing concern. This kind of analysis reveals the direction of changes or is a guide to the movement of the items of comparative financial statement of different period. Trend analysis an important tool of horizontal financial analysis, which is immensely helpful in making a comparative study of the financial statement of several years. This method involves the calculation of percentage, relationship that each item of financial statement bears to the same item in the base year. In order to express the figures in terms of percentage; the comparative figures of the financial statements are analyzed by calculating percentage. Furthermore the percentage of one period is compared with the base years percentage. A particular past year is usually chosen as a base year and all items of the financial statements for that year

are reckoned 100. There is no diverting that expressing the figures in terms of percentage is a more practical approach for the analysis interpretation and study of the facts and figures. Thus, the changes in figures expressed in terms of percentage over a period of years will disclose the trends or changes that are occurring in financial and operational data to judge whether the trends are favorable or otherwise. “Trend percentages are calculated only for major items of the financial statement taking the following precautions”²⁰

- 1) The accounting principle and practice followed must be consistent over the period for which the analysis is made.
- 2) The base year selected should be normal and representative year.
- 3) Trend percentage should also be carefully studied after considering that absolute figures on which these are based to avoid misleading conclusions.
- 4) To make the comparison meaning full trend percentage of the current year should charges as compared to the base.

Limitations of trend percentage analysis.

“Trend analysis is important tool for financial performance but it have some limitation are as follows.”²¹

- 1) Trend analysis and interpretation can't always highlight the state of affairs of the firm when compared with the base year.
- 2) It doesn't distinguish between significant and insignificant items as it bases all the times of balance sheet and profit and loss account at par in the relation to the base year.
- 3) If the base year is normal year then only it can reflect actual picture.

2.10.4 Trend Least Squares Methods Analysis

“A widely and most commonly used method to describe the trend is the method of least square”.²² Under this method a trend line is fitted to the data satisfying the following two conditions.

²⁰ Jain, S.P. and Narang K.L. “Advanced Accountancy” Kalyani Publisher New Delhi. 1991, P B-29

²¹ Agrawal, N.P. “Analysis of Financial Statements” Pitamber Publishing Co. New Delhi. 1981, P. 12

- 1) $(y-y_n)=0$ and 2) $(y-y_n)^2$ is least where y is the actual value and y_n the computed value of y . As $(y-y_n)^2$ is least, hence the name method is known as the line of best fit.

Merits of least square method

- This is purely a mathematical method of measuring trend so it is free from personal business.
- Trend values for each year or period can be obtained from these methods.
- With this method, predication of the values for the future is possible.
- Due to the use of least square criteria the trend line obtained from this method gives the line of best fit.

Demerits of least square method.

- Due to mathematical method, this can't easily be understood.
- This method is not flexible because if some more items are added to the original data, a new equation of the trend line may obtain.
- This method needs more calculation. This method is quite tedious and time consuming compared to other methods.
- Future predication or fore casts using this method are based on the long-term fluctuation i.e. trend and completely ignores the cyclical seasonal and irregular fluctuations.

2.10.5 Correlation Analysis

Two variables are said to have “correlation.” When they are so related that the change in the value of one variable is accompanied by the change in the value of other. The correlation analysis only helps in determining the extent to which the two variables are correlated but it does not tell us about cause and effect relationship. Though, there is a high degree of correlation between two variable one cannot say which one is the cause and which one the effect. Some different definitions are shown as follows.

“When the relationship is of a quantitative nature, the appropriate statistical tools for discovering and measuring the relationship and expressing it in a brief formula is known as correlation.” – Craxton and Cowden

²² Bajracharya, B.C. “Basic Statistics and Mathematics” MK Publishers and Distributer Bhotahity Kathmandu, Nepal P.302

“Correlation is an analysis of the to variation between two or more variables.” AM. Tuttle.

“The effect of correlation is to reduces the range of uncertainty of our prediction.” Tippet

“Two variable are said to be correlated if the change on one variable results in a corresponding change in the other variable.”²³

One of the widely used mathematical methods of calculating the correlation coefficient between tow variables is Karl Pearson’s correlation coefficient. Correlation coefficient lies between -1 and +1, when $r=1$ there is positively perfect correlation between the two variable and $r=-1$, there is a negatively perfect correlation between the two variables, where $r=0$, the variable are un-correlated. When the value of r to +1 may be, there will be closer the relationship between two variable and nearer the value of r to 0 means lesser relationship between two variable.

Merits of Karl Pearson’s correlation coefficient

- Karl parson’s method of finding correlation coefficient is based on all the observations.
- These method summaries in are figure the degree of relationship as well as directions.

Limitations of Karl Pearson’s correlation coefficient

- This method always assumes linear relationship between two variables whether this assumption is true or not.
- It is affected by extreme values.
- In comparison to other methods, it is most time consuming.
- Interpretation of the value of r is not an easy attempt.

²³ Gupta, S.C. “Fundamental of Statistics” Himalayan Publishing House. Page 511

2.11. Review of Research Study

1. Mr Bindeshor Mahato, concludes that in two points²⁴.

(I) NABIL is more oriented in discharging responsibilities towards its shareholders that NIBL is also found paying more attention towards the attainment of national objective.

(II) NABIL participation in the task of economic development with liberal attitude forwards the government and being more responsive to the national priorities like branch expansion, more employment more source mobilization etc is appreciable.

Financial performance of the NABIL is better than NIBL with parameters like, ratio analysis, trend percentage analysis, and correlation analysis.

2. **Dipak Babu Mainly, conclude that^{23B}.**

- NRB is more consistent in maintaining overall liquidity.
- The capacity of providing long-term loan and advance is greater in NBB.
- Return on net worth of NBB is significantly higher than BOK.

Financial performance with parameters; ratio analyses, trend, and correlation of the NBB is better than BOK.

3. Manjay Raj Pandey concludes that:

Net worth value of NSBI Bank is not greater than EBL. EBL has the sufficient investment in fixed deposit. Both Banks have rely loan and advance to total deposit ratio and higher operating expenses however, the finance performance with parameter ratio analysis, trend analysis and correlation analysis of Nepal Bank Ltd. is better than Everest Bank Ltd.^{23C}.

4. Bhaba Nath Ghimire concludes that the current asset is not sufficient it has not used creditorship capital and it has fully ownership capital. It's net worth ratio is down, and the profitability position is satisfactory to some extent only because

^{23 A} Mahato Bindeshor, A Comparative Study Of The Financial Performance Of NABIL & NIBL. A Student of MBA in Shankar Dev Campus.

^{23 B} Mainly Dipak Babu, Comparative Financial Performance of Nepal Bangladesh Bank Limited & Bank of Kathmandu Limited, June 2000, PG campus Biratnagar.

company has not earned sufficient profit from its underwriting function. So the financial performance with parameter ratio analysis, common size statement and trend analysis of insurance company Nepal Ltd. is in average condition^{23D}.

5. Y.P. Pokhrel, in thesis financial performance of agriculture development bank concludes that the current ratio of ADB/N is quite low, debt to total assets shows improvement condition, fixed assets to equity has increased, activity ratio shows the average and profitability ratio reveals the weak condition. Trend percentage analysis of income statement reflects mixed results. On the basis above result the financial performance with parameter; ratio analysis, funds flow analysis and trend percentage analysis of ADB/N shows the mixed result^{23E}.

^{23C} Panday, Manjay Raj, "A Comparative Study of Financial Performance Of Nepal SBI Bank Ltd and Everest Bank Limited, April 2002, Faculty of Management in Pg Campus Biratnagar.

^{23D} Ghimire, Bhaba Natha Financial Performance of Insurance Company (Nepal Ltd), May 2001 PG Campus Biratnagar.

^{23E} Pokherel, Y.P. Financial Performance of Agriculture Development Bank Faculty of Management in P.G. Campus.

Chapter 3

RESEARCH- METHODOLOGY

3.1 Introduction

The main target of the research is to explain the financial performance of PMCIL to judge its performance from FY 2052-053 BS to 2058-059 BS. Research methodology is the process by which the objectives of the study can be derived. It provides the instruction regarding the methods and process associated with the overall study of financial performance.

The term research methodology is composition of the two words-research and methodology. Research means the search for truth and methodology refers to the various sub sequential steps that are adopted by the researcher is studying a problem with certain objectives in view. This chapter is derived in to seven sub-heading. They are research design, nature and source of data, population and sample of study, data collecting procedures, data processing procedures, research questions and uses of analytical tools. Researcher explains it briefly as follows.

3.2 Research design

Research design describes the general framework for collecting, analysis and evaluating data after identify: (i) What the researcher wants to know and (ii) what has to be dealt with in order to obtain required information.

The basic aim of this study is to evaluate the situation and to provide constructive suggestions for better mobilization and utilization sources and resources and other aspect of financial management of PMCIL. Evaluation has been done on the basis of profit and loss A/C and balance sheet by using financial tools and statistical tools.

3.3 Nature and sources of data

This study is based upon the secondary data published in the form of annual report about profit and loss A/C, balance sheet and concerned notes of PMCIL for

seven year form FY 2057-058 BS to 2064-65 BS. The chairman's reports for different AGM have also furnished some important data.

3.4 Population and sample of the study.

The population of the study is the totality of all observations that have been selected for the study. Thus, in the case of PMCIL if the researcher studies the past whole life of PMCIL is called population study. It is quite difficult to analysis all the data of population. So the sample has been selected for the study, which starts form FY 2057-058 BS to 2064-65 BS.

3.5 Data Collection procedures.

The study is mainly based on the secondary data. The data related to financial performance of PMCIL is directly obtained from the head office. The supplementary data and information are obtained from the journals NRB'S yearly book and other sources.

3.6 Data processing procedures.

The data collected from the above sources of the bank are classified, tabulated and analyzed. Financial ratios are basically used for interpretation.

3.7 Research questions

The researcher tries to give answer of the following questions to measure the financial situation of PMCIL. These questions are as follows:–

- (I) How are the funds collected and applied by the PMCIL?
- (II) How is the financial position shown by the relevant ratios?
- (III) What is the trend of financial performance of PMCIL with parameters like trend percentage analysis and trend least square method analysis?
- (IV) What is the relationship among the deposit and investment, loan disbursement and collection, borrowing and loan outstanding?

3.8 Uses of analytical Tools

The performance measurement of business is more difficult and complex. With regard to the financial performance of firm depend on effectiveness in capital management, efficiency and profitability in operation, risk and uncertainty in

competition etc. The collected data are analyzed by using various financial tools, out of these are given and defined below:-

(1) Financial Tools

(I) Funds flow analysis.

(II) Ratios analysis.

(2) Statistical tools

(I) Trend percentage analysis

(II) Trend least square method analysis.

(III) Simple correlation analysis (coefficient of determinants)

3.8.1.I. Funds flow analysis

A statement of the sources as the funds flow statement. It is a technical device designed to highlight the changes in the financial position of the business enterprises. The funds are detected from seven years Balance sheet from FY 2057-058 BS to 2064-65 BS. For the purpose of funds flow analysis.

(a) Sources of fund :-

During the study period of FY 2057-058 BS to 2064-65 BS. Fourteen different sources of fund have been available in different years of PMCIL. They are:-

(1) Increase in capital

(2) Increase in reserves

(3) Operating income/profit

(4) Increase in borrowings

(5) Increase in deposits

(6) Increase in other liabilities and provisions

(7) Decrease in fixed assets

(8) Decrease in investment

(9) Decrease in interest receivable

(10) Decrease in account receivable

(11) Decrease in other assets

(12) Decrease in cash and bank balance

(13) Government capital subsidy

(14) Total uses of fund

(b) Application of fund :-

During the fiscal year FY 2057-058 BS to 2064-65 BS. total sources of funds of PMCIL have been applied in twelve different uses. They are:–

- (1) Increase in cash and bank balance
- (2) Increase in investment
- (3) Increase in loan outstanding
- (4) Increase in interest receivables
- (5) Increase in account receivable
- (6) Increase in other assets
- (7) Increase in fixed assets
- (8) Decrease in reserves
- (9) Decrease in borrowing
- (10) Decrease in other liabilities and provisions.
- (11) Total uses of fund

3.8.1.II. Ratio Analysis

An arithmetical relationship between two figures is known as ratio. The ratio is used as an idea or yards stick for evaluating the financial position and performance of a firm. “A ratio helps to the researcher to make qualitative judgment about the firm’s financial position and performance” 24. Various tools are used to analyses the performance of the firm. Among the available various financial tools and techniques ratio analysis is a powerful tools and techniques are created form the figures of different account consisting in balance sheet and income statement. It can be grouped into following classification.

- (a) Liquidity Ratio
- (b) Leverage Ratio
- (c) Activity Ratio
- (d) Profitability Ratio

3.8.1.II.a.i. Current Ratio

The current ratio is a ratio of the firms’ total current to its total current liabilities. A low ratio is an indicator that a firm may not be able to pay its future bills on time, particularly if conditions change, causing a slowdown in cash

collections. A high ratio may indicate an excessive amount of current assets and management's failure to utilize the firm's resources properly. It is calculated by the following way:

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

3.8.1. II.a.ii. Working capital to current assets ratio

It shows the portion of the working capital on the assets. This ratio is calculated in percentage, in mathematically, it can be written as follows:

$$\text{Working capital to current} = \frac{\text{Working Capital}}{\text{Current Assets}} \times 100\%$$

3.8.1. II.a.iii. Cash and bank balance to total deposit ratio

This ratio shows the ability of banks immediate funds to cover their deposit. Dividing cash and bank balance can calculate it by total deposits. The ratio can be expressed as:

$$\text{Cash and bank balance to total deposit ratio} = \frac{\text{Cash and bank balance}}{\text{Total Deposit}} \times 100\%$$

The higher ratio indicates the sound payment position and vice versa. However, since cash and bank balance is a non-performing asset, they bear cost and harmful in profitability point of view. Thus, neither higher nor lower ratio is desirable.

3.8.1. II.a.iv. Cash and bank balance to current assets ratio

The cash and bank balance to current assets ratio is also one measure of liquidity. It is the most liquid form of the current assets. It shows the percentage of readily available fund within the banks. Dividing the cash and bank balance by the current assets can derive it. This can be done by the following expression:

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash and bank balance}}{\text{Current Assets}} \times 100\%$$

3.8.1. II.b. Leverage Ratio

Leverage ratios show the proportions of debt and equity in financing the firm's assets. The short-term creditors like bankers and suppliers are more concerned with the firm's current debt-paying ability. On the other hand long-term financial strength. In fact a firm should have a strong short as well as long-term financial position. To judge the long-term financial position of the firm financial leverage or capital structure, ratios are calculated; these ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets.

The manner in which assets are financed has a number of implications. First between debt and equity; debt is more risky firm's point of view. The firm has a legal obligation to pay interest to debt holders, irrespective of the profits made or losses incurred by the firm. If the firms fail to pay to debt holders in time, they can take legal action against to get payments and in extreme cases, can force the firm into liquidation. Second, employment of debt is advantageous for shareholders in two ways.

- (a) They can return control of the firm with a limited stake and
- (b) Their earning will be magnified, when the firm earns a rate of return on the total capital employed higher than the interest rate in the borrowed funds. The process of magnifying the shareholders return the employment of debt is called financial leverage or trading on equity. However leverage can work in opposite direction as well, if the cost of debt is higher than the firm's overall rate of return, the earning of shareholders will be reduced. In addition, there is threat of insolvency. Third, a highly debt-burdened firm will find difficult in raising funds from creditors and owners in future. Creditors treat the owners/equity as a margin of safety; if equity base is thin; the creditors risk will be high. Thus, leverage ratios are calculated to measure the financial risk and the firm's ability of using debt of shareholders advantage.

In short cut, leverage refers to the ratio of debt to equity in the capital structure of the firm. Leverage ratio gives the important information interested creditors, investors, moneylenders; social investigators. The different leverage ratios are maintained to measure the financial risk and the firm ability of using debt from the benefits of the shareholders. These ratios are used to measure the proportion of outsider's fund and owners capital used by the firm. The following

ratios are estimated in order to evaluate the capital structure of the PMCIL to the desired objectives.

- (i) Debt-Equity Ratio
- (ii) Debt-Assets Ratio
- (iii) Debt to Capital Ratio
- (iv) Net fixed Assets to Equity Ratio
- (v) Current Asset to Equity

3.8.1. II.b.i. Debt-Equity Ratio

This ratio has been calculated to measure the relative proportions of outsider's fund and shareholders fund invested in the firm. This ratio shows a favorable or unfavorable financial position of the concern depending upon the nature of institutions. Debt and equity have their own identical features. More debt in capital structure also produces higher financial risk because it has fixed claim and fixed maturity. But it contrast, equity capital is more flexible and residual claim on the earnings of the firm.

The difference between equity and refers to margin of safety, which is crucial to the lenders in providing loans. The ratio can be computed as the given formula.

$$\text{Debt-Equity Ratio} = \frac{\text{Total debts}}{\text{Shareholders Equity}}$$

3.8.1. II.b.ii. Debt-Assets Ratio

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

$$\text{Debt to asset ratio} = \frac{\text{Total debt}}{\text{Total Assets}} \times 100\%$$

3.8.1.II.b.iii. Debt to Total Capital Ratio

It is relationship between long-term debt and total capital. Total capital includes owner's equity as well as borrowed capital. A high ratio shows the large share of financing by the borrower as compare to that of total capital. Creditors

would suffer here in times of distress than the owner. That is why creditors prefer low debt capital ratio. It is calculated in following way.

$$\text{Debt to Total Capital Ratio} = \frac{\text{Total debts}}{\text{Total Capital}} \times 100\%$$

3.8.1. II.b.iv. Net fixed Assets to Equity

This ratio shows how much of shareholder's fund is being invested in fixed assets. It is calculated by using the formula.

$$\text{Fixed Assets to Equity Ratio} = \frac{\text{Total Net Fixed Assets}}{\text{Shareholders Equity}} \times 100\%$$

3.8.1. II.b.v. Current Assets to Equity Ratio

It ratio reveals that how much of share holders fund is being deployed in current assets. If the deployment is too small, working capital may be inadequate.

It is calculated in this way.

$$\text{Current Assets to Equity Ratio} = \frac{\text{Total Current Assets}}{\text{Shareholders Equity}}$$

3.8.1. II.c. Activity Ratio

Activity ratios reflect the firm's efficiency in utilizing its assets and profitability ratios measure overall performance and effectiveness of the firm. These ratios are called efficiency or turnover ratio. This ratio measures the degree of effectiveness in use of funds by and enterprise. Out of several activity ratios the following ratios are calculated for the financial performance of the PMCIL.

- i) Loans outstanding to collection ratio
- ii) Loans collection to disbursement ratio
- iii) Loans outstanding to disbursement ratio
- iv) Loans outstanding to equity ratio
- v) Administrative expenses to loans outstanding ratio

- vi) Investment to total deposit ratio
- vii) Over due loan ratio
- viii) Loans collection rate ratio

3.8.1. II.c.i. Loans outstanding to collection ratio

It shows the relationship between loans outstanding and collection. It shows the efficiency of a financial activities institution in realization of the loans disbursed by it. It is expressed in mathematically:

$$\text{Loans outstanding to collection ratio} = \frac{\text{Loans outstanding}}{\text{Loans collected}} \times 100 \%$$

3.8.1. II.c.ii. Loans collection to disbursement ratio

It indicates that how efficiency has been gain from loan disbursement. This ratio is calculated by using following formula:

$$\text{Loans collection to Disbursement ratio} = \frac{\text{Loans collected}}{\text{Loans disbursement}} \times 100\%$$

3.8.1. II.c.iii. Loans outstanding to disbursement ratio

It measures what percentage of loans outstanding has remained yet in clients. It shows the effectiveness and efficiency to operate loans disbursement activities. Higher ratio is not good for the Bank. It is computed by the following way.

$$\text{Loans outstanding to disbursement ratio} = \frac{\text{Loans outstanding}}{\text{Loans disbursement}} \times 100\%$$

3.8.1. II.c.iv. Loans outstanding to equity ratio.

It shows the relationship between loans outstanding and equity ratio. It is calculated by dividing loans outstanding by equity ratio.

$$\text{Loans outstanding to equity ratio} = \frac{\text{Loans outstanding}}{\text{Loans outstanding}} \times 100\%$$

3.8.1. II.c.v. Investment to total deposit ratio

It reveals that how portion of the deposit is invested in investment. The bank collects the deposit from the clients by paying the fixed rate of interest. It invests the deposit for buying shares and investment in other profitable sectors. If the bank can be increase in the investment proper sectors, it earns profit, which is used for the payment of the interest on deposits. When the bank has a higher ratio of its then it shows the effectiveness and efficiency its activities. It is calculated by dividing the investment by the total deposit ratio. Mathematically:

$$\text{Investment to Total Deposit Ratio} = \frac{\text{Investment}}{\text{Total deposit Ratio}} \times 100\%$$

3.8.1.II.c.vi. Loans outstanding to Total Deposit Ratio

This ratio reveals what portion of deposit has been carried by the loan outstanding. This ratio is computed by dividing loans outstanding by total deposit ratio. Mathematically:

$$\text{Loans outstanding to Total Deposit Ratio} = \frac{\text{Loans outstanding}}{\text{Total deposit}} \times 100\%$$

3.8.1. II.c.vii Loans collection rate ratio: -

This ratio measures the efficiency of the financial institution. It is calculated by the following formula.

$$\text{Loan collection ratio} = \frac{\text{Total loans collection}}{\text{Total collection of loans} + \text{Overdue} + \text{Interest receivable}} \times 100\%$$

3.8.1.II.d. Profitability Ratio

Profitability ratios indicate the overall efficiency of the business concerns. A company should earn profits to survive and grow over a long period of time profit are essential, but it would be writing to assume that every action initiated by management of a company should be aimed at maximizing profits, irrespective of social consequences. It is unfortunate that the word profit it looked upon as a term of abuse since some firms always want to maximize profits at the cost of employees, customers and society. Except such infrequent cases, It is a fact that the sufficient profit must be earned to sustain the operations of the business to be able to obtain funds from investors for expansion and growth and to contribute towards the social overheads for the welfare of the society.

Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate output of a company and it will have no future if it fails to make sufficient profits. Therefore financial manager should continuously evaluate the efficiency of its company in term of profits the profitability ratios are calculated to measure the operation efficiency of the company. Besides management of the firm or company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest 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.

Generally, profitability position of PMCIL is evaluated on the basis of following ration analysis.

- i.) Net profit to total assets Ratio
- ii.) Net profit to total deposit Ratio
- iii.) Operating Ratio
- iv.) Interest earned to total assets Ratio
- v.) Return on equity ratio

3.8.1. II.d.i. Net Profit to Total Assets Ratio

This ratio indicates whether the total asset of the business has been properly used or not. It helps also to measure the profitability of a firm. It is expressed symbolically as follows.

$$\text{Net profit to Total Asset Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100\%$$

3.8.1.II.d.ii. Net Profit to total Deposit Ratio

Deposits are mobilized for investment; Loans and advances to the public in generating revenue. This ratio measures the percentage of profit earned from the utilization of the total deposits. It is calculated as following manner:

$$\text{Net profit to Total Deposit Ratio} = \frac{\text{Net Profit}}{\text{Total Deposit}} \times 100\%$$

3.8.1. II.d.iii. Interest earned to total assets ratio

It is calculated to fund out the percentage of interest earned by the total assets of the firm. The following formula is employed for this purpose.

3.8.1. II.d.iv Return on Equity Ratio

It reveals the earning power on shareholders book investment i.e. net worth. It is computed by dividing net profit after tax by net worth.

$$\text{Return on Equity} = \frac{\text{Net Profit after Tax}}{\text{Net Worth}} \times 100\%$$

3.8.2.1. Trend Percentage Analysis

It shows the financial performance trend. It is calculated by using selected as the base year and is set to 100%. All other years are represented as a percentage of the base year. An index number can be calculated by the following formula for trend analysis.

$$\text{Index Percentage} = \frac{\text{Index Yearly Amount}}{\text{Base Year Amount}} \times 100\%$$

The general tendency of the time series data to increase during a long period of time is called trend. Trend analysis indicates the direction change. It is always desirable to express the trend on absolute term as well as relative term.

The index percentage can be plotted on a graph in various ways to facilitate the study of trends in a firm.

3.8.2.II Trend Least Square Method Analysis

Different methods can be used in practice under trend analysis. Among them the method of least square is the most widely used mathematical method in order to find out the general movement of a variable in long run. With the help of this method, a trend line is fitted to the data in a manner that the following two conditions are satisfied.

$$(1) \sum(y - y_n) = 0$$

Where y = the actual value of dependent variable.

y_n = The computed value for different 'n' periods.

(2) $\sum(y - y_n)^2$ is least i.e. the sum of the squares of the deviations of the actual and computed values are least from this line and hence the method named least square. The method of least square may be used either to fit a straight trend line or parabolic trend line.

The straight trend line is represented by the equation, $y_n = a + bx_1$

Where, y_n is used to designate the trend values to distinguish them from the actual values 'a' is the intercept and 'b' is the slope of trend and 'x' is independent variable.

In order to determine the value of constant 'a' and slope 'b' the following two normal equations are to be solved.

$$\sum y = na + b\sum x \dots\dots\dots 1$$

$$\sum xy = a\sum x + b\sum X^2 \dots\dots II$$

Where 'N' is total number of years, The variable as an independent variable is measured as deviations from it's mean which ultimately to zero as a sum of deviations of 'x' from "X".

Since, $\sum(x - \bar{x}) = 0$, the above two Normal equations would take the form as follows.

$$\sum Y = Na \dots\dots III$$

$$\sum XY = b\sum x^2 \dots\dots IV$$

The value of 'a' and 'b' can be determined easily. Since

$$\text{Since, } \sum xy = b\sum x^2$$

$$\therefore b = \frac{\sum xy}{\sum x^2}$$

The constant 'a' is simply equal to the mean of 'y' values and constant 'b' is rate of change on 'y'.

3.8.2. III Simple correlation analysis (coefficient of determination)

Correlations analysis reveals the degree of relationship between two or more than two variable. Relationships between two variable is called simple correlation can be positive or negative.

Coefficient of correlation is calculated when it is believe that there is cause and affect relationship one of the variables will be causal variable and another will be effect. When there is change causal variable; there'll be corresponding change in dependant variable.

Degree of correlation or coefficient of correlation will lie in between 0 to +1 when the value is nearer to '0' the relationship is weak and hence cause and effect relationship doesn't exist.

In statistical analysis, instead of using coefficient of correlation 'r', there is a tendency of using coefficient of determination 'r²'. Interpretation of 'r²' is very simple when r=0.9 then coefficient of determination (0.9)²=0.81. It means 81% change on dependant variable is explained by a change independent variable. The remaining 19% change is unexplained. It means the change is caused by other variables not included in the modal. Researcher must calculate to find out the 'r' as follows:

$$r_{xy} \text{ (Coefficients correlations)} = \frac{\sum xy - \sum x \cdot \sum y}{\sqrt{x^2} \cdot \sqrt{y^2}}$$

Where, $x = X - \bar{X}$

$y = Y - \bar{Y}$

$$r = \frac{\sum xy - \sum x \cdot \sum y}{\sqrt{N \sum x^2 - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

The above formulae is called Karl Parson's Correlation co-efficient, which is the one of the widely used mathematical method of calculating correlation co-efficient between two variables.

Chapter-4

Presentation and Analysis of Data

4.1 introductions

It is the main part of the study. Researcher comes to know in the ground of reality about the financial performance of PMCIL when he test the data with financial and statistical tools. Financial performance is the matter of interest in the inner of the organization as well as outside of the organization. All different stakeholders and concerned parties look into it with different views on their interest. The shareholders are interested in the capital appreciation and profit margin. The short-term creditor is interested to know whether the firm 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 recourses of the firm are used effectively and most efficiently.

Management should particularly be interested in knowing 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 corrective 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, which help to find out the fact matter about the organization. So to get fact results, researcher uses the modern tools such as funds flow, financial ratio, trend percentage analysis, trend least square method analysis and correlation analysis. In conclusion, this chapter gives answer the research-question and derives certain conclusion.

4.2 Funds Flow Analysis

The terms funds flow indicates the inflows and outflows of funds during a particular accounting period, generally a year. The flow exhibits the movements of funds in both the directions-inside the business and outside the business. However the flow of funds must arise due to external and internal transaction of the business. For instance the capitalization of reserves by the issue of bonus share is

an internal transaction are not included in the statement as there is no real addition to the funds of the company. When the term Fund is used in the sense of working capital, funds flow will mean inflow and outflow of working capital.

In fact, funds flow analysis reveals about the sources and uses of fund properly. The sources and user of fund are calculated from balance sheet of the bank on the last day of the FY for seven consecutive years, 2057/058 up to 2064/065 BS. The current year is compared with previous year. Increase in amount of any item in the liabilities side of balance sheet is taken as source of fund for that year. On the other hand decrease amount of any item in the assets side of balance sheet is also placed as a source of fund for the year. On the other hand, increase in amount of any item in the assets side and decrease in the amount of any item in the liability side of balance sheet is accounted as uses of fund during the FY.

Table no. 1

Source of Funds for PMCIL from 2057 to 2065 (amount in RS.)

S.No.	Particular	2058-059	2059-060	2060-061	2061-062	2062-063	2063-064	2064-065
1	Increase in capital	2,55,250	2,22,750	2,01,600	6,63,300	10,72,300	16,81,560	18,58,430
2	Increase in reserve Fund	24,540	38,210	1,86,600	2,18,300	4,87,090	15,46,760	22,01,800
3	Operating Profit	33,330	58,570	31,290	52,040	65,630	82,780	1,10,420
4	Increase In Borrowing	-	-	1,75,000	16,670	5,03,190	19,49,400	6,76,730
5	Increase in Deposit	6,09,940	5,04,000	8,42,180	19,31,900	37,51,490	47,48,790	48,14,720
6	Increase in Other Liabilities & Provision	30,950	-	24,390	-	4,41,220	2,04,270	7,80,180
7	Decrease in Fixed Deposit	-	-	1570	29,350	1,39,260	-	-
8	Decrease in Investment	-	-	-	-	-	-	-
9	Decrease in Interest Receivable	640	-	-	19,200	11,650	9,760	-
10	Decrease in account receivable	-	46,310	-	46,140	-	18,340	-
11	Decrease in Other Asset	-	-	-	-	-	-	-
12	Decrease in Cash and Bank Balance	-	-	-	-	-	-	7,90,430
13	Subsidy	4,080	-	14,62,630	-	78,970	-	-
	TOTAL	9,58,730	8,69,840	14,62,630	29,76,900	65,50,820	1,02,41,660	1,12,32,110

Source : Appendix 1

4.2.1.1 Increase in capital

The share capital of the PMCIL as the period of its establishment was Rs. 153300 which has been shown in Table No.1. Share capital amount has been

continuously investing increase in share capital amount has been presented in table no 1. Rs. 2,55,250, Rs.2,22,750, Rs.2,01,600, Rs. 6,63,300, Rs. 10,72,320, Rs. 16,81,560, Rs. 18,58,430 From FY 2058/059 to 2064/065 BS respectively.

(Its contribution on the total fund of source is 26.62, 25.60, 13.78, 22.28, 16.36, 16.41, and 16.54. In respective year on the study period, Increasing share capital shows the good economic condition of the institute.)

4.2.1.2 Increase in Reserve fund

Increase in Reserve is also source of fund. Reserve fund also includes other fund, Reserve fund consists of capital reserve and employees' welfare fund. It has been increasing form FY 2058/059 to FY 2064/065 respectively. The amount of Increase on reserve is Rs. 24,540, Rs, 38,210, Rs. 1,86,600, Rs. 2,18,300, Rs. 4,87,090, Rs. 15,46,760, Rs. 22,01,800 respectively. Its contribution on the total source of fund is 2.56%, 4.39%, 12.76%, 7.3%, 7.43%, 14.12%, and 12.60% in respective year on the study period. This figure shows the increase trend, which more year to year. Reserve fund include other fund.

The greater the reserve is better position of the institute. Capital reserve is generated for the purpose of erection of head office building of the institute & other purpose. Financial performance of the institute has satisfactory condition because increased in reserved year to year that fact.

4.2.1.3 Operating profit

Profit is the important thing for the firm to get survival. The PMCIL has been getting profit since first year of the study period i.e. 2058/059 BS up to 2064/065 BS. it earned by Rs 33,330, Rs.58,570, Rs. 31,290, Rs, 52,040, Rs. 65,630, Rs. 82,780, Rs. 1,10,420 from FY 2057/058 BS to FY 2064/065 respectively. The amount is also source of fund, which has given contribution on the total source of fund is 3.47%, 6.73%, 2.14%, 1.75%, 0.0080%, 0.098% in respective year on the study period. So it shows the good financial performance of the institute.

4.2.1.4 Increase in Borrowing

Borrowing is the major source of fund. It includes Bank loans & different types of loans. The amount of borrowings is Rs. 1, 75,000, Rs. 16,670, Rs. 5,

03,190, Rs. 19, 49,400, Rs. 6, 76,130 from FY 2060/061 BS to 2064/065 BS respectively. Its contribution on the total source of fund is 11.96%, 0.006%, 7.68%, 19.03%, 6.02% from FY 2060/061 BS to FY 2064/065 respectively. There is no borrowing from FY 2057/058 to FY 2059/060 BS. Borrowings cover 6.30% the total source of fund on average.

4.2.1.5 Increase in deposit

Deposit includes grouping saving, personal saving, institutional deposit and other saving. Deposit amount has been continuously increasing. Increase in deposit amount of the institute presented in the table No.1 Rs. 6,09,940, Rs. 5,04,000, Rs. 8,42,180, Rs. 19,31,900, Rs. 37,51,490, Rs. 47,48,790, Rs. 48,14,720 from FY 2058/59 B.S. to 2064/065 respectively. It is the main source of the fund. So its contribution on the total source of fund is 63.62%, 57.94%, 57.56%, 64.9%, 57.3%, 46.4%, and 42.86% in respective year of the study period. The contribution of the deposit amount in total source in these seven years period is 55.80% on the average the PMCIL has been successful in increasing its resource by acceptance in deposit. The institute has successfully collected deposit Rs. 10,72,10,220 in FY 2064/065 BS that is the greatest amount these years. From the FY2058/059 the collected deposit amount has been increasing and it has reached from Rs. 6,17,130 to Rs. 10,72,10,220 in the last of 2064/065 BS which is 27.88 times greater than FY 2058/059 deposit. Such an increase in deposit is due to the faithful of public towards the institute. It reveals that the institute has been popular among the people in rural sector of the Election region No.7 of the Jhapa district. It is the good sign for the PMCIL.

4.2.1.6 Increase in other liabilities & provision

Other liabilities & provision include study creditor, account payable other liabilities. The total amount of increase in other liabilities & provision are Rs.30,950, in FY 2058/059, Rs. 24,390 in FY 2060/061 Rs. 441220 in FY 062/063, Rs. 2,04,270 in FY 2063/064 Rs. 7,80,180 in FY 2064/065. The other liabilities & provision has contribution to 3.23%, 1.67% of the total source of fund of the institute in FY 2058/059 2060/061 respectively. Again, it has given contribution to bank by 6.73%, 1.99%, and 6.94% from FY 2062/063 to 2064/065 BS respectively. It is found that on the average 2.94% of the source of fund are contributed by increase in other liabilities & provision during the study.

Increase in other liabilities & provision shows the increase in source of fund. There is not constant source of fund from it during the study period.

4.2.1.7 Decrease in fixed asset

Fixed asset includes furniture, safe, land etc. The fixed asset has decreased by Rs. 1570, Rs. 29,350 & Rs. 1,39,260 in the FY 2060/061, FY 20061/062 & 2062/063 BS respectively. Its contribution on total source of fund is 0.01%, 0.98%, and 2.15% in respective years.

A good performance of the institute is not good given by such decrease in fixed asset

4.2.1.7 Decrease in interest receivable

Decrease in interest receivable is good for institute. If the institute has been successful in collecting 100% of interest receivable, then its borrowing can be lowered, so it can use its fund systematically. PMCIL has realized a sum of Rs. 640, Rs. 19,200, Rs. 11,650, Rs. 9,760 in the FY 2058/059, FY 2061/062, FY 2062/063 & 2063/064 respectively. Contribution on total source of fund is 0.07%, 0.64%, 0.17%, & 0.009% in FY 2058/059, FY 2061/062, FY 2062/063, and FY 2064/065 respectively.

4.2.1.8 Decrease in A/C Receivable

Decrease in account receivable occur a sum of Rs. 46,310 in FY 2059/060, Rs. 46,140 in FY 2061/062, Rs. 18,340 in FY 2063/064 BS as a source of fund. Its contribution on total source of fund is 5.32%, 1.55% & 0.018% in FY 2059/060, FY 2061/062 & FY 2063/064 BS respectively.

The quicker the accounts receivable realization is better the position for the financial institute. FY 2059/060, 2061/062 & 2063/064 B.S. reveals good financial condition of the institute.

4.2.1.9 Decrease in Cash & Bank Balance

Decrease in cash & Bank balance of PMCIL happened only in FY 2064/065 BS by the amounting to Rs. 7,90,430. Its contribution on the total source of fund is 7.03%

4.2.1.10 Subsidy

The Government and Non Government organization subsidy is a source of fund. Some time Topgachhi VDC & Madan Bhandari Memorial Academy, Urlabari give subsidy to improve activity of the institute. PMCIL has been given subsidy to amounting RS.4,080 in FY 2058/059 BS & Rs. 78,970 in FY 2062/063 BS by Topgachhi VDC & Madan Bhandari Memorial Academy. Its contribution on total source of the fund comes to be 0.043% & 1.20% in FY 2058/059 & FY 2062/063 BS respectively. It helps to the institute to reach good position.

4.2.1.11 Total Source of fund

Total Source of fund available for the institute from FY 2058/059 BS to FY 2064/065 BS are Rs. 9,58,750, Rs. 8,69,840, Rs. 14,62,630, Rs. 9,76,900, Rs. 65,50,820, Rs. 1,02,41,660 & Rs. 1,82,32,110 respectively.

In the FY 2059/060 BS the total source of fund is decreased by 9.27%. With respect to 2058/059 BS Then it is increased by 68.14%, 103.53%, 120%, 56.34%, 78%, from FY 2059/060 to 2064/065 BS respectively. The total source of fund available to the institute during the 7 years is Rs. 41,22,690. So the average fund available as source in each year is Rs. 58,98,955. The total source of fund is above the average in FY 2060/061, 2061/062, 2062/065 BS. It is found that in majority of years to total source of fund is above average.

Total Source of fund should be gradually increased to increase. Its activities & operating smoothing, It is the healthy situation for the institute.

4.2.2 Application of fund

The followings are found to be the uses of fund of the institute in different years from FY2058/059 BS to 2064/065 BS

- (1) Increase in Cash & Bank Balance
- (2) Increase in Investment
- (3) Increase in Loan Outstanding
- (4) Increase in Interest Receivable
- (5) Increase in Account Receivable
- (6) Increase in Other Asset
- (7) Increase in Fixed Asset

- (8) Decrease in other liabilities & provision
(9) Total use of fund.

The uses of fund are presented in the following table.

Table No.2

Use of funds for PMCIL from FY 2058-059/2064-065 (in Rs.)

S.No.	Particular	2058-059	2059-060	2060-061	2061-062	2062-063	2063-064	2064-065
1	Increase in Cash & Bank Balance	1,16,130	41,380	2,10,000	27,700	12,56,460	20,45,890	-
2	Increase in Investment	-	-	10,000	1,000	30,000	60,000	5,01,100
3	Increase in Loan Outstanding	7,73,830	7,87,840	11,86,350	20,71,360	48,67,330	75,01,410	1,04,84,180
4	Increase in Interest Receivable	-	17,510	23,100	-	-	-	-
5	Increase in A/c Receivable	45,030	-	5,520	-	3,66,020	-	1,31,100
6	Increase in other assets	1,660	10,330	27,660	8,64,410	31,010	82,010	1,06,730
7	Increase in Fixed assets	22,080	2,240	-	-	-	5,52,350	9,000
8	Decrease in Other Liabilities and Provision	-	10,540	-	12,430	-	-	-
	TOTAL use of Fund	9,58,730	8,69,840	14,62,630	29,76,900	65,50,820	1,02,41,660	1,12,32,110

Source : Appendix 1

4.2.2.1 Increase in cash & bank balance

The PMCIL has utilized its resource to increase in cash & bank balance. At the end of the FY 2058/059 BS, 2059/060, 2060/061, 2061/062, 2062/063, 2063/064, 2064/065 B.S. the cash & bank balance of the PMCIL are Rs. 1,96,440, Rs. 2,37,820, Rs. 4,47,820, Rs.4,47,520, Rs. 17,31,980, Rs. 37,77,870 & Rs. 29,87,430 Respectively. Cash & bank balance has increased by Rs. 11,630, Rs. 41,380, Rs. 2,10,000, Rs. 27,700, Rs. 12,56,460, Rs. 20,45,890 from FY 2058/059 to FY 2063/064 BS respectively. Its contribution of the total use of fund is 12.11%, 4/76%, 14.35%, 0.09%, 19.18%, and 19.98% from FY 2058/059 to 2063/064 Bs respectively.

The cash & bank balance is the best for liquidity but it is very expensive for financial institution if it keeps balance in excess. The matter is revealed from fact that during the above mentioned FY 2058/059 BS to FY 2063/064 BS.

4.2.2.2 Increase in Investment

Investing corresponding area of the Institute uses the fund. These are National Co-operative bank, commercial bank, Agriculture development bank, Sana Kishan vikas bank, Nepal bank, and other Co-operative institute's share as well as deposit. The amount of investing figure of the institute FY 2058/059, 059/060 has gone Nil. There after it has invested Rs. 10,000, Rs. 11,000, Rs. 41,000, Rs. 1,01,000 & Rs. 6,02,100 from FY 2060/061 to 2064/065 BS respectively. The figure has shown clear that in the last 5 years of the study period, the investment continuously increased comparison with immediately previous year. The fund is used in investment by Rs. 10,000, Rs. 1,000, Rs.30,000, Rs. 60,000 Rs. 5,01,100 in FY 2060/061 to FY 2064/065 BS respectively.

Again, investment contribution on the total fund utilization from FY 2060/061 to 2064/065 BS went by 0.068%, 0.003%, 0.046%, 0.058%, 4.46% respectively. Its contribution on the utilization of fund has been maximum amount in FY 2064/065 BS and it has contributed 4.46% of table 1 fund utilization. In average, institute has covered 0.066% of the total application of fund.

This condition of the investment reveals that the investment policy of it is not better satisfactory.

4.2.2.3 Increase in loans outstanding

It includes general loan saving loan, grouping fund loan etc. The amount of loan outstanding is fund to be Rs. 83,000, Rs. 856,820, Rs. 16,44,660, Rs. 28,31,020, Rs. 49,02,380, Rs. 97,69,760, Rs. 1,72,71,120 & Rs. 2,77,55,300 from the FY 2057/058 to FY 2064/065BS respectively. The loan outstanding has increased by Rs. 7,73,830, Rs. 7,87,840, Rs. 11,86,350, Rs. 20,71,360, Rs. 48,67,330, Rs. 75,01,410 Rs.1,04,84,180 from FY 2058/059 to 2064/065 respectively. It means that the fund has been utilized in loans outstanding given amount on the above mentioned years. Total fund has been applied to 80.71%, 90.57%, 81.11%, 69.58%, 74.30%, 73.24% & 93.34%. On the loan outstanding by the institute in respective years, on average Rs. 80.40% of the fund is utilized by the institute for disbursement of loan. The maximum use of fund in percentage is found to be in the FY 2064/065 BS.

The PMCIL is established with a view to upgrade the rural public economic condition. The figure of loans outstanding is good for the institute. Contentious increase in loans outstanding reveals more and more involvement of the institute towards economic uplift the rural sector. On the other aspect increase in loan outstanding is to rise in revenue income of the institute by receiving as interest.

4.2.2.4 Increase in Interest receivable

The PMCIL has utilized its fund to increase interest receivable to the extent of Rs. 17,510 in FY 2059/060 BS & Rs. 23,100 in FY 2060/061 BS. The above figures reveal that 2.01% & 1.58% in FY 2059/060, 2060/061 BS respectively. The average increase in interest receivable during these years is 0.051%

Besides increase in it decreased by Rs. 640 in FY 2059/059, Rs. 19,200 in FY 2061/062, Rs. 11,650 in FY 2062/063 & Rs. 9760 in FY 2063/064 BS. It is the good position of the institute. If institute were able to collect interest receivable in this way, it increases the profit.

4.2.2.5 Increase in A/C Receivable

The Account receivable includes study debtors, staff advances etc. the account receivable has been gradually increasing except in FY2059/060 & FY 2061/062, FY 2063/064 BS. It has increased year wise by Rs. 45,030, Rs. 5,520, Rs. 3,66,020, Rs.13,100 in FY 2058/059, 2060/061, 2062/063, 2064/065 BS respectively. It contribution on application of fund is 4.7% in FY 2058/059 BS,

0.037% in FY 2060/061BS, 5.58% in FY 2062//063BS and 1.17% in FY 2064/065 BS. The average percentage of Account receivable in Rs. 1.64%. Its average % is above in FY 2060/061 & FY 2064/065 BS.

The source resource of any financial institution should be so utilized. So that it can generate some income at least & higher the best.

4.2.2.6 Increase in Other Assets

Other Assets of PMCIL consists of stationery stock, other stock & Ambulance etc. Other Assets increased by Rs. 10,660, Rs. 10,330, Rs. 27,660, Rs. 8,64,410, Rs. 31,010, Rs. 82,010, Rs. 1,06,730 from FY 2058/059 to 2064/065 BS respectively. It contribution on application on application of fund is 0.017%, 1.19%, 1.89%, 29.03%, 0.047%, 0.080%, 0.095% from FY 2058/059 To 2064/065 BS respectively. The average % of other asset is 4.62%.

Increasing condition of the other asset shows the good condition of the institute. The institute should adopt properly minimum balance of stationery & other storage. Equipment should be maintained.

4.2.2.7 Increase in Fixed asset

Fixed asset of PMCIL includes land, furniture, office equipment computer & miscellaneous etc. The PMCIL has utilized its fund for increasing fixed asset by Rs. 22,080 in FY 2058/059 BS, Rs. 2,240 in FY 2059/060 BS, Rs. 5,52,350 in FY 2063/064 Bs & 9000 in FY 2064/065 BS. It has given contribution to 2.3%, 0.026%, 5.4%, 0.008% in respective year. The averages increase of the fixed assets it amounting to Rs. 83,640 i.e. 1.10%. There happened a decrease in fixed asset from FY 2060/061 to 2062/063 BS by Rs. 1,570 Rs. 29,350, Rs. 1,39,260 respectively.

The institute has able to utilize its fund properly in respect of fixed asset. PMCIL also start to build a own building in Topgachhi-8, Jhapa. If institute wants to improve its condition. A/C should inverse regularly.

4.2.2.8 Decrease in other liabilities & provision

Other liabilities & provision has decreased on FY 2059/060 BS as amount of Rs. 10,540 and on FY 2061/062 as an amount of Rs. 12,430 it contributed in the utilization of fund by 1.21% & 0.042% in FY 2059-060 & 2061/062 BS respectively.

Decrease in other liabilities gives rise to use of fund. So, decrease in other liabilities & provision shows the decline in performance of the institute.

Total use of fund

Total use of fund is exactly earned to the total source of fund in each year. The total use of fund are Rs. 9,58,730, Rs. 8,69,840, Rs. 14,62,630, Rs. 29,76,900, Rs. 65,50,820, Rs. 1,02,41,660, Rs. 1,12,32,110 from FY 2058/059 to 2064/065 BS respectively. There is no loss figure in the use of fund of PMCIL. So it is the good position of the PMCIL.

4.3 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 form 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 statements viz. revenue statement (i.e. P/L account) and balance sheet. The same is possible only when the absolute figures are analyzed further in term of ratio.

Ratio analysis is an important tool of financial analysis. A ratio is a statistical measuring tape that measures the relationship between two figures or variables. In financial analysis, a ratio 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 accordingly. There are two ways of analyzing ratios. These are:

- (1) Cross-section analysis
- (2) Time series analysis

Here the ratios are analyzed by the time series analysis. Different ratios are calculated for 7 years form the FY 2058/059 to FY 2064/065 BS. This helps to show the direction or change i.e. whether the financial performance of the bank has improved or deteriorated or remained uniform over the period.

Many ratios can be calculated from the data contained in the financial statements. As stated earlier, a creditor or owner examines the firm's financial records with his own objectives in mind. Main objective of short-term creditor in financial analysis is in the short-term solvency or the liquidity position. The long-term creditors are more interested in long-term solvency and profitability of the firm. Shareholders are similarly interested on long-term profitability and efficiency. Management is of course, concerned with all these aspects of financial analysis. So ratios are classified into four groups depending upon the motive of different parties i.e. shareholders, creditors, government, social investigators etc.

1. Liquidity ratios
2. Leverage ratios
3. Activity ratios
4. Profitability ratios

4.3.1 Liquidity Ratios

Liquidity ratios measure the firm's ability to meet current obligations. It reflects the short-term financial strength of the firm. Liquidity ratios are matters of interest especially to the short-term creditors, investors as well as moneylenders. A firm should insure that it doesn't suffer from lack of liquidity and also that the firm is in the position of highly liquidity. The failure of a company to meet its obligation due to lack of sufficient liquidity will result in bad credit image, loss of creditors confidence or even in legal actions resulting the closure of the company. A very high degree of liquidity of an organization is also bad, idle assets earn nothing. The firm's funds will be un-necessary tied up on current assets. Therefore it is necessary to strike a proper balance between liquidity and lack of liquidity.

The most important to measure liquidity position of PMCIL the following are considered.

- i. Current Ratio
- ii. Working capital to current ratio
- iii. Cash and Bank balance to total deposit
- iv. Cash and Bank balance to current assets
- v.

4.3.1.1 Current Ratio

Current assets include cash and bank balance, loan outstanding, investment, interest receivable, inventories, sundry debtors, account receivable and other assets except motorbike, advance etc. On the other hand, current liabilities include overdraft loan, saving and deposit, other liabilities and provision, employees reserve fund, doubtful debts provision fund and inter-branch account etc. current ratio is calculated by the following formula.

$$\text{Current ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

Table No.3

Current Ratio of PMCIL from FY 2057/058 to FY 2064/065

FY	Current Asset (in Rs.)	Current Liabilities (in Rs.)	Current Ratio
2057/058	80950	2750	29.44:1
2058/059	241470	33700	7.16:1
2059/060	271560	40670	6.68:1
2060/061	550790	107250	5.14:1
2061/062	674950	116230	5.80:1
2062/063	2162790	385330	5.61:1
2063/064	4220640	589590	7.16:1
2064/065	3576340	1369770	2.61:1

Source : Appendix 2

The current ratio of PMCIL from FY 2057/058 BS to FY 2064/065 has been shown in the table No. 3. It is clear that the current ratio of 8 years period more than 5 times except in FY 2064/065 BS. So there is no adverse effect on operation through the view of current ratio. If the ratio is less than two times difficulty may be created in the payment of current liabilities and day to day operations of the business may suffer.

The PMCIL has the current ratio as follows.

29.4:1, 7.16:1, 6.68:1, 5.14:1, 5.80:1, 5.61:1, 7.16:1, 2.61:1. It indicates sufficient liquidity. The current ratio represents a margin of safety. So the current ratio can also be called the card and quick measure of the firm's liquidity. Through the view point of current ratio the liquidity position is not in balance.

Here current ratio has 5 to 29 times shown in table No.3 it is the bad condition of the institute. Because it very high degree of liquidity of an organization is also bad, idle assets earn nothing. So it is not favorable for the good financial performance of the institute.

4.3.1.2 Working Capital to Current Asset Ratio

Working capital has been calculated by total current asset minus current liabilities. Work capital to Current asset ratio is calculated by dividing the working capital by current assets.

$$\text{Working capital to current Asset Ratio} = \frac{\text{Working Capital}}{\text{Current Asset}} \times 100$$

Table No.4

Working Capital to Current Asset ratio of PMCIL from FY 2057 to 2065 (in Rs.)

FY	Working Capital	Current Assets	Current Asset Ratio
2057/058	78,200	80,950	96%
2058/059	2,07,770	2,41,470	86%
2059/060	2,30,890	2,71,560	85%
2060/061	4,43,540	5,50,790	80%
2061/062	5,58,720	6,74,950	82%
2062/063	17,77,460	21,62,790	82%
2063/064	36,31,050	42,20,640	86%
2064/065	22,06,570	35,76,340	61%

The Working capital of the PMCIL from FY 2057/058 BS to 2064/065 BS is as follows in the corresponding years are respectively Rs.78,200, Rs.2,07,770 , Rs.2,30,890, Rs. 4,03,540, Rs. 5,58,720, Rs. 1,77,77,460, Rs. 36,31,050, Rs. 2,06,570.

According from this study period, working capital to current asset ratio FY 20547/058 BS to 2064/065 BS are found to be 96%, 86%, 85%, 80%, 82%, 82%, 86% and 61% respectively. The above figure shows that the working capital to current asset ratio is more than 60% above during the study period. In the study period PMCIL has not faced the low working capital. So the presently situation is good because the standard value of working capital to current Asset ratio is taken as 50%

4.3.1.3 Cash & Bank Balance to Total Deposit ratio.

The cash & Bank balance to total deposit ratio is calculated by dividing cash & bank balance by total deposit.

$$\text{Cash \& bank balance to total deposit} = \frac{\text{Cash \& bank balance}}{\text{Total deposit}} \times 100\%$$

Cash & bank balance to Total deposit ratio of PMCIL FY 2057 to 2065 (in Rs.)

FY	Cash & bank Balance (A)	Total Deposit (B)	Ratio (A/B)
2057/058	80,310	7,200	1115%
2058/059	1,96,440	6,17,130	31%
2059/060	2,37,820	11,21,130	21%
2060/061	4,47,820	19,63,320	23%
2061/062	4,75,520	38,95,220	12%
2062/063	17,31,980	76,46,710	22%
2063/064	37,77,870	1,23,95,500	30%
2064/065	29,87,430	1,72,10,220	17%

Table No.5

The ratio are found to be 115%, 31%, 21%, 23%, 12%, 22%, 30%, & 17% from FY 2057/058 BS to 2064/065 BS respectively. More than 20% of the ratio is considered satisfactory. But PMCIL of the study period is more than 70%. From the above ratio it gives the mix result. Higher ratio indicates the sound payment position & vice verse.

4.3.1.4 Cash & Bank balance to current Asset ratio

If is computed by dividing the cash & bank balance by current asset

$$\text{Cash \& bank balance to current Asset ratio} = \frac{\text{Cash \& bank balance}}{\text{Current Asset}} \times 100\%$$

Table No.6

Cash & bank balance to current asset ratio of PMCIL FY 2057/058 to 2064/065 BS (in Rs.)

FY	Cash & bank Balance (A)	Current Assets	Ratio (A/B)
2057/058	80,310	80,950	99%
2058/059	1,96,440	2,41,470	81%
2059/060	2,37,820	2,71,560	87%
2060/061	4,47,820	5,50,790	81%
2061/062	4,75,520	6,74,950	70%
2062/063	17,31,980	21,62,790	80%
2063/064	37,77,870	42,20,640	89%
2064/065	29,87,430	35,76,340	83%

It shows the percentage of reality available fund within institute. It is found to be 95%, 81%, 87%, 81%, 70%, 80%, 89%, 83% from FY 2057/058 to 2064/065 BS respectively. It may be favorable 5% to 10% range for the institute. The above figure indicates that non favorable condition is in all small period.

Through the new points of its ratio, it is not favorable for the liquidity position. So it doesn't give financial soundness of the institute.

4.3.2 Leverage Ratio

These ratios are also called solvency ratio or, capital structure ratio, the use of finance it refers by financial leverage. The leverage ratio is calculated to judge the long term financial position of the firm. The capital structure position of PMCIL has been evaluated with the help of the following ratio analysis.

- (1) Debt-Equity ratio
- (2) Debt-Asset ratio
- (3) Debt to capital ratio
- (4) Net fixed asset to Equity
- (5) Current Asset to Equity.

4.3.2.1 Debt Equity Ratio

This ratio is computed by applying the following formula.

$$\text{Debt-Equity ratio} = \frac{\text{Total Debt}}{\text{Shareholders Earning}}$$

Table -7

Debt Equity ratio of PMCIL FY 2057 to 2065 BS (amount in Rs.)

FY	Total Debt (A)	Total Equity (B)	Ratio= (A/B)
2057/058	9,950	1,60,860	0.06:1
2058/059	6,50,830	4,78,050	1.36:1
2059/060	12,02,470	7,97,580	1.5:1
2060/061	22,45,570	12,36,220	1.82:1
2061/062	42,03,170	22,16,160	1.90:1
2062/063	87,26,900	40,88,750	2.13:1
2063/064	1,56,29,350	73,99,850	2.11:1
2064/065	21,900,380	1,15,70,510	1.89:1

Source : Appendix 2

It shows the relationship between the borrowed fund and owner's equity. Total debt is the sum total of long term debts & current liabilities. Share holders' earning is the sum of share capital & resources & other fund.

A high ratio shows the large share of finding by the creditors as compare to that of owner. This means creditor would suffer more in times of distress than the owner. That is why creditors prefer low debt equity ratio.

The debt-Equity ratio from FY 2057/058 to 2064/065 BS come to be 0.06:1, 1.36:1, 1.5:1, 1.82:1, 1.90:1, 2.13:1, 2:11:1 & 1.89:1 respectively. The ratio has been increasing continuously year to year from FY 2057/058 up to 2062/063 BS respectively. After than the ratio has been decreasing from FY 2063/064 to 2064/065 BS. The ratio like 2:1 is considered as safe from the view point of the interest of the shareholders and creditors.

But PMCIL has less than 2:1 in FY 2057/058 to 2061/065 BS & 2064/065 and in FY 2062/063 Bs is more 2:1. From the above ratio it gives the mix result.

4.3.2.2 Debt Asset Ratio.

The relationship between total liabilities & total assets is known as debt-asset ratio. It is calculated by the following ways.

$$\text{Debt Asset Ratio} = \frac{\text{Total Debt}}{\text{Total Asset}} \times 100\%$$

Table 8

Debt-Asset Ratio of PMCIL FY 2057 /058 to 2064/065 BS (amount in Rs.)

FY	Total Debt (A)	Total Asset (B)	Ratio= (A/B)
2057/058	9,950	1,70,810	6%
2058/059	6,50,830	11,28,880	57%
2059/060	1,202,470	19,59,380	61%
2060/061	22,45,570	34,81,790	64%
2061/062	42,03,170	64,19,270	65%
2062/063	87,26,900	1,28,15,650	68%
2063/064	1,56,29,350	2,30,29,200	67%
2064/065	2,19,00,380	3,34,70,890	65%

Source : Appendix 2

It is expressed in percentage The Debt-Asset ratio from the FY 2057/058 to 2064/065 BS are 6%, 57%, 61%, 64%, 65%, 68%, 67% & 65% respectively. The ratio is found increase from FY 2057/058 to 2062/063 BS. Respectively. But in FY 2063/064 & 2064/065 BS there decrease in debt asset ratio comparison with previous year where ratio 67% & 65%. It means 67%, & 65%. If asset of the institute finance by its debt. This type of increasing ratio indicates pitiable condition of the institute.

4.3.2.3 Debt to capital Ratio.

This ratio is proportion of total liabilities out of total capital. It uses to test of solvency. Total capital includes owner's equity as well as borrowed capital. It is calculated as following manner.

$$\text{Debt to capital Ratio} = \frac{\text{Total Debt}}{\text{Total Capital}}$$

Table 9

Debt to Capital ratio of PMCIL FY 2057/058 TO 2064/065 BS (in %)

FY	Total Debt (A)	Total Capital(B)	Ratio= (A/B)
2057/058	9,950	1,53,300	6.49%
2058/059	6,50,830	4,08,550	159%
2059/060	12,02,470	6,31,300	190%
2060/061	22,45,570	10,07,900	222%
2061/062	42,03,170	16,87,870	249%
2062/063	87,26,900	32,63,380	267%
2063/064	1,56,29,350	68,94,340	226%
2064/065	2,19,00,380	94,28,910	232%

Source : Appendix 2

A high ratio shows the large share of financing by the borrower as compare to that of total capital creditors would suffer here in times of distress than the owner. That is why creditors prefer low debt capital ratio.

The debt-capital ratio are 6.49%, 159%, 190%, 222%, 249%, 267%, 226%, 232% from FY 2057/058 to 2064/065 BS respectively. The ratio tendency shows increase in all years of the study period except FY 2063/064, & 2064/065 BS. In FY 2063/063 BS, the ratio is 267%, which is highest percentage among them. It obviously indicates pitiable condition of the institute from debt-capital ratio view.

4.3.2.4 Net fixed asset to Equity Ratio.

It is the relationship between net fixed assets to equity. This ratio has been computed by dividing equity to net fixed asset.

$$\text{Net Fixed asset to Equity} = \frac{\text{Net fixed assets}}{\text{Equity}} \times 100\%$$

Table No.10

Net fixed assets to Equity ratio of PMCIL FY 2057/058 to 2064/065 (in %)

FY	Net Fixed Asset (A)	Total Equity (B)	Ratio= (A/B)
2057/058	89,860	1,60,860	56%
2058/059	8,87,410	4,78,050	186%
2059/060	16,87,820	7,97,580	212%
2060/061	29,31,000	12,36,220	237%
2061/062	57,44,320	22,16,160	259%
2062/063	1,06,52,860	40,88,750	260%
2063/064	1,88,08,560	73,99,850	254%
2064/065	29,89,450	1,15,70,510	258%

Source : Appendix 2

This ratio indicates how much of shareholders fund is being invested in fixed asset. It is expressed in percentage. These ratios are 56%, 186%, 212%, 237%, 259%, 260%, 254%, & 254% from FY 2057/058 to 2064/065 BS respectively. The ratio is found increase from FY 2057/058 to 2064/065 BS except FY 2063/064 BS.

Sufficient fixed assets are necessary for financial institution. It is to be highest fixed asset. It helps firm's liquidity position to meet the safe point for institute. But Net fixed asset to Equity ratio of PMCIL is greater than 200% except FY 2057/058

4.3.2.5 Current Asset to Equity Ratio

Current Asset to Equity Ratio has been computed by dividing equity into current assets.

$$\text{Current asset to Equity Ratio} = \frac{\text{Current Asset}}{\text{Equity}}$$

Table No-11

Current asset to Equity Ratio of PMCIL, FY 2057/058 TO 2064/065 BS (amount in Rs.)

FY	Current Asset (A)	Total Equity (B)	Ratio= (A/B)
2057/058	80,950	1,60,860	0.05:1
2058/059	2,41,470	4,78,050	0.05:1
2059/060	2,71,560	7,97,580	0.03:1
2060/061	5,50,790	12,36,220	0.04:1
2061/062	6,74,950	22,16,160	0.03:1
2062/063	21,62,790	40,88,750	0.05:1
2063/064	42,20,640	73,99,850	0.06:1
2064/065	35,76,340	1,15,70,510	0.03:1

Source : Appendix 2

It indicates how much of shareholders fund is being deployed in current asset. If the deployed in current asset. If the deployment is too small, working capital may be inadequate. It's ratio are 0.05:1, 0.05:1, 0.03:1, 0.04:1, 0.03:1, 0.05:1, 0.06:1 & 0.03:1 from FY 2057/058 to 2064/065 respectively.

The above ratio figures reveal the fluctuation in current assets to equity ratio the highest ratio is 0.06:1, which is fail in FY 2063/064 BS and other years of the study period have the low ratio. Here, current asset is very low so there the ratio is found to be less 1. So it is not satisfactory for the institute.

4.3.3 Activity Ratio

Activity ratios are also called efficiency or turnover ratios. These ratios reflect that how effectively and efficiently the Bank has been using its resources. Higher the Activity ratios, the better the profitability and use of capital or resources will be. Greater the amount of collection from over-due loan, larger the amount available for providing loan to public of rural

The activity ratios are concerned with management. The Bank calculates several activity ratios to judge the effectiveness of asset utilization.

- (i) Loans outstanding to collection ratio.
- (ii) Loan collection to disbursement ratio.
- (iii) Loans outstanding to disbursement ratio.

- (iv) Loans outstanding to Equity ratio.
- (v) Administrative expenses to Loan outstanding ratio.
- (vi) Investment to total deposit ratio.
- (vii) Over due loans ratio.
- (viii) Loans Collection rate.

4.3.3.1 Loan outstanding to collection ratio.

A relationship between loan outstanding and total collection is represented by this ratio. This ratio is calculated by dividing loans collection into loan outstanding.

$$\text{Loans outstanding to collection ratio} = \frac{\text{Loan outstanding}}{\text{Loan Collection}}$$

Table-12

Loan Outstanding to Collection ratio of PMCIL FY2057/2058 to 2064/065 B.S. (in %)

Year	Loan Outstanding(A)	Collection (B)	Ratio = A/B
2058-2059	8,56,830	3,65,800	234%
2059-2060	16,44,660	15,13,470	109%
2060-2061	28,31,020	23,79,130	119%
2061-2062	49,02,380	39,48,800	124%
2062-2063	37,69,710	65,34,670	149%
2063-2064	1,72,71,120	1,19,86,750	144%
2064-2065	2,77,55,300	2,06,92,710	134%

Source : Appendix 2

This ratio is calculated in percentage. It measures the efficiency of a financial institution in realization of the loan disbursement by it.

The loans outstanding to collections ratio from FY 2058-059 to 2064-065 are 234%, 109%, 119%, 124%, 149%, 144%, 134% respectively. The above ratio reveals that in the all years of the study periods, loan outstanding figures are less than the amount of loan outstanding.

The outstanding loan should collect in time to mobilize the fund again for disbursement. It helps to increase the bank activities. So the bank should try to diminish the ration further by timely collection loan. However, Institute could earn profit of the study period.

4.3.3.2 Loans collection to disbursement.

The loans collection to disbursement ratio is obtained by dividing loans disbursement to loan collection.

$$\text{Loan collection to disbursement ratio} = \frac{\text{Loan outstanding}}{\text{Loan Disbursent}} \times 100\%$$

Table 13

Loan Collection to Disbursement ration of PMCIL FY 2058/059 to 2064/65 B.S. (in Rs.)

Year	Loan Collection (A)	Loan Disbursement (B)	Ratio = (A/B)
2058-2059	3,65,800	11,39,620	32%
2059-2060	15,13,470	23,01,300	66%
2060-2061	23,79,130	36,55,490	65%
2061-2062	39,48,800	60,20,165	65%
2062-2063	65,34,670	4,40,26,000	57%
2063-2064	1,19,86,750	1,94,88,160	61%
2064-2065	2,06,92,710	3,11,78,890	66%

It is expressed in percentage by multiplying 100%. Financial institutions are generated income on loan disbursed. It can exist and efficiently if the loan disbursements are collected in time. So the ratio is significant for the Bank like PMCIL

The ratio of the loan collection to disbursement from FY 2058/059 to 2064/065 B.S. are 32%, 66%, 65%, 65%, 57%, 61% & 66% respectively.

Higher ratio is preferable for the financial institution like PMCIL. The loan collection to disbursement ratio for the financial institution should be maintained above 70% level. All of the study period, the ratio is less than 70%. The given figure of its ratio shows the bad condition of the institute.

4.3.3.3 Loan outstanding to disbursement

This ratio shows the relationship between loans outstanding and disbursement. It measures what % of the loans outstanding has remained in comparison with disbursement. It is computed by the following way.

$$\text{Loan outstanding to Loan disbursement} = \frac{\text{Loan outstanding}}{\text{Loan Disbursement}} \times 100\%$$

Table 14

Loan outstanding to disbursement ratio of PMCIL FY2058/059 to 2064/065 B.S. (in %)

Year	Loans Outstanding (A)	Loan Disbursement (B)	Ratio = (A/B)
2058-2059	8,56,830	11,39,620	75%
2059-2060	16,44,660	23,01,300	71%
2060-2061	98,31,020	36,55,450	77%
2061-2062	49,02,380	60,20,165	81%
2062-2063	97,69,710	1,14,02,000	86%
2063-2064	1,72,71,120	1,94,88,160	89%
2064-2065	27,55,300	3,11,48,890	89%

Source : Appendix 2

Higher ratio is not good for the Bank. From the beginning of the study period up to FY 2064/065 B.S. the ratio of loan outstanding to loan disbursement ratio come to be 75%, 71%, 77%, 81%, 86%, 89% & 89% in respective year.

Interest is received from loan, in that view the higher loan outstanding is to source of the interest but there may be doubt full in repayment of the repayment of the loan. The loan should be repayment in right time. The calculated figure is 81% on average that is in satisfactory position because the lowest and highest amount of outstanding is not good condition for the institute.

4.3.3.4 Loan outstanding to equity ratio

This ratio is computed by dividing equity to loans outstanding

$$\text{Loan outstanding to equity ratio} = \frac{\text{Loan outstanding}}{\text{Shareholder Equity}}$$

Table 15

Loans outstanding to Equity ratio of PMCIL FY2058/059 to 2064/065 B.S. (amount inRs.)

Year	Loans Outstanding (A)	Equity (B)	Ratio = (A/B)
2058-2059	8,56,830	4,78,050	1.70:1
2059-2060	16,44,660	7,97,580	2.06:1
2060-2061	28,31,020	12,36,220	2.29:1
2061-2062	49,02,380	22,16,160	2.21:1
2062-2063	97,69,710	40,88,750	2.39:1
2063-2064	1,72,71,120	73,99,850	2.33:1
2064-2065	2,77,55,300	1,15,70,510	2.40:1

Source : Appendix 2

The shareholder equity is considered as equity share plus reserves. A higher ratio is preferable because it show the greater efficiency.

The loans outstanding to equity ratio from FY 2058/059 to 2064/065 B.S. are 1.70:1,2.06:1, 2.29:1, 2.21:1, 2.39:1, 2.33:1, 2.40:1 respectively.

The above figure reveals the fluctuation in loans outstanding to Equity ratio. The highest ratio is 2.40:1, which is fail in FY 2064/065 B.S. except FY 2058/059 B.S. there is more than 2 times the capital. It reveals that activities of the institute have really increased slowly expanded by creating a great impact in rural financing among the members.

4.3.3.5 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 16

Investment to Total deposit ratio for PMCIL FY 2058/059 to 2064/065 (amount in Rs.)

Year	Investment (A)	Total Deposit (B)	Ratio= A/B
2058-2059	-	6,17,130	-
2059-2060	-	11,21,130	-
2060-2061	1,000	19,63,320	0.05%
2061-2062	11,000	38,85,220	0.28%
2062-2063	41,000	76,46,710	0.53%
2063-2064	1,01,000	1,23,95,500	0.81%
2064-2065	6,02,100	1,72,10,220	3.5%

Source : Appendix 2

It is expressed as percentage. It shows the relationship between investment and total deposit. A Bank may be two types of investment namely, capital and deposit etc. In PMCIL investment consists of share investment only. A sound investment policy of bank such that its funds are distributed on different types of assets with good profitability in one hand and provides maximum safety and security to the depositors and the bank. On the other hand the objective of a bank is to earn maximum profit by giving facility loans and the bank. On the other hand the objective of a bank is to earn maximum profit by giving facility loans and qualitative services to rural area's public. Its income accrues mostly from its investments in share, loan and deposit etc.

The ratio reveals what portion of total deposit is invested. The ratio of the investment to total deposit are 0.5%,0.28%, 0.53%, 0.81% and 3.5% from FY 2061/062 to 2064/065 B.S. Respectively there is no investment from FY 2058/059 to 2059/060 B.S. The given ratio figures show the pitiable condition of the Bank in the following last two year of the study period where the investment has decreased less than 1%. The ratios show the negative result on aspect of the investment. So the Institute must increase its investment because highest ratio is preferable for Institute.

4.3.3.6 Loan outstanding to total deposit ratio

The ratio is computed by using following formula.

$$\text{Loan outstanding to total deposit ratio} = \frac{\text{Loan outstanding}}{\text{Total deposit}}$$

Table 17

Loans outstanding to Total deposit ratio of PMCIL FY 2058/059 to 2064/065
(amount in Rs.)

Year	Loan outstanding (A)	Total Deposit (B)	Ratio= A/B
2058-2059	8,56,830	6,17,130	1.4:1
2059-2060	1,64,460	11,21,130	1.5:1
2060-2061	28,31,020	19,63,320	1.4:1
2061-2062	49,02,380	38,95,220	1.3:1
2062-2063	97,69,710	7,64,46,710	1.3:1
2063-2064	17,27,120	1,23,95,500	1.4:1
2064-2065	2,77,55,300	17,21,020	1.6:1

Source: Appendix 2

This ratio shows what portion of deposit has been carried by the loan outstanding. The bank has to mobilize deposits collected income generating purpose so that it will be able to pay the interest to its deposits and to earn profit. The loan outstanding to total deposit ratio measures the extent, which the banks under consideration are successful on utilizing the outsider's funds for the profit generating purpose. In other words, this ratio measures the Bank ability to mobilize its deposits, i.e. current, saving, call & short deposits and other deposit, in terms of granting loans outstanding, which yield higher return. The higher ratio is preferable for financial company. The ratios of the loan outstanding to total deposit are 1.4:1, 1.5:1, 1.4:1, 1.3:1, 1.3:1, 1.4:1 and 1.6:1 from FY 2058/059 to 2064/065 B.S. respectively.

The above figure shows in FY 2058/059 to 2064/065 B.S. total the ratio is highest of all i.e. 1.6 times and the ratio is lowest in FY 2061/062 and 2062/063 BS i.e. 1.3:1 & 1.3:1 times than the other year of the study period. It is the mix result because the above figure reveals the fluctuation in loan outstanding to total deposit ratio.

4.3.3.7 Loans collection rate ratio

Today it is considered as an important tool to measure efficiency of a financial institution. It is calculated by the following formula.

$$\text{Loan collection ratio} = \frac{\text{Total loan collection}}{\text{T.C.+Overdue+Interestreceivable}} \times 100\%$$

Table 18

Total loans collection rate ratio of PMCIL FY 2058/059 to 2064/065 (in %)

Year	Total loan Collection (A)	T.C.+ Overdue + Interest receivable (B)	Ratio= A/B
2058-2059	3,65,800	3,65,800+0+0	100%
2059-2060	15,13,470	15,13,470+0+0	100%
2060-2061	39,48,800	34,88,000+0+40610	98%
2061-2062	23,79,130	23,79,130+0+21410	99%
2062-2063	65,34,670	65,34,670+0+9760	99%
2063-2064	19,86,750	1,19,86,750+0+0	100%
2064-2065	2,06,92,710	2,06,92,710+0+0	100%

Source: Appendix 2

It is expressed also in percentage the ratios are 100%, 100%, 98%, 95%, 99%, 100% and 100% from FY 2058/059 to 2064/065 respectively. The given ratio figure shows there is no overdue loan & interest receivable in FY 2058/059, 2059/60, 2063/0064 and FY 2064/065. So the ratio is found to be 100% in FY 2060/061, 2061/062 and 2062/063. The ratios are 98%, 99%, and 99% / for a financial institution the loan collection rate should be more than 70% otherwise the survival will be a stake. The ratio is to found to be 98%.More than in case of PMCIL. In the FY 2058/059, 2059/060, 2063/064 and 2064/065 BS the collection rate is found to the peak value the institute earned profit. So it is the good position of the institute from the loan collection rate ratio view.

4.3.4 Profitability Ratios

Profitability ratios show the overall efficiency of the business concerns. Its ratio measures the managements overall performances and effectiveness. Profitability is the net result of a large number of policies and decisions. The ratio

gives final answer to how effectively the firm is being managed. Management alone is not interested in the profitability of the bank ut also the government and owners or investors are equally interested. Creditors want to return of principal at the due rate. Owners want to get a reasonable return on their investment. Employees want many facilities, which is possible only when the Bank earns sufficient profit. Profitability position of PMCIL is evaluated on the basis of following ratio analysis.

- (1) Net profit to total assets ratio
- (2) Net profit to total deposit ratio
- (3) Operating ratio
- (4) Interest earned to total assets ratio
- (5) Return on equity ratio

4.3.4.1 Net profit to total assets ratio.

The net profit is the essential factor for an institution to survive and expand its functions. From the financial statement of PMCIL profit can be seen from the beginning year of the study period, “Financial statements are essential interim reports and therefore can’t be final because the actual gain or loss of a business can be determined only after it put down its shutter. From beginning FY 2058/059 TO 2064/065 BS Net Income are Rs. 33330, Rs 58570, Rs. 31290, Rs. 52040, Rs. 65630, Rs. 82780 and Rs. 110420 respectively.

The ratio of Net profit total asset is calculated by the following formula.

$$\text{Net profit to total asset ratio} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100\%$$

Table 19

Net profit to total assets ratio of PMCIL FY 2058/059 to 2064/065 (in %)

Year	Net Profit (A)	Total Assets (B)	Ratio= A/B
2058-2059	33,330	11,28,880	2.95%
2059-2060	58,570	19,59,380	2.90%
2060-2061	31,290	34,81,790	0.90%
2061-2062	52,040	64,19,270	0.81%
2062-2063	66,630	1,28,15,650	0.52%
2063-2064	82,780	2,30,29,200	0.36%
2064-2065	1,10,420	3,34,70,890	0.33%

The ratio is 2.95%, 2.90%, 0.90%, 0.81%, 0.52%, 0.36% and 0.33% from FY 2058/059 to 2064/065 respectively. The above ratio point out the good position of the institute.

Net profit to total asset ratio indicates whether the total assets of the business has been properly used or not. The given figure shows that the Bank must be attention for utilization assets properly in right track.

4.3.4.2 Net profit to total deposit

It is computed by dividing the total deposit into profit.

$$\text{Net profit to total deposit ratio} = \frac{\text{Net Profit}}{\text{Total Deposit}} \times 100\%$$

Table 20

Net profit to total deposit of PMCIL FY 2058/059 to 2064/065 (in %)

Year	Net Profit (A)	Total Deposit (B)	Ratio= A/B
2058-2059	33,330	6,17,130	5.35%
2059-2060	58,570	11,21,130	5.17%
2060-2061	31,290	19,63,200	15.79%
2061-2062	52,040	38,95,220	1.39%
2062-2063	66,630	76,46,710	0.86%
2063-2064	82,780	1,23,95,500	0.67%
2064-2065	1,10,420	1,72,10,220	0.64%

Source: Appendix 2

It is expressed at percentage. The ratio are 5.35%, 5.17%, 15.79%, 1.39%, 0.86%, 0.67%,0.64% from FY 2058/059 to 2064/065 BS respectively. The above figure shows that the institute has been able to mobilize and utilize the deposits. It indicates an ineffective financial performance of the Institute. After the FY 2062/063 BS there is not better condition of the institute but there is no loss. So it is satisfactory condition of the institute from the Net profit to total deposit ratio view.

4.3.4.3 Interest earned to total assets

It is computed by the following formula.

$$\text{Interest earned to total asset ratio} = \frac{\text{Interest earned}}{\text{Total assets}} \times 100\%$$

Table 21

Interest earned to total assets of PMCIL FY 2058/059 to 2064/065 (in %)

Year	Interest earned (A)	Total Assets (B)	Ratio= A/B
2058-2059	8,840	11,28,880	0.78%
2059-2060	2,06,080	19,59,380	10.5%
2060-2061	2,82,410	34,81,790	8.1%
2061-2062	6,65,470	64,19,270	10.4%
2062-2063	12,43,090	12,85,650	9.7%
2063-2064	2,82,370	2,30,29,200	9.9%
2064-2065	34,83,170	3,34,70,890	10.4%

Source: Appendix 2

It is expressed also percentage ratio. The higher ratio is preferable and favorable on the financial institution.

The interest earned to total asset ratio are 0.78%, 10.5%, 8.1%, 10.4%, 9.7%, 9.9%, 10.4% from FY 2058/059 to 2064/065 respectively. It is not seen increase over 10.5%. So it reveals bad financial performance of the Institute.

4.3.4.5 Return on Equity ratio

The relationship between net profit and equity is known as return on equity. It is calculated by following way.

$$\text{Return on equity ratio} = \frac{\text{Net Profit}}{\text{Equity}} \times 100\%$$

Table 22

Net Profit to Equity ratio of PMCIL FY 2058/059 to 2064/065 (in %)

Year	Net Profit (A)	Equity (B)	Ratio= A/B
2058-2059	33,330	4,78,050	6.90%
2059-2060	58,570	7,97,580	7.27%
2060-2061	31,290	12,36,220	2.5%
2061-2062	52,040	22,16,160	2.3%
2062-2063	66,630	40,88,750	1.6%
2063-2064	82,780	73,99,850	1.12%
2064-2065	1,10,420	1,15,70,510	0.95%

Source: Appendix 2

Its ratio from FY 2058/059 to 2064/065 are 6.90%, 7.27%, 2.5%, 2.3%, 1.6%, 1.12%, 0.95% respectively. It shows the performance of the profitability is good.

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 PMCIL. The direction of change is shown by the trend analysis. Such analysis reveals at what rate of percentage the item of the:

- 1) Balance Sheet
- 2) Income Statement
- 3) Trend Analysis of Activities

Increase or decrease over a period of year FY 2058/059 BS has been taken as base year. The measurement of variation in terms of percentage is very much helpful because such rate of change is often more vital than the absolute change for detecting the trend comparison is done with the same items of the base year 2058/059 BS. From the FY 2058/059 to 2064/065 BS respectively this shows the result of increase or decrease over a period of year. Balance sheet, profit and loss A/c and Activities of PMCIL are compared with the corresponding items in the base year.

By help of such analysis we can judge whether the financial performance of PMCIL is improving over a span of 7 years considering the base year as 2058/059 BS. The base year has been considered as 100 percent. The 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 Balance sheet

The trend percentage analysis of balance sheet is shown in the following table.

Table no 23

Particular	2058/059	2059/060	2060/061	2061/062	2062/063	2063/064	2064/065
Current Assets							
Cash in hand	100	150	149	614	455	3416	4228
Cash at bank	100	114	246	157	979	1583	904
A/c Receivable	100	75	229	131	537	475	766
Closing Stock	-	-	-	100	134	163	174
(A)Total Current Assets	100	112	228	250	896	1748	1481
Fixed Assets							
Investment	-	-	100	110	410	1010	6021
Loan to member	100	192	330	572	1140	2015	3239
Furniture	100	108	102	133	165	213	247
Ambulance	-	-	-	100	100	100	100
Safe	-	-	-	-	-	100	-
Land	-	-	-	-	-	100	100
(B)Other Assets	100	343	1482	2049	2113	2417	5557
Total fixed Assets	100	190	330	647	1200	219	3369
Total Assets(A+B)	100	173	308	569	1135	2040	2965
Capital & Liabilities Equities							
Share Capital	100	154	204	366	629	1040	1495
Reserve fund	100	272	851	1555	3407	7223	12637
Other fund	100	190	169	246	333	442	596
A. Total Equities	100	167	258	463	855	1548	2420
Liabilities							
A/c Payable	100	65	196	281	1138	1432	3246
Sundry Creditors	-	100	232	-	-	-	-
Other liabilities	100	200	250	2441	1326	12115	30829
B. Total Current Liabilities	100	121	318	345	1143	1749	4064
Long term							

liabilities							
Deposit	100	182	318	631	1239	2008	2789
Loans	-	-	100	109	397	1511	1897
c. Total long term liabilities	100	188	346	662	1352	2437	3327
Capital and Liabilities							
Total (A+B+C)	100	173	308	569	1135	2040	2965

Source: Appendix 3

Trend percentage analysis of Balance sheet of PMCIL form 2058 to 2065 BS (in ‘%’)

The liability and capital of the institute is 100, 173, 308, 569, 1135, 2044 and 2965 from FY 2058.059 to 2064/065 BS increase the total liabilities and capital respectively with comparison as the same base year.

The figure of the share capital is gradually increased from the base year to 154, 204, 366, 629, 1040 and 1495 percent from FY 2059/060 BS respectively. Share capital of the institute has increased 14.95 times in the last year of the study period. It is the good sign for the financial performance of the PMCIL.

Reserve fund shows the increase of 17.2%, 75.1%, 14.55%, 33.07%, 71.23% and 12.537% from FY 2059/060 to 2064/065 BS respectively in comparison with base year 2058/059 BS such increase in reserve signs the healthy financial performance of the institute.

Other fund shows the increase of 100%, 150%, 2341%, 1226%, 12005% and 30729% from FY 2059/060 to 2064/065 BS respectively in comparison with base year 2058/059 BS. In the last year the other fund of the institute has increased to 30.729 times. It is also good sign for the PMCIL

The figure of the deposit is gradually increased from the base year to 82 %, 218%, 531%, 1139%, 1908% and 9689% from FY 2059/060 to 2064/065 BS respectively. Deposit of the institute has increased to 26.89 times in the last year of the study period. 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 borrowing. Therefore the institute should adopt the best policy to increase its deposit. Increasing figure of the deposit shows the good performance of the institute.

Loans (Borrowings) are the main source of fund. The total amount of borrowing is Rs.109, Rs.397, Rs.1511, Rs. 1897 in the FY 2061/062, 2062/063, 2063/064 and 2064/065 BS respectively. With comparison base year 2056/061 i.e.100. There was no borrowings in FY 20558/059 and 2059 /060 BS. It increased highly by 9%, 297%, 1411% and 1797% to compare with base year. In the last year borrowings of the Institute has increased to 18.97 times. The total borrowing of the PMCIL has reached the amounting Rs.33,20,390 where as the loan outstanding 2,77,55,300. Thus the main portion of loan disbursed is not financed by borrowings. It is financed by deposit. The cost of borrowing is clearer to the institute. As a result it earned profit year after year.

The A/c payable shows the increase of 96%, 181%, 1038%, 1332% and 3146% from FY 2060/061 to 2064/065 BS respectively in comparison with base year 2058/059 BS.

There is found to be decrease by 35% in FY 2059/60 BS. Overall the A/c payable is gradually increased. It helps to increase activities.

The figure of sundry creditors is only found to be increasing rate of 132% I FY 2060/061 in comparison with base 059/60. There is no sundry creditors except FY 2059/060 and 2060/061 BS all of the study period.

Other liabilities is increased by 100%, 250%, 234%, 1226%, 12015%, 30729% from FY 2059/060 to 2064/065 BS respectively in comparison with base year 2058/059 BS. The increasing in other liabilities & may be increasing activities of the PMCIL.

The total asset of PMCIL went up 73%, 208%, 469%, 1635%, 1940% and 2865%. FY 2059/60 to 2064/065 BS respectively in comparison with base year 2058/059 BS. In the last year of the study period total asset are found to be 29.65 times more than base year.

The figure of the total equities shows increase of 67%, 158%, 363%, 755%, 1448% and 1920% from FY 2059/060 to 2064/065 BS respectively in comparison with base year 2058/059. It is the good position of the PMCIL.

The figure of the total current liabilities shows increase of 21%, 28%, 245%, 1043%, 1649%, and 3964% from FY 2059/060 to 2064/065 BS. Respectively in comparison with bas year 2058/059 BS

The above figure of the total long term liabilities shows increase of 88%, 24%, 562%, 1252%, 2337% and 3227% from financial year 2059/060 to 2064/065 BS respectively. In comparison with base 2058/059 BS. It is also good condition of the PMCIL because deposit of member is gradually increased year after year.

The figure of the cash in hand of the PMCIL shows the increase of 50%, 49%, 514%, 355%, 3316% and 4128% from financial year 2059/060 to 2064/065 BS respectively in comparison with base year 2058/059 BS. It is the good position of institute because liquidity of financial institution should be high for the good transaction.

Cash at bank of PMCIL is found to be increasing rate to 114%, 246%, 157%, 979%, 1583%, 904% from FY 2059/060 to 2064/065 BS respectively in comparison with base year i.e. 100% it is found that the PMCIL has efficiently managed its Bank balance at appropriate level.

The above figure of the A/C receivable shows the increase of 129%, 31%, 437%, 375%, 666% from financial year 2060/061 to 2064/065 BS respectively in comparison with base year 2058/059 BS. It is decreased by 25% in FY 2059/060. It is found that the PMCIL hasn't efficiently managed it's A/c receivable. A higher A/c receivable is not a good sign for the institute.

The figure of the closing stock is found to be increasing rate to 134%, 163%, 124%, from FY 2062.

The figure total current assets shows the increase of 12%, 128%, 180%, 796%, 1648% and 1381% from FY2059/060 to 2064/065 BS respectively in comparison with base year 2058/059 BS. Higher current assets is preferable for the financial institution. So the position of the PMCIL is good form the increasing current asset view.

Investment has been nil in FY 2058/059, 2059/060 BS. So the researcher assumes as the base year to 2060/061. In comparison with base year, the investments are found to be 1.1, 4.1, 10.1 and 60.21 times. The above figure shows that the institute has not invested in government bonds, company shares as well as fixed deposit of commercial Bank. It is found that the PMCIL only depended on its loan to member because the different between loan to member & Investment is very high. It is not satisfactory position of the PMCIL. So PMCIL should increase its investment.

The figure of the loan to member has increased from base year to last year by 920%, 230%, 472%, 1040%, 1915% and 3139% from the last year of the study period is found to be 32.39 times more comprising with base year. Gradually increase in loan to member indicates that the activities of the institute have been fore going continuously.

The figure of the furniture shows the increase of 8%, 2%, 33%, 65%, 113% and 147% from FY 2059/060 TO 2064/065 BS respectively in comparison with base year. It is the satisfactory condition.

The figure of the Ambulance has been Nil in the FY 2058/059, 2059/060, 2060/061. So the researcher assumes as the base year to FY 2061/062 BS. In Comparison with base year, the Ambulance is found to be 100% out of the remaining study period. Because it is the assets and its depreciation was not charged in the balance sheet. The depreciation amount charged in depreciation fund.

The figure safe has seen only in the FY 2063/064 BS. It is the asset of the PMCIL.

The figure land remains constant over a number of years. The land has been nil from FY 2058/059 to 2062/063 BS. So the researcher assumes as the base year to FY 2063/064 BS. The land amount was 4540000 in base year and next year i.e.2064/065 was also same Rs 540000. Land is the fixed asset it is the good position for the PMCIL.

Other asset include goods inventory, receivable assets and employees advanced loan, motorcycle, calculator etc . it is increased by 243% 1282%, 1949% 2013%, 2317% & 5457% from FY 2059-060 to 2064-065 BS respectively in comparison with base year. In the last year of the study period other assets is found to be 5.57 times more than base year. Increase in other assets is favorable for the institute.

The figure total fixed assets shows the increase of 90%, 230%,547% 1100% 2019% and 3269%, from FY 2059-060 to 2064-065 BS repectively in comparison with base year. Such increase in fixed show the healthy financial performance of the PMCIL

The total asset of PMCIL went up by 73% , 208% 469%, 1035% 1940% and 2865% from FY 2059-60 TO 2064-065 BS respectively.

In the last year of the study period total assets are found to be 29.65 times more than base year i.e., 2058-59 BS.

4.4.2 Trend percentage Analysis of Income Statement

The following table shows the trend percentage analysis of income statement

Table 24

Particular	2058-059	2059-060	2060-061	2061-062	2062-063	2063-064	2064-065
Interest on Loans and deposit	100	453	811	1625	3376	5479	9805
staff expenses	100	288	514	575	962	1370	1875
Provisional Fund	100	62	118	355	1370	1580	2160
Office Expenses	100	100	100	1044	1697	54831	7102
Net Profit	100	176	94	156	197	248	331
Other expenses	100	789	1149	9192	17768	38595	51944
Total	100	207	321	786	1620	2266	4146
Interest Received from loan to Member and the Investment	100	327	449	1059	1978	3632	5543
Other Income	100	66	137	410	1159	2163	2479
Saving From Trading Account	100	100	100	170	129	81	124
Total	100	207	321	786	1620	2266	4146

Source: Appendix 4

Table No – 24 present the trend percentage figures of income statement. The trend % figure are 207, 321,786,1620,266 and 4146 from the FY 2059-060 to 2064-065 BS respectively. It is in increasing rate in comparison with base year 058-059 BS.

Out of the total income the total interest income is increased by 227%, 449%, 959%, 1878%, 3532% and 5443% comparison with base year. There is high trend percentage analysis of Income Statement due to high increasing rate of Income Statement i.e. base year Income Statement is very low than next other years Income Statement. Interest is earned by disbursement and investment. If high amount of disbursement and investment are there, the interest receipts also grow up. Main source of the income of the institute is interest earned on loan to member and investment. It is used on different types of expenses to operate its transactions. PMICL's total interest income figure shows the good position

because it is found 5543% in last year of the study period which is 55.43 times more than base year.

Out of the total income other income is that income where penalty fees income from ambulance; management fees, Entry fee, miscellaneous income etc. are included. In the financial year 2059/060 BS the other income is decreased by 34%. After that it is found to be increase the other income by 37%, 310%, 1059%, 2063% & 2379% from FY 2060/061 to 2064/065 BS respectively. It is the good position of PMCIL.

In the income side, the saving from Trading A/c has been increasing from FY 2061/062 BS. In FY 2058/059, 2059/060. Saving from Trading A/c has been Nil. Trading transaction was only started in FY 2060/061. However it is good sign for the PMCIL because it gives the profit year after year.

Total interest expenses of PMCIL are continuously on giving rate. From the FY 2059/060 to 2064/065 BS increase in total interest expenses in comparison with that in the base year are found by 353%, 411%, 1525%, 3276%, 5379% and 9705% respectively. So with respect to the base year the total interest expenses has raised to more than 98.05 times in the final year of the study period i.e. 2064/065 BS. Total interest expenses include interest expenses on borrowings and deposit. The above figures reveal that the institute has used the leverage of borrowing in a constantly increasing from which the institute gets profit to increase its source.

The staff expenses are also found to increase by 188%, 414%, 475%, 862%, 1270% and 1775% from FY 2059/060 to 2064/065 respectively in comparison with base year i.e. 2058/059 BS. The staff expenses has become 18.75 times in the last year of the study period that is the highest of all. The staff expenses include salary, allowance, overtime allowance etc. It is increasing year to year.

Office expenses consist of auditing fee, Office rent, electricity, fuel, furniture, stationery, and maintenance cost etc. It is called also overhead cost or expenses In the FY 2059/060. It is found that decreasing rate to 34%. After that above figure shows the office expenses increasing by 18%, 255%, 1270%, 1480% and 2060% from FY 2060/061 TO 2064/065 BS respectively In comparison with base year 2058/059 BS.

Provision fund consist Animal Insurance fund, land purchase fund debt security fund etc. provision fund also is fund found to increase by 944%, 1597%, 5383%, 7002% from FY 2061/062 to 2064/065 BS respectively in comparison

with base year 2060/2061 BS. The provision fund has been Nil in FY 2051/059, 2059/060 BS.

Other expenses of PMCIL are continuously on growing rate. From FY 2059/060 BS to 2064/065 BS increase in other expenses in comparison with that in the base year 2058/059 BS are found by 689%, 1049%, 9092%, 17668%, 38495% & 51844% respectively. So with respect to the base year the total other expenses has raised to more than 519.44 times In the final year of the study period. Efficiency in the expenses is good for the institute.

Net profit come in income statement where the total expenses amounts are less than the total income amounts. The total income of the institute is interest received. This total income is found to exceed in comparison with total expenses in all years of the study period From FY 2058/059 to 2064/065 BS. It earned profit. The profit 176% in FY 2059/060 BS from FY 2061/062 to 2064/065 BS the Net profit increase by 56%, 97%, 148% & 23% respectively in comparison with base year 2058/059 BS. But in FY 2060/061 BS, it is decreased to 94%. It shows the good financial performance of the PMCIL Because the PMCIL Increase profit year after year.

In totality, income and expenses is seen on Income Statement which indicates the current situation of PMCIL shows the healthy condition year to year. Total income seen increase and the total expenses also increase but In comparison with expenses & Income. Total incomes are seen more than total expenses. So it is found to be net profit in the income statement. So the trend percentage analysis indicates a very good financial performance of the PMCIL.

4.4.3 Trend Percentage Analysis of Activities.

The trend analysis of activities is shown in the following table.

Table 25

Trends percentage analysis of Activities of PMCIL FY 2058/059 to 2064/065

Particular	2058/059	2059/060	2060/061	2061/062	2062/063	2063/064	2064/065
Loan Disbursement	100	202	948	1646	3117	5327	8523
Loan Collection	100	414	650	1079	1786	3277	5657
Loan outstanding	100	192	330	572	1140	2016	3239
Interest collection	100	328	449	1059	1978	3632	5543
Interest receivable	100	100	100	53	24	-	-
Interest expenses	100	391	811	1625	3376	5479	9805

Source: Appendix 5

PMCIL is a specialized institution for rural finance. It operates its activities for rural people who have no any sufficient property and idea for business. The main objective of the PMCIL is to eliminate the poverty. For that purpose, the institute provides loan in facility. The people are encouraged to create income from the business that has not any property. So the loan is disbursed and collected in certain period. In totality, disbursement, collection and loan outstanding activities are called activities of the financial institute. The table has shown the trend activities of the PMCIL.

In the table, in FY 2059/060 there is an increase in loan disbursement by 102% and loan collection by 314% which seems strong position loan outstanding has increased by 92% then interest collection increased by 298% it also seems strong position. Interest expenses have increased by 292%. Thus the activity of the institute is found to increase in

this year i.e. 2059/060 BS

In the FY 2060/061 BS loan disbursement has also increased by 848% and loan collection also increased by 550% and loan outstanding has also increased by 230% Interest collection has increased by 339% and interest expenses has also increased by 711%. Interest receivable on loan first of all came into being in the FY 2060/061 BS. It is treated as the base year for this single item. It shows strong performance compared to the base year 2058/059 and previous year 2059/060.

In the FY 2061/062 BS loan disbursement has increased by 1546% and loan collection has increase 979%. Interest collection has increased by 959% and loan outstanding has also increased by 472%. Interest receivable has decreased by 47%.

Interest expenses have increased by 1525%. So the financial performance of the PMCIL shows the good position in this year.

In the FY 2062/063 BS the loan disbursement has increased by 3017% and the loan collection has increased by 1686%. The loan outstanding has also increase by 1040%. Interest collection has increased by 1878%

Interest receivable is found to be decrease by 76%. Interest expenses have also increased by 3276%. Increasing in interest collecting and decrease in interest receivable and increase in other activities is favorable or good for the financial institution.

In the FY 2063/064 BS, the loans disbursement has increased by 5227% and loan collection has also increased by 3177%. The loan outstanding has increased by 1916%. Interest collection has increased by 3532%. Interest receivable has been Nil in this year. Interest expenses have also increased by 5379%. The institute activities are satisfactory condition. It has healthy position on FY 2063/064 BS.

The last year of the study period (2064/065) the loan disbursement has increased by 8423% & collection of loan has also increased by 5557% and interest collection has increased by 5443% by comparison with base year 2058/059 BS. Loan outstanding has increased 3139% and Interest expenses have increased by 9705%. The Interest receivable has been Nil in this financial year. It is the good position for the PMCIL. In this way from the trend percentage analysis of activities it is found that due to increasing of the member of the institute its

loaning activities of increases continuously. There is no overdue loan all of the study period and interest receivable is seems only 3 the year of the study period with less amount. So in totally these activities shows the good financial performance for institute.

4.5 Trend List Square Method Analysis

It is important tool to show direction of the trend. It helps to find out the growth rate and its average amount, which help to know the financial performance of the PMCIL. If the growth rate is positive then the trend line shows the increasing direction and if the growth rate is negative, the trend line show declining position. This analysis shows at what rate of growth and average value of the items of the balance sheet, Income Statement and Activities.

The Table No.26 shows trend least square method analysis of balance sheet items.

Out of the total capital & liabilities, the share capital is found Rs.4.08, 6.31, 8.33, 14.96, 25.68, 42.5 & 61.08 Lakh from FY 2058/059 to 2064/065 BS respectively. The average value of share capital is Rs. 23.27 Lakh and its growth rate of value of share is Rs. 9.30 Lakh. It means that the trend line has been growing Rs. 9.30 Lakhs so the trend line of the share capital is -4.66, 4.67, 13.97, 23.27, 32.58, 41.89 & 5.12 lakhs. It is the main source of fund. When the share capital increase than the institute.

The reserve fund is found to Rs. 0.41, 1.14, 3.57, 6.52, 14.28, 30.28 & 52.98 lakhs from FY 2058/059 to 2064/065 BS respectively. The average value of the reserve fund is Rs. 15.16 lakhs and there is 8.09 lakhs is the growth rate value of the reserve fund. It means that the trend line of the reserve fund -9.11, -1.09, 70.07, 15.16, 23.25, 31.34 & 39.43 Lakhs. It is the good position for the institute.

The amount of other fund is Rs. 0.27, 0.12, 0.46, 0.67, 0.91, 1.21 & 1.64 lakhs from FY 2058/059 to 2064/065 BS respectively. Its average amount is Rs. 8.11 lakhs and growth rate is Rs. 0.21 lakhs. Trend line of the other fund is found to Rs. 0.18, 0.39, 0.6, 0.81, 1.02, 1.23 & 1.44 lakhs. The given trend reveals that other fund is increasing year to year from FY 2058/059 to 2064/065 BS. Increase in other fund is the good for the institute.

The amount of deposit is Rs. 6.17, 11.21, 19.63, 38.95, 76.47, 123.95 & 172.10 lakhs from FY 2058/059 to 2064/065 BS respectively. Its average amount is Rs. 63.78 lakhs and growth rate is Rs. 27.85 lakhs. Trend line of the deposits is found to Rs. -19.79, 8.08 , 35.93, 63.78, 91.62, 119.48 & 147.33 lakhs. The given trend reveals that deposit is increasing year to year from FY 2058/059 to 2064/065 BS. Increase in deposit is the good for the institute. Because the deposit is collected, and pay interest in cheap rate and the loan in dearer rate in comparison with paid interest on deposit.

The PMCIL has been borrowings from the National & domestic bank loan. The borrowings amount is nil in FY 2058/059 & 2059/060 BS. Than after Rs. 1.75, 1.92, 6.95, 26.44 & 33.20 lakhs are the mount of borrowing from the FY 2060/061 to 2064/065 BS. The given figure shows the average amount of the borrowing is found Rs. 10.03 lakhs & Rs. 5.62 lakhs is the growth value of the borrowing. It means that the trend line of the borrowings is -6.78, -1.21, 4.41,

10.03, 15.65, 21.25 & 26.89 lakhs. It is the main source of the fund. When the borrowings increase then the institute activities. Also increase sufficient borrowing plays the Vital role for the financial institution activities.

From the FY 2058/059 BS Rs. 0.22, 0.40, 1.07, 1.16, 3.85, 5.89 & 13.69 & 9.53 lakhs are in the current liabilities. It has Rs. 3.77 lakhs on average amount. The trend line's of the current liabilities is growing slightly to -1.99, -0.07, 1.85, 3.77, 5.69 & 7.61 lakhs. It is also source of fund of the bank.

On the other hand, the other fixed assest is Rs. 0.26m 0.28. 0.27, 7.43, 7.52, 13.33 & 13.13 lakhs in FY 2058/059 to 2064/065 BS. Its average amount is to Rs. 5.99 lakhs & growth rate is 2.57 lakhs & growth rate is 2.57 lakhs. Its trend line is Rs. -1.72, 0.85, 3.42, 5.99, 8.50, 11.13 & 13.7 lakhs in respective year. It the institute condition is the same the other fixed assest will be increase the institute can every activities effectively with sufficient fixed assest.

The figure of the cash & bank balance is to Rs. 1.66, 2.37, 4.47, 4.75, 17.31, 37.77 & 23.87 lakhs in respective year. Its growth rate & average value are Rs. 6.01 & 14.02 lakhs respectively. So the trend line of the cash & bank balance come to be Rs. -4.01, 2, 8.01, 14.02, 20.03, 20.03, 26.04, 32.05 lakhs from FY 2058/059 to 2064/065 BS respectively. This trend line shows that the cash & bank balance will increase in future. Cash & bank balance should be sufficient for short term obligation.

The amount of the accent receivable is Rs. 0.45, 0.33, 1.02, 0.59, 2.42, 2.13, 3.33 lakhs in respective years of the study period. Its average value & growth rate are Rs. 1.48 & 0.5 lakh respectively. So the trend line comes to be -0.02, 0.48, 0.98, 1.48, 1.98, 2.48 & 2.98. It reveals the a/c receivable has increase year to year.

The amount of closing stock has been Nil in FY 2058/059, 2059/060 & 2060/061 to 2065/065 BS. Than after Rs. 1.4, 1.88, 2.98 & 2.43 lakhs are the amount of closing stock from Fy 2061/062 to 2064/065 BS. The given figure shows the increase in amount from 2061/062 to 2064/065 BS. Its average amount value is Rs. 1.14 its growth rate is Rs. 0.49 lakhs. Its trend line is growing slightly to Rs. -0.33, 0.16, 0.65, 1.14, 1.63, 2.12 & 2.61 respective year.

The total investment amount is Nil in 2058/059 & 2059/060 BS. Than after Rs. 0.1, 0.11, 0.41, 1.01, & 6.02 lakhs are the amount of Investment from FY 2060/061 to 2064/065 BS. The given figure reveals increase in amount of

investment continuously its average value is Rs. 1.09 & Its growth rate is Rs. 0.51 lakhs. Its means that the investment is giving towards healthy position. It is good sign for the institute. Trend line its trend line is Rs. -0.44, 0.07, 0.58, 1.09, 1.6, 2.11 & 2.62 lakhs in respective years.

The amount of other asset is Rs. 0.04, 0.14, 0.62, 0.87, 0.89, 1.02, 2.23 lakhs in respective years of the study period. Its average value and growth rate are Rs. 0.83 & 0.22 lakh respectively. So, the trend line comes to be Rs. 0.17, 0.39, 0.61, 0.83, 1.05, 1.27 a& 1.49 lakhs. It reveals that the other assests are on favourable condition of the institute.

Table No- 27 Shows the trend line of the income statement s items. It reveals the growth rate and average value of the income statement items, which helps to draw the trend line of the income statement. It provides the director of the change in item wise.

Out of the total expenses. Interest on borrowings and deposit is Rs.8690, 39410, 70510, 141200, 293390, 476170, 852090 in respective year from FY 2058/059 to 2064/065 BS. Rs. 268780 is the average amount of the interest on borrowings to deposit. Its growth rate is Rs. 129.52 thousand. Since the growth rate is positive so the given figure shows rising trend i.e. -119.78 9.74, 139.26, 268.78, 398.3, 527.82, 657.34 in respective years. His rising tend reveals that the interest on borrowing & deposit is increase in future at the rate of 129.52 thousand if the existing conditions stay same.

Amount of staff expenses is Rs. 36.520, 105.320, 187.880, 209.850, 351.280, 500.43 & 684.81 in respective year from FY 2058/059 to 2064/065 BS. Rs. 296.58 thousands is the average amount of the staff expenses. Its growth rate is Rs. 103. 52 thousand. So the given figure show the rising trend. The new trend of the staff expenses is Rs. -13.98, 89.54, 193.06, 296.58, 400.1, 503.62 & 607.14 from FY 2058/059 TO 2064/065 as respectively.

The amount figure of the office expenses is Rs. 36.38, 22.630, 42.77, 128.98, 497.64, 573.93 & 784580 in respective years. The average amount of office expenses is Rs. 135.79 thousand. Since the growth rate is positive value. So the given figures show the rising trend. The new trend value is Rs. -109.25, 26.54, 162.33, 298.12, 433.91, 569.7 & 705.49 thousands. The growth rate reveals that the office expenses change in every coming year in increasing rate i.e. 135.79 thousands.

From FY 2058/059 to 2064/065 total amount figure of the other expenses is Rs. 2.03, 16.01, 23.33, 186.66, 360.7, 783.49 & 1054.47 respectively. Here Rs. 346.69 & Rs.179.63 show the average value and growth rate respectively. The given figures show the rising trend because of the positive growth rate. The new trend line of the often expenses is Rs. 192.2, -12.57, 167.06, 346.69, 596.32 & 705,95, 885.58 thousands in respective year. It reveals that the other expenses will increase in coming year wish to Rs. 179.63 thousands.

The provision fund amount is Nil in FY 2058/059 to 2059/060 BS. Than after Rs. 19.150, 200.00, 325.00, 1050.00 & 1360.00 thousand are the amount of

the provision fund from FY 2060/061 to 2064/065 BS. The given figure reveals increase in amount continuously. The average amount of provision fund is Rs. 422.02 & its growth rate is Rs. 231.64 thousand. Since growth rate is positive value so the given figures. Show the rising trend, The new trend value is Rs. - 279.90, -41.96, 190.38, 422.02, 653.66, 885.3 & 1116.94 thousand. The growth rate reveals that the provision fund change in every coming year in increasing rate i.e. 179.63 thousand.

Total amount figure of the Net profit are Rs. 33.33, 58.57, 31.290, 52.040, 65.630, 82.78 & 110.42 thousand from the FY 2058/059 to 2064/065 BS respectively. The average amount of Net Profit is Rs.62.00 thousands. Its growth rate is Rs. 11.21 thousands. Since the growth rate is positive value. So the given figure of the Net profit shows the Rising trend. Its new trend is Rs. 98.37, 39.58, 50.79, 62, 73.21, 84.42, 84.42 & 95.63 thousand in respective years.

One the other hand the total interest earned in loan to members and investment is shown as Rs. 62.84, 206.08,982.41, 665.47, 1243.09, 22282.37 & 3483.17 thousands from FY 2058/059 to 2064/065 BS respectively. The average value of interest earned to Rs. 1175.06 thousand and its growth rate 549.08 thousand which reveals that given figures show the rising trend Rs. -472.18, 76.9, 625.98, 1175.06, 1724.14, 273.22 & 2822.3 thousands are the new trend value of the interest earned on loan to member & Investment. Its growth rate is more double with interest expenses. It is the good position of the institute. It gives the better financial performance of the institute.

From FY 2058/059 TO 2064/065 BS, the total amount of the saving form trading transaction figures are its Rs.18.47, 31.34, 23.910, 149.30 & 22.850 thousand from FY 2060/061 to 2064/065 BS. The saving from trading transaction figure is Nil in FY 2058/059 & 2059/060 BS. The average amount of saving from trading transaction is Rs. 15.93 thousands & its growth rate is Rs. 3.7 thousands. The new trend line is Rs. 4.83, 8.53, 12.23, 15.93, 19.63, 23.33 & 27.03 thousand in respective years.

From FY 2058/059 to 2064/065 BS, the total amount of the income figures are Rs. 54.06, 35.86, 74.05, 221.86, 626.64, 1169.5 & 1340.35 thousands respectively. The average value of the other income is Rs. 503.20 thousand & its growth rate is Rs. 238.53 thousands. It has positive growth rate. It means that the

other income is going to increase in coming years. So the given figures show the rising trend. The new trend line comes to be Rs. -212.39, 26.14, 264.67, 503.2, 741.73, 980.26 & 1218.79 thousands in respective year of the study period. It is the good sign of profitability performance of the PMCIL.

4.5.3 Trend least square method of Activities analysis

Table 28

Trend least square method of activities of PMCIL from FY 2058/059 to 2064/065 BS (in Rs. '000')

Particular	Value of 'a'	Value of 'b'	2058/059	2059/060	2060/061	2061/062	2062/063	2063/064	2064/065
Loan Collection	6774.47	3060.1	-2405.83	654.27	3714.37	6774.37	6774.47	9834.57	12894.67
Loan disbursement	10727.94	4726.00	-3450.06	1275.94	6001.94	10727.94	15453.94	20179.94	24905.94
Loan outstanding	9290.14	4245.96	-3447.74	798.22	5044.18	9290.14	13536.1	17782.06	22028.02
Interest Collection (received)	175.06	549.08	-472.18	76.9	625.98	1175.06	1724.14	2273.22	2822.3
Interest receivable	12.75	-147.09	-428.52	-281.43	-134.34	12.75	134.34	781.43	428.52
Interest expenses	268.78	129.52	-119.78	9.74	139.26	268.78	398.3	527.82	657.34

Source: Appendix 8

From the table No. 28 total collection of loan is Rs. 365.8, 1531.47, 2379.13, 3948.8, 6534.67, 11986.75 & 20692.71 thousands from the FY 2058/059 to 2064/065 BS respectively. And its growth rate is Rs. 3060.1 thousand and average amount is Rs. 6774.47 thousand and total amount of loan disbursement is Rs. 1139.620, 2301.3, 3565.49, 60201.16, 11402.00, 19488.16 & 31178.89 thousand in respective years. Its growth rate is to Rs. 10727.94 thousand and average value is Rs. 4726 thousands. From the above figure the growth rate of the loan disbursement is Rs. 4726 and loan collection is Rs. 3060.1 thousands. It is not better condition because the growth rate of the disbursement is greater than loans collection growth rate.

The growth rate of the outstanding loans is Rs. 4245.96 thousands and its average value is Rs. 9290.14 thousands. There is no overdue loan of the PMCIL. So it is the good performance the growth rate of interest collection rate is Rs. 549.08 thousand and its average value is 1175.06 and other hand interest receivable in average is Rs. 12.75 thousand its growth rate is -147.09 thousand. There is not interest receivable in FY 2058/059, 2063/064, 2064/065 BS. And its growth rate is also negative. Here, the interest collection average value is greater than the average of the interest receivable and the growth rate is also greater than the growth rate of interest receivable. It is the strong position of the institute.

The growth rate of the interest expenses is Rs. 129.52 thousand and its average value is Rs. 268.78. Interest expenses has positive growth rate. It means that interest expenses is going to increase in coming years of interest expenses increase the transaction will be increase. It is the good performance of the institute.

4.6 Correlation Analysis

Two variables are said to have correlation when they are related that the change they are related that the change on the value of one variable is accompanied by change in the value of the other.

Here, the researcher follows the Karl Parsers Correlation coefficient method to find out the correlation among the various aspects deposits and investment, loan disbursement and collection and borrowing (Loans)& loan outstanding. They are as under.

4.6.1 Correlation between Deposit & Investment.

Deposits include grouping saving, Institutional deposit, personal saving etc. the figure of deposits has increased gradually from the FY 2058/059 BS Rs.6.17, 4.21, 19.63. 38.95, 76.47, 123.95 & 172.10 lakhs respectively. On the other hand, Investment also has increased by amounting Rs. 0.1, 0.11, 0.41, 1.01 & 6.02 lakhs from FY 2060/061 to 2064/065 BS respectively. But it has Nil from FY 2058/059 to 2059/060 BS.

Table 29

Calculation of Correlation between Deposit & Investment (in ‘00000’)

Year	Dep ⁿ (X)	Inv(Y)	x (X-38.95)	x ²	y(Y-0.41)	y ²	xy
2058/059	6.17	-	-32.78	1074	-0.41	0.1681	13.44
2059/060	11.21	-	-27.74	769	-0.41	0.1681	11.37
2060/061	19.63	0.1	-19.32	373	-0.40	0.16	7.73
2061/062	38.95	0.11	0	0	-0.30	0.09	0
2062/063	76.47	0.41	37.52	1408	0	0	0
2063/064	123.95	1.01	85	7225	0.6	0.36	51
2064/065	172.10	6.02	133.15	17729	5.61	31.47	747
			x=175.83	x ² =28578	y=4.69	y ² =21.69	xy=830.54

Source: Appendix 9

$$r = \frac{N \sum xy - \sum x \cdot \sum y}{\sqrt{N \sum x^2 - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

$$= \frac{7 \times 830.54}{\sqrt{7 \times 28578 - (175.83)^2} \sqrt{7 \times 21.69 - (4.69)^2}} = 0.85$$

There must be good relationship between deposits and Investments. Increase in deposit is the main source of funds. It is utilized to earn profit by investing proper profitable area like an Investment in share buying. If the deposits increase the investment must be increase. If it don't so there may arise financial unbalance and crisis in Institute. Here, in PMCIL in comparison with deposit the investment increasing percentage is very low. How investment is investing continuously year after year. Institute pays certain amount of interest to the collected deposit & return from the Investment it is continuous behavior and transaction of the institute.

In the case of PMCIL, Here is positive correlation between deposit & investment. It indicates that deposit & Investment have closer relationship as 85% it helps to create the good financial performance of the institute.

4.6.2 Correlation between disbursements and collections.

PMCIL has disbursed loans for general loans, irrigation loans, grouping fund loans etc. the objective of the PMCIL is to flow the loans in rural poor-people in the facility rate of interest to decrease the poverty growth of nation. It conducts its activities upon who have no land and property to deposit on the institute for the security. In the other word it seems that the institute gives loans to rural public without fact security. To meet its objectives PMCIL disbursed amounting to Rs. 11.40, 23.01, 35.65, 62.20, 114.02, 194.88, 311.79 lakhs from FY 2058/059 BS respectively.

There is not possible to operate its function without collection of the loan. The amount of loan is collected from where the loan is invested i.e. clients. The collection of the loan is invested i.e. clients. The collection of the loans is Rs. 3.66, 15.13, 23.79, 39.49, 65.35, 119.87 & 206.93 lakhs from FY 2058/059 to 2064/065 BS respectively. The ratio of the loan disbursement and collection must be equal to perform its activities smoothly.

Table 30

Calculation of Correlation between Disbursement and Collection (in '00000')

Year	LD (X)	Coll(Y)	x (X-60.2)	x ²	y(Y-65.35)	y ²	xy
2058/059	11.40	3.66	-48.8	2381.44	-61.69	3805.65	3010.47
2059/060	23.01	15.13	-37.13	1378.63	-50.22	2522.04	1864.67
2060/061	35.65	23.79	-24.55	602.7	-41.56	1727.23	2267.09
2061/062	60.70	39.49	0	0	-25.86	668.73	0
2062/063	14.02	65.35	53.82	2896.54	0	0	0
2063/064	194.88	119.87	134.68	18138.7	54.52	2972.43	7342.75
2064/065	311.79	206.93	251.59	63297.52	141.58	20045	35620.11
			x=293.61	x ² =88695	y=16.77	y ² =31741	xy=50105

Source: Appendix 10

$$r = \frac{N \sum xy - \sum x \cdot \sum y}{\sqrt{N - (\sum x^2) - (\sum x)^2} \sqrt{N \sum y - (\sum y)^2}}$$

$$= \frac{7 \times 48861.31 - 293.67 \times 16.77}{\sqrt{7 \times 88700 - (293.67)^2} \sqrt{7 \times 31741 - (16.77)^2}}$$

$$= \frac{336224.08}{344424.448}$$

$$= 0.976$$

There is higher positive correlation rate i.e. 0.796 between loans disbursement and collection. It indicates that loans disbursement and loans collection have closer relationship as 97.6%. It helps to create the good financial performance of the institute.

4.6.3 Borrowing and loans Outstanding

PMCIL has managed its loan by the Regional national & Bank. Borrowings are the main source of the fund. The borrowings have gradually increased by Rs. 1.75, 1.92, 6.95, 26.44 & 33.20 from FY 2060/061 to 2064/065 BS respectively. There is no borrowing in FY 2058/059 & 2059/060 BS.

Other hand, the loan outstanding includes general loan micro finance loan etc. The loans outstanding is found to be Rs. 8.57, 16.45, 28.31, 49.02, 97.70, 172.71 & 277.55 lakhs from FY 2058/059 to 2064/065 BS respectively.

Table 31

Calculation of Correlation between borrowing & loan outstanding (in Rs '00000')

Year	Borrow(X)	Loan(Y)	x (X-6.95)	y(Y-97.7)	x ²	y ²	xy
2058/059	0	8.57	-6.95	-89.13	48.3	7944.16	619.45
2059/060	0	16.45	-6.95	-81.25	48.3	60.56	564.69
2060/061	1.75	28.31	-5.20	-69.39	27.04	4814.97	360.83
2061/062	1.92	49.02	-5.03	-48.68	25.03	2389.74	244.86
2062/063	6.95	97.7	0	0	0	0	0
2063/064	26.4	172.71	19.49	75.01	379.86	5626.5	1461.94
2064/065	33.20	277.55	26.25	179.85	689.06	23346.02	4721.06
			x=21.61	y=-33.59	x ² =1218	y ² =59723	xy=7973

Source: Appendix 11

$$r = \frac{N \sum xy - \sum x \sum y}{\sqrt{N - (\sum x^2) - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

$$= \frac{7 \times 7973 - 21.61 \times 33.59}{\sqrt{7 \times 1218 - (21.61)^2} \sqrt{7 \times 59723 - (33.59)^2}} = 0.97$$

The Institute pay interest for borrowing and it receives interest from loans & outstanding. The main source of income is interest receipts. Different types of expenses are maintained by the interest earned on loan outstanding. However borrowings and loans outstanding, The PMCIL has the higher degree correlation between borrowings & loan outstanding because its correlation coefficient is higher degree positive i.e. 0.97. It reveals that the activities of the institute are going to right track.

Chapter 5

Conclusion, Summary & Recommendations

This chapter is divided into the following two chapters.

5.1 Summary

Purba Nepal Multi Purpose Co-operative Institute limited is the main rural financier for the poor people. It plays the vital role in the alleviation of poverty. So its financial performances should be sound. This study mainly focuses to find out its financial position. To find out the financial position of the bank, the following tools and techniques are applied:

- (1) Funds flow analysis
- (2) Financial ratio analysis
- (3) Trend percentage analysis
- (4) Trend least square method analysis
- (5) Correlation analysis

5.1.1 Funds Flow Analysis

There are different sources of funds available of PMCIL. They are increase in share capital, increase in borrowing, increase in deposit & increase in other liabilities and provisions etc. they are main source of funds. From FY 2058/059 BS to 2064/065 BS the institute has increased its share capital. Share capital has contributed to 19.66% of source of funds in average by this period. It is found that on the average 55.80% of the source of fund is contributed borrowing (loans) have contributed to 6.30% of the source of fund. The average contribution of the other liabilities and provision in this respect is 2.94% only. Except the above source of fund other are available I the institute e.g. operating income, decrease in fixed asset, decreased in interest receivable, decrease in account receivable, decrease in other asset, cash & bank balance etc it plays vital role for funds.

This fund of the institute is mainly used in disbursement of loans. 0.666% of the fund is used on investment during the study period. Increase in interest receivable & Account receivable have given rise to a use of 0.051% and 1.64% during the study period respectively. Fixed assets and others assets are the outcome 1.10% & 4.62% respectively average fund of the institute. The fund of the institute is used on loan outstanding 80.40% during the study period. 10.067%

of the fund balance in the institute as cash and bank balance on average. Decrease in reserve, borrowings and other liabilities and provision also consist in the application of the fund.

The above given result data, the researcher come to be near the conclusion that the PMCIL has healthy position. It is running year to year profits. It has sufficient capital to invest in proper sector. Deposit, reserve fund Borrowings are increasing year to year. However, PMCIL invested its fund only its member. It should be invested in the safe side & profitable business.

5.1.2. Financial Ration Analysis

(a) Liquidity Ratio

The liquidity position of the PMCIL is tested by the current ratio, working capital to current ratio & cash & bank balance to total deposit cash & bank balance to current assets.

The current ratio is quite balance. The current ratio represents the margin of safety i.e. a cushion of protection for creditor. The PMCIL meets its standard value 2:1 during the study period. The working capital ratio has fluctuation condition. But it is above 60% all of the study period. It indicates that the present situation is good cash & bank balance to total deposit ratio gives mix result because in some year of the study its ratio could not reach above 20.1. Higher ratio indicates the sound payment position & vice versa. Cash & bank balance to current asset ratios figures indicates that non favorable condition in all of the study period because cash and bank balance to current asset ratio should be 5% to 10% range for the institute but PMCIL doesn't have such a range. So its liquidity Condition is weak, on its average condition at present situation.

(b) The leverage Ratio

The leverage ratio are tested by Debt-equity ratio, Debt-Asset ratio, Debt to capital ratio, Net fixed asset to Equity ratio, Interest coverage ratio and current Asset to Equity ratio.

Debt equity ratio like 2:1 is considered as safe from the view point of interest of the shareholder creditor. In 2062/063 BS attains the highest value i.e. 2.13 & In FY 2057/058 BS. It is found to be 0=06:1 as the lowest value. It is the mix result of the PMCIL.

Debt asset ratio for the institute is found to be continuously from the FY 2057/058 BS to 2062/063 BS respectively. After than it is decrease up to 2064/065 BS. In FY 2062/063 BS, The value becomes as high i.e. 68%. It means that 68% of the assets of the institute are financed by debt. This type of increasing ratio indicates pitiable condition of the institute.

The Net asset to Equity means how the fixed asset should be managed to meet the safe point. PMCIL the trend of fixed asset to equity is increasing every year. 60% to 75% is treated as the normal value of this ratio. But through out study period, the highest value of it 258%. Net fixed asset to equity ratio is above 200% except FY 2057/058 BS. Sufficient fixed assets necessary for financial institute. It is to be highest fixed asset. It helps firm's liquidity position to get the profit for institute.

Current Asset to Equity ratio means how to balance current asset compared to Equity. The current Asset to Equity ratio for PMCIL has got below 1:1 from FY 2057/058 to 2064/065 BS. The current Assess to Equity ratios reveals the fluctuation condition. It is not good condition for the PMCIL.

(c) Activity Ratio

The activity position of the PMCIL is analyzed by loans outstanding to collection ratio, loans collection to disbursement ratio, loans outstanding to disbursement ratio, loans outstanding to Equity ratio, Investment to total deposit ratio; loans outstanding to total deposit ratio.

A loan outstanding to collection ratio shows the efficiency in collection of loans to be maximized profit. All of the study period loan collection figures are less than the amount of loan outstanding loan should collect timely to mobilize the fund again for disbursement, it helps to increase the institute abilities. So institute should try to diminish this ratio. However, Institute could earn profit year to year.

The loans collection to disbursement ratio for the financial institution should be maintained above 70%. All of the study period the ratio is less than 70% the given figure of its ratio should the bad condition of the institute.

The loans outstanding to disbursement ratio are not satisfactory for the institute. It sis 81% on average because the highest amount of the loans outstanding is not good for the financial institution. Other hand there may be doubtful in repayment of the repayment of the loan.

Loans outstanding to equity ratio show that the activities of the institute are steadily increasing year by year. It reveals clearly that activities of the Institute have really increased.

Investment to total deposit ratio has not satisfactory condition. In FY 2061/062 BS 0.28% is the ratio of the investment to total deposit. It's very small ratio for the institute. Loans outstanding to total deposit ratio is not satisfactory condition. Higher ratio is preferable for the institute. In the last year of the study period the ratio is 1.6:1. It is the highest ratio of the study period. In FY 2060/061 & 2061/062 BS the ratio is 1.3 & 1.3. It is the lowest ratio of fee study period. So it has mix result.

The loans collection ratio shows the More than 98% in case of PMCIL on average. The loan collection rate should be more than 70%. So the institute has sufficient condition in loan collection.

So the Activity Ratio of the institute is not best as a whole, so it indicates the mixed result.

(d) Profitability Ratio

Profitability ratios are analyzed from Net profit to Total asset ratio, Net profit to total Deposit ratio, operating ratio, Interest earned to total asset ratio and Return on Equity ratio in the case of PMCIL.

Net profit to total assets ratio indicates whether the total assets of the business has property used or not. The result figure shows that the institute has properly used its assets.

Net profit to total deposit indicates an effective financial performance of the PMCIL.

Interest earned to total asset is revealing bad financial position of the institute. Return on equity ratio shows, good performance of the profitability.

All above results reveal that the profitability condition of the institute is satisfactory or it indicates the good profitability of the institute because there is profit year after year.

5.1.3 Trend percentage Analysis

The balance sheet, Income statement and Trend analysis of activities of the institute are tested by trend percentage analysis.

The trend percentage analysis shows the increasing trend of share capital. Reserve funds & other funds of the institute are increasing year after year which is good sign. Borrowings have increasing from FY 2060/061 to final year by 18.97 times. Compared to the loan portfolio borrowings amount plays vital role. So its dependency upon borrowing should be decreased. Other liabilities, A/C payable & sundry creditors are continuously increasing year after year. Deposit has increased from base year to final year by 27.89 times. I.e. 2688.75% to increase in deposit is the sign of customer faith and satisfactory but this amount is also risky for the institution because deposit amounts are drawn by the customer every time. So to maintain faithfulness certain amount is required in balance. On the other hand, the cash & bank balance is also found to be increasing rate comparison with base year. Investment is Nil in first & second year of the study period and it has increased slowly. In the last year of the study period there is found to be Rs. 602100 in Investment. It is not sufficient amount for the PMCIL in comparison with Deposit, borrowings it means that the institute has invested in government bonds, company shares and fixed deposit of commercial bank. It is not good sign of Investment policy of the PMCIL.

Fixed assets are increasing continuously It includes the furniture, Ambulance, safe land etc. It is also good condition for the PMCIL. Other asset has been seen in increasing trend. The loan outstanding figure too increases each and every year. So, the naturally, the interest receivable on loans goes on increasing continuously. Such increase in the volume of loaning activity has also given rise to increase in interest receivable. There was no over due loan all of the study period. The current receivable is also found to be increasing trend. Closing stock is Nil in FY 2058/059, 2059/060 & 2060/061BS. After then it is increasing continuously. The major source of income of the institute is the interest earning from the loans disbursed through the interest income goes on increasing, side by side the interest on borrowing also increase every year. Interest expenses on account of deposits also increase each and every year. Staff expenses have increased year to year. Office expenses have also increased year to year. Other expenses are also found to be increasing trend. Provision fund has been increased. Other income sources are increasing in out year of the study period except FY 2060/061BS. PMCIL was started trading transaction from FY 2060/061 BS.

From the FY 2060/061 saving from the trading transaction is found to be increasing trend.

5.1.4 Trend Least Square Method Analysis.

The trend least method analysis of balance sheet reveals that the share capital, Reserve fund, other fund, Deposit, Current asset & Borrowings have positive growth rate. These are 9.3, 8.09, 0.21, 27.85, 5.62 & 1.92 lakhs respectively. There is high growth rate on deposits than borrowings. Deposit's cost is less than borrowings. It is the good sign for the PMCIL. On the other hand, Cash & Bank Balance, A/C Receivable, closing stock, Investment, Loan to member, other fixed asset, other asset have also growth rate on positive value.

Investment have only 0.51 growth rate, it is the low position comparison with borrowings. It means that institute has not good policy of the investment. How ever the institute earned profit year to year.

Trend least square method analysis of the income statement reveals that the interest on borrowing and deposit, staff expenses, office and other expenses have positive growth rate, provision fund & net profit have also positive growth rate. These out are the liabilities and expenses of the PMCIL except Net profit. It shows that the expenses are increasing day by day, because the growth rate is 129.59, 103.52, 135.79, 231.64, 11.64 lakhs of interest on borrowing & deposit, staff expenses, office expenses, provision fund & other expenses respectively, But Net profit have also positive sign. It is investing year after year. It is good matter for the PMCIL. Other hand Interest received from loan to member & investment, saving form trading transaction & other income have positive growth rate. These are 549.08, 3.7 & 238.53 lakhs respectively. This is favorable for the PMCIL. So it is the good position of the PMCIL.

The least square method analysis of activities highlights its performance in loaning. The growth rate of the loans disbursement is Rs.4726 lakhs. And the growth rate of the loans collection is Rs. 3060.1 lakhs. It is normal condition of the institute activities loan outstanding and interest collections have a positive growth rate that is 4245.96 & 549.08 lakhs during the study period. Interest receivable has a negative growth rate i.e. -147.09 lakhs. Interest expenses have also positive growth rate.

5.1.5 Correlation Analysis

Correlation between deposit and investment is positive. It has 0.85 positive relations. It means that the financial performance of the institute is good. But deposit is not utilization properly in investment.

There is higher positive correlation rate i.e. 0.976 between disbursement and collection. So it helps to create the good financial activities of the institute.

The PMCIL has the higher degree correlation between borrowings & loans outstanding because its correlation coefficient is higher degree positive i.e. 0.97. It indicates that the institute is doing effectively its financial activities.

The correlation analysis gives the good result on the hand of financial activities for the PMCIL.

5.2 Conclusion

After the presentation and analysis of data the following points are drawn as follows :

1. Borrowing is the main sources of fund although the main sources of fund is used in loan disbursement.
2. Financial ratio indicates healthy financial position.
3. Total trend analysis of loan activities of PMCIL shows the good result. Every year loan disbursement, collection and interest collection has been increased and loan outstanding have also been increasing but interest receivable has been decreased in comparison with previous year.
4. Interest Receivable has negative growth rate. It is the good sign for the PMCIL
5. There is no overdue loan in the PMCIL.
6. The relation between deposit and investment, disbursement and collection and borrowing & loans outstanding are in good condition.
7. There is no sundry creditors except FY 2059/60 B.S.
8. Investment has been nil in FY 2058/059 B.S. & 2059/060 B.S.

PMCIL has not inverted in government bonds, Company shares as well as fixed deposit of Commercial Bank. It is found that PMCIL only depend on its loan to member. It is not good sign for the PMCIL.

5.3 Recommendations

From the conclusion derived from the different analysis and considering the practical problems faced in reality following main points are recommended to source financial strength of PMCIL

- (1) PMCIL is not at all a non profit oriented organization keeping in this mind it must try to earn more profit for the survival by minimizing up productive expenses and cost and investing profitable area. Because its profit only profit. It is the low amount of profit.
- (2) To increase in deposit amount is to increase its financial activities such as increase in deposit is helpful for the further investment. Increase in deposit is the sign of the institute. On the other side, an interest expenses is lower in deposit by comparing the interest expenses on borrowing of loans, it helps to minimize the cost of the institute. PMCIL has very low investment in government bank, other commercial bank, company share as well as fixed deposit of other Bank; Investment is the second earning so PMCIL must increase in Investment.
- (3) The PMCIL has been managing its function by the leverage of borrowing for long time. In this way it will be overburden with debt in the future. The institute must attention towards that manner and tries to enhance its internal resources. Because borrowings of PMCIL is Increasing year to year.
- (4) The institute must segregate the fixed costs and variable costs for its total administrative expenses and try to minimize the former it should also try its level best to reduce the proportionality constant for such variable cost by improving the cost effectiveness.
- (5) It is recommended to control the major's cost of PMCIL along with reducing the operating cost of Head office and Branch Office and reducing the visit cost and allowance through applying cost control measures.
- (6) Employees should be sufficiently motivated with proper incentives.

- (7) Employees should be given training how to behave with member and other relative persons. It helps to increase client's beliefs on the institute that makes huge amount of deposits.
- (8) The Institute should be expanding its activities in panchgachhi VDC, Baigundhura VDC and other nearby VDCs by establishing branch office and by increasing Employees.
- (9) The management should try to maintain a good relationship between the managerial staff, workers, members of management and general public.
- (10) The management information system of the PMCIL is poor. Therefore the good management information system should be installed in the institute to provide all financial information for effective managerial decision. End of the every financial year financial activities should be analyzed.
- (11) The Co-operative Institute Ltd. has adopted traditional accounting system. There for the accounting institute must be modern and scientific.
- (12) The base of the institute (PMCIL) is the poor people. So it is necessary to create good relation with public. For that purpose the institute can't do anything without the help on non government organization, social groups and other pressure groups. So the institute should keep close relationship with related parties for the good vision in the publics' eyes.
- (13) The base of the institute is the poor people. There is huge amount of capital of the member should be invest in share. So the poor people can't take its service easily. Because for taking Rs. 1,00,000 loan one client will buy 131 share i.e. Rs.19,600 and share price of PMCIL is increasing year to year by increasing management fee.
- (14) This study is concentrated only in the financial aspect of co-operative institute Ltd, Topgachi Jhapa, consequently; the research is unable to carry on detail study in the public relation, Personnel aspects, working capital etc of the institute. Therefore it is recommended for future researchers to make research program in the public relation, personnel aspect, working capital, etc of institute.

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