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- MANAGEMENT OF EARNINGS -

6.1 INTRODUCTION :

Whatever net profit earned by the UCBs is not entirely distributed amongst their shareholders. Prior to distribution of net profits as a dividend, a part is retained for the purpose of stabilisation of economic conditions of the bank, for meeting future emergencies by creating reserves of various types and then only the balance is distributed as a dividend to shareholders. The procedure of appropriation of net profit is termed on management of earnings.

In the words of Gestenberg " Management of Income in its broadest sense includes the management of each phase of Company's business because the minutest activity of the business usually involves income or expenditure".¹ As per this definition the banking business also involves income or expenditure in its each activity. Therefore, before attempting net profit and its appropriation, the researcher has studied total income and total expenditure of the banks under study.

6.2 NET PROFIT APPROPRIATION POLICIES :

The policies relating to net profits and its appropriation are as under :-

(A) CALCULATION OF NET PROFIT :

As per the Maharashtra Co-operative Societies Rules (Second Amendment), 1987 under section 49 A (1) the net profit of UCBs will be calculated by deducting the following from the

gross profit for the year -

- i) all interest accrued and accruing on accounts of overdue loans (excepting over due amounts of loans against fixed deposits, gold etc.) .
- ii) interest payable on loans and deposits;
- iii) establishment charges;
- iv) audit fees or supervision fees;
- v) working expenses including repairs, rent and taxes.
- vi) depreciation;
- vii) bonus payable to employees under the payment of Bonus Act 1965;
- viii) Provision for payment of Income Tax.
- ix) amount to be paid as contribution to Educational fund at the State Federal Society which may be notified by the State Government in this behalf;
- x) amount to be paid for contribution to co-operative cadre Employment fund;
- xi) provision for bad and doubtful debts;
- xii) provision for share capital redemption fund;
- xiii) provision for investment fluctuation fund;
- xiv) provision for retirement benefits to the employees;

xv) provision for any other claims admissible under any other law against any fund created out of profits.

xvi) doubtful debts and losses which are not provided by any other funds.

Further Rule 49 A(2) reads as the following sums shall be deducted by a UCB from its profits -

(i) contribution to any sinking fund or guarantee fund.

(ii) provision for depreciation in the value of any security bonds or shares² held by the bank as part of the investments;

It will be clear that the UCBs should deduct the above mentioned amounts from their gross profit for arriving at net profit for the year. As per the payment of Bonus Act the UCBs must pay 8.33% of total pay; of the employee or Rs.80/- whichever is more, as a bonus each year. The maximum amount of bonus is fixed upto 20% of total pay of each employees provided that other related provisions of the payment of Bonus Act 1965 are applicable.

It is compulsory to contribute towards education fund of the state Federal Society. The Maharashtra State Co-op. Union is a federal society which was registered on the 13th July, 1918, for imparting education and training to members in co-op. field, to popularise co-op. principles and practices and to conduct traing classes, schools and colleges etc. The Union raises it's funds from subscriptions from members, education fund and grant

from Government. Under section 68(1) of the Maharashtra Co-op. Societies. Act 1960, the payment of contribution to education fund is compulsory even though the UCB has suffered a loss. Such contribution is payable within 3 months from the date on which the accounts of a bank are adopted by the general body of members.

Rates of annual contribution to education fund of state Federal Society are laid down in Rule 53 of the Maharashtra Co-op. Society Rules 1960; Accordingly, Urban credit banks are required to pay 1/10% of the working capital, as education fund subject to a maximum amount of Rs.1,000/-.³

The amount arrived at after the above deductions, is net profit for the year. To such amount (i) interest accrued in the previous year but recovered in the current year and (ii) balance of profit of last year may be added. Net profit calculated under section 65 (1) become available for appropriation.

(B) APPROPRIATION OF NET PROFIT :

The net profit is allocated to various items as under :-

(1) RESERVE FUND :

The banks do not distribute entire profits amongst their shareholders, but a part of the net profit earned is set aside for their own development and to meet requirement of working capital of the bank. Retaining amount as Reserve fund is a part of self-financing and one of the aspect of management of earnings.

Under section 66(1) of the Act, every society which does or can, derive a profit from its transactions, shall maintain a reserve fund. Further section 66(2) says that every society shall carry at least one fourth of the net profits each year to the reserve fund, provided that, the Registrar may, having regard to the financial position of any society or class of societies, fix the contribution to be made to the reserve fund at a lower rate, but not lower than one-tenth of the net profits of the society or societies concerned. It will be clear that the UCBs should transfer 25% of their net profits of each year to reserve fund. If the bank creates strong reserve fund, ^{it} will not be necessary to borrow funds for its expanding business. As well as it helps the bank to stand on its own feet. Huge reserves stabilise the economic condition of the bank and help to meet easily, the increasing demand of working capital of the bank.

(2) DIVIDEND ON SHARES :

After having transferred a part of net profits (25%) to reserve fund, the UCBs may declare dividend on their shares. There are restrictions. On declaration of dividend by the UCBs. Under section 67 of the Maharashtra Co-op. Societies Act, 1960, the maximum rate at which dividend can be declared by a UCB is 12% on the paid up share capital and not on the face value of the share. The UCBs may declare more than 12% on the paid up share capital, as a dividend provided that the prior permission of State Government is obtained (36th Amendment Act in 1975).

(3) DIVIDEND EQUALISATION FUND :

The UCB may create out of its net profits a dividend equalisation fund in order to maintain a uniform rate of dividend (it has been paying during the last preceeding five years) or more during the period in which it has not earned profit or sufficient profit to pay dividend to it's members. Due to dividend equalisation fund a bank can stabilize its dividend policy.

As per Rule 52 (3) of the Maharashtra Co-op. Societies Rules 1960, a bank may create a dividend equalisation fund and credit to it a sum not exceeding 2% of the paid up capital in any year , until the total amount in such fund amounts to 9% of the paid up share capital.

(4) CONTRIBUTION TO PUBLIC PURPOSE :

Section 69 of the Act reads as, after providing for the reserve fund u/s 66 and for the educational fund u/s 68, a society (banks) may set aside a sum not exceeding 20% of its net profit, and utilise, with the approval of the such federal society as may be notified by the State Government in this behalf from time to time, the whole or part of such sum in contributing to any co-op. purpose or to any charitable purpose within the meaning of section 2 of the charitable Endowment Act, 1890 (VI of 1890) or to any other public purpose.

It means after deducting reserve fund and educational fund, from the net profit of the year, the banks may set aside 20% of the net profit towards public purpose. It is not obligatory on

any bank to do so. While making payment out of the above fund, the approval of the Rajya Sahakari Sangh Ltd. is necessary. The public purpose includes the purpose in which general interest of the community is concerned. It may be contribution towards village schools, reading rooms, building roads, water/sanitary arrangements etc. Co-operative purposes include advancement of co-operative movement and charitable purpose includes relief of the poor, education, medical relief and advancement of any other object of general public utility. Rule 50 laid down a limit on use of charity fund that expenditure on such item (mentioned above) does not exceed 10% of the net profits.

(5) OTHER FUNDS :

The UCBs must transfer 25% of its net profit to reserve fund. Then, after providing for dividend on shares, remaining net profit shall be appropriated for the creation of development fund, dividend equalisation fund and any other fund created under by-laws. (Rule 50 (2) of Maharashtra Co-op. Societies Rules 1989 as amended).

To sum up, the net profit of UCBs is to be allocated to various items as below -⁴

Reserve fund	25% of the total net profit.		
Dividend on shares	12% maximum limit		
Building fund	30% of the remaining balance of profit		
Development fund	20%	-	" -
Charity Fund	10%	-	" -
Dividend Equalisation fund	5%	-	" -
Other funds	35%	-	" -

6.3 MANAGEMENT OF EARNINGS OF THE TWO BANKS :

6.3.1 MANAGEMENT OF EARNING POLICIES OF TWO BANKS :

Management of earnings of the two banks under study is governed by the provisions made by them in their by-laws No.44. While deciding the policies of profit appropriation, both the banks take in to consideration the provisions of Maharashtra Co-op. Societies Act, 1960 and Maharashtra Co-op. Rules 1960 as amended up-to-date. As per the by-law No.44 of both the banks they manage their earnings as under -

- (1) Net profit for the year shall be calculated according to the provisions made in Maharashtra Co-op. Act 1960 and Maharashtra Co-op. Rules 1960 as amended up-to-date.
- (2) Appropriation of net profit will be made in general meeting of the bank every year in accordance with the recommendation of board of directors. The net profit of the bank will be allocated as under -
 - (a) The bank will provide at least 25% of Net profit each year to the reserve fund as per Maharashtra Co-op. Societies Act, 1960 as amended.
 - (b) Provision will be made for the payment of dividend on paid up share capital, not exceeding the maximum limit laid down by Maharashtra Co-op. Societies Act, 1960; ^{as} amended.

- (c) Out of the remaining net profits, as per the recommendation made in general meeting, amounts will be transferred to building fund, development fund, Sahakar Prachar fund, bad debts fund, fund for benefits of employees of the bank and other funds.

The amount of net profits remained after appropriation will be transferred to next year.

According to by-law No.45 of both the bank, instead of amount transferred to reserve fund under the provision of Act, Rules, and by-laws, reserve fund shall include the entrance fees, nominal member's fees, share transfer fees, amount of shares for-feited, unclaimed dividend forfeited, (amount of dividend not claimed within 3 years from the date of declaration of such dividend) amount received as interest overdue and donations. The bank shall invest or deposit the amount of reserve fund in government debentures, debenture trusts, or in approved securities or in fixed deposits of a central co-op. Bank or district Central Co-op. Bank.

6.3.2 INCOME AND EXPENSES OF THE TWO BANKS :

Major part of income of UCBs is derived from interest received on loans and advances and investments made by them. The other items of income of UCBs are commission and discount on bills purchased and discounted, dividend received, locker rent, share transfer fees etc. As well as majority of expenses are made on interest paid on deposits, interest on borrowings.

Sr. I t e m no.	AJARA BANK					JANATA BANK				
	1982	1983	1984	1985	1986	1982	1982	1984	1985	1986
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1. Interest received.	49.27 (99.31)	58.99 (99.38)	79.08 (99.26)	105.11 (99.38)	144.32 (99.45)	13.88 (99.36)	18.70 (98.32)	24.81 (99.28)	30.31 (99.41)	36.29 (99.40)
2. Other Income.	0.34 (0.69)	0.43 (0.72)	0.59 (0.74)	0.66 (0.62)	0.80 (0.55)	0.09 (0.68)	0.32 (0.68)	0.18 (0.58)	0.18 (0.59)	0.22 (0.60)
3. Total income (1+2) ..	49.61	59.42	79.67	105.77	145.12	13.97	19.02	24.99	30.49	36.51
4. Interest paid.	33.53 (76.59)	41.30 (75.65)	55.96 (78.23)	75.41 (78.22)	110.25 (80.63)	9.17 (67.23)	12.60 (70.87)	16.42 (70.87)	20.78 (72.68)	24.62 (72.50)
5. Cost of management.	10.25 (22.41)	13.29 (24.35)	15.57 (21.77)	21.00 (21.78)	26.48 (19.37)	4.47 (32.77)	5.18 (29.13)	6.75 (29.13)	7.81 (27.32)	9.34 (27.50)
6. Total expenses (4+5) ..	43.78	54.59	71.53	96.41	136.73	13.64	17.78	23.17	28.59	33.96
7. Deposits.	324.66	383.09	501.21	620.00	796.08	92.54	118.96	152.17	183.72	238.89
8. Working funds.	352.45	417.50	542.43	669.91	854.01	104.40	133.26	168.80	203.84	263.41
9. % of Income to										
(a) deposits.	15.28	15.51	15.90	17.06	18.23	15.10	15.99	16.42	16.60	15.28
(b) working funds.	14.07	14.23	14.69	15.79	16.99	13.38	14.27	14.80	14.96	13.86
10. % of expenses to										
(a) deposits.	13.48	14.25	14.27	15.55	17.18	14.74	14.95	15.23	15.56	14.22
(b) working funds.	12.42	13.07	13.19	14.39	16.01	13.06	13.34	13.73	14.02	12.89
11. % of interest received to deposit.	15.17	15.40	15.78	16.95	18.13	14.99	15.72	16.30	16.49	15.19
12. % of interest paid to deposits	10.33	10.78	11.16	12.16	13.85	9.91	10.59	10.79	11.31	10.30

13. % of cost of management
to

(a) total income.	20.66	22.37	19.54	19.85	18.25	32.00	27.23	27.01	25.61	25.58
(b) working funds.	2.91	3.18	2.87	3.14	3.10	4.28	3.89	3.99	3.83	3.55

(Source - Annual Reports of the two banks)

Note : (1) Figures in to brackets show % with total.

(2) Working funds = share capital + Reserves + Deposits.

- Table No.6.1 -

Showing Income and Expenses of the two banks from 1981-82 to 1985-86.

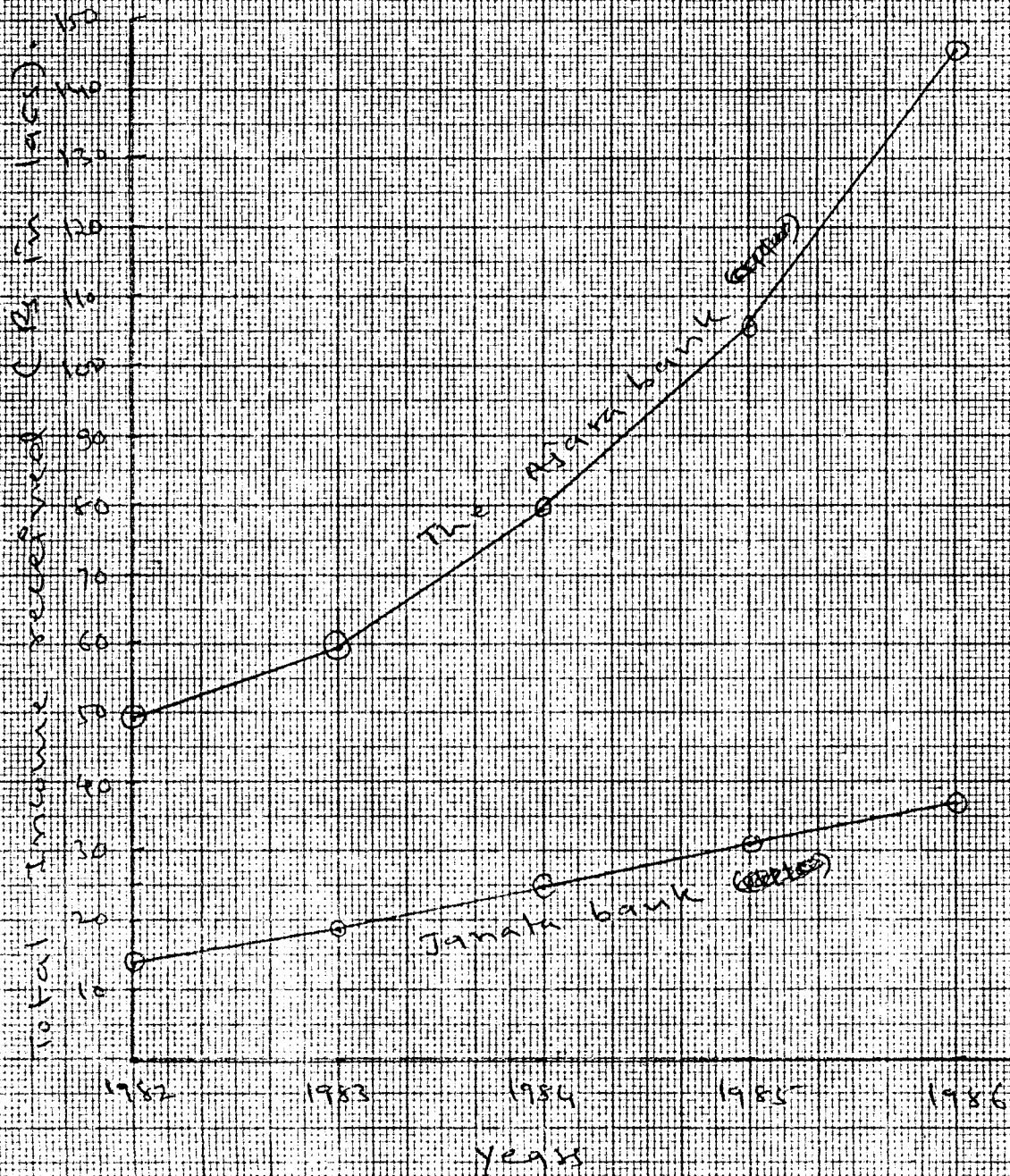
Rs.in lakhs.

Graph showing Total Income received of the two banks from 1982 to 1986.

Scale -

On X axis - 3 cms = 1 year

On Y axis - 2 cm = 10 lakh rupees



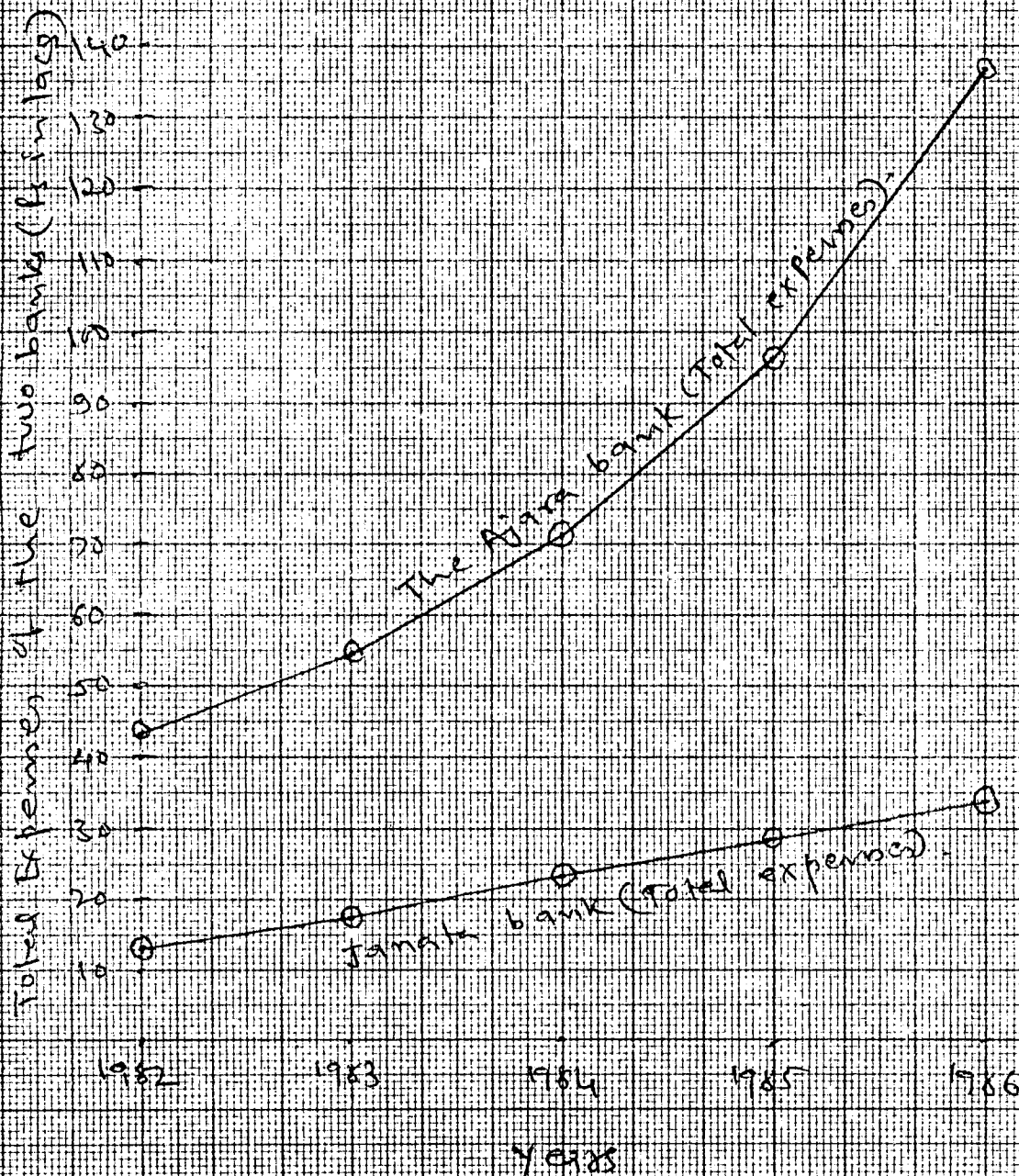
Graph showing Total Expenses of the two banks from 1981-82 to 1985-86 211

GRAPH No. 6.2

Scale -

On x axis - 3 cm = 1 year

On y axis - 1 cm = Rs. 10 lacs



Other items of expenditure are salary, provident fund contribution, bonus to employees, allowances to managing committee, rent, insurance, lighting, law charges, post telegram telephone, audit fees, depreciation, repairs, stationery, printing, advertisement, travelling expenses, office expenses, taxes, general meeting expenses, vehicle taxes, ceremony expenses education fund, amount transferred to dividend equalisation fund etc.

Table No.6.1 gives the total income and expenses of the two banks and their percentage with deposits and working funds from 1981-82 to 1985-86. It reveals that above 99% of income of two banks is received by the interest on loans advanced and investments made by the banks.

Total Income received by the Ajara bank increased from Rs.49.61 lakhs in 1981-82 to Rs.145.12 lakhs in 1985-86. It means 2.92 times increase. The ratio of total income received to deposits also increased from 15.28% in 1981-82 to 18.23% in 1985-86. It's ratio with working funds (share capital + reserves + deposits) also raised from 12.42% in 1981-82 to 16.01% in 1985-86.

Total expenses of the banks are divided into interest paid and cost of management. Cost of management includes salary, allowances, P.F.contribution to employees, board of directors' allowances, Rent taxes, insurance, light, law charges, telephone, telegraphs, postage, audit fees, depreciation, stationery, printing, advertisement, other miscellaneous expenses. Total expenses of the Ajara bank increased from

Rs.43.78 lakhs in 1981-82 to Rs.136.73 lakhs in 1985-86 showing 3.12 times increase of which interest paid increased from Rs.33.53 lakhs in 1981-82 to Rs.110.25 lakhs in 1985-86 and cost of management increased from Rs.10.25 lakhs in 1981-82 to Rs.26.28 lakhs in 1985-86. The percentage of total expenses to deposits increased from 13.48% to 17.18% from 1982 to 1986 and the percentage to working funds also increased from 12.42% to 16.01%.

Table No.6.1 further gives the total income and expenses of the Janata bank from 1981-82 to 1985-86. It shows that the total income received increased from Rs.13.97 lakhs in 1981-82, to Rs.36.51 lakhs in 1985-86 showing an 2.61 times increase. The percentage of income to deposits raised from 15.10% in 1981-82 to 16.60% in 1985 but declined to 15.28% in 1986. As well as the percentage of income to working fund increased from 13.38% in 1981-82 to 14.96 in 1984-85 but decreased to 13.86% in 1985-86.

Total expenses of the Janata bank increased from Rs.13.64 lakhs in 1981-82 to Rs.33.96 lakhs in 1985-86. It showed an 2.49 times increase. The percentage of expenses to deposits increased from 14.74% in 1981-82 to 15.56% in 1984-85, but decreased to 14.22% in 1985-86. Also the percentage of total expenses to working funds increased from 13.06% in 1981-82 to 14.02% in 1984-85, but decreased to 12.89% in 1985-86.

The cost of management increased from Rs.4.47 lakhs in 1982 to Rs.9.34 lakhs in 1986; and the interest paid also increased from Rs.9.17 lakhs in 1981-82 to Rs.24.62 lakhs in 1985-86.

Table No.6.2 showing different ratios of the two banks from 1982 to 1986,(average annual ratio).

Sr. no.	I t e m	Efficiency* ratio.	Ajara Bank** ratio.	Janata Bank*** ratio.
1.	<u>Income Deposits.</u>	12%	16.40%	15.87%
2.	<u>Expenses Deposits</u>	10%	14.94%	14.94%
3.	<u>Interest received Deposits.</u>	12%	16.28%	15.74%
4.	<u>Interest paid Deposits.</u>	7%	11.65%	10.58%
5.	<u>Staff Cost Deposits.</u>	2.50%	1.82	2.15
6.	<u>Cost of Mgmt. * working Funds</u>	3.50%	3.04	3.19
7.	<u>Cost of Mgmt. Total Income.</u>	30 to 35%	20.13	27.48
8.	<u>Income working fund.</u>	11%	15.15	14.25

(Source - Annual Reports of the two banks.

- Percentage calculated.

Note :* It is given by Shri.N.P.Barbde, Divisional Special Auditor, Pune in " Audit of Urban Co-op. Banks-ratios study and standard norms ".

** The average ratio of five years from 1982 to 1986.)

While as-certaining working results and profitability of the two banks under study the researcher has calculated actual ratios of income and expenses, cost of management with deposits and working funds. The actual ratios are compared with efficiency ratios given by Shri.N.P.Barbde, divisional special Auditor, Pune in the topic " Audit of Urban Co-op. banks Ratio study and standard norms ", which is prescribed for diploma course in co-op. audit of Dr.Vitthalrao Vikhe Patil Co-op. training college, Pune. The different ratios are exhibited in table No.6.2.

(1) INCOME TO DEPOSIT RATIO :

It is a ratio of income to deposits of the bank. It shows efficiency of the bank to earn income by using the deposits received by it. The efficiency ratio prescribed is 12%.

As per table No.6.2 the income to deposit ratio of Ajara bank was 16.40% as against 15.87% that of the Janata bank; during the period from 1982 to 1986. It can be seen that both the banks have crossed the efficiency ratio of income to deposits.

(2) EXPENSES TO DEPOSITS RATIO :

It is a ratio of expenses to total deposits of the bank. It shows the proportion of total expenses incurred by the bank to total deposits received by the bank. The efficiency ratio prescribed is 10%.

It is evident from table No. 6.2 that the expenses to deposit ratio of both the banks stood at 14.94% during the five years period under reference. It means both the banks are not successful in keeping the efficiency ratio of expenses to deposit.

(3) INTEREST RECEIVED TO DEPOSITS RATIO :

It is a ratio of interest received to deposits of the bank. It shows the efficiency of bank to earn interest by investing accepted deposits the efficiency ratio of interest received to deposit prescribed is 12%.

It is clear from table No.6.2 that the interest received to deposit ratio of the Ajara bank was 16.28% as against 15.73% that of the Janata bank, during the period under study. It means both the banks have succeeded to earn more interest by investing deposits, they received.

(4) INTEREST PAID TO DEPOSIT RATIO :

It is a ratio of interest paid to deposits of the bank. It shows cost of funds raised by the bank. The prescribed ratio is 7%.

As per table No.6.2, the interest paid to deposit ratio of the Ajara bank was 11.65% as against 10.58% that of the Janata bank. Therefore , it can be seen that both the banks have not succeeded to keep the efficiency ratio of interest paid to deposits.

(5) STAFF COST TO DEPOSITS RATIO :

It is a ratio of staff cost to total deposits of the bank. It shows the extent of staff expenses in relation to total deposits received. The efficiency ratio prescribed is 2.50%.

It is evident from Table No. 6.2 that the Ajara bank's staff cost to deposit ratio was 1.82% as compared to 2.15% that of Janata bank. It means both the bank have succeeded in keeping low staff cost.

(6) COST OF MANAGEMENT TO WORKING FUNDS RATIO :

It is ratio of cost of management to working funds of the bank. It shows the extent of cost of management of the bank in working funds. The efficiency ratio prescribed is 3.50%.

It will be seen from Table No. 6.2 that the cost of management to working funds ratio of the Ajara bank was 3.04% as compared to 3.19% that of the Janata bank. It means both the banks have succeeded in keeping cost of management at lower rate.

(7) COST OF MANAGEMENT TO TOTAL INCOME RATIO :

It shows the proportion of cost of management with total income received by the bank. The efficiency ratio prescribed is 30 to 35%.

As shown in Table No. 6.2, it clears that the cost of management to total income ratio of the Ajara bank was 20.13%

as compared to 27.68% that of the Janata bank. It means both the banks have succeeded in keeping cost of management at lower rate as compared to their total income.

(8) INCOME TO WORKING FUNDS RATIO :

It shows the proportion of income with working capital funds of the bank. The efficiency ratio is 11%.

According to Table No. 6.2, the income to working funds of the Ajara bank was 15.15% as against 14.25% that of the Janata bank. It shows that both the banks have succeeded in earning more income on their working funds. Further it may be noted that the profitability of both the banks was fairly good because they have crossed the efficiency ratio of income to working funds.

While comparing the different ratios of the two banks under study the researcher has found that in respect of income to deposit ratio the Ajara bank was ahead than Janata bank. Ajara bank has succeeded in keeping staff cost lower than the Janata bank and ultimately the cost of management was also comparatively low. The proportion of income to working funds of the Ajara bank was more than the Janata bank. These all factors clear obviously that the working results and profitability of the Ajara bank was relatively good as compared to Janata bank during the period under reference.

6.3.3 NET PROFIT & ITS APPROPRIATION OF TWO BANKS :

Table No. 6.3 reveals the net profits of the two banks under study from 1981-82 to 1985-86.

Table No.6.3 : showing Net profit of the two banks from 1981-82 to 1985-86.

Sr.no. I t e m	THE AJARA BANK					1982	1983	1984	1985	1986	1982	1983
1. Net profit	5.53	4.53	7.32	8.26	8.34	0.22	0.70					
2. Increase	-	-1.00	2.79	0.94	0.08	-	0.48					
3. working capital	390.45	468.09	616.89	746	1000.09	128.59	166.71					
4. Working funds.	352.45	417.40	542.43	669.91	854.01	104.40	133.26					
4. % of net profit to working capital	1.41	0.97	1.18	1.06	0.83	0.17	0.42					
5. Net profit to working funds.	1.57	1.09	1.35	1.23	0.98	0.21	0.53					
6. Total Income.	49.61	59.42	79.67	105.77	145.12	13.97	19.02					
7. % of net profit to total Income.	11.14	7.62	9.22	7.80	5.74	1.57	3.68					
8. Equity shares in Number.	52723	56534	66497	68527	74774	67424 (Rs.10 each)	84392					
9. Net profit per equity share (Actual Rs)	10.48	8.01	11.00	12.05	11.15	0.32	0.83					
10. Membership of 'A' Class	3814	4131	4593	4780	5081	2739	3356					
11. Net profit per member Actual Rs.145		110	159	173	164	8.03	20.85					

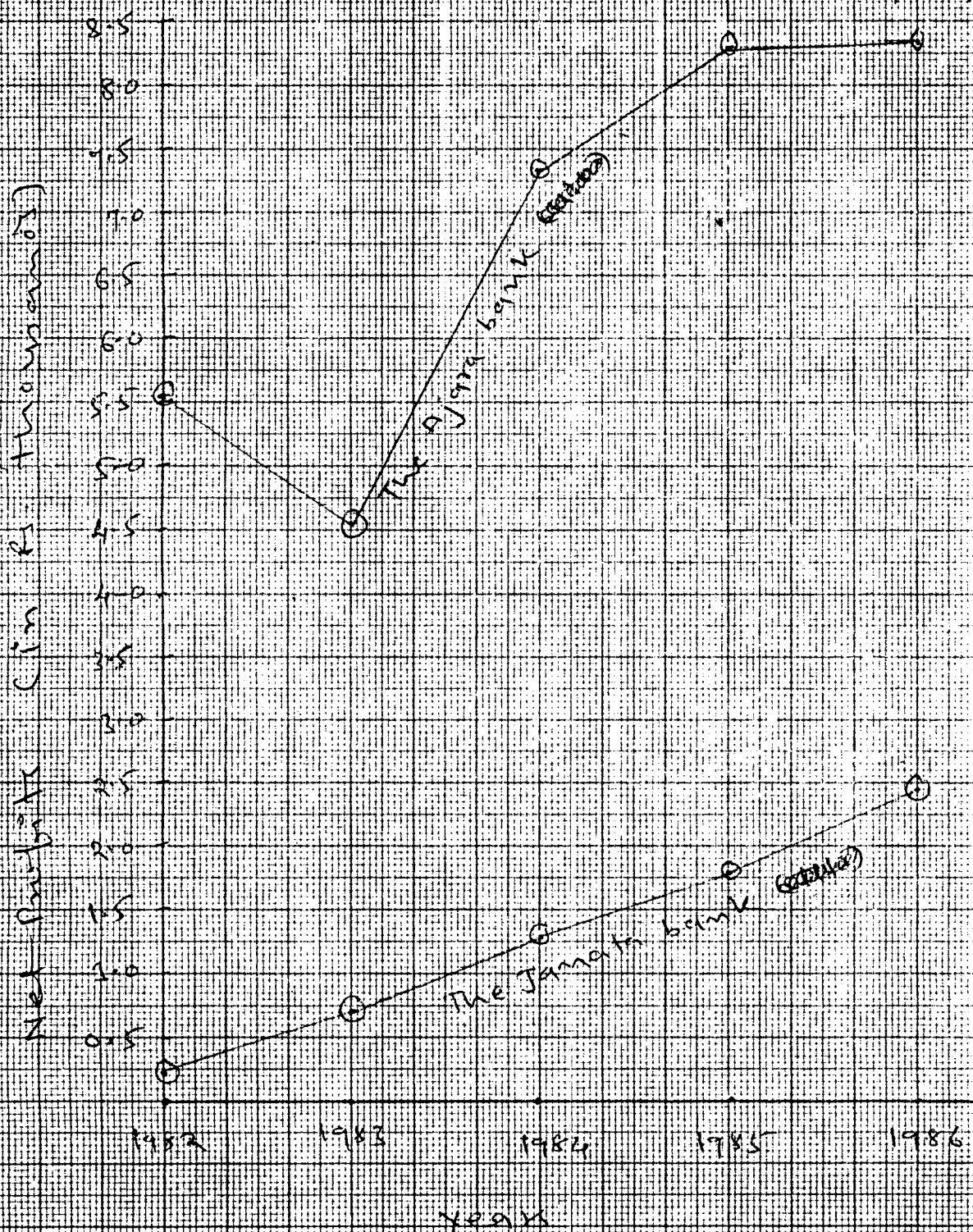
(Source - Annual Records of the two banks)

Graph showing Net Profits of the two banks (H) from 1981-82 to 1985-86.

SCALE -

on x axis = 3 cm = 1 year

on y axis = 1 cm = Rs. $\frac{1}{50}$ Lacs
50,000/-



The net profits of the Ajara bank which was Rs. 5.53 lakhs in 1982 decreased to Rs. 4.53 lakhs in 1983. The researcher found that the net profits of the Ajara bank decreased by Rs. 1.00 lakh because the bank has opened a branch at Kolhapur on 14/4/1983. The newly started Kolhapur branch suffered a loss of Rs. 89,728.09 in 1982-83 due to low transactions of loans and advances and burden of establishment charges during the period. As well as the expenditure on interest on deposits increased, due to increase made in rates of interest on deposits from 26/10/1982 by R.B.I.

The net profit of Rs. 5.53 lakhs for the year 1981-82 allocated to various items like this - 25% of net profit to reserve fund, 12% of paid up capital as provision for dividend on shares, 10% of the net profit transferred to bad debts fund, 25% of net profit transferred to building fund and 10% of net profit is transferred to Dharmaday fund. Balancing net profits were transferred to building fund as buildings at Kolhapur, Nesari and Uttur branch was started.

The net profit of Rs. 4.53 lakhs for the year 1982-83, allocated to various items like this - 25% to reserve fund, 12% to dividend, 10% to bad debt reserve, 25% to building fund, 10% to charity fund and out of remaining net profits Rs. 40,000/- transferred to Rupyamahotsav fund and Rs. 57,332.72 transferred to building fund.

Table No. 6.3 further clear that the net profits of the Ajara bank increased from Rs. 4.53 lakhs in 1982-83 to Rs. 7.32 lakh in 1983-84. It showed an 1.61 times increase. Out of total net profits of the year 1982-83, the amounts appropriated on

various items were, 25% of net profit to reserve fund, 12% to dividend, 10% to bad debt reserve, 25% to building fund, Rs. 8,000/- to charity fund. Rs. one lakh transferred to - Roupamahotsav fund as the bank has celebrated silver jubilee year 1985. Still remained profit of Rs. 1,30,301.07 transferred to building fund.

The net profits of the Ajara bank rose from 7.32 lakhs in 1983-84 to Rs. 8.25 lakhs by 1984-85. The net profits for the year 1984-85 allocated to reserve fund, dividend, bad debts, building fund, charity fund. The bank has created Sahakar Prachar Fund of Rs. 5,000/- during this year. Still remaining net profits transferred Rs. one lakh to Roupamahotsav fund and Rs. 1.58 lakh towards building fund.

The Ajara bank earned net profits of Rs. 8.34 lakhs in 1985-86 as compared to Rs. 8.26 lakhs in last year. The net profits of the year 1985-86 were allocated to reserve fund (25%), dividend (12%), bad debts fund (10%), and out of remaining profits building fund, charity fund, sahakar prachar fund and development fund are created.

It is further to note that as on 30/6/1986, all eight branches and head office of the bank earned profit. The Ajara bank has maintained a uniform rate of dividend of 12% of paid-up share capital.

The Table No. 6.2 indicates that the percentage of net profit to working capital decreased from 1.41% in 1981-82 to 0.83% in 1985-86. The proportion of net profit to total income also reduced from 11.14% in 1982 to 5.74% in 1986. As compared net profit to working capital and total income, it shows that

the profitability of the Ajara bank was decreasing during the period under study. However, the net profit per equity share increased from Rs. 10.48 in 1982 to 11.15 in 1986, and profit per member (A class) showed increase from Rs. 145 in 1982 to Rs. 164 in 1986 even though slight ups and downs are there.

Table No. 6.3 gives net profit of the Janata bank for the period from 1981-82 to 1985-86.

The net profit of the Janata bank which stood at Rs. 0.22 lakhs as on 30/6/1982 increased to Rs. 0.70 lakhs as on 30/6/1983.

The net profit of the year 1981-82 appropriated to various items as like this - 25% transferred to reserve fund and to sahakar prachar nidhi, dharmadaya fund, building fund.

The net profit for the year 1982-83 amounting to Rs. 0.70 lakhs allocated as 25% to reserve fund, provision for 4% dividend on shares, sahakar prachar nidhi, Dharmaday fund and remaining profit transferred to building fund.

The net profit for the year 1983-84 amounting to Rs. 1.27 lakhs showed an increase of Rs. 81.43% over the net profit of last year. The net profit allocated to various items like this 25% to reserve fund, provision at 6% dividend on shares, Rs. 500 to sahakar prachar nidhi, Rs. 1,500/- to - Dharmaday fund, remaining Rs. 0.34 lakhs to building fund.

The net profit of the Janata bank increased ^{to 1.77 lakhs} in 1984-85, showing an increase by 39.37% over last years net profit. The net profit allocated to various

items as 25% to reserve fund, provision of 9% dividend on shares, Rs. 1.59 lakhs towards building fund, Rs. 500 to sahaakar prachar nidhi, Rs. 1,200/- to charity fund, Rs. 15,000/- to silver jubilee fund and remaining 0.02 lakhs to building fund.

During the year 1985-86, the bank earned a net profit of Rs. 2.45 lakhs as against Rs. 1.77 lakhs in last year. It showed an increase by 38.42%. The bank has allocated its net profit of the year 1985-86 as 25% to reserve fund, provision for 10% dividend, Rs. 500/- to sahaakar prachar nidhi, Rs. 1700 to charity fund, Rs. 25,000/- to silver jubilee fund, - Rs. 10,000/- to development fund and Rs. 17,677.50 to building fund.

From Table No. 6.3 it shows that the net profit of the Ajara bank has raised from Rs. 5.53 lakhs in 1981-82 to Rs. 8.34 lakhs in 1985-86 except a decrease of Rs. one lakh in 1983 over previous year. The net profit of the bank increased by 1.51 times during the period under reference. The percentage of net profit to working capital which stood at 1.41% in 1982, declined to 0.83% by the end of the year 1986. However, the net profit per share of Rs. 25/- increased from Rs. 10.48 in 1982 to Rs. 12.5 in 1985 but decreased to Rs. 11.15 in 1986. The net profit per member raised from Rs. 145 in 1982 to Rs. 173 in 1985 but decreased to Rs. 164 in 1986.

Table No. 6.3, further gives the net profit of the Janata bank, which was raised from Rs. 0.22 lakhs in 1981-82 to Rs. 2.45 lakhs in 1985-86, showing an increase by 11.14 times during the period under study. The percentage of net profit to working capital of the bank raised from 0.17% in 1982 to 0.81%

in 1986. As well as the net profit per share of Rs. 10/- increased from Rs. 0.32 in 1982 to Rs. 1.67 in 1986; and net profit per member was raised from Rs. 8.03 in 1981-82 to Rs. 53 in 1985-86.

While reviewing the net profit earned by the two banks, the researcher found that during the period under study the Ajara bank has opened two branches one at Kapashi on 3/8/1981 and another at Kolhapur on 14/4/1983. The branch at Kapashi suffered a loss of Rs. 0.29 lakhs in 1982 and Kolhapur branch suffered a loss of Rs. 0.90 lakhs in 1983 and of Rs. 0.43 lakhs in 1984. In the remaining period all branches and head office of the Ajara bank were in profit.

On the other hand the Janata bank has opened two branches in the period under research. One at Saravade on 21/1/1982 and another at Kasaba Walave on 9/4/1982. The branch at Saravade suffered a loss of Rs. 0.34 lakhs in 1982 and of Rs. 0.16 lakhs in 1983. The branch at Kasaba Walve suffered a loss of Rs. 0.26 lakhs in 1982, of Rs. 0.23 lakh in 1983 and of Rs. 0.10 lakh in 1984. In the remaining period all branches were in profit. The head office of Janata bank earned net profits during the period under study except a loss of - Rs. 17,359/- in the year 1983.

PROFITABILITY RATIOS :

Here, the researcher has calculated actual profitability ratios of the two banks and compared them with efficiency ratios prescribed by Shri. N. P. Barbde, Divisional Special Auditor, Pune, in his topic on Audit of U.C.Banks.

(1) NET PROFIT TO WORKING FUNDS RATIO :

It is a proportion of net profit to working funds (share capital + reserves + deposits) of the bank. It shows the performance of bank in respect of profitability. The efficiency ratio is 1%.

From Table No. 6.3, it clears that the net profit to working funds ratio of the Ajara bank declined from 1.57% in 1981-82 to 0.98% in 1985-86. The average ratio in five years period from 1982 to 1986 at the Ajara bank was 1.24. On the other hand the net profit to working funds ratio of the Janata bank was 0.21% in 1981-82, increased to 0.93% in 1985-86. The average ratio of the bank in five years period under reference was 0.66%.

It can be seen that the profitability of the Ajara bank was more than the Janata Bank.

(2) NET PROFIT TO TOTAL INCOME RATIO :

It is a proportion of net profit with total income received by the bank. It shows the performance of bank in making net profit out of income received by the bank. The efficiency ratio is 8.3%.

It is evident from the Table No. 6.3, the net profit to total income ratio of the Ajara bank was decreased from 11.14% in 1981-82 to 5.74% in 1985-86. The average ratio was 8.30%. On the other hand the net profit to total income ratio of the Janata bank was increased from 1.57% in 1981-82 to 6.71% in 1985-86. The average ratio was 4.57%. It means the

Janata bank was not successful in earning proper net profit on its total income received. In case of profitability it may be noted that the Ajara bank stood ahead of the Janata bank.

While comparing the net profits of the two banks, it was examined that, the net profit of the Ajara bank was at an average Rs. 6.80 lakhs per year during 1982 to 1986 as compared to Rs. 1.28 lakhs that of the Janata bank. However, it may be noted that the increase in net profits of the Janata bank was at 11.14 times from 1982 to 1986 as compared 1.51 times that of the Ajara bank. It may, therefore, be said that though the Ajara bank has earned more net profit as compared to Janata bank, the rate of growth of net profits of the Janata bank was comparatively more; than the Ajara bank.

By observing, profitability ratios of the two banks, one can easily understand that the profitability of the Ajara bank was more than that of Janata bank during the period under reference.

Regarding rate of dividend, the Ajara bank has maintained a uniform rate of dividend of 12% during five years period under study as compared to 4% to 10% rate of dividend paid by the Janata bank. Also the Ajara bank has paid 20% bonus to its employees throughout the period from 1982 to 1986, as compared to Janata bank, which has paid nil bonus in 1982 and after that 10% in 1983, 1984, 1985 and 16% in 1986.

6.3.4 RESERVE FUND & OTHER RESERVES OF THE TWO BANKS :

Table No. 6.4 indicates the reserve fund and other

	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1. Reserve fund	7.22	9.90	12.10	15.23	18.78	1.81	2.29	3.00	4.48	5.89
2. Building fund	4.39	6.51	8.52	9.74	12.36	2.47	2.56	2.72	2.72	2.74
3. Bad debts fund	0.89	1.16	1.33	1.70	2.12	0.27	0.32	0.35	0.45	0.50
4. Dividend Equa.fund	0.65	0.70	0.75	0.80	0.85	0.33	0.24	0.25	0.27	0.30
5. Employee gratuity fund.	0.57	0.65	0.56	0.71	0.18	0.15	0.23	0.08	0.02	-
6. Charity fund	0.21	0.29	0.10	0.12	0.20	0.04	0.05	0.06	0.07	0.09
7. Sahakar Prachar fund.	0.02	0.01	0.01	0.01	0.03	0.06	0.06	0.07	0.07	0.07
8. Depreciation fund	0.04	0.09	0.22	0.49	1.13	0.08	0.09	0.09	0.09	0.10
9. Education fund.	-	-	-	-	-	0.01	0.02	0.02	-	-
10. Roupaymahoty fund.	0.40	0.60	1.50	3.50	3.17	-	-	-	-	0.15
11. Development fund. Total	0.22	0.27	0.51	0.49	0.42	-	-	-	-	-
12. Reserves and surplus.	14.61	20.18	24.60	32.79	39.24	5.12	5.86	6.64	8.17	9.84
13. Working capital Rs.	390.45	468.09	616.89	776	1000.09	128.59	166.71	213.40	249.29	302.79
14. % of Total Reserves to working capital.	3.74	4.31	3.98	4.22	3.92	3.98	3.51	3.11	3.28	3.25
15. Average %	-	-	-	-	-	-	-	-	-	-
16. Average increase in Reserves other reserves in Rs. from 1983 to 1986.	-	-	4.03%	-	-	-	-	3.43%	-	-
	-	-	6.15	-	-	-	-	1.18	-	-

Source: Annual Reports of the two Banks

(RS. IN LAKHS)

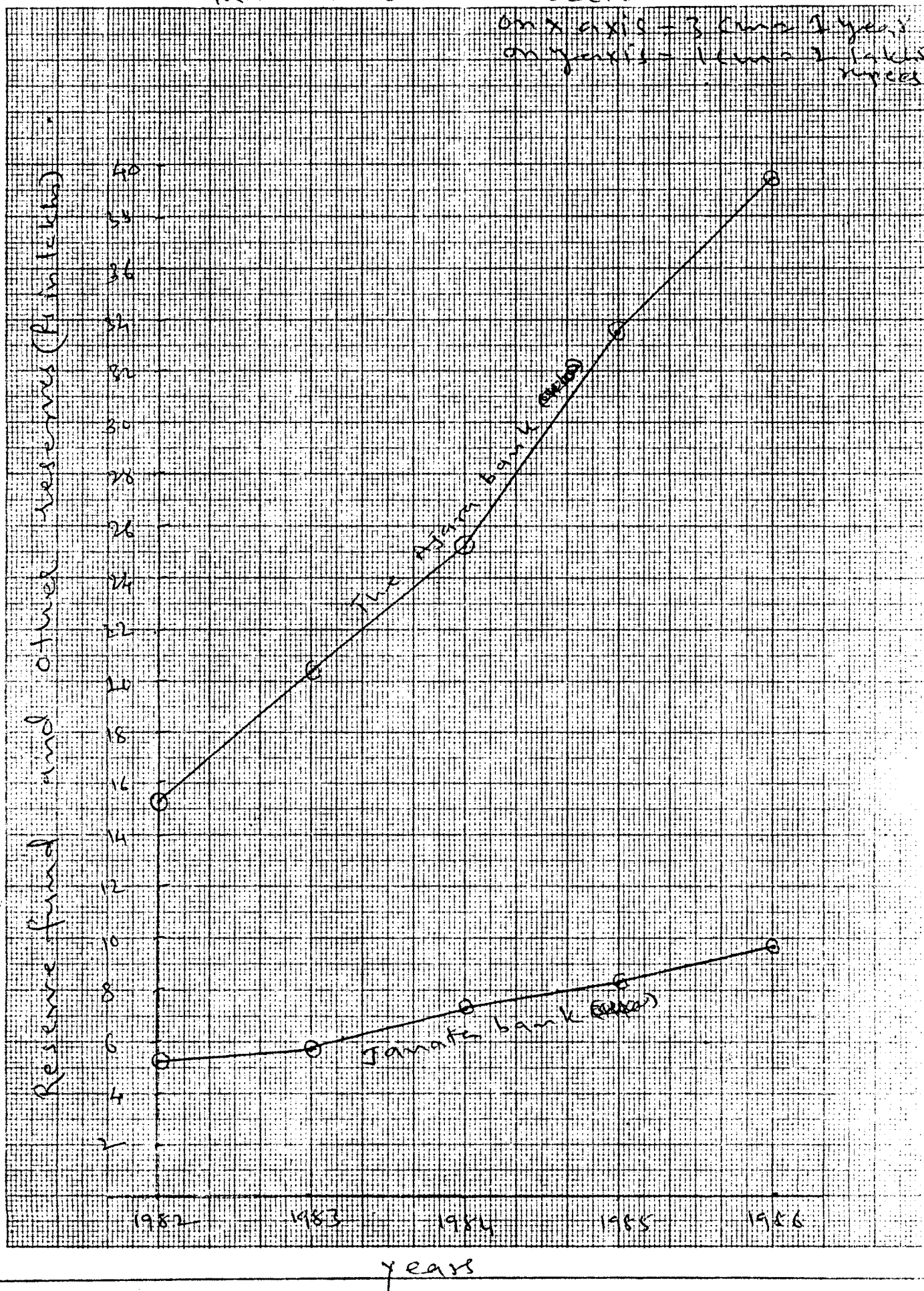
Table No.6.4 Showing Reserve fund and other reserves of the two banks from 1981-82 to 1985-86.

Graph showing Reserve fund and other reserves from 1981-82 to 1985-86. b.k. 229

GRAPH NO. 6.4.

Scale -

on x axis - 3 cm = 1 year
on y axis - 1 cm = 2 lakhs rupees



reserves of the two banks from 1981-82 to 1985-86.

The reserve fund and other reserves of the Ajara bank which were Rs. 14.61 lakhs as on 30/6/1982 increased to Rs. 39.24 lakhs as on 30/6/1986, registering an increase by 2.68 times. The percentage of reserves to working capital which was 3.74% in 1982, increased to 4.31% in 1983 but decreased to 3.98% in 1984 again increased to 4.22% in 1985 and again decreased to 3.92% in 1986.

Reserve fund of the Ajara bank increased from Rs. 7.22 lakhs in 1982 to Rs. 18.78 lakhs in 1986. Building fund increased from 4.39 lakhs in 1982 to Rs. 12.36 lakhs in 1986. Bad debt funds increased from Rs. 0.89 lakhs in 1982 to Rs. 2.12 lakhs in 1986. Employee gratuity fund which was 0.57 lakhs in 1982, showed ups and downs and decreased to Rs. 0.18 lakhs.

Charity fund increased from Rs. 0.21 lakhs in 1982 to Rs. 0.20 lakhs in 1986. During the period from 1982 to 1986, the depreciation fund increased from 0.04 lakhs to Rs. 1.13 lakhs, silver jubilee fund or Roup Yamahotsav fund increased from 0.40 lakhs to Rs. 3.17 lakhs. Development fund increased from Rs. 0.22 lakhs to 0.42 lakhs.

Table No. 6.4 further gives the reserve fund and other reserves of the Janata bank. Total reserves of the Janata bank rose from Rs. 5.12 lakhs in 1981-82 to Rs. 9.84 lakhs in 1985-86. It means an increase by 1.92 times. The percentage of reserves fund and other reserves to working capital declined from Rs. 3.98% in 1982 to Rs. 3.51% in 1983, and to Rs. 3.11% in 1984 but increased to 3.28% in 1985 and again stood at 3.25% in 1986.

During the period of five years from 1982 to 1986, the reserve fund of the Janata bank increased from Rs. 1.81 lakhs to Rs. 5.99 lakhs. Building fund increased from Rs. 2.56 lakhs in 1982 to Rs. 2.74 lakhs in 1986. Bad debts fund rose from Rs. 0.27 lakhs in 1982 to Rs. 0.50 lakhs in 1986. Dividend equalisation fund increased from Rs. 0.23 lakhs to Rs. 0.30 lakhs and charity fund increased from 0.04 lakhs to Rs. 0.09 lakhs during the period from 1982 to 1985. Sahakar prachar nidhi increased from Rs. 0.06 lakhs in 1982 to Rs. 0.07 in 1986. As well as depreciation fund raised from 0.08 lakhs to Rs. 0.10 lakhs. The bank has created silver jubilee fund of Rs. 0.15 lakhs in the year 1986. The employee gratuity fund reduced from Rs. 0.15 lakhs in 1982 to Rs. 0.02 lakhs in 1985.

From the above analysis it is clear that the reserves of both the banks have shown increase during the period under study. The average increase in reserves of Ajara bank was more, which stood Rs. 6.15 lakhs from 1983 to 1986 as compared to Rs. 1.18 lakhs that of Janata bank. The percentage of reserves to working capital of the Ajara bank during the five years period was at an average 4.03%. While the same was 3.43% that of the Janata bank. The standard ratio is 4% to 6%. Therefore, one can say without hesitation that the increase in reserves of the Ajara bank was more than that of the Janata bank and the share of reserves in working capital was also more than Janata bank.

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