

C H A P T E R - III

:: Income Expenditure and Net Profit ::

3.1 INTRODUCTION :

In this chapter we examine briefly the profit and loss account of Shri. Warana Sahakari Bank Ltd. Warananagar. We examine the pattern and growth of expenditure as well as the pattern and growth of income of the bank- to example the pattern of expenditure and income we restrict our analysis to the data for four years only that is 1968-1969, 1973-1974, 1978-1979 and 1983-1984. For the purpose of making the data comparable (broadly) we have rearranged the data for earlier three years on the pattern in which the respective data is presented by the bank in its annual report for the year 1983-1984. Regarding growth of expenditure and income we have used the information for all the years (1965-1966 to 1984-1985.).

3.2 Growth of Expenditure :

Table No. 3.1 gives the information regarding expenditure of Shri. Warana Sahakari Bank. The figures are for total expenditure exclusive of profits. In the year 1965-1966 the total expenditure of the bank was a meagre amount of Rs. 4492/- This is understandable because it was the first year of the operations of the bank, that also only for a part of year. In

the year 1966-1967 the total expenditure.

Table No. 3.1

Year	<u>Total Expenditure</u>	
	Total Expenditure	Annual Average % Increase.
1966	4492	-
1967	34154	660.32
1968	69980	104.89
1969	148305	111.92
1970	238807	62.02
1971	292780	22.60
1972	351585	20.08
1973	441402	25.54
1974	576155	30.52
1975	827871	43.68
1976	895073	08.11
1977	1136670	26.99
1978	1413640	24.36
1979	1866550	32.03
1980	2712000	45.29
1981	3998800	47.44
1982	5226980	30.71
1983	5632270	07.75
1984	7419400	31.73
1985	9420615	26.97

Source : Annual reports of Shri. Warana Sahakari
Bank Ltd.

of the bank increased to Rs. 34154, registering an annual increase of 606.32%. In the next three years also the total expenditure of the bank increased substantially. We can say that by the end of the year 1969, the expenditure of the bank had reached the normal level of expenditure required for the proper functioning of a rural cooperative bank. In the subsequent years; the total expenditure of the bank seems to have increased at a significantly high rate ranging between 20 to 40% per year. It was only during 1975-1976 and 1982-83 that the percentage increase in the bank's total expenditure was less than 10%. If we consider 5 year periods, then it is seen that during 1965-1970 the average annual increase in the bank's total expenditure was 234.53%. During the period 1970-1975 the average annual increase in bank's expenditure was around 28.48%. For the period 1975-1980 this rate of increase was 27.35% and in the period 1980-1985 it was 28.92%.

From this analysis we can say that first five year period in the history of the bank was a period of fast rate of increase in total expenditure. This could be explained by the simple fact that the expenditure of an organisation increases rapidly in the initial period, because of significant increases in the staff as well as need for increasing other types of recurring expenditure. However, in the subsequent period the average annual rate of growth of expenditure seems to have achieved a stable level, off course

at a satisfactory height.

3.3 Total Income of the Bank :

In the Table No. 3.2 we give data regarding total income of the bank for all the year^s under study. Looking at these figures, it becomes very clear that during the period 1965-1970 the annual average increase in the total of the bank's income seems to be apparently very high 1966-1967 around 2000%, 1967-1968 around 117%, 1968-1969 around 135% and 1969-1970 around 57%. As in case of expenditure, here also the annual increase seems to be large because of the very low base in the initial year. However, in the subsequent period the total income shows an annual increase, ranging between 5 to 50% roughly. Here also we can say that 1969-1970 seems to be the normal base year.

Table No. 3.2

Total Income

Year	Total Income	Annual Average % Increase.
1966	2314	-
1967	47667	1959.93
1968	103452	117.03
1969	243195	135.08
1970	382360	57.22
1971	427578	11.82
1972	478841	11.98
1973	592691	23.77
1974	722684	21.93
1975	1009147	39.63
1976	1068687	5.90
1977	1281930	19.95
1978	1701930	32.76
1979	2240300	31.63
1980	3214600	43.48
1981	477400	48.53 ? decrease?
1982	6025550	26.19
1983	6409470	06.37
1984	8210095	28.09
1985	10311090	28.59

Source : Annual reports of Shri. Warana Sahakari Bank Ltd.

subsequent to which the growth of income shows some consistency. During the period 1970-1975 the annual average increase in the total income was 21.82%. In the period 1975-1980 this rate of increase became 26.74% increasing further to 27.55% in the period 1980-1985. In this case also, we can say that the rate of growth of total income is quite high and also shows an accelerating trend. It should be noted that the rate of growth of total expenditure during all these five year periods has been greater than the rate of growth of total income. If we consider 1969-1970 as the base year and calculate the simple average growth rate of total expenditure and total income we get the following result. It is seen that the simple average growth rate of expenditure is 256.32% per year which is greater than the simple average growth rate of total income which is 173.11% per year.

2.4 Pattern of Expenditure :

In table No. 3.3 we give expenditure pattern of the bank. The data relates to the years 1968-1969, 1973-1974, 1978-1979, and 1983-1984. The total expenditure here is inclusive of profit. There are in all 12 items of expenditure
On the basis of this table we can make the

Expenditure Pattern

Table No. 3.3

Items	1968-1969	1973-1974	1978-79	1983-1984
1) Interest on Deposits	106003.75 (43.58%)	404011.20 (55.09%)	1265081.62 (56.46%)	5627339.05 (68.54%)
2) Interest on Loans	-	-	6100.28 (0.27%)	9444.13 (0.11%)
3) Salary fund & Providend fund	27696.37 (11.38%)	96932.51 (13.41%)	224472.76 (10.01%)	623654.59 (7.59%)
4) Expenditure on fees allowances	856.00 (0.35%)	1657.00 (0.22%)	6752.40 (0.30%)	17558.80 (0.21%)
5) Rent, Tax, electric	2802.19 (1.15%)	16010.78 (2.21%)	46307.31 (2.06%)	98230.11 (1.19%)
6) Post, teleg-ram & telephone etc.	279.20 (0.11%)	2646.60 (0.36%)	8834.82 (0.39%)	21940.00 (0.26%)
7) Audit Fees	-	4400.00 (0.60%)	10770.00 (0.48%)	25824.00 (0.51%)
8) Depreciation Repairs	739.10 (0.30%)	3665.44 (0.42%)	18501.12 (0.82%)	42536.73 (0.51%)
9) Printing & Advertisment	4893.12 (2.01%)	9956.94 (1.37%)	35245.04 (1.57%)	96875.29 (1.17%)
10) Legal Expenditure	-	-	181.20 (0.08%)	3677.45 (0.04%)
11) Other Expenditure	5034.89 (2.07%)	37475.36 (5.18%)	244304.17 (10.90%)	852321.36 (10.38%)
12) Net Profit	94890.09 (39.01%)	146528.53 (20.27%)	373760.93 (16.68%)	790695.64 (9.63%)
<u>Total</u>	<u>243194.71</u>	<u>722684.36</u>	<u>2240311.65</u>	<u>82100.15</u>

Source: Computed from annual reports of Shri WananaSahakari Bank Ltd.

following observations :

- 1) For the year 1968-1969 and 1973-1974 the interest on loan is included in the first item that is interest on deposits. However, interest on loan in the year 1978-79 and 1983-1984 constituted 0.27% and 0.11% respectively of the total expenditure. We, therefore, can say that it is an insignificant part of total expenditure. With this limitation we can look at the expenditure on deposits as the largest single constituent of total expenditure.
- 2) Expenditure on interest on deposits shows a rising trend. On the average it constitutes 56.12% of the total expenditure.
- 3) The next important item of expenditure is item No. 3 that is expenditure on Salary and contribution to providend fund. It is, however, satisfactory to note that as proportion of total expenditure, it shows a decreasing trend. In the year 1968-1969 expenditure on this item was 11.38% which became 7.59% in the year 1983-84. From this we can infer that the growth of employees, of the bank has been properly managed. Off course it also can be taken as an indicator of the slow rise in the remuneration level of the employees of the bank. More

importantly it indicates increasing efficiency and productivity of the personnel of the bank.

- 4) The next in order comes the expenditure shown by the bank as other expenditure in its profit and loss account. The item other expenditure is the total resulting from minor expenditures incurred on 32 items of expenditure given in the annual report for the 1983-1984. These items are presented in table No. 3.4. The constituents of other expenditure comprise contribution to various funds, expenditure on travel allowances and dearness allowances, different premia, subscriptions, contributions etc hospitality, gratuity, bonds etc. We discuss these various items in a subsequent paragraph. In the year 1968-1969, the other expenditure constituted 2.07% of the total expenditure. It shows a rising trend in the subsequent years becoming to 10.38% in the year 1983-1984. It is interesting to note that the other expenditure has out-stripped the expenditure on salary providend fund etc. in the years 1978-1979 and 1983-1984.
- 5) Next in order comes expenditure on printing and advertisement which was 2.01% in the year 1968-1969 and which become 1.17% of total expenditure in the year 1983-1984. This expenditure as proportion of total expenditure on the average turns out to be 1.53%.

- 6) The expenditure on rent, taxes electricity charges and insurance charges is calculated together under item No. 5. It was 1.15% of the total expenditure. In the year 1968-1969, crossing 2% in the year 1973-1974 and 1978-79 which ultimately ~~of~~ came down to 1.19% ~~one's~~ again. On the average it ^{was} (is) 1.65% of the total expenditure.
- 7) Item No. 6 shows the expenditure on communication facilities, that is post, telegrams and telephones etc. As a proportion of total expenditure, it was initially 0.11% increasing upto 0.39% in the year 1978-79. However, it shows a decreasing trend in the subsequent period coming to 0.26% in the year 1983-1984. On the average it turns out to be 0.28%.
- 8) Expenditure on depreciation and repairs is less than 1% for all the years under consideration. Only in the year 1978-1979, it shows a big jump to 0.82%. Otherwise it is around 0.50%. In ^{the} average it is 0.51% of the total expenditure. Whether this is the proper provision for adequate maintenance and timely replacement of the equipment, remains a question mark.
- 9) Expenditure on fees, allowances and travel expenses of the members of the board of directors is also less than 1% of total expenditure. However, in absolute terms it shows a large increase from Rs. 856 in the year 1968-69 to Rs. 17558.80 in the year 1983-84. On the average it

is 0.27% of the total expenditure.

- 10) Audit fees also constitute less than 1% of total expenditure. It is around 0.53% of the total expenditure.
- 11) Legal expenditure is an insignificantly small proportion of total expenditure constituting less than 0.1% only.

2.5 Pattern of Other Expenditure :

We have seen in the previous section that the total other expenditure as a proportion of total expenditure was around 2% in the year 1968-1969 and which in the subsequent period shows a rising trend reaching 10.38%. In the year 1983-1984. It is, therefore, clear that the item of other expenditure is assuming greater and greater significance in the total expenditure of the bank. We, therefore, show the pattern of other expenditure in table No. 3.4. From this table we can make following observations.

- 1) The total number of sub items of other expenditure has increased from 12 in the year 1973-1974 to 32 in the year 1983-1984 (this observations is based on information available in the annual reports for the respective years.)
- 2) It is seen from this table that expenditure on provision for bad debts fund constitutes nearly 47% of total other expenditure. It is the single largest element of other expenditure.
- 3) Similarly expenditure on the provision for gift fund is the next major constituent of other expenditure. It accounts

Table No. 3.4

Pattern of Other Expenditure Year 9

Sr. No.	Item	Amount	% of the Total
1)	Education Fund	1000-00	00.11
2)	T.A. and D.A.Expenditure	7979-64	00.93
3)	General Body meeting & ceremonial expenditure	2765-65	00.32
4)	Bank association contribution	2600.00	00.30
5)	Deposit Insurance premium	23870-20	2.80
6)	Bank conference contribution	-	-
7)	Rebate on interest	14695-97	1.72
8)	Laxmipujan remuneration charges	14624-59	1.71
9)	Hospitality expenditure	8254-00	0.96
10)	Incidental expenditure	-	-
11)	Provident fund & Insurance fund management expenditure	2416-00	0.28
12)	Clearing house fees	600-00	0.07
13)	Profession Tax	150-00	0.01
14)	Meeting expenditure	2301-75	0.27
15)	Paper & Library expenditure	1636-35	0.19
16)	Income Tax edpenditure	-	-
17)	Employees gratuity provision	5000-00	0.58
18)	Employees Bonus provision	102010-00	11.96
19)	Bonus equalisation fund provision	-	-
20)	Dividend equalisation fund provision	5000-00	0.58
21)	Bad debt fund provision	400550-00	46.99

Table No. 3.4 contd...

Sr. No.	Item	Amount	% of the Total
22)	Staff training fees	900.00	00.10
23)	Gifts	11000-00	1.29
24)	Gift fund provisions	200275-00	23.49
25)	Election expenditure	-	-
26)	Trees plantation expenditure	-	-
27)	Peon uniform expenditure	-	-
28)	Expenditure on travel and other allowances	4018-15	0.47
29)	Motor cycle, petrol, taxi	12695-26	1.48
30)	Gold smith T.A.& D.A. expenditure.	1909-80	0.22
31	Salary of the special recovery officer	29924-00	2.33
Total		852321-36	1983-84

Source : Annual Report of Shri Warana Sahakari Bank Ltd. year?

For nearly 24% of the total other expenditure.

- 4) The third major element of the other expenditure is in the form of expenditure on bonus for employees. It constitutes nearly 12% of the total other expenditure.
- 5) All the rest of the items of the other expenditure are less than 3% and more than 1% (item no 5,7,8,23 30 and 31) and less than 1% (the rest of the items.)
- 6) Of these remaining items, item number 1,2,3,4,5,6,7,10, 11,12,13, 14, 15, 16, 17, 19, 20, 22, 27, 28, 29 seems to be of an unavoidable nature.
- 7) However, item No. 8 raises a question mark. It is really surprising that Laxmipujan remuneration charges should be as high as 1.71% of the other expenditure. In absolute figures the amount of expenditure on this head is given as Rs. 14624.59. If these are charges to be paid to the person who performs Laxmipujan, then the charges must be called unrealistic and exorbitantly high. This expenditure if compared with audit fee, turns out to be almost 57% of the audit fee.
- 8) In case of expenditure on hospitality, bonus provision, bad debts provision, and gift fund provision, it is felt that there must be some scope for pruning down the expenditure. This is more particularly meaningful when we note that the larger provision for bad debt fund indicates a greater

incidence of bad debt for which the reasons must be sought in the details of policy of loan sanction. Regarding provision for gift fund, most specific observation can not be given unless one knows the details of how the gift fund is used.

2.6 Pattern of Income of the Bank :

In table No. 3.5 we give data regarding pattern of income of the bank with reference to years 1968-1969, 1973-1974, 1978-1979 and 1983-1984. The annual reports of the bank give following items of income.

- 1) Interest from Loans.
- 2) Interest and dividend from investment.
- 3) Commission, discount and agency charges.
- 4) Other receipts.

The other receipts comprise locker rent, service charges. Building rent and other receipts.

On the basis of this information given in table No. 3.5 can make following observation.

- 1) Upto 1973-1974 interest from loans ^{Usual} according accounted for almost 99% of the total income of the bank. However, in the year 1978-1979 and also 1983-1984, the interest from loans decreased as a proportion of total income and is around 63% of the total income. It is however,

Table No 3.5

Income Pattern

<u>Items</u>	<u>1968-69</u>	<u>1973-74</u>	<u>1978-79</u>	<u>1983-84</u>
1) Interest from Loan	241332.72 (99.23%)	714479.49 (98.86%)	1399757.58 (62.48%)	5235374.68 (63.76%)
2) Interest & Dividend from Investment	1097.10 (0.45%)	988.75 (0.13%)	827191.58 (36.92%)	2889061.84 (35.19%)
3) Commission Discount and agency charges	632.09 (0.25%)	6623.87 (0.91%)	10035.44 (0.44%)	30909.48 (0.37%)
4) Other Receipts	132.80 (0.05%)	592.25 (0.08%)	3327.05 (0.14%)	54751.15 (0.66%)
5) Locker Rent	132.80	592.25	3106.80	5749.25
6) Service charges	100% A	100% A	93.38% A	10.59% A
7) Building Rent	-	-	-	33735.50 61.61% A 14250.00 26.02% A
8) Other receipts	-	-	220.25 6.61% A	1016.40 1.85% A
9) Loss	-	-	-	-
Total Income	243194-71	722684-36	2240311-65	8210097.15

Source : Compiled from annual reports of Shri Warana Sahakari Bank Ltd.

Note : % figures indicated by A are % of the total of the other receipts.

for these years, the single largest source of income for the bank.

- 2) Up to the year 1973-1974 the income of the bank in the form interest and dividend from investment was negligibly small, less than 0.5% of total income. However, in the year 1978-1979 and 1983-1984 this source of income has assumed very large significance. As a proportion of total income more than 25%. *sentence in complete.*
- 3) Income from commission discount and agency charges is not a significant. Source of income for the bank. It is less than 1% of total income for all the years under consideration. However in absolute terms income from commission discount and agency charges has increased substantially from being Rs. 632.09 in the year 1968-1969 to Rs. 30909 in the year 1983-1984.
- 4) The income in the form of other receipts also is an insignificant part of the total income of the bank. It is less than 1% of the total income. However, in this case also the increase in absolute terms is also very substantial because it was Rs. 132.80 in the year 1968-1969 whereas it has become Rs. 54751.15 in the year 1983-1984.
- 5) Up to the year 1978-1979 the bulk of other receipts was in the form of locker rent but in the year 1983-1984 service charges constituted 61.61% of the other receipts and building rent constituted 26.06% of the other receipts.

- 6) Even though as a proportion, interest from loan shows a decrease, it has to be noted that in absolute terms; the increase in this source of income is spectacular more than 20 times in a span of 15 years because it was Rs. 241332.72 in the year 1968-1969 which increased to Rs. 5235374.68 in the year 1983-1984.
- 7) The income in the form of interest and dividend from investment shows an outstanding increase. It was just Rs. 1097 in the year 1968-1969 which increase to Rs. 2889061 in the year 1983-1984. In our opinion this could be considered as an indicator of increasing inherent income capacity of the bank for future also.

2.7 Net Profits :

In table No. 3.6 data regarding net profits of the bank for all the years under study are given. In the first year of the bank's functioning, the bank incurred a loss of Rs.2178. However, beginning from the 1966-1967 the bank has earned profits every year. In absolute terms the profits show.

Table No. 3.6

Net Profits

Year	Net Profits	Annual Average % Increase
1966	(-) 2178	-
1967	13513	-
1968	33472	147.70
1969	94890	183.49
1970	143553	51.28
1971	134798	6.09 ?
1972	127256	5.60 ? decrease ? -
1973	151289	18.88
1974	146529	3.15 ?
1975	181276	23.71
1976	173614 —	4.23
1977	145260 —	16.34
1978	288290	98.46
1979	373760	29.64
1980	502580	34.46
1981	775870	54.37
1982	798570	02.92
1983	777200 —	- ✓ 2.68
1984	790780	1.74
1985	890475	12.60

Source : Compiled from the annual reports of Shri. Warana Sahakari Bank Ltd.

a gradually increasing trend. However, there are significant fluctuations. Looking at the figures, it becomes clear that the year 1976-1977 is the year of great divide. In that year the profits were Rs. 145260 which show a decrease of 16.39% over the previous year. However, in the next year (1977-1978) the profits jumped up by 46% reaching a level of Rs. 288290. In the subsequent period up to the year 1981 the profits increased again by big jumps reaching a level of Rs. 775870. However, in the next four years they seem to have stagnated but, in the last year the increase is again significantly large. The figure of profits for year 1984-1985 is almost 9 lakhs. It was in the years 1970-1971, 1971-1972, 1973-1974, 1975-1976 and 1982-1983 that the profits show a relative decrease. If we compare the profit figures for the year 1984-1985 and 1969-1970 we can say that the profits have registered ^{an} ~~in~~ increased of 520% in a period of 15 years which gives us an annual average increase of 34.68%. The net profits of the year 1984-1985 constitute 9.26% of the total owned capital for the respective year. Similarly the net profits for the year 1969-1970 constituted more than 26% of the total owned capital. We give below a table(no.3.7) giving the rate of dividend declared by the bank over the last 20 years.

Table No. 3.7

Rate of Divident

Year	Rate of Divident %
1965-1966	-
1966-1967	3
1967-1968	5
1968-1969	7
1969-1970	9
1970-1971	9
1971-1972	9
1972-1973	9
1973-1974	9
1974-1975	9
1975-1976	9
1976-1977	9
1977-1978	9
1978-1979	12
1979-1980	12
1980-1981	12
1981-1982	12
1982-1983	12
1983-1984	12
1984-1985	12 Proposed

Source : Annual reports of Shri Warana Sahakari Bank
Ltd.

In the first year of the functioning of the bank, because of losses incurred, no dividend was given. In the subsequent three years (upto 1968-69) the dividend increased from 3% to 5% and then to 7% . From the year 1970 to the year 1977 the rate of dividend declared was 9% after which for every subsequent year the rate of dividend declared has been 12% . From this it is evident that the bank has been performing with increasing financial success.

*% Dividend is restricted
under Sec. 85.*