

**PRACTICE OF PROFIT PLANNING AND CONTROL**  
**(With Reference to Agriculture Development Bank Limited')**

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***In partial fulfillment of the requirement for the degree of***

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## **RECOMMENDATION**

This is to certify that the thesis

Submitted by:

**MADHU NEUPANE**

**Entitled:**

### **PRACTICE OF PROFIT PLANNING AND CONTROL (With Reference to Agriculture Development Bank Limited')**

*has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.*

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# VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by:

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**PRACTICE OF PROFIT PLANNING AND CONTROL  
(With Reference to Agriculture Development Bank Limited')**

*And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of*

Master of Business Studies (MBS)

Viva-Voce Committee

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Member (External Expert) .....

## DECLARATION

I hereby declare that the work reported in this thesis entitled “**Practice of Profit Planning and Control (With Reference to Agriculture Development Bank Limited)**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Prof. Dr. Kamal Deep Dhakal** and **Romakant Bhattarai** of Shanker Dev Campus, T.U.

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# CHAPTER - I

## INTRODUCTION

### 1.1 Background

Profit is the ultimate goal of every business houses. They involve in business for making profit. Profit cannot be achieved easily. It should be managed well with better managerial skills. So profit is the planned and controlled output of management. By element, profit is the difference of revenue and cost. Profit plan, thus, refers to the planning of revenue (i.e. increase the revenues), and planning of cost (i.e. increase the efficiency of cost) (Ojha and Gautam, 2008:1).

Comprehensive profit planning and control (profit planning and control) is a new term in the literature of business. Though it is a new term, it is not a new concept in management. The other terms, which can be used in same context, are comprehensive budgeting, managerial budgeting, and simply budgeting. The profit planning and control can be defined as process/technique of management that enhances the efficiency of management.

People always expects for profit. Profit is generated from providing affordable good managerial process. When Manager provides his skills with plan, Favourable result will come that may we call profit. Profit comes after meaningful planning. The identification of the success of the enterprise primarily depends up on the profit .It measures the effectiveness of the business performance. Profit is the excess of income over expenditure. The meaning of profit has several different interpretations." An economist will say the profit is the reward for entrepreneurship for risk taking. A labour leader might say that it provides a base for negotiating a wages increase. Investor will take it as the return on his money. The accountant will define it simply as the excess of

firms' revenue over expenditure of producing revenue in given fiscal period (Welsch and Lynch, 1989:99).

Capital is influenced by profit. Flexion in the profit is directly concerned with capital. In the absence of profit, Manpower, Material, Machines, Capital holder are not smoothly mobilized. The primary purpose of planning in business is to increase the chance of making profit. The budget is the primary functions of controlling expenditure with programmes.

Proper planning, effective coordination and dynamic control only success to excess the income over expenditure. Before budgeting, previous actual incomes and expenses are compared with the budgeted amount of income and expenditure of previous year. It focuses the manager or profit planner to control or to make free in polices of utilization of budgetary tools. The procedure of preparing plan is respect of future financial and physical requirements is generally called profit planning or budgeting. Budgeting is forward planning and involves the preparation in advance of the quantitative as well as financial statements to indicate the intention of the management in respect of the various aspects of the business. It is the formal statement of policy, plan, objective and goal established by the top management in respect of some future period. Profit planning is predetermined and distributed as a guide to correct operation and as partial basis for the subsequent evaluation of performance. Thus, we can define the profit planning as a tool, which is used by management in planning the future courses of action and in controlling the actual performance.

Profit planning and control is an important approach, mainly in profit-oriented enterprise. Profit planning is merely tool of management. It is not an end of management or substitute of management. It facilitates the managers to accomplish managerial goals in systematic way. The management is efficient if it is able to accomplish the objective of the enterprise. It is effective, when it accomplishes the objectives with minimum effort and cost. in order to attain long-range efficiency and effectiveness, management must chart out its course

of action in advance, A systematic approach that facilitates effective management performance is profit planning and control, or budgeting. Budgeting is therefore an integral part of management. In a way, a budgetary control system has been described as a historical combination of a goal-setting machine for increasing an enterprises profit, and "goal-achieving, machine for facilitating organizational co-ordination and planning while achieving the budgeted targets."

## **1.2 Focus of the Study**

This study is concentrated to analyze the Profit Planning Profit Control (PPC) model provides a tool for more effective supervision of individual operation and practical administration of a business as a whole. In our country, the industrialization is still in its infancy and therefore the concept of profit planning has not even been familiarized in the most of the business concerns. By proper profit planning a business can be managed more effectively and efficiently. Commercial Banks play vital role in economic growth of a country. As being a commercial institution, a commercial bank must make profit out of its operations for its survival and fulfilment of the responsibilities assigned.

This analysis hopes to concentrate on policy aspects developed by resource mobilization. It seems to be essential for commercial banks are mainly related to resource collection and their effective mobilization.

## **1.3 Profile of Agriculture Development Bank Limited (ADBL)**

With the main objective of providing institutional credit for enhancing the production and productivity of the agricultural sector in the country, the Agricultural Development Bank, Nepal was established in 1968 under the ADBL Act 1967, as successor to the cooperative Bank. The Land Reform Savings Corporation, a similar institution established in the year 1966 was merged with ADBL in 1973. Subsequent amendments to the Act empowered

the bank to extend credit to small farmers under group liability and expand the scope of financing to promote cottage industries. The amendments also permitted the bank to engage in commercial banking activities for the mobilization of domestic resources.

Agricultural Development Bank Limited (ADBL) is an autonomous organization largely owned by Government of Nepal. The bank has been working as a premier rural credit institution since the last three decades, contributing a more than 67 percent of institutional credit supply in the country. Hence, rural finance is the principal operational area of ADBL. Besides, it has also been executing Small Farmer Development Program (SFDP), the major poverty alleviation program launched in the country. Furthermore, the bank has also been involved in commercial banking operations since 1984.

The enactment of Bank and Financial Institution Ordinance (BAFIO) in February 2004 abolished all Acts related to financial institutions including the ADBL act, 1967. In line with the BAFIO, ADBL has been incorporated as a public limited company on July 14, 2005. Thus, ADBL operates as an "A" category financial Institution under the legal framework of BAFIO and the Company Act, 2053.

Currently, ADBL has many branch within Kathmandu valley and beyond the valley. The main office of the ADBL is located at Ramshaha path in Kathmandu. In the beginning it started Rs. 70.5 million of authorized capital, now its authorized capital is Rs. 13000 million, Issued capital of Rs. 9636.8 million and the paid up capital of Rs. 9474.3 million (upto Ashadh 2067/68).

### **1.3.1 Strategic Objectives**

ADBL was established with an objective of improving the living standard of farmers by providing easy access to loan in order to increase production and productivity in agriculture sector. The bank has been lending to individual,

farmers and co-operative societies for agriculture production, farm improvement, irrigation and allied purpose like business and industrial project based agriculture. The bank is the largest vehicle providing agricultures credit and has a wide network all over the country. It collects public deposits through its commercial banks branch.

The key elements of our overall strategic goal are to build an open and honest corporate culture and to engage actively on mutual beneficial relationship with all our stakeholders to create value for them. We aim to achieve our strategic goal by achieving following three key objectives:

- To be the pre-eminent bank, providing services through Nepal.
- To deliver comprehensive banking and financial services, capitalizing its extensive network in rural areas.
- To provide quality banking and financial services to clients adopting market driven strategy delivering sustained and competitive return on investment.

### **1.3.2 Corporate Vision, Mission & Mission**

#### **Vision**

- To be a Mass-based Complete Bank serving from Urban to Rural.

#### **Mission**

- To deliver comprehensive banking solution strengthening its extensive network.

#### **Objective**

- To provide quality banking services,
- To adopt market driven strategy,
- To obtain sustained and competitive return on investment.

### **1.3.3 Corporate Conduct**

In achieving its corporate objective in pursuit of its corporate mission and vision, ADBL will:

- Comply with all relevant legislation, codes of conduct and standards of good corporate citizenship in Nepal while maintaining full autonomy in the management of its operations;
- Conduct its operations in an open and transparent manner;
- Put local resources to work for local development, serving the rural community and its aspirations;
- Provide a full and balanced range of financial products and services that satisfies the needs of the rural population of Nepal, on a profitable and sustainable basis;
- Strive consistently to provide improved products and services to its clients at reasonable cost, using modern banking, information and communication technology in the most appropriate form to its clients needs;
- Be vigorous in building reputation for professionalism, competitive pricing, reliability and quality of service and innovation;
- Operate in accordance with best banking practice, acting with financial prudence and keeping in mind the need to balance profitability with asset preservation and liquidity and to safeguard depositor's funds;
- Work together with its employees to develop their capabilities to contribute to achievement of the bank's objectives, promoting excellence, rewarding achievement and providing them the opportunity to share in the bank's success;
- Develop mutually acceptable relationship with government in the pursuit of improvement in living standards in rural areas, while respecting best financial practices;
- Ensure that its activities contribute to the environmental stability and overall improvement of living standards in Nepal; and

- Judge the bank's success against the measures that include profitability, portfolio quality in terms of minimal arrears and non-performing loans, portfolio worth, total deposits, geographic outreach and public image.

### **1.3.4 Brief Profile**

#### **1.3.4.1 Introduction**

With the main objective of providing institutional credit for enhancing the production and productivity of the agricultural sector in the country, the Agricultural Development Bank, Nepal was established in 1968 under the ADBL Act 1967, as successor to the cooperative Bank. The Land Reform Savings Corporation was merged with ADBL in 1973. Subsequent amendments to the Act empowered the bank to extend credit to small farmers under group liability and expand the scope of financing to promote cottage industries. The amendments also permitted the bank to engage in commercial banking activities for the mobilization of domestic resources.

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### **1.3.5 Board of Directors**

The Board of Directors is the apex body of the bank. It formulates policies as well as strategies and provides guidance to the management. The Board comprises a total of nine members; three members representing Ministry of Finance, one member representing the Ministry of Land Reform and four members representing individual shareholders. Besides, one member is nominated by the Board as per the BAFIA. The Board is supported by Audit Committee and Governance Sub-Committee in the area of internal control and good governance respectively.

The day to day operation of the bank is executed by the Chief Executive Officer. The Chief Executive Officer is closely assisted by four Deputy General Managers and 18 Division Chiefs. Moreover, Chief Executive Officer is supported by Assets and Liabilities Management Sub-Committee for various activities related to risk management. The bank has three-tier organisation structure consisting of Head office, Regional offices (ROs) and field offices. Field offices are further categorised into three levels; main branch, branch and sub-branch depending particularly upon their volume of business. The head office is the policy making body at the top, field offices are implementing units at the bottom and ROs with monitoring and supervisory role are in between.

ADBL is also operating a Central Training Institute (CTI) at corporate level in Bode, Bhaktapur under Head Office Structure and five Regional Training Centres (RTCs) with residential facilities in five development regions. The CTI and RTCs conducts training and seminars particularly for enhancing abilities and skills of organizational members

**Table 1.1****List of Board of Directors**

<b>Chairman</b>	<b>Prof. Gaja Nand Agrawal (PhD)</b> Tel: 4248752 (Off)
<b>Member</b>	<b>Mr. Krishna Prasad Devkota</b> DDG Internal Revenue Department, Ministry of Finance
<b>Member</b>	<b>Mr. Krishna Bahadur Raut</b> Joint secretary , Ministry of Land Reform and Management
<b>Member</b>	<b>Ms. Laxmi Devi Manandhar</b> Phone : 4420200, 9841525963
<b>Member</b>	<b>Mrs. Mira Dhonju</b> Dhumbarahi, Kathmandu Tel: 4438919
<b>Member</b>	<b>Mr. Janak Raj Shah</b> Baijanath, Achham Tel:
<b>Member</b>	<b>Mr. Sitaram Thapaliya</b> Khairahani, Chitawan Tel: 4352206
<b>Member</b>	<b>Mr. Chhetra Bahadur Sejuwal</b> Chhandannath, Jumla Tel: 4314350
<b>Member</b>	Mr. Tej Bahadur Budhathoki
<b>Company Secretary</b>	<b>Mr. Ram Bahadur Khadaka</b> Phone: 4262620

**1.3.6 Management Team****Table 1.2****Chief Executive Officer**

<b>Name</b>	<b>Telephone</b>	<b>Email</b>
<b>Mr. Tej Bahadur Budhathoki</b>	4262797,4262690	<a href="mailto:ceo.adbl@adbl.gov.np">ceo.adbl@adbl.gov.np</a>

**Deputy General Managers**

<b>Name</b>	<b>Functional Area</b>	<b>Telephone</b>	<b>Email</b>
Mr. Sagar Chandra Joshi	Human Resource	4262885	
Mr. Upendra Bdr Karki	Business Operation	4252356	
Mr. Hira Raj Nepal	Service	4263826	
Mr Anil Kumar Upadhaya	Regional Office, Kathmandu	4485467, 4476282	anil.upadhyay@adbl.gov.np

### Division Chiefs

<b>Division</b>	<b>Name</b>	<b>Telephone</b>	<b>Email</b>
Company Secretariat	Mr. Ram Bdr Khadka	4262620	
Office of the CEO	Mr. Purusotam Shrestha	4262620	
Branch Management	Mr. Ujowl Acharaya	4263387	
Loan	Mr. Dilip Jung Shah	4223819	
Risk Management	Mr. Netra Bahadur Chanda	4250736	
Small & Micro Enterprise Development	Mr. Mukesh Shrestha	4252353	<a href="mailto:ADBLsfdd@ntc.net.np">ADBLsfdd@ntc.net.np</a>
Planning	Mr. Hemlal Sharma	4252354	
Information Technology	Mr. Chandan Shrestha	4250737	
General Service	Mr. Ganesh Bahadur Pandey	4262613	
Finance & Account	Mr. Naresh Man Pradhan	4252358	<a href="mailto:naresh.pradhan@adbl.gov.np">naresh.pradhan@adbl.gov.np</a>
Human Resource Management	Mrs. Bijaya Swar	4219241	
Internal Audit & Inspection	Mr. Kamalapati Paudel	4242145, 4258620, 4222297	
Project Directorate	Mr. Manohar Shrestha	4262708	
Office of Gratuity Fund Management	Mr. Janaka Brd Thapa	4242144	
Legal Division	Mr. Dasharath Joshi	4246175	
Treasury Division	Dr. Shivaram Koirala	4260453	
Central Training Institute (Director)	Mr. Kirti Devkota	6635268	
Marketing and Research Division	Mr. Shiva Adhikari	4262605	
Assets Management Project	Mr. Arjun Bistha	4255795	<a href="mailto:arjun.bista@adbl.gov.np">arjun.bista@adbl.gov.np</a>

### **1.3 Statement of the Problem**

Profit is the primary measure of success of business. Normal profit is necessary to run a business smoothly in long run. Bank is no exception for this. ADBL also needs profit so ADBL might have been planning the profit. The present study will try to analyze and examine the profit planning of this bank. Without proper profit planning any business organization can't run in right way.

This study will answer the following questions:

- To what extent has the process of profit planning followed in this bank?
- What are the overall problems of ADBL?
- To explore how the profit, ADBL is occurring?
- To what steps should be taken to improve the profit planning system in this bank?
- What suggestion can be recommended for their proper solutions?

### **1.4 Objective of the Study**

The specific objectives of the study are listed below:

- To examine the present profit planning premises adopted by ADBL.
- To examine the resource mobilization and achievement of ADBL.
- To examine the outcome of those plans in terms of achievements.
- To sketch the main problem of development and implementing profit planning system in ADBL.
- To provide appropriate suggestion and recommendation based on the major findings.

### **1.5 Significance of the Study**

Now-a-days private sector is going stronger than public sector and the privatization is rapidly growing all over the world. For the economic and social development of the country, a private enterprise plays a vital role.

- The research study will concern with the profit planning in commercial bank with the case study of ADBL,

- To analyze the proper applicability of profit planning system in the bank.
- The significance of the study is really to examine whether ADBL is applying profit planning system properly or not.
- To analyze if there are any drawbacks in profit planning system in bank.

### **1.6 Limitation of the Study**

The limitation that come in conducting the study are listed below-

- It covers the study period of 5 years.
- Data prevails under this study are secondary.
- The study is limited to the related profit planning of ADBL
- Only ADBL is taken into consideration in this study.
- The accuracy of the study is based on the data available from the website of Standard ADBL, its various published documents and management

### **1.7 Organisation of the Study**

This research has been organised into five chapters. the title of the chapters are listed below with brief description of their containment.

#### **Chapter- I: Introduction**

This chapter includes background of the study introduction of the bank, meaning of the commercial banks, historical background of the bank, introduction of ADBL, Statement of Problems, objective of the study, importance and limitation of the study.

#### **Chapter- II: Review of Literature**

It contains review of literature. Here theoretical analysis and brief review of literature is available. It also includes discussion on the conceptual framework and review of the major studies in general.

### **Chapter- III: Research Methodology**

It explains about research methodology. It includes Research design, Population and sample, Source of data, Data collection procedure, and Methodology of Analysis definition of statistical Tools.

### **Chapter- IV: Data Presentation and Analysis**

This chapter deals with the main part of the research. In this chapter effort have been made to present and analyze the data in required form and the major findings of the study.

### **Chapter-V: Summary, Conclusions and Recommendations**

It includes summary, conclusion and recommendations. Also at the end of this research Bibliography and Appendices are attached.

## **CHAPTER - II**

### **CONCEPTUAL FRAME WORK AND REVIEW OF LITERATURE**

#### **2.1 Introduction**

Review of Literature is one of the most important aspects of any research. No study is possible without the review of literature. It is a kind of tool, which provides a proper guideline and idea to the researchers in many studies. The review of literature provides the guidelines for the further study and helps to avoid the unnecessary duplication in the research work. Review of literature plays an essential role in the Profit Planning & Control system of commercial banks. Conceptual base is the most central part of every study. Without clear concept on subject matter, the study may not go through right way. So the review of literature is taken as an essential part, which works as cornerstone of the study. So that all the past studies and their conclusions may be known and further research can be conducted. It is an integral and mandatory process in research work. Scientific research must be based on passed knowledge. So the previous studies cannot be ignored because they provide the foundation to the present study. The main 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.

#### **2.2 Conceptual Framework**

##### **2.2.1. Concept of Commercial Bank**

A commercial can be defined as an institution which deals in money in words of the Crowther " Bank collect money from those who have it to spar or who are saving it out their income and lend this money out against goods security to these who requires it" (Crowther, 1985:58).

A bank is business organization that receives and hold deposit of funds from other, make loans or extends credit and transfer fund by written order if depositors (America: Grolier Incorporated, 1996).

Commercial bank is cooperative which accepts demand deposits subject to check and make short-term loans to business enterprises, regardless of the scope of its other services (American Institute of Banking, 1972: 345).

Commercial banks are those banks that poll together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand of short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry such as working capital financing. They cannot financing in fixed assets. They grant loans in the form of cash credits and overdrafts. Apart from financing they also render services like collection of bills and cheque, safe keeping of valuables, financing advising etc to their customers (Vaidya, 2001:38).

In the Nepalese context, Commercial Bank Act, 1974 A.X, Defines " A Commercial bank as one which exchanges money, deposits money, accepts deposits grants loans and performs commercial banking functions (Commercial Bank's Act, 1974 A.D.).

Commercial banks are those bank which perform all kinds of banking function are accepting deposits, advancing loans, credit creations and agency function. They provide short term loan, medium term loans and long term loans to different business house and trading companies. NRB act 2013 has defined the meaning of commercial banks as the banks, which performs the commercial functions.

Hence we can conclude from the above that commercial banks are established under the rules and legislation of the central bank of the country. It has to move as per the directives given by the central banks. Though banks are established for the mobilization of the saved fund central bank makes certain under gone on less of their hard earned money by the customer of the bank may not under gone on less of their hard earned money by the disinvestments procedure of the bank.

### **2.2.2 Functions of Commercial Banks**

Commercial bank is the financial institution that deals with money and monetary transaction. Although, it generally accept deposits and provide loans. But nowadays, in the modern and advanced economy, it expand and diverse its functions. It perform every potential functions for the development of trade, commerce, industry and agriculture including supports for priority and deprived sector. It is established with the prime objective of profit maximization. So, keeping this objective in mind, commercial banks operate its banking business. They earn profit as interest by advancing the fund as loan at the interest rate higher than its cost. As Central Bank is the guardian of all banks and financial institutions and it has got regulating and controlling authority over all banks, commercial bank must be set up under the provision of Central Bank. Commercial banks must have to obey the rules and regulations promoted by Central Bank. The functions of commercial banks are as follows:

#### **1. Accepting Deposits**

- Fixed Deposit Account
- Saving Deposit Account
- Current Deposit Account
- Home Saving Account
- Recurring Deposit Account

## **2. Advancing Loans**

- Term Loans
- Cash Credit
- Overdraft
- Money at Call

## **3. General Utility Function**

- Issue of letter of credit and traveler s cheques
- Remittance of money
- Discounting bills of exchange
- Locker facilities
- Collecting trade information and banking statistics
- Exchange foreign currency
- Collection and payment of cheques, bills, promissory notes, etc.

## **4. Agency Function**

- Collection of money from other banks to the customer
- Receipt and payment of dividend, interest, etc
- Financial adviser to the customer
- Security brokerage service
- Underwriting securities of Public and Private sector

### **2.2.3 Role of Commercial Banks in the Development of Economy**

Commercial Banks play an important role in facilitating the affairs of the economy in various ways. The operations of commercial Bank record the economic pulse of the country. The size and composition of their transaction reflect the economic happening in the country. Commercial Banks have played a vital role in giving the direction in economic growth over the time by financing the requirement of industries and trade in the country. By encouraging thrift among the people, banks have fostered the process of capital

formation in the country. In the context of deposit mobilization, commercial banks induce the savers to hold their savings in the form of bank deposits thus help bringing the scattered resources into the organized banking sector which can be allocated to the different economic activities. In his way they help in country's capital assets formation. Through their advance, banks also help the creation of income of which further saving by the community and further growth potentials emerge for the good of the economy. IN a planned economy, banks make the entire planned productive process possible by providing funds the public sector, joint sector or private sector for any type of organization. All employment income distribution and other objectives of the plan as far as possible subsumed into the production plan which banks finance.

The importance of commercial banks in directing the economic activities in the system is immense. Not only in the highly developed economies where the commercial and industrial activities are paralyzed in the absence of banks, even in the developing countries' economy are most of the economic activities particularly of organized sectors bank based. Therefore, in a nutshell it can be said that the growth of the economy is tied to the growth of the commercial banks in the economy.

#### **2.2.4 Concept and Meaning of Development Bank**

The development bank is to provide loan both commercial and development sector is called development bank. It means development bank is the main infrastructure of national development of a nation every country has to establish the development bank (Singh, 1974:15).

Bank established for the development of basis infrastructure of the country is known as development bank. Different countries have different provision for the establishment of such banks even though the objectives of its establishment are to develop the country. In Nepal, development banks are established under the provision of development bank Act 2052 for the investment and development of the particular sector of country.

Development bank gives the proper environment in the country for the development of concerned sector i.e. rural area, urban agriculture, and industrial area of country. It invest short term, medium term and long term loan, provides capital, technical assistance specific sector of the country.

A development bank may be defined as an institution whether wholly or particularly owned by government or by private interests (both domestic and foreign) primary developed to the situation and invigoration of the national capital market to the provision long term capital (both loan and equity) and to the supply of entrepreneurship including technical know how and management to the private corporate sector.

The main function of the bank is to collect capital from different sources and invest it in productive sector, which can make self-reliant in goods and service. It provides capital and renders technical consultancy services to entrepreneurs.

### **2.2.5 Origin and Evolution of Development Bank**

Origin of development bank is in Europe in the 19<sup>th</sup> century was also followed by several other Asian countries in the 20<sup>th</sup> century. The first Asian country to experience such development bank was Japan. First development bank was established in 1902 in Japan and it helped a lot in the economic transformation of Japan. It is also said that the idea of development bank emerged in Belgium. The importance such institution was recognized only after the establishment of industrial development bank of Japan. Japan Development Bank is another Japanese Development Bank established in 1953 to uplift the industrial economy of Japan (Burch, 1994).

The next phase in the development of these institutions can be witnessed after the Second World War when a large number of institutions like Industrial Development Bank of Canada (1944), Herste Bank in Holland (1949), Industrial Credit Bank in Germany (1949), Finance Corporation for Industry in

England (1948), etc were set up thus the basic idea behind development bank was organized and developed from the industrialized European Nations.

### **2.2.6 The Banks in Nepalese Context**

Today many commercial and development bank has been establishing but before 1937, there were no any financial and banking institution in out country. At that time loan moneylender and village money lenders carried out the financial and banking function. The first banking institution was established in 1937 is Nepal Bank Limited in the form of the first commercial bank in Nepal. Nepal Rastra Bank was established under the NRB Act of 1955 in 1956 in the form of central bank. It worked as a development bank also in a direct and indirect term. Direct in the sense that it performs the functions of commercial bank indirect in the sense that it provides loan to Agriculture Development Bank and Nepal Industrial Development Corporation for the promotion of development Bank. The third financial institution established in Nepal was the Nepal Industrial Development Corporation in 1957. The fourth financial institution established in Nepal, was Agriculture Development Bank in 1967, and next financial intermediary setup in Nepal was National Insurance Corporation in 1968. Small Farmers Development Program (SFDB) was established in 1957 to provide financial and technical assistance to small farmers (Joshi, 2001).

Today's many other financial institution have also been established e.g. Nepal Arab Bank Ltd, Himalayan Bank, Everest Bank, Bangladesh Bank, SBI Bank, Investment Bank, Nic Bank, NEBIL Bank, Global Bank, Laxmi Bank and Rural Development Bank, Mega Bank, Sanima Bank etc. in Nepal. Development Banks are established under the provision of Development bank Act of 2052 B.S. Many development banks are operating in Nepal at present.

### **2.2.7 Profit**

Profit happens after meaningful management. Planning activities regarding profit is known as profit planning. The word profit itself declare its meaning. Profit is treated the excess of income over expenditure or deduction in cost or increase the volume of production or increase the efficiency of the business enterprise.

Profit is the primary measure of success of business enterprise. We can define profit from different angle. An economic will define it as the entrepreneurship for risk taking. A labor leader might say that it is a measure of high efficiently provided by labor and it refers to the base for negotiating a wage increase. An investor will think the profit as the return amount of his money. The accountant will define the profit as the excess of income over expenditure. A point of a view of profit, the entrepreneur is special type of labor and profit is special form of wages. The entrepreneur earns profit for organizing and co-ordination of land, labor and capital." It is the ultimate objective of management to maximize profits over the long –term. Consistent with its social responsibility". "Profit is a signal for the allocation of resources and a yard stick for judging managerial efficiency". "Profit around which all organizational activities directly or indirectly revolves, play the significant role for judging the managerial efficiency. It is the primary objective of business".

"Profit is the amount of revenue earned above the expenses incurred to operate the business". "It should be noted that profits are residual income left after the payment of the contractual rewards to other factors of production".

"The accounting concept of company profit is a concept of net business income. The sales transactions of a period are regarded as bringing new assets into the business and a profit results if there are in excess of the assets leaving the business in the same period. Profit is thus the surplus income that remains

after paying expenses and providing for that part of capital that has been consumed in producing revenue".

Different scholar provides their view regarding profit. Some hold the view that an entrepreneur performs the joint and in separable functions of responsibility .The entrepreneur earns profits because he takes risks says Haw hey. F.H. knight stresses that the entrepreneur earns profit because of uncertainty bearing, which arises in the economy. Schumpter opines that an entrepreneur earns profits as reward for his introducing innovations. J.M. Keynes held the view that profits resulted from favorable movements of the general price level. The economists like Mrs. Joan Robinson, chamberlain opined that greater the degree of monopoly power, the greater the profits made by the entrepreneur.

Profit is the reward for bearing risk. Profit will come after meaningful planning of every side of business activities. Good management, good labor, good machinery and good environment provide the path for profit. The success of business depends largely up on the profit earned by the business. The efficiency of the management is reflected up on the volume of profit. Profit is a signal for the allocation of resources and a yardstick for judging managerial efficiency.

### **2.2.8 Planning**

Planning means deciding in advance what's to be done in future. It is a method of arranging ideas to achieve the goal. Function of planning starts from forecasting and determination of future events. Good planning only emerge adequate profit. Planning is the major elements of management. Plan means something to do or achieve a set of things that has been considered in detail in advance for the future." Planning is deciding in advance what is to be done".

Planning is the process of developing enterprise objectives and selecting a future course of action to accomplish them. It includes (a) Establishing

enterprise objectives (b) Developing premises about the environment in which they are to be accomplished (c) Selecting a courses of action for accomplishing the objectives (d) Initiating activities necessary to translate plans in to action and (e) Current re-planning to current deficiencies. It is a continuous process performed by business organization. In the passage of time, an organization should make the new plans and re-plans of the existing plans. New information is needed for replay.

Planning is a system approach of management planning is a best tool for operational and financial control of an organization. Management planning and control systems play the vital role in operation the financial and other area of management of the organization. Management planning and control begins with the establishment of fundamental objectives of the organization.

It is method of thinking out acts and purposes before hand. Planning starts from forecasting and determination of future events."A planning involves anticipation of future course of action and therefore bears an elements of uncertainty in respect of its success ".

"Planning is the conscious recognition of futurity of present decision". It reduces uncertainty and provides direction to the employees by determining the course of action in advance." Planning is the feed forward process to reduce uncertainty about the future. The Planning process is based on the conviction that management can plan its activities and conditions of the state of the enterprise that determine its destiny".

Planning is the continuous process by which necessary resources are provided and employed effectively and efficiently to ward achievement of the goals. A management planning and control system provides the comprehensive framework with in which this process it carried out.

Management planning is both the foundation for performing the four other functions of management as organizing, staffing, leading and controlling. Planning is a frame of reference, which is established of current decisions. "The Planning process both long and short term is the most crucial component of the whole system. It is both the foundation and the bond for the other elements because. It is through the planning process that we determine. What we are going to do? How we are going to do? Who is going to do? It operates as the brain center of an organization and like the brain I both reason and communicates".

According to the period covered by the plan, we can divide plan in two categories.

### **1. Long-term Plan**

The plan, which runs for the period of two or more year for achieving the goals. Long-term plan focus the future development from the present available capital, machine and labour. It always provides right path for long period. Strategic\long term planning is generally planned for more than two years, varying with the enterprise and sometimes extended to 10 years" The best long range plan is one that establish a broad flexible objectives to serve as guide line for subordinate plans and that is not likely to become absolute as result of rapidity changes in technology". The main purpose of this plan is "to serve primarily as a source of strategy, motivation and direction".

The objectives of long term planning gives by George R. Terry are as follows: -

- "To provide a clean picture of whether the enterprise is handed.
- To focus on long-term opportunities.
- To keep enterprise strong.
- To evaluate management personnel
- To expedite new financing.
- To bring attention to new technique".

## **2. Medium Term Plan**

"Medium term planning used mainly to determine the allocation of resources among competing. Activities to revise long-range plans in view of more recent development. These allocations are based in part on forecast of demands, cost, financial position and competition, With a time horizon of one to two years and critical decision on resource allocation, medium term planning must correctly predict the general levels of economic activity, since that effect such factors as revenues, profit, costs and expenditures. The importance and infrequency of medium term planning make it worth while to spend more effort and employ more elaborate techniques to obtain accurate prediction that is the case for shorter time horizon, often it may be wise to use more than one method in order to check and compare the accuracy of results. Some of the methods most frequently used for medium term planning needs are discomposition".

### **Short-term plan**

This plan often takes the form of budgeting this plan takes one year or less than are year." The short-term plan is synonymous with the classical budgetary period of one year. The short range planning is made after a freeze is taken as the consideration of possible alternative course of action Such course are outlines for the medium term plan which does not concern implementation, its aim is weeding out a plethora of possibilities which are the most part long on promises and short on feasible, tangible results".

"The short range planning is to conform to fiscal quarters or years. Because of the practical needed for conforming plans to accounting periods and the same what arbitrary limitation of long range to three to five years is usually based as has been indicated on the prevailing beliefs that the degree of uncertainty cover long period makes planning of questionable values". It is issued to determine the allocation of recourses among

Competing activities and to revise long term plans in view of more recent developments. Planning should start by deciding and defining the objectives of the company, making sure in the process there are comparative with the skills and resources of the undertakes.

We can examine planning in term of three sub systems.

### **Strategic Planning**

Strategic planning is long range in its time perspective and complete in its breadth of scope and depth of penetration. It provides the determination and periodic change of organizational objectives. It guides the goal-oriented activities of the organizational. It is a top managerial function. It is highly creative and unstructured in character. It must be tuned in to the external environment of business. Social, economical, political, and international and other factors influence the nature and movement of strategic planning.

Planning, policies and decision of a business concern involves the relation of plan sizes, acquisitive, new product development, changes in markets, distribution channels, changes in fundamental capital structure, formulation of long range policy, expanding into multinational business actions .It might be said that strategic planning establishes the fundamental internal environment with in which all the activities of the organization will be carried on.

### **Management Control**

Management control is carried on with in the environment established by strategic planning. Its goals are tangible within the broad framework of overall organizational objectives. It focuses management that participates in the formulation of near- term plans and the criteria by which the line manager's performance is to be measured.

The management control system must comprise on integrated structure of related subsystems. Management control requires administrative and persuasive skills in its successful implementation.

### **Operational Control**

Its scope and focus involve the operating unit. Operational control is employed to assure that management planning is carried to fruition effectively and efficiently in the organization.

It is executed principally at the level of front line suppression. Some of the typical ways in which operational control systems are implemented are inventory control systems, sales quotas and sales personnel's reports, credit and collection systems, product scheduling, departmental over head reports, daily production reports, daily reports of bank balance, responsibility reporting systems measures actual costs incurred against budget allowances by department and the like.

Planning should start by deciding and defining the objectives of the company, making sure in the process that there are comparative with the skills and resources of the undertaking.

### **2.2.9 Meaning of Profit Planning**

Profit planning and control is the systematic and formulation approval for performing significance facts of the managing planning and control system.

Before we can make an intelligent approach to the managerial process of profit planning. There are after all several different interpretations of the terms 'profit. An accountant will say that the profit is reward of entrepreneurship for risk taking. A labor leader might say that it is a measure of how efficiency labor he has proud and that it provides basis wages for negating of wage increase.

Usually profit do not just happen, profit are managed. Profit plays key role for achieving the objective of an organization. The main objective of a business firm may be maximizing its profit as well as to render service. These both objectives have a sharp link in the management of the organization. Profits, around which all organizational activities directly or indirectly revolve, play the significant role for judging the managerial efficiency. In absence of profit, nobody can think about long term survivability of the organization and all the set of objective for what the organization was established may turn to the bundle of magic stick only covered with dream and when a management plans if profit, that is known as profit planning. Profit planning is a part of over all planning process of an organization."Comprehensive profit planning and control " is a new term, it is not a new concept in the management. It is future estimation of profit p, profit planning and control has been developed for facilitation effective performance of management system, mainly in profit-oriented enterprises. PPC can be applied in both manufacturing and non-manufacturing enterprise.

"Precaution is better than cure" is the logic of profit planning and control in the field of management accounting. It is very difficult to stay or service in this modern complex and competitive business environment without profit planning and control. In every large and small company, it is very necessary to know the importance of profit planning and control. The concept of "PPC" is a management process that include planning, organizing, staffing, leading and control.

The activities particularly performed by management for profit for a certain period of time is called profit plan. It is clouds the estimates of (1) The service activities and project comprising the programme (2) The resultant usable for their support. The term comprehensive profit planning and control is defined as a systematic and formalized approach for performing significance phases of the management planning and control functions specially involves: -(1) The

specification of enterprise goal (2) A long range profit plan developed in broad terms. (3) A short-range profit plan detailed by assigned responsibilities (division, products and projects) (4) A systematic of periodic performance reports detailed by assigned responsibilities and (5) Follow up procedures.

The profit planning and control is used for the development and acceptance of objectives and goals and moving and organization efficiently to achieve the objectives and goals. It entails an integration of numerous managerial approaches and techniques.

Profit planning is one of the most important management tools used to plan and control business operations. Budgets or profit plans are financial plans prepared as a guide to and control of future operations. Profit planning in fact is a managerial technique and a profit plan is such a written plan. It is a formal statement of policy, plan, objectives and the goal established by the top management in respect of a same future period. Profit planning is the predetermined detailed plan of action developed and distributed as guide to current operations and a partial basis for the subsequent evaluation of performance.

Profit planning is directed final objectives of the organization and generally includes all of its important elements. It has the ultimate objectives of attaining optimum profits. The most reasonable approach of attaining optimum profits to plan as a percentage of capital employed to produce them and to manage the enterprise with the objectives of achieving the planned percentage is called profit planning.

The concepts and techniques of profit planning and control have wide application in individual business enterprise, government units, charitable organizations and virtually all groups of endeavors.

Profit planning and control modes include the following matter.

- Development and application of broad and long-range objective of the enterprise.
- Development of a strategic profit plan in broad items.
- Specification of a tactical short-range profit plan in detailed by assigned responsibility.
- Specification of enterprise goals.
- Establishment of a system of periodic performance reports detailed by assigned responsibility.
- Development of follow up procedure.

#### **2.2.10 Ways of Profit Planning and Control**

The fundamental concept of profit planning and control include the underlying activities or tasks that must generally be carried out to attain maximum usefulness for PPC. It is concerned with effective application of the theory at management process and desirable management organization.

Way of planning and control: -

1. Managerial involvement and commitment
2. Organizational structure
3. Planning process
4. Co-ordination
5. Communication
6. Accounting responsibilities
7. Long range profit planning
8. Short range profit planning
9. Follow up
10. Behavioral program

The main principles and purposes of profit planning are as follows:

- To provide a realistic estimate of income and expenses for a period and of the financial position at the close of the periods detailed by areas of management responsibility.
- To provide a co-ordinate plan of action, which is designed to achieve the essentials, reflected in the budget.
- To provide a comparison of actual results with those budgeted and an analysis and interpretation of deviations by areas of responsibility to indicate courses of corrective action and to lead to improvement or procedures in building future plans.
- To provide a guide for management decisions in adjusting plans and objectives as uncontrollable conditions change.
- To provide a ready basis for making for casts during the budget period to guide management in making day to day decisions.

### **2.2.11 Significance and Constraints of Profit Planning**

The following main arguments are usually given for profit planning: -

- It forces merely consideration of basic policies.
- It require adequate and sound organization structure that is than most be a definite assignment of responsibility for each function of the enterprise.
- It compels all member of management, from the top down to participate and the establishment of goals and plans.
- It compels departmental managers to make plans in harmony with the plans of other departments and of the enterprises.
- It requires that management put down it figure what is necessary for satisfactory performance.
- It requires adequate and appropriate historical data.
- It compels management to plan for the most economical use of labor, material and capital.

- It instills at all levels of management the habit of timely, careful, and adequate consideration of the relevant factors before reaching important decisions.
- It reduces cost by increasing the span of control because lower supervisors are needed.
- It frees executive from many day –to-day internal problems through predetermined policies and clear-cut authority relationships. It there by provides more executive time for planning and creative thinking.
- It tends to remove the cloud of uncertainty that exists in many organizations, especially a many lower levels of management, relative to basic policies and enterprise objectives.
- It pinpoints efficiency and inefficiency.
- It promotes understanding among members of management of their co-workers problems.
- It forces management to give adequate attention to the effect of general business conditions.
- It forces the periodic self-analysis of the company.
- IT aids in obtaining bank credit commonly require a projection of future operation and coin flow to support large loans.
- It checks progress of lack of progress toward the objectives of the enterprises.
- It forces recognition and corrective action.
- It rewards high performance and seeks to correct favorable performance.
- It forces management to consider expected future trends and conditions.

### **2.2.12 Constrains**

The following main arguments are usually given against profit planning.

- It is difficult; it is not impossible to estimate revenues and expenses in our company realistically.

- Our management has no interest in all assimilates and schedules. Our strictly I formal system is better and works well.
- It's not realistic to write out and distribute our goals, policies and guidelines to all the supervisors.
- Budgeting places too great a demand on management time, especially to revise budgets constantly, too much paper work's required.
- It takes away management flexibility.
- It creates all kinds of behavioral problems.
- It places the management in a strait jacket.
- It adds a level of complexity that is not needed.
- It is too costly, aside from management time.
- The managers, supervisors and other employees hate budgets.

### **2.2.13 Forecasting**

Forecasting is the statement of expected future condition. Expectations depend upon the assumptions made. Fore casting is not a guess or imagination matter but it is related with in certain assumption. Forecasting is the integral part of decision-making activities of management. An organization establishes goals and objectives, seeks to predict the environmental factors, and then selects actions that it hopes will result in attainment of goals and objectives. The need for forecasting is increasing as management attempts to decrease its dependence. On chance and becomes more scientific in dealing with its environment. A good or bad forecast can effect the entire organization.

According to S.C Kuchal, there is slightly different between planning and forecasting "Most probable courses of events or at best a range of probabilities while planning is deciding. What or will do about it." Planning is essential to accomplish goals. It reduces uncertainty and provides decision to the employees by determining the causes of action in advance.

We can classify the forecasting in the following: -

- **Short Term Forecasting**

The short forecasting is taken a maximum of two years in to the future. A business enterprise adopts the forecasting according to accomplishment of work performed. Some organization can be made to indicate the application of short term or lower volume of sales if plans can be set out reasonable well in advance. Short term forecasting is always helpful to achieve the right decision to the business activities. A short-term sales forecast is useful in making internal estimates of company operations. Internal estimates made by the adjoining department in the large enterprises can be integrated with up to data.

- **Intermediate Term Forecasting**

This forecasting takes three to five years periods. This is one other the least developed area of predication the forecaster does not have the advantage of surveys of and business intention .It is middle time basis .It mediates form's activities between long term forecasting and short term forecasting.

- **Long Term Forecasting**

Forecasts are frequently make in the form of long range projections that compare an economic situation with a minimum of 5 years in to the future with present circumstances or with those of the relevant past. Long range aggregate projections have been set is a gross national product framework. Long term forecasting provides right paths to go forward for achieving firm's goals. Policies, strategies, plans, are always in the foundation of forecasting. Even long term forecasting is mature for long time; its focus directions are helpful while adopting and executing them. Once an appraisal has been made of the growth potential of the aggregate economy, consideration may be given first to the magnitude of future industry sales by product or services line as well as total.

### **2.2.14 Planning V\S Forecasting**

Simply, we can't find the difference between Planning and forecasting .It is not an easy work to distingue them in relating their work performed. Plan is always in ahead as the leading definition for forecast. Forecasting is our best thinking about what will happen to us in the future. In forecasting we define situations and recognize problems and opportunities. In planning we develop our objectives in practical detail and we correspondingly develop schemes of action to achieve these achieves.

### **2.2.15 Corporate Planning**

It was first introduced and started in the U.S.A. in the late 1950's and now being used in one from another in several companies. J.C Higgin defines Corporate planning as "The systematic process of setting corporate objectives and making the strategic decisions and developing the plans necessary to achieve these objectives". S.A. Shelackar defines, as "Business or corporate planning is reassuring out how a business will get where it wants to go. It is largely a mental process of thinking before doing (look before leap). The essence of corporate planning is to see opportunities. Compact the threats or face the risk, as the case may be". The main bodies of corporate planning defined by Andrew Robertson are as follows:

- Before drawing up a plan that is designed to decide something what the corporation want to do.
- In these days of rapid change it is necessary to look a head ass far as possible to anticipate these changes.
- Instead of treating a company as collection of departments treat it as a corporate whole, and
- Take full accounts of the company's environments before drawing 4p any plan.
- It is to determine the long-term goals of a company as a whole and then to generate plans designed to achieve the goals being or mid probable change environment.

According to J.C. Higgin corporate planning as "the systematic process of setting corporate objectives and making the strategic decision and in developing the plans necessary to achieve these objectives In the opinion of S. A. Sherlaker corporate planning as a process of thinking before doing Business or corporate planning is reasoning out how a business will get it wants to go. It is already a mental process of thinking before doing. Corporate planning as a management technique for effectiveness in the organized form is still poor condition. It is done for making present entrepreneurial risk taking decisions systematically and with the best possible knowledge of their probable outcome and effects. Systematic organization of the efforts and resources needed against the exportation through organized systematic feedback.

### **2.2.16 Essentials of Corporate Planning**

Corporate planning is concern with objective determination and developing means to achieve the objectives. It may encompass both short range and long range planning. Even in 1966 in Britain corporate planning was not popular. Few dozen people of that country understood what is corporate planning? That time, it was not considered as essential. Time is going.

D.E. Hussey suggests "Corporate Planning is much more a continuous process of awareness, adaptation and change and determined attempts to grasp issues before they become critical thus avoiding crisis management".

The importance of corporate planning is also described by M.B Shrestha, "Lack of a well structured planning as a system of corporate management in Nepal is one reason why corporate result is rather disappointing in maximizing the economic and social benefits that would have been possible with a systematic and planned attempt. Planning practice in Nepal suffers from a number of institutional set backs emerging both from government and Corporate levels which must be paralyzed to make the practice effective".

When estimates of future conditions are made on the systematic basis, the process is referred to as forecasting and the figure or statement obtained is known as forecast. The distinction between forecasting and planning is not an easy one. Webster gives "To Plan ahead" as the leading definition of forecast. Forecasting is best thinking about what will happen to us in the future. In forecasting, we define situation and recognize problems and opportunities. In Planning, we develop our objectives in practical detail and we correspondingly develop schemes of action to achieve these objectives.

People thinking and business activities are spreading day by day gradually. Growth of economic situation, highly specialized knowledge and equipment such as computers are able to handle enormous information arrived on the stage. Their presence made the essence of corporate planning the developing country also. It is essential mainly for the following.

- It is essential for good management.
- It is essential to see the opportunities and
- To combat the threats or force the risk as the case may be.

### **2.2.17 Process of Profit Planning**

Over view of profit planning process: -

Sequential phases of the profit planning process are as following.

- External relevant Variables identify and evaluate
- Broad objectives of the business develop or revise
- Specific enterprise goals develop consistent with item -2 above
- Enterprise strategies -Specify major thrusts to attain the objectives and goals
- Executive management planning instructions specify planning premises
- Plans-develop and evaluate for each project
- Strategic profit plan
- Tactical profit plan (short range)

- Implementation of profit plans implement through out the budget years
- Performance reports –prepare monthly reports by responsibility
- Follow –up provide feedback, take corrective action and re-plan.

We are going to discuss briefly about the sequential phases of the profit planning process.

#### **2.2.17.1 Identification and Evaluation of External Variables**

The variable identification phase of the profit planning process focuses on a) Identifying and b) Evaluating the effects of the external variables identification also involves separate consideration of variables that are non controllable and those that are controllable. Management planning is mostly focus on how to manipulate the controllable variable. Managerial planning should obtain for how to work with the non-controllable variables. Analysis and valuation of the environmental variables must be a continuing concern of management. In this process, Analysis includes an evaluation of the present strength and weakness of the enterprise is made. It is the fundamental in developing the substantive plan. It is usually reviewed as a special report used by the executive management and is not distributed to others.

#### **2.2.17.2 Development of the Broad Objectives of the Enterprise**

It is a responsibility of executive management. Executive management can specify this phase of the profit planning process. The statement of broad objectives should express the mission vision and ethical character of the enterprise. Its purpose is to provide enterprise identity, continuity of purpose, and definition. In this process, following purposes of statement are found: -

- To define propose of the company.
- To clarify the philosophy character of the company
- To chart the particular climate within the shiners.

- To set down a guide for manager so that the decisions they made will reflect the best interests of business with fairness and justice to those concerned.

### **2.2.17.3 Development of the Specific Goals for the Enterprise**

In this process of profit planning, the statement of broad objectives in the sharper are brought from general information to more specific planning information. Definite and measurable narrative and quantitative goals are provides by this planning process. Executive management as the second component of the substantive plan for the coming budget year should develop these goals of the company. Executive management should exercise leader ship in this process. Performance measurements are provided by the specific goals. For Both Long range plan and the tactical short-range plans, the specific goals provide a basis for performance measurement goals must be developed. The statement of specific enterprise goals should define such operational goals as expansion or contraction of product and service lines, geographic areas, share of the market by major product service lines, growth trends, production goals profit margins, return on investment in large measure are qualified and specified for each major subdivision of the enterprise.

### **2.2.17.4 Development and Evaluation of Company Strategies**

Planned objectives and goals are formulated on the foundation of the basic thrusts, ways and tactics of the company strategies. Strategies may take short term or long term. Examples of basic strategies are as follows

- In crease long-term market penetration by using technology to develop new products and improve current products.
- Emphasize products quality and price for the Top of the market.
- Expand marketing to all states in the India. The company will not enter foreign markets in the force able future.
- Low price for increasing the sales volume.

- Improve employee morale and productivity by initiating behavior management program

The purpose of developing and disseminating enterprise strategies is to find the best alternatives for attaining the planned broad objectives and specific goals. Management must be creative and directly involved in the development of new strategies.

#### **2.2.17.5 Executive Management Planning Instruction**

This process indicates the communication of the substantive plan to middle and lower management levels .It describes the broad objectives, enterprise goals, enterprise strategies and any other executive management instruction needed to develop the strategic and tactical profit plans .It works as the statement of planning guide lines. It is issued by top level of management. It is the participation of all levels of management in the development of the strategic and tactical profit plans for the coming budget year.

#### **2.2.17.6 Preparation and Evaluation of Project Plans**

Characteristics shown by Periodic plans and project plans are difference in their nature and foundation. Project has unique time dimension and it encompass variable time horizons. Project plan is created for improvement of present products, new and expanded physical facilities, entrance in to new industries, exits from products and industries, new technology, and other major activities that can be separately identified for planning propose. Project is planned as separate units. And it considered must normally the anticipated life span of the project. The preparation and evaluation of current and future project plans are essential on a formal basis as one of the profit planning phases.

#### **2.2.17.7 Development and Approval of Strategic and Tactical Profit Plan**

After receiving the executive management planning instructions, the managers of the various responsibility centers in the enterprise begin intensive activities

to develop their respective strategic and tactical profit plans. After developing the strategic long-range plan and the tactical short-range profit plan, executive management or the financial executive will develop the strategic and tactical profit plans. This approach provides full participation in the planning process by middle managers.

Assuming participatory planning and receipt of the executive management instruction, the manager of each responsibility center will immediately initiate activities management instruction, the manager of each with in his or her responsible center to develop a strategic, long range profit and in harmony with the five year plan, tactical short range plan of one year. This process involves approval, disapproval or revision based on either (a) action by executive management or (b) presentation and justification by managers of the responsibility centers to the next higher level of authority.

#### **2.2.17.8 Implementation of Profit Plans**

It is the management function of leading subordinates in attaining enterprise objectives and goals. In effective management, enterprise objectives, goals strategies and policies are communicated and understood at all levels of management. Plans, strategies and polices developed through significant participation establish the foundation for effective communication, effective communication helps to achieve effective implementation.

#### **2.2.17.9 Use of Flexible Expenses Budget**

A budget that is prepared for more than one level of activity is known as flexible budget. Institute of cost and works accountant defines it as a budget that by recognizing the difference between fixed, semi-fixed and variable costs is designed to change in relation to the level of activity attained. Thus a flexible budget will furnish the budgeted figures for any level of activity, which a company may actually attain. It portrays costs, revenues and profits at the various level of budgeted activity.

Flexible expenses budget is also called as the variable budget, sliding scale budget, expense control budget and formula budget. It concerns of the expenses only. This budget is directly concern with the volume of output. Flexible expenses budget give realistic information's about expenses. These information's make possible to compute budget amounts for various output volumes or rates of activity in each responsibility center. The flexible budget provided a formula for each expense in each responsibility center. This formula gives the relationship of each expense to output in the center, each formula includes a constant expense factor and a variable expense rate. We can classify the each expense into three categories for applying flexible expenses budget.

- **Fixed Expenses**

The expenses, which are always remained in constant, those expenses, which do not change with changing level of activity, are known as fixed expenses. Such a costs are remained constant in total amount and are unaffected by changing activity levels. The examples of such costs are rent, property tax, depreciation, supervisor's salary, advertising, etc, the significant features of fixed costs are as follows.

- The fixed costs are unaffected by the change in volume of activity.
- Fixed cost per unit increases of volume of activity decreases and vice-versa.
- Fixed are not within the control of department head because such a costs are not directly assigned to a particular departmental head.

- **Variable Expenses**

Those expenses those increase directly and proportionately with the level of activity are called variable cost. A variable cost is one that varies in total amount directly with production or sales units. The variable cost per unit will remain constant, if other thing remaining the same. The example of such costs is direct material, direct labor and direct chargeable expenses.

The features of the variable costs are as follows: -

- Such costs are variable in total amount
- Such costs are assumed to be constant per unit
- Such costs are within the control of departmental heads.

- **Semi- Variable or Semi-Fixed Costs**

This type of cost is not applicable for variable costing. It is more applicable for decision-making, Flexible budgeting and so on. Those costs which are partly fixed and partly variable are called semi-variable or semi- fixed costs, semi fixed costs increases with the level of activity. The examples of such costs are depreciation of machinery, Maintenance of equipment, administrative colts.

### **2.2.18 Use of Performance Report**

Performance report is needed for implementing profit plan. The accounting department on monthly basis prepares these reports. Internal reports can be future classified as: -

- Statistical reports that give the base quantitative internal statistics about the operation of the enterprise.
- Special managerial reports about non recurring and special problems and
- Periodic performance reports about which is focus on dynamic and continuous control tailored to the assigned managerial responsibilities.

### **2.2.19 Fundamentals of Profit Planning**

Some of the important fundamentals of profit planning and control are as follows:

- **Managerial Involvement of Commitments**

Managerial support, confidence, participation and performance orientation includes managerial involvement .Top level management should engage itself to comprehensive profit planning and control. Active chief executive who himself initiates, prepares and implement the comprehensive profit planning

programme. Managerial involvement on comprehensive profit planning and control program is directly related to the confidence of management and its known ability to influence the future program and conviction with the idea of setting goal in advance.

Modern concept of comprehensive profit planning and control program or budgeting has emphasized on managerial involvement, due to the fact that modern budgeting believes on performance expectation rather than as fiscal expectation.

- **Organizational Adaptation**

Sound organizational structure and a clear-cut designation of the lines of authority and responsibilities of all the departments of an enterprise provide the success of the profit planning and control program. Well coordinate all round responsibility and authority of and between the departments. Some times the organizational structure is divided into different functional sub units, for easy and effective control.

Decision centers or responsibility centers are used to be in form of a division or department or a sales district. Centers like cost centers which is only responsible for controllable costs increased in the sub units but not responsible for controllable costs incurred in the sub units but not responsible for profit or investment, Profit centers which is the responsibility center responsible for cost and hence for profit and Investment center which is responsible for cost revenue, profit and amount of investment invested as assets.

In conclusion organizational involvement includes: -

- Delegation of authority and responsibility to each functional sub units.
- Sub divides the whole organization into different functional sub units.
- Each sub units should prepare its own annual or periodic plan.

- Based upon plan prepared by sub units a master plan is to be prepared by higher management.

- **Responsibility Accounting**

Planning is done with the help of the historical data supplied by accounting section and control is done by comparing actual data with projected of planned data. So for this reason accounting system of an enterprise should be build functional sub units. This is called responsibility accounting. One should have to define responsibilities of the various divisions, and then the relevant parameters of the cost, revenue and other financial data should be utilized for preparing plan.

- **Full Communication**

Communication can be defined as an interchange of thought or information to bring about a mutual understanding between two or more parties. Dialogue or messages or understanding from working together are called communication. Management faces a lot of problem due to bad communication system. The feed forward and feed back process are most important for operation of any organization. These processes need communication.

According to Koontz O Donnell the following are the barriers to effective communication.

- Badly expressed message
- Faulty translation
- Loss by transmission and poor retention
- Inattention
- Uncertified assumption
- Insufficient adjustment period
- Distrust of the communicator
- Premature evaluation
- Fear and
- Failure to communicate

For effective communication means development of well-defined, objective, specification of goals, development of profit plans and reporting and follow up activities related to performance evaluation for each responsibility center.

- **Realistic Expectation**

Management must use realistic assumption and must not take either irrational optimism or unnecessary conservatism. Perfection on setting goal or objectives of the future sales, production, levels, costs, capital expenditures, cash flow and soon determines the success of profit planning and control program. So, for profit planning and control purpose, a realistic approach reared with time dimension and external, internal environment that win prevail during the time span should be considered. This is realistic expectation.

- **Time Lines**

To accomplish the planned activities in given time and to prepare the plan itself are the problem of the manager. Phasing of the planning are of two types a) Timing the planning horizons and b) Timing of planning activities. Life span of the plan is called planning horizon .the decision made by the manager for future activities reflects the managerial planning on other words, managerial decisions, which reflects planning activities always ruse to have effects o future activities only.

For effective implementation of planning, management of as enterprises must establish a definite time dimension for certain. Types of activities, in other word for each activities related with planning would be given definite time for implementation, followed by other activities. This is called planning activities.

- **Flexible Application**

The main end or aim of the management is to utilize the resources in the most effective way and warn high return non investment and of for the purpose profit planning concept or other techniques are used as means only. To cost

control also, the principal of flexibility is especially important. Expenses and costs budget and most not be rigid in nature. Budget should not prevent any of the units to make rational decision and to take opportunity benefits merely on the ground that such expenses are not anticipated. Sometimes for one or the other reason variable cost have to be spent much for the benefits of the organization. This benefits necessarily need not to be in form of monetary benefits, sometimes additional variable cost have to incurs just to have more goodwill or to secure more market for their products. Any rigidity on such opportunity cost may sometimes hamper the goodwill of the enterprises.

- **Individual and Group Recognition**

Behavioral aspects of human being are of the field of study of the psychologist, educators, and businessman and finding was that there could be so many unknown misconception and speculations, which has to be considered for an efficient management. A good and dynamic leadership can resolve these problems by integrating all the groups' efforts for betterment of the organization. This fact also has been well considered under profit planning approach.

- **Follow Up**

The importance of follow up action on profit planning approach is much more. Follow up action after careful study is needed to

- Correct the action of substandard performance in a constructive manner.
- To recognize and transfer the knowledge of outstanding performance to other and
- On the basis of the study and evaluation to provide a sound basis for further profit planning program.

- **Managerial Evaluation of Alternatives in Planning**

Managerial planning always includes the analysis of the alternative courses of action which leads to a propose decision. This approach is especially useful in

the selection and evaluation of the alternatives to overcome the financial problems encountered by the enterprises. The technical short range and strategic long-range profit plan sometimes constitutes many similar models which can be utilized for evaluation of the effects of many alternative plans on financial aspects of the enterprises. In the process of profit plan construction other use of procedures such as decision models income summaries, cash flow analysis, break even analysis, inventory models, differential costs analysis and return on investment analysis provides critical information for assessing the impact of different alternatives.

## **2.2.20 Budget and Budgeting**

### **2.2.20.1 Budget**

Regards the term Budget it can be visualized as the end result of the budgeting. If budgeting is the procedure for preparing plan in respect of future financial requirements, the plan when presented in written form is called budget. Budgeting, in fact is a managerial technique and a business budget is such written plan in which all aspects of business operation with respect to a definite future period are included. It acts as a business barometer as it is complete programme of activities of the business for the period covered.

A budget is a comprehensive and coordinated plan expressed in financial terms, for the operation and resources of an enterprise for some specific period in the future. A budget is the plan of the firm's expectations in the future. A budget expresses the plan in formal terms and helps to realize the firm's expectations. Budgets are indeed prepared for various segments of the enterprise but they are the components of the total master budget.

A budget is a predetermined statement of management policy during a given period, which provides a standard for comparison with the results actually achieved. A budget helps a firm to control its costs by setting guidelines for spending money for unneeded items because they know at all costs will be

compared to the budget. A budget helps to motivate employees to do a good job. The complete budget for a firm is often called the master budget. The master budget consists of many functional budgets.

Many types of budgets are in use today, business among them main budgets are as follows.

- Expenses budget
- Profit budget
- Financial budget
- Capital budget

#### **2.2.20.2 Budgeting**

The concept of budgeting originally established with the function of accountant. At its origin the function of budgeting was assigned to the accountant but in modern days budgeting is given much more importance, and is regarded as a basic technique of decision making and given the name profit planning and control program. Budgeting as a tool of planning is closely related to the broader system of planning in an organization.

The object of budgetary control and standard costing is to enable management to conduct business in the most efficient manner. For this purpose it must show where and to what extent profits or losses, and why not they are being realized. The system should supply the answer to the why and how of management. Let us then first set out what management wants to know what management shows how and what management wants to know?

#### **2.2.21 Objectives \Purpose of Budgeting**

The main purpose of budget is to ensure the planned profit of the enterprise. So it is considered as a tool of planning and controlling the profits. One of the primary objectives of an annual budget is to measure the profit expectations for the next financial year.

According to Edwards and Hinse there are four main purpose of budget and any or all may be affected in any one budget.

- A plan setting out the proposals and decisions of those running the organization.
- A forecast of the results expected.
- An authorization, the instrument where by supreme governing body sanctions. The raising the revenue or incurring the expenditure.
- A yardstick of what expenditure or revenue ought to be if the organization is working efficiently.

Halsall describes the main purpose of an operating budget as following.

- It's a plan which reflects the policy of business in financial teaches.
- It's a control document by which management can monitor actual performance.
- It acts as motivator of employees.
- It's a measure against which to evaluate the quality of management.
- It's a means of forecasting a future financial position.
- It's a means of giving information in organization future initiations.

### **2.2.22 Characteristics of Good Budgeting \ Essentials of Good Budgeting**

- A good budgeting system should involve persons at different while preparing the budgets. The subordinates should not feel only imposition on them.
- There should be a proper fixation of authority and responsibility. The delegation of authority should be done in proper way.
- The targets of the budget should be realistic if the targets are difficult to be achieved than will not enthuse the persons concerned.
- A good system of accounting is also essential to make the budgeting useful.

- The budgeting system should have a wholehearted support of the top management.
- The employees should be imported budgeting education. They should be meetings and decisions and the targets should be explained to the employees concerned.

### **2.2.23 Budgetary Control**

Budgetary control involves the following:

- Preparing budgets sets the Budget.
- The business is deviled in to various responsibility centers for preparing various budgets.
- The actual figures are recorded.
- The budgeted and actual figures are compared for studying the performance of different cost centers.
- If actual performance less than the budgeted norms a remedial action is taken immediately.

### **2.2.24 Development of Profit Plan**

Development of profit plan includes the preparation of various functional budgets, analysis of various and presentation of projected income statement and balance sheet. All levels of managers participate in development of profit plan. Developing profit plan begins with the preparation of master budget. The steep included in the preparation master budget are outlined by John R. Schermerhorn area as below:

- Steep-1      Forecast demand for products and services.
- Steep-2      Identify cost patterns for responsibility center.
- Steep-3      Estimate product cost.
- Steep-4      Specify operating objectives.
- Steep-5      Develop sales budget.
- Steep-6      Develop production budget.
- Steep-7      Develop purchasing budget.

- Steep-8      Develop budget for responsibility center.
- Steep-9      Formulate a profit plan.
- Steep-10     Compare profit plan with operating objectives.
- Steep-11     Formulate a projected cash budget.
- Steep-12     Prepare projected statements of financial position.

The ultimate integration of separate budgets by the accountant provides the master budget which includes estimated profit and loss account for the future period and an estimated balance sheet at the end there of.

### **2.2.25 Sales Budget/Plan**

A comprehensive sales plan includes interrelated strategic (long-term) and tactical (short-term) sales plan. “Sales plan is the starting point in the preparation of the comprehensive profit planning and control. All other plans and budgets are dependent upon the sales budget. The budget is usually presented both in units and dollars of the sales revenues or sales volume. The preparation of sales plan is based upon the sales for cast. A variety of method are used to foe cast the sales for the planning period” (Horngren, 1977:637).

“The sales plan has three distinct parts.

- The planned volume of the sales price per unit for each product.
- The sales promotional plan and
- The sales or distribution expenses plan.

The sales budget itself is an estimate of three main figures. They are: -

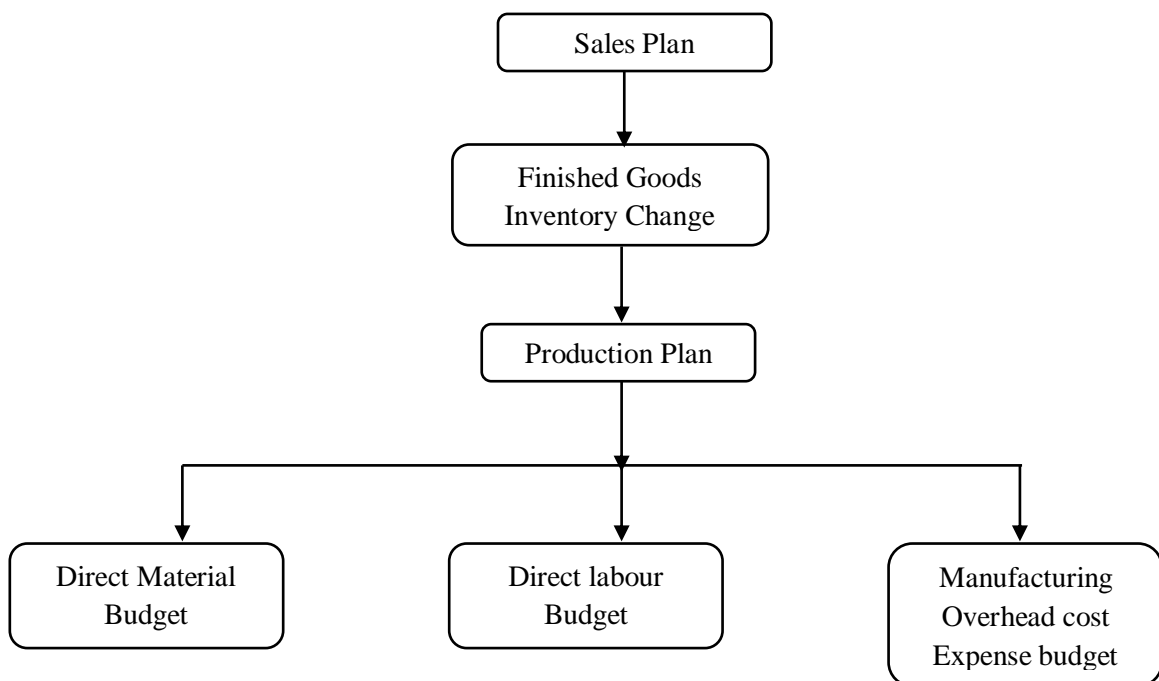
- The income that will be earned from sales.
- The cost and expenses of making there sales.
- The sales surplus the income from sales depends on the quantity and the price of the goods, which will be sold” (Hulshan and Gulshan, 1994:4).

### 2.2.26 Production Budget / Plan

Production plan is proposed after the sales plan. It is based on the sales forecasts. To prepare the production budget the sales forecast for each product are combined with information about the beginning level and the expected level of ending inventories of the finished products.

The Production plan includes the development of policies about efficient production level, use of productive facilities and inventory levels (Finished goods and work in progress inventory). The flow of planning activities from sales through manufacturing plan can be presented in this way.

#### Planning Production



**Planned production can be determine by using this formula:**

Requirement of Sales (Units)	<u>XXXXXXXX</u>
Add Desired final inventory levels of finished goods	<u>XXXXXXXX</u>
Total required production (in units)	<u>XXXXXXXX</u>
Less, Beginning inventory of finished goods	<u>XXXXXXXX</u>
Planned production for the year	<u>XXXXXXXX</u>

### 2.2.27 Material Budget

This Material budget specifies the planned quantities of each raw material for planned production. There is no question of production in lack of raw material, so production is possible where there exist materials. In the absence of materials we should go through purchase.

The following four sub-budgets are developed in planning raw materials and parts,

- **Material Budget:** - It deals with quantities of direct material required for planned production. The requirement of materials is determined product wise. It specifies the quantities and timing of each raw material needed.
- **Purchase Budget:** - A plan for material purchase must be developed after the preparation of material budget. Purchase budget estimated the quantities to be purchased and estimated cost for each raw material and required delivery dates.
- **Material Inventory Budget:** - This budget reports the planned level of raw materials in terms of quantities and cost. The difference of units between material requirement as specified in the material budget and purchase budget is reflected.
- **Cost of Material Used Budget:** - This budget specifies the estimated cost of materials planned for in the material budget.

#### **Formula for planned purchase of materials: -**

Material required for production (units)	XXXXXXX
Add, Beginning inventory of material required	<u>XXXXXXX</u>
Total material required (Units)	XXXXXXX
Less, Beginning inventory of material	<u>XXXXXXX</u>
Planned purchase of material	XXXXXXX

The basic two quantities should be answered in developing the policy with respect to purchase and inventory. The first is how much to purchase at time is determined by Economic Order Quantity (EOQ). Formula for EOQ is:

$$EOQ = \sqrt{2Ro/c}$$

Where,

R = Annual Requirement in Unit.

O = Average Annual Cost per order

C = Annual Carrying Cost of Carrying one unit in Inventory for one Year.

The second is when to purchase is determined by Recorder Level (ROL). At this level, the inventory is equal to the quantity needed to sustain production for period equal to the time to recorder and receive the replenishments. Often safety stock is included in ROL.

### **2.2.28 Direct Labor Budget**

#### **Meaning**

For the annual profit plan, direct labour budget should be developed by responsibility center, interim periods and project wise. The direct labour budget includes the planned direct labour requirements necessary to produce the types and quantities of out-put planned in the production budget. In broad concept, labour cost includes all expenditures for employees: Top executive, middle management personnel, staff officers, supervisors and skilled and unskilled employees.

After preparing the production budget, the direct labour hours are calculated by multiplying the units be produced and estimated labour hours for each products. Then the total direct labour costs is calculated by multiplying direct labour hours and estimated (standard) wages rate.

It is usually preferable to prepare a separate direct labour budget for direct labour and to include indirect labour in the factory overhead budget.

## **Approaches Used in Planning Direct Labour Cost**

What approach to follow while developing direct labour budget depends upon the following four major factors:

- Methods of wages payment.
- Types of production processes involved.
- Availability of standard labour times.
- Adequacy of the cost accounting records relating to direct labour costs.

Basically, three approaches are used to develop the direct labour budget: -

- Estimate the standard direct labour hours required for each units of each product, then estimate the average wage rate by department cost center or operation. Multiply the standard time per unit of product by the average housing wage rate, giving the direct labour cost per unit of output for the department, cost center or operation. Multiply the unit of output planned for the department cost center or operation by the unit direct labour cost rate to obtain the total direct labour cost by product.
- Estimate ratios of direct labour cost to some measure of output that can be planned realistically.
- Develop personnel table baby enumerating personnel requirements for direct labour in each responsibility center.

So far the controlling of direct labour costs is concerned, it depends on competent supervision, direct observation and performance reports (Welsch et al., 1999).

### **2.2.29 Overhead Budget**

As Welsch mentioned that expenses planning should not focus on decreasing expenses, but rather on better utilization of limited resources. To support the objectives and planned programmes, reasonable expenses should be maintained and the relationship between expenditures and the benefits divided from those

expenditures should be focused and analyzed. Cutting expenses without considering the efforts on benefits, such decision temporarily reduce expenses, soon they cause even higher cost because of break downs, inefficient machines, frustrated employees, shortened assets lives etc.

There are three distinct categories of expenses: -

- Fixed Expenses: - Constant in total, regardless of fluctuations in output, variable per unit in different levels of output.
- Variables Expenses: - Change in total with the change in output, constant per unit.
- Semi Variable Expenses: - Semi variable expenses change in the same direction but not in proportion to the change in output and they are neither fixed nor variable.

Three broad categories of expenses are included within the overhead budget.

- Manufacturing overhead (Factory overhead).
- Selling and distribution expenses.
- Administrative expenses.

### **2.2.30 Flexible Expense Budget**

Flexible budget is directly related to expenses. The fundamental concept of flexible budget for expenses is that all expenses are incurred because of the passage of time, output or activity. The critical problem on developing flexible budget formulas for each responsibility center in a business is determination of the (a) fixed component and (b) variable rate of each expense. The following steps are requiring determining fixed and variable components in expenses: -

- Precise definition of expenses.
- Careful selection of an activity bases each responsibility center.
- Identification of the relevant range of output.

- Selection of appropriate methods to analyze expenses to separately identify the fixed and variable components of semi variable expenses.

### **2.2.31 Capital Expenditure Budget**

“Capital budgeting involves the generation of investment proposals: the estimate of cash flow for the proposals, the evaluation of cash flow, the selection of projects based upon an acceptance criteria, and finally the continual revaluation of investment project after their acceptance” (Van Horn, 1985:66).

“Capital budgeting may be decided as the decision making process by which firms evaluate the purchase of major fixed assets, including building, machine and equipment. It is a part of firm’s formal planning process for the acquisition and investment of capital” (Hampton, 1976:245)

Simply, a capital expenditure is the use of funds to obtain operational assets will help to earn future revenues and reduce future costs. So while making decision of capital investment, serious consideration should be given and proper evaluation should be made on proposals.

The widely used methods for measuring the economic value of a capital expenditure are: -

- **Shortcut Method**
  - Pay Back Period (PBP)
  - Accounting Rate of Return (ARR)
- **Discounted Cash Flow Method**
  - Net Present Value (NPV)
  - Internal Rate of Return (IRR)

The budget of capital addition included in the annual profit plan for a company is assembled by the financial manager and his staffs.

### **2.2.32 Cash Budget**

A cash budget shows the planned cash inflows, outflows and ending cash positioning by interim period for a specific time span. It also deals with the need for financial probable cash storage and the need for investment planning to excess cash to profitable use. It is directly related with the sales plan, accounts receivable, expenses budgets and capital expenditure budget. The company treasurer is responsible for preparing cash budget.

### **2.2.33 Implementation of Profit Plan**

Development of an annual profit plan ends with the planned income statement, the balance sheet and the planned statement of changes in financial position. These three statements summaries and integrate the details of plans developed by management for the period. They also report the primary impact of detailed plans on the financial characteristics of the firm. Before redistributing the completed profit plan it is general desirable to recast certain budget schedules so that technical accounting mechanics and jargon are avoided as much as possible. The redesigned budget schedules should be assembled in on logical order, reproduce and distributed before the first day of the upcoming budget period. The profit plan completion data is important. Issuance of a profit plan after the beginning of the budget period one sure way of destroying much of the budget potential. Timely completing of the planning budget period is one sure way of destroying much of the budget potential. Timely completion of the planning budget suggests the need for a budget calendar (Welch et al., 1999:235).

The final test of whether the efforts and cost in developing a profit plan are worthwhile is its usefulness to management. The plan should be developed with the conviction that the enterprises are going to met or exceed all major objectives. Participation enhances communication. If this principle is to be effective, the various executives and supervisors should have a clear understanding of their responsibilities. The copies of the complete profit plan

be prepared and distributed to the member of executive management. The guiding principle in establishing the distribution policy might be to provide one copy to each member of the management team according to his/her overall responsibilities, while taking in to account the problem of security. After distribution of the profit plan a series of profit plan conferences should be held. The top executives discuss comprehensively the plans expectations and steps in implementation. At this top level meeting the importance of action, flexibility and continuous control may well be emphasized. In essence, each manager has to realize that the budget is a tool for his or her use. Conferences should be a held so as to convey the profit plan to each level of management.

The manager of each responsibility center obtains an approved profit plans for this center and it becomes the basis for current operations and excerpts considerable coordination and controlling effects. Performance must be measured and reported to management. Execution of the plan is assured through control procedure must be established do that accomplishment, or failure is immediately known. On this basis action can be taken to correct or minimize and undesirable effects. Short term performance reporting is essential.

A budget program viewed and administrated in a sophisticated way does not hamper or restrict management, instead, it provide definite goals around which day today and mouth to decisions are made. Flexibility in the use and application of both the profit plan and variable budgets also should be considered in detail. Flexibility in budget application is essential and it increases the probabilities of achieving or bettering the objectives (Welsch, et al., 1999: 238).

### **2.2.34 Performance Reports**

Performance reporting is an significant part of a comprehensive PPC system. Its phase of a Comprehensive PPC program significantly influences the extent

to which the organization's planned goals and objectives are attained. Performance reports deal with control aspect of PPC. The control function of management defined as the action necessary to assure the objectives plans, policies and standards are being attended. Performance reports are one of the vital tools of management to exercise its control function effectively.

Special external reports, reports to owner and internal ropers are specially presented in the organization Performance reports include in internal reports groups. It is usually prepared on an monthly basis and follows a standardize format. Such reports are designed to facility internal control by management. Fundamentally actual results of reports are compared with goals and budget plans. Frequently they identify problems that require special attention since these reports are prepared to pinpoint both efficient and inefficient performance.

### **2.2.35 Features of Performance Reports**

In comprehensive PPC, performance report is very important. The main objective of performance reports is the communication of performance measurement, actual results and the related variances. Performance reports offer management essential insights in to all the facts of operational efficiencies. Performance reports should be:

- Tailored to the organizational structure and focus of controllability (that is being responsibility centers).
- Designed to implements the management by exception principle.
- Respective and related to short term period.
- Adapted to the requirement of the primary user.
- Simple understanding and reports only essential information.
- Accurate and designed to pinpoint significant distinctions.
- Prepared and presently promptly.
- Constructive in tone.

### **2.2.36 Aspects of Performance Reports**

The various manager use their performance reports depends on many factors, some behavioral and some technical. One important factor is the extent to which the performance reports serves the management and decisions making needs of the user. Top management needs report that give a complete and readily comprehensive summary of the overall aspects of operations and identification of major events. Middle management needs reports that must be detailed, simple understandable and limited to items having a direct bearing on the supervisor's operational responsibilities.

In the design and preparation of performance reports careful attention must be given that titles and headings should be descriptive; column heading and side caption should clearly identify the data, and the technical jargon should be avoided. Reports should not be too long and complex: tabulations should be avoided. Performance reports should be standardized to a reasonable degree and if should be relevant. Performance reports should be available on timely basis. To attain a realistic balance between immediate reporting and the cost of detailed reporting, monthly performance reports are widely used in the organization.

### **2.3 Review of Previous Studies**

Commercial banks came into the existence mainly with the objectives of collecting the idle funds mobilizing them into productive sector and causing overall economic development. Any institution accepting deposits subject to withdrawal on the demand and granting loans to the different sector, creation of credit is done by a bank. So far as the study concerned with the profit planning of commercial banks, there are various study concerned with the profit planning of commercial banks, there are various study have been available in the field of profit planning of commercial banks in Nepalese context, some of them have been analyzed in this section:

### 2.3.1 Review of Books

**Welsch et al. (1999)**, have written a book on "*Budgeting-Profit Planning and Control*". According to them the fundamental purpose of management planning is to provide a feed forward process for operation and for control. The concept of feed forward is to give each manager guidelines for coning operational decisions on a day-to-day basis. The approved plans constitute the primary element of feed forward. Planning is generally recognized as the most difficult task facing the manager, and it is one that is very easy to procrastinate. Feedback is also an important ingredient of both replanting and control. The characteristics of the seventh fundamental listed above-continuous feed forward and feedback.

Planning rests upon the view that the future success of an entity can be enhanced by continuous management action. It presupposes that an entity will be more successful, in terms of its broad objective, with management actions to implement the feed forward process that it can if there is no activation by the management.

Ack off suggest that the management of an entity, during the early-stage planning process, should develop three different types of "Projection" as follows.

- A reference projection (the static case): this involves an attempt to specify what the future state of the entity would be if nothing new were done; that is, if there were no planned intervention by the management.
- A wishful projection (the highly optimistic case): This involves a specification of "hopes and dreams" as to the future state of the entity; that is, essential fulfillment of all of the aspirations of the entity.
- A Planed projection (the most likely case): This involves a specification of how closely the entity can attain the wishful projection realistically. The planned projection tends to be a realistic compromise between the reference and wishful projections. The planned projection specifies the

planned objective and goals (for example, the future state) to be attained during the time covered by the planning process.

The primary purpose of control is to ensure attainment of the objective, goals and standard of the enterprise. Control has many facets, such as direct observation, oral expression, narrative memoranda, policies and procedures, reports of actual results, and performance report. Comprehensive profit planning and control focuses on performance reporting and evaluation of performance to determine the causes of both high and low performances.

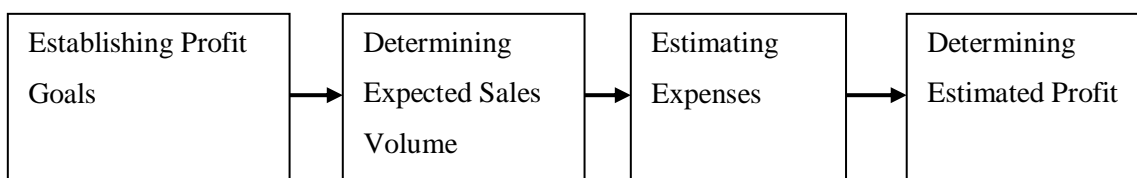
### **Performance Reporting**

The essential characteristics of a PPC performance report are as follows:

- Performance is classified by assigned responsibilities. The report must be in extant conformity with the organizational structure. There should be a separate report for each "box" on the organization chart in order to report performance by assigned authority and responsibility.
- Controllable and non controllable items are designated. These two groups must be clearly differentiated because the manager's performance must be measured fairly (that is, only on the basis of items that the responsible manager can significantly influence)
- Timely reports are issued. For effective control, Performance report should be issued for interim time periods: That is, on a monthly, weekly, or, in some cases, daily basis. To be effective, Performance reports must be given to the responsible managers and supervisors shortly after the end of the reporting period.
- Emphasis is given to a comparison of actual results and planned results: The performance report should designate the responsible manager and show actual result, planned results(Standard), and the difference between them (variances). Performance report also should call attention to the possible causes of variances when possible.

**Singh (2005)**, has expressed that “*Managerial Economics*”. According to him profit is considered as a significant element of a business activity. Thus, profit should be planned and managed properly. An organization should plan profits by taking into consideration its capabilities and resources. Profit planning lays foundation for the future income statement of the organization. The profit planning process begins with the forecasting of sales and estimating the desired level of profit taking in view the market conditions.

### **Profit Planning Process:**



The steps involved in profit planning process are explained as follows:

- **Establishing Profit Goals**

Implies that profit goals should be set in alignment with the strategic plans of the organization. Moreover, the profit goals of an organization should be realistic in nature based on the capabilities and resources of the organization.

- **Determining Expected Sales Volume**

Constitutes the most important step of the profit planning process. An organization needs to forecast its sales volume so that it can achieve its profit goals. The sales volume can be anticipated by taking into account the market and industry trends and performing competitive analysis.

- **Estimating Expenses**

Requires that an organization needs to estimate its expenses for the planned sales volume. Expenses can be determined from the past data. If an organization is new, then the data of similar organization in same industry can be taken. The expense forecasts should be adjusted to the economic conditions of the country.

- **Determining Profit**

Helps in estimating the exact value of sales. It is calculated as:

$$\text{Estimated Profit} = \text{Projected Sales Income} - \text{Expected Expenses}$$

After planning profit successfully, an organization needs to control profit. Profit control involves measuring the gap between the estimated level and actual level of profit achieved by an organization. If there is any deviation, the necessary actions are taken by the organization. Profit control involves two steps, which are as follows:

- **Comparing estimates with the Goal:** Involves comparing the estimated profit with the expected profit. If there is a large gap between the estimated profits and the expected profits, the measures should be taken.
- **Using alternatives to achieve the desired Profit:** Includes the following:
  - Making changes in planned sales volume by increasing sales promotion, improving product quality, providing better service, and providing after-sales support to customers.
  - Reducing planned expenses by minimizing losses, implementing better control systems, improving product quality, and increasing the productivity of human resource and machines.

**Goet and Shah** (2012), have written a book on "*Profit Planning and Control*." According to them strategic management accounting is an extension of traditional management accounting. During the late 1980s, traditional management accounting was publicly criticized because it fails to provide competitive information suitable to formulate business strategy. As a result, new approach in accounting was advocated which is known as strategic management accounting. Traditional management accounting has been criticized on the following grounds:

- It has inward looking feature.
- It fails to provide information to formulate business strategy

- It concentrates on the manufacturing cost.
- It neglects the high cost post-conversion activities
- It fails to assess the relative cost position of competitions.
- It relies heavily on existing accounting system.

Strategic management accounting is a new development and there is no comprehensive frame work as to what constitutes strategic management accounting. There are no uniform words for "how t define its concept" However, it is clear that strategic management accounting removes the deficiencies of traditional management accounting. The importance given to analysis of external environment, market consumer and competitor, emphasis given to integrated benefit and long term development, paying attention more on non-financing activities related to strategy etc. are the different characteristics which have been tried by strategic management accounting to fetch up the deficiencies of traditional management accounting.

Strategic management accounting is the advanced from of traditional management accounting. It involves in the provision of information for the formulation of an organization's strategy and managing strategy implementation. I represent an attempt to find a framework for the various strategy elements in the field of management accounting. It is a generic approach to management for strategic positioning. In includes gathering, refining, analyzing and presenting data that originate in the competitive environment and thus encompass both customers and competitions, Due to typically long term nature of strategic action, strategic management accounting tends to focus on long term development and potentials.

According to Bromwich, "Strategic management accounting is the provision and analysis of financial information on the firm's product markets and competitors cost and cost structures and the monitoring of the enterprises strategies and those of competitors in these markets over a number of periods"

Thus, management accounting in the context of business strategies being planned and implemented is known as strategic management accounting. It is the collection of management accounting information about a business and its competitors for use in developing and monitoring the business strategy. The emphasis was placed upon, relative trends in real cost and prices, volume, market share, cash flow and, stewardship of the resources available to the business.

### **2.3.2 Review of Article**

**Pokharel (2012)** in his article entitled *“Nepal Rastra Bank Permits Export Loan in Foreign Currency”*. Exporters can now obtain pre-shipment and post-shipment loan from financial institution in foreign currency.

The central bank has allowed commercial banks and development banks to lend \$ 1 million or its multiple as pre-shipment and post-shipment loans to export-oriented industries that earn foreign currency. The borrowers need to pay both the principal amount and interest in foreign currency.

The Central bank already allows banks to provide exporters and hydro projects loans in foreign currency. The move comes in line with the monetary policy for this fiscal year that had announced such a facility to encourage export industries as they need to make payments for raw material in foreign currency and then receive payments in foreign currency.

Nepal Rastra bank (NRB) has fixed a maximum of 2.25 percent addition to LIBOR. LIBOR stands for London Inter Bank Offer Rate which is fixed by leading London banks and is the benchmark for bank rates all over the world. Moreover, NRB will also provide refinancing to the financial institutions for such loans at LIBOR plus 0.25 percent interest rate for six month against the collateral of good loans, according to the circular published today. The banks need to pay back the refinanced loans in foreign exchange.

Last fiscal year, the central bank has allowed licensed hydropower companies to issue foreign-currency debentures in Nepal.

The hydropower projects that generate income in foreign currency can raise needed funds for developing a project by issuing foreign-currency bonds through the subsidiary merchant banking arm of commercial banks and development banks.

Himal Power Company has already undertaken preliminary steps to issue \$ 60 million worth debentures in the domestic financial market.

**Karki** (2012) in article entitled "*Loans to Realty Sector Remain Static*". The portion of real estate loans in the financial institutions portfolio has remained almost static even though lending to it is half the limit that what has been prescribed by the central bank.

In the beginning of last fiscal year, the amount of loans floated to the real estate sector comprised of 13.8 percent of the total loan portfolio at Rs. 98.8 billion, which by the end of 10<sup>th</sup> month of last fiscal year covered about 12.4 percent amounting to Rs. 95.09 billion, according to Nepal Rastra Bank (NRB)'s statistics. Total lending of the financial institutions stood at around Rs, 764 billion till mid-may.

Though the amount of loans floated to the real estate sector is way below 25 percent of total lending-a limit set by the NRB-Financial institutions are wary from extending ore loans. "Though there is enough space for financial institutions to further financing projects, they are wary about financing more projects due to lack of trust," lamented president of Nepal Land and Housing Developers Association Ichhya Raj Tamang.

By the 10 months of the last fiscal year, commercial banks had floated loans worth Rs. 69.84 billion to the realty sector, while development banks and finance companies had floated Ra.11.42 billion and Rs. 13.83 billion, respectively.

In comparison to the beginning of the previous fiscal year, in the 10 month both development banks and finance companies were able to reduce their exposure to th the real estate sector significantly. But lending by commercial banks witnessed a little increment due to their rising deposits.

Tamang pointed out that the realty sector is in need of more finance and has become stagnant due to lack of finance, and ongoing projects have been put on hold which will further deepen the real estate crisis, "If the financial institutions, that are flush with liquidity but unable to find new projects to finance, can channel their funds to the sector once again, it will be beneficial to both," he added.

In December 2009, the central bank directed the financial institutions to restrict credit flow to a single sector to up to 25 percent of their total lending due to the fear of an eventual systemic failure because of overexposure to realty business.

The banking sector has taken the brunt of the cooling off of the realty market since the last two years as the loan default rate and Non Performing Loans have since then been growing.

The central bank governor Dr. Yubaraj Khatiwada also expressed that there is no bar on lending to non speculative housing sector, if financial institutions portfolio has less than 25 percent of lending to the sector.

The loans floated by the financial institutions to the public under the heading of Personal Home Loans comprised 14 percent of in the first 10 month of the last fiscal year.

The financial institutions had lent Rs 47.6 billion till mid-may, while in the beginning of the fiscal year it stood at Rs.41.6 billion. The central bank had expanded the ceiling on home loans that are not calculated as real estate loans to Rs 10 million from Rs.8 million in January in expectation of igniting demand. Despite the raised ceiling the interest rate on home loans stood at around 12 percent to 16 percent discouraging the public.

**Pariyar** (2012) in article entitled “*Financial Sector Getting Professional Liberal Economic Policy post-1990 helps support growth*”. When Nepal Arab Bank-current Nabil Bank-started its operations some 28 years back in July 1984, in Nepal, there were only a few banks like partially government owned Nepal Bank and completely state owned Rastriya Banijya Bank.

But in the last three decades, the country has witnessed a surge in the number of modern private banks and financial institutions also due to the liberal economic policy post-1990.

"In recent years, the banking system has become stronger despite issues of good governance" said chief executive of Nabil Bank Anil Gyawali. "Besides quality institutional development, with time both the players and regulators have become more professional" he said, adding that the increasing number of banks and financial institutions have been catering to the basic needs of the urban populace.

However, there is another side of the coin too, as the increasing number of institutions in the same pie has increased the pressure on profit, forcing the banks and financial institutions to go over their capacity said the bankers, who

started his career with Nabil bank in 1984 but then went on to join City Bank branch in India in 1996.

As a career banker, Gyawali also opined that there are challenges in the banking sector too. Apart from governance, there are challenges of credit quality and increasing crunch of human resources, which according to him have to be addressed immediately to maintain a robust financial system. "Otherwise it could lend to operational risk," he added, "Similarly the financial system is facing a growing challenge of regular power outage and costly recent as they have increased operation costs"

Currently, the banking and financial system is under pressure due to deposit surplus too. "Due to low confidence among entrepreneurs, lending has slowed down," he said, adding that if the entrepreneurs were confident, they would have discovered new sectors to borrow for, and the pressure is building on bottom line and the profit growth rate will come down due to the stress."

However, the banking and financial sector has been giving good return, said the chief executive of Nabil bank, which saw its share traded at Rs. 1460 per unit today.

"Depositors and investors must be more vigilant and they should not expect high dividends every years as banking is a long term business, and putting pressure on short-term gains will put pressure on the whole financial system," Gyawali suggested.

With almost three decades of history, Nabil Bank- that has posted Rs. 1.51 billion profit after tax by mid June – is the benchmark setter he claimed, adding, " With local management, the bank has department from the traditional banking system and introduced more innovative products in the market"

With its total assets size of Rs. 66.25 billion, Nabil has a deposit base of Rs 56.04 billion and NPL stands at 0.95 percent of the total lending of Rs. 42.57 billion.

### **2.3.3 Review of Thesis**

**Kheral (2008)** conducted a research on "*Profit Planning of Commercial Banks Nepal: A Comparative study of Everest Bank Limited, Nabil Bank Limited, and Bank of Kathmandu Limited*" his objectives and major findings are as follows:

#### **Objectives:**

- To find out the relationship between total investments, loan and advances. Deposit, net profit and outside assets.
- To identify the investment priority sectors of Commercial Banks
- To assess the impact of investment on profitability.
- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial banks

#### **Major findings:**

- The liquidity position of EBL is comparatively better than that of Nabil and BOK.
- In spite of the current ratio is average amount the other two banks EBL has maintained the cash and bank balance to meet the customers demand.
- EBL has invested highest sectors like government securities that BOK and lesser portion that that of Nabil.
- Form the analysis of assets management ration it can be found that EBL is in better position as compared to that of Nabil and BOK.
- EBL has invested the highest portion of total working fund on government securities as compared to Nabil and BOK.
- Due to more efficient loan policy, Nabil suffers less from loan loss provision.

- BOK has higher investment on shares and debenture to total working fund ration.
- The interest earned to total outside assets and return on total working fund tation of EBL is lowest of all.
- The return on loan and advances ratio and return on assets of EBL is lowest of all.
- The ratio suggests that the earning capacity of the bank's loan and advances is satisfactory.
- The total interest paid to working fund ratio is less than the interest earned to total working fund ratio. So it is profitable as it is getting higher **return that is interest cost.**

**Tiwari (2009)** has conducted a research entitled "*Profit Planning in Commercial Banks: A Case Study of Standard Chartered Bank Limited*" for this purpose of the study he used the data the major concern of Tiwari is to study the Profit Planning in Commercial Bank by taking a case study of SCBL. His objectives and some of major findings are as follows:

#### **Objectives:**

- To highlight the current profit planning premises adopted and its effectiveness in SCBNL Bank.
- To analyze the variance of budgeted and actual achievements.
- To Study the growth of the business of the bank over the period.
- To provide suggestion and recommendation for improvements of the overall profitability of the bank.

#### **Major Finding**

- Bank management policy is very strong.
- It keeps minimum number of employees and highly qualified for maintain the job.

- The bank always adopt new technology
- The Bank always adopt new technology
- The bank is provides funds ATM and 365 days of services for customers.
- The bank provides funds for NGOs and scholarship for the schools.
- The Bank is adopting new Accounting Policy prescribed by NRB.
- Loan, Allowance and Bill purchasing hold the highest outlet of resources deployment
- There is no significant relationship between budgeted and actual LABP.
- Bank's actual deposit is more variable than actual outstanding LABP. Hence, the coefficient of variation of actual deposit is highest than actual outstanding liability LABP.

**Joshi (2010)** has conducted a research entitled "Profit Planning and Control: A case study of Agriculture Development Bank Limited" his objectives and major finding are as follows:

**Objectives:**

The basis objectives of this research are to examine how far the PPC system in ADBL has been effective. The major objective of the study are as follows:

- To study and examine the financial performance of ADBL
- To analyze the various functional budget
- To evaluate present planning adopted by the bank
- To examine the variance between estimates and actual profit of the bank
- To provide suggestions for improvement in the overall profitability of the bank on the basis of study results.

**Major findings:**

- Specific goal and financial target are not defined clearly to achieve the basis objective of the bank
- The decision making process is highly centralized.

- The bank as not practiced the short term and long term planning properly.
- The revenue targets, in most of the year are under estimated. As a result there is high difference between target revenue and revenue achievement.
- Actual revenue of the bank in the last years is in increasing trend, which shows the positive sign of the bank.
- There is inadequate profit planning due to lack of planning experts.
- Political situation is the major affecting factor to the banking activities
- Lack of investment in the productive sector, fluctuation of liquidity in the market, competition in the banking sector, strike, lockout and unsuitable situation within country are also the major affecting factors to the banking activities.
- Advanced training to the personnel is lacking
- Controlling functions of the branches are so far being carried out directly by head office, which may be difficult in the days to come because of its wide geographical coverage.
- Bank's deposit collection is continuously incasing but loan disbursement is in decreasing trend.
- Interest income of the banks is the highest among income items in the total revenue and interest expenses amount is the highest among total expense items to the bank every year

**Khatiwada (2010)** has conducted a research entitled "*Profit Planning in Commercial Banks: A case study of Himalayan Bank Limited*" for this purpose of the study he used the data. The major concern of Khatiwada is to study the profit planning in commercial bank by taking a case study of Himalayan Bank Ltd. His objectives and some major finding are as follows:

**Objectives:**

- To focus the current profit planning adopted and its effectiveness in Himalayan Bank Limited (HBL).
- To study the variance of budgeted and actual achievements.

- To analyzes the growth of the business of the bank over the period.
- To provide suggestion and recommendation for improvements of the overall profitability of the bank.

### **Major findings**

- Profit planning and control system of HBL is very effective.
- Budgeted achievement is always lower than actual performance since it means forecasting system of HBL is not good.
- The relationship between budgeted and actual figures is positively correlated.
- The major income source is interest margin.
- The return on assets and return on capital of the bank is satisfactory which shows the good earning capacity.

**Subedi (2010)** has conducted a research work on the topic of "*A study on Planning and Control of Nepal SBI Bank limited*" his objectives and major finding are as follows:

### **Objectives:**

- To identify the profit planning process adopted by Nepal SBI Bank Ltd.
- To sketch the trend of profit and loss
- To evaluate the variance between target and actual performance
- To recommend the steps to be taken to improve the profit planning process.

### **Major findings:**

- The bank has 86% average contribution of customer deposit in the resources mobilization as per data F/Y 2059/60 to 2065/066
- The researcher find that the almost 100% of achievement of target in deployment of resources other than LDO i.e. NLDO

- LDO is in fluctuating trend over the period. Although the average ratio of LDO to deposit is 72%.
- The relationship between actual deposit and actual O/S LDO is in fluctuating trend over the period.
- The interest holds highest percentage of expenses amount as deposit is the major resources of the bank. The COD of NSBI is in the range of 2.95% to 4.47% it means the bank pays the interest 3.71% in average over the period
- The yearly interest income is in fluctuating trend in amount where the O/S LDO is increasing. In the term of average rate of return is fluctuating trend it is range of 8.01% to 10.51% the average rate of return over the study period is 9.26%
- The amount of interest margin of NSBI is in fluctuating trend where the increment percentage is also in fluctuating trend over the study period.
- The current ratio of NSBI has almost met the standard of 2:1 but not in well position.
- Debt-Equity ratio shows that the NSBI's financial strength is very strong because it has more internal fund to repay the borrowing capital except 2064/65.
- The interest coverage ratio of NSBI ranges between 1.24 to 1.84 times.
- The range of return on total assets is 1.55 to 1.83 and range of return of total capital fund is 8.33 to 21.91% over the period.

**Pokharel** (2011), in his research topic, “*Financial Analysis Tools for Profit Planning of Everest Bank Limited*”, an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U. He has studied various financial tools for profit planning of Everest bank. The data was mostly collected through secondary sources and some data was collected through primary sources. His major objective and findings can be listed as follows:-

The objectives are:

- To evaluate the liquidity, efficiency and profitability positions in related to fund mobilization of company.
- To evaluate the growth ratios of loan and advances and total investment with respective growth rated of total deposits and net profit of the company.
- To find out the relationship between deposits and total investment, deposit and loans and advances, and net profit and outside assets of the company.
- To evaluate the trends of deposit utilization and its projection for next five years.

The findings are:

- The liquidity is in fluctuating trend during the study but also it is in good position.
- The loans and advances, total investment, total deposits and net profit all are in growing trend.
- The loans are advances are depended on deposit of the company. The net profit is thus dependent upon overall efficiency of deposit collection and loans and advances advancement.
- All the trends analysis shows that they are in increasing trend for upcoming fiscal year.

### **2.3 Research Gap**

Most of the past research studies were about profit planning system is basically related to profit planning system of manufacturing organization or production oriented activities and comparative study of joint venture banks. The Researchers conducted a few years back may not be adequate to explain current phenomena. Thus continuous attempt needs to be taken and new researcher and conducted to build our existing knowledge base, interpret and analyze events in the face of dynamism. Most of the past research studies about profit planning system are basically related to the profit planning system. The

researcher could find some study so far that has been related to profit planning system commercial bank in Rastriya Bank, Standard Chartered Bank, Nepal Investment Bank and Nepal Bangladesh Bank. This study may be a new study in this field as no study has been made profit planning of ADBL. To find the new developments and to bridge the gap between the past research and present situation, I set out to conduct the research in this stimulating topic. I have been through many literature reviews and give my best to fulfil this work. In my research effort had been made to understand the Profit Planning and Control in ADBL and hope this research will be fruitful for future researchers as reference.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

“Research methodology is the way to solve systematically about the research problem” (Kothari, 1990: 39).

Research methodology is the procedure of planned outline which deals with research design, data collection procedure, nature of data, identify the population, making confidence of the sampling method and sampling variables, data selecting styles, presentation style of collected information and data and interpreting it. Now, no doubtingly it is obvious that the research methodology is helpful to attain the objectives of the research.

Research in common sense refers to a search for knowledge. One can also define research as a scientific and systematic search for pertinent information on a specific topic. In fact, research is an art of scientific investigation. Some people consider research as a movement, a movement from the known to the unknown. It is actually a voyage of discovery. We all possess the vital instinct of inquisitiveness for, when the unknown confronts us, we wonder and our inquisitiveness makes us probe and attain full and fuller understanding of the unknown. This inquisitiveness is the mother of all knowledge and the method, which man employs for obtaining the knowledge of whatever the unknown, can be termed as research (Kothari, 2003:1).

Research methodology is the research method used to test the financial status. In designing methodology for a thesis project the following element should be taken into account. They are research design, population and sample, source of data, data collection techniques and presentation and analysis of data. Research methodology is the way to solve the research problem systematically.

### **3.2 Research Design**

Research design is the major part of thesis or every research works. By research design we mean an overall framework or plan for the collection and analysis of data. Research design gives a series of guide posts to enable the researchers to improvement in right direction in order to achieve the goals.

The formidable problem that follows the task of defining the research problem is the preparation of the design of the research project, popularly known as the “research design”. Decisions regarding what, when, how much, by what means concerning an inquiry or a research study constitute a research design. “A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure” (Selltitz, 1962:50).

In fact, the research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. As such the design includes an outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data (Kothari, 2003:39).

The study tries to evaluate the financial position of some selected joints venture banks. This study is an examination and evaluation of budget process in profit planning program of ADBL. Various functional budgets and other related accounting information’s and statement of Bank are the materials to analyze and evaluate the profit planning system of the Bank. Descriptive as well as analytical research designs have been adopted in this research. This is a case study research.

### **3.3 Population and Sample**

The term of ‘Population’ refers to the total of items about which information is desired. The aggregate of such units is generally described as population. The

term "Population" and "Universe" for research means all the members of any well-defined class of people, events or objects, organization or firms. The population means aggregate or the entire group. Population consists of large group. Due to its large size it is difficult to collect detailed information. So a sub-group is chosen that is believed to be representative of the population. The sub-group is called a sample. The sample allows the researchers more time to make an intensive study of a research problem. Good sampling techniques can save the researchers time and money. A sample study is usually less expensive than a census study and produces results at a relatively faster speed.

This research propose to studying the Profit Planning aspect of commercial bank taking the case study of a single bank ADBL, and data have been analyzed for five years so the five years data have been taken as base for this case study.

### **3.4 Source of Data Collection**

Information is the life blood for any research work,. Therefore, gather the information and data collection is the main task of research work. Mostly secondary data has been used in the study. It has been collected from quarterly and annual financial reports, official records, website, prospectus, brochures and other relevant publications of ADBL, NRB, Central Bureau of Statistics and relevant publications. From these sources the relevant historical data are gathered for analysis purpose.

### **3.5 Period Covered**

The research covers the period of five years from F/Y 2063/64 to F/Y 2067/68. Data are taken from ADBL Bank ltd. and analysis is basically made on the basis of five years data.

### **3.6 Study Variables**

In developing profit plan have a vital role of research variables. Customer deposit, loan and advances, Share capital, Overdrafts, Total resources and

deployment LC, Bank Guarantees, Interest Expenses, Other Expenses, Interest Income, and Other Income of ADBL are research variables of this study.

### **3.7 Analytical Tools**

In this fieldwork study, the basic secondary data extracted from the annual report have been processed, tabulated, analyzed and interpreted considering the requirement of the management. I basically used the secondary data, which are first analyzed and tabulated into a separate form systematically. A different financial as well as statistical tool has been used to find out the actual performance of bank current deposits. The main tool adopted to analyze the data is Accounting Ratio. Other simple statistical analysis such as standard deviation, coefficient of variation, trend percentage etc. are calculated where necessary.

There are so many terms and techniques to analyze the performance of financial institution, but here for the financial performance analysis of the data the following tools are used.

#### **3.7.1 Financial tools**

Financial analysis is the process of identifying the financial strengths and weaknesses of the organization by properly establishing relationships between the items of the balance sheet and profit and loss account. There are different types of financial tools that can be applied to analyze the financial performance of bank, but for our fieldwork analysis, following ratio analysis tools are used:

##### **3.7.1.1 Liquidity Ratio**

A liquidity ratio that measures a company's ability to pay short-term obligations. Liquidity ratio are used to judge the ability of banks to meet its short term liabilities those are likely to mature in short period. A company's ability to pay off its short-terms debts obligations. Generally, the higher the value of the ratio, the larger the margin of safety that the company possesses to

cover short-term debts. The current ratio and quick ratio measure the liquidity position of the company. Liquidity of any business organization is directly related to working capital or current assets and current liabilities of the organization.

### **Current Ratio**

The ratio is mainly used to give an idea of the company's ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables). The higher the current ratio, the more capable the company is of paying its obligations. The current ratios are the ratios of total current assets to current liabilities. Current Ratio reflects the strength of current assets available with the company over its current liabilities into cash in one accounting year.

The Current Ratio formula is:

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

### **Quick Ratio**

Quick ratio measures firm's ability to convert its current assets quickly in to cashing order to meet its current liabilities. Quick ratio is used to measure the ability of concerned firms to pay current obligation (Short term) without depending on other liquid assets of current ratio. A stringent indicator that determines whether a firm has enough short-term assets to cover its immediate liabilities without selling inventory. The acid-test ratio is far more strenuous than the working capital ratio, primarily because the working capital ratio allows for the inclusion of inventory assets.

Calculated by:

$$\text{Quick Ratio} = \frac{\text{Cash+Accounts Receivable+Short-term Investment}}{\text{Current Liabilities}}$$

### **3.7.1.2 Leverage Ratio**

The leverage ratio calculated to judge the long term financial position of a firm. These ratios measure the firm's ability to pay the interest regularly and to pay principal on maturity. The following ratios are included in leverage ratio.

- Debt- Equity Ratio
- Interest Coverage Ratio

### **3.7.1.3 Debt –Equity Ratio**

Debt-Equity ratio measures the long term financial solvency of a business concern. The relationship between long term debt and share holder's equity is called debt equity. It is calculated by dividing to long term debt by share holder's equity.

$$\text{Debt- Equity Ratio} = \frac{\text{Long Term Debt}}{\text{Shareholder's Equity}}$$

### **3.7.1.4 Interest Coverage Ratio**

Interest Coverage Ratio measures the capacity to pay interest expenses. This ratio is calculated by dividing Net Profit before Interest & Tax (EBIT) by Interest cost amount.

$$\text{Interest Coverage Ratio} = \frac{\text{Long Term Debt}}{\text{Shareholder's Equity}}$$

## **3.7.2 Statistical Tools**

To draw the conclusion by analyzing the collected data statistical tool implicit the comparative results. For our fieldwork study following selected statistical tools is taken to examine the economic data.

### **3.7.2.1 Arithmetic Mean average**

Arithmetic mean or arithmetic average is one of the distribution trend to concentrate called average. The central values that represent the characteristics of the whole distribution or the values around which all items of the

distribution tend to concentrate are called average. The arithmetic mean of a given set of observation is their sum divided by the number of observation.

### **3.7.2.2 Percentile Increment**

The fraction with hundred as its denominator is known as a percentage and the numerator of this fraction is known as rate of percent. Percentage is one of the mainly useful tools for the comparison of two quantities or variables. Simply, the word percentage means per hundred.

### **3.7.2.3 Coefficient of Correlation (R)**

The coefficient of correlation measures the direction of relationship between the two sets of figures. It is the square root of the coefficient of determination. It always lies between +1 to -1. The degree of association between the two variables, say X and Y, and is defined by correlation coefficient(R).

### **3.7.2.4 Standard Deviation**

The standard deviation is the absolute measure of dispersion. It is defined as the positive square root of the mean of the square of the deviation taken from the arithmetic mean. The greater the amount of dispersion or variability, the greater the standard deviation, the greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series of a series and a large standard deviation means just the opposite.

### **3.7.2.5 Regression Analysis**

Regression is that statistical tool with the help of which the unknown value of one variable can be estimated on the basis of known value of the other variable. Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and to make estimation of one variable on the basis other variable.

## **CHAPTER - IV**

### **DATA PRESENTATION AND ANALYSIS**

In this chapter, various elements and variables related with profit of ADBL are analyzed. This study mainly focused on analysis of the presentation, analysis, interpretation and scoring the empirical finding out of the study through definite course of research methodology. To reach the stated objective of the study researcher has tabulated the available data in different figure, table and analyzed using the tools where necessary and applicable stated in the research methodology. For this purpose, data of 5 years period from F/Y 2063/064 to 2067/068 of ADBL are used.

#### **4.1 Corporate Objective and Conduct**

##### **4.1.1 Objective**

- To provide quality banking services,
- To adopt market driven strategy,
- To obtain sustained and competitive return on investment.

##### **4.1.2 Corporate Conduct**

In achieving its corporate objective in pursuit of its corporate mission and vision, ADBL will:

- Comply with all relevant legislation, codes of conduct and standards of good corporate citizenship in Nepal while maintaining full autonomy in the management of its operations;
- Conduct its operations in an open and transparent manner;
- Put local resources to work for local development, serving the rural community and its aspirations;
- Provide a full and balanced range of financial products and services that satisfies the needs of the rural population of Nepal, on a profitable and sustainable basis;

- Strive consistently to provide improved products and services to its clients at reasonable cost, using modern banking, information and communication technology in the most appropriate form to its clients needs;
- Be vigorous in building reputation for professionalism, competitive pricing, reliability and quality of service and innovation;
- Operate in accordance with best banking practice, acting with financial prudence and keeping in mind the need to balance profitability with asset preservation and liquidity and to safeguard depositor's funds;
- Work together with its employees to develop their capabilities to contribute to achievement of the bank's objectives, promoting excellence, rewarding achievement and providing them the opportunity to share in the bank's success;
- Develop mutually acceptable relationship with government in the pursuit of improvement in living standards in rural areas, while respecting best financial practices;
- Ensure that its activities contribute to the environmental stability and overall improvement of living standards in Nepal; and
- Judge the bank's success against the measures that include profitability, portfolio quality in terms of minimal arrears and non-performing loans, portfolio worth, total deposits, geographic outreach and public image.

#### **4.2 Performance Evaluation of ADBL**

Performance evaluation can help to outline the strength and weakness of management and help to improve the weakness of management and to energize to accomplishment of organizational goal. Her researcher going to analyze by using various technique and criteria to evaluate performance of ADBL some financial tools is as follows:

- Ration Analysis
- Cost Volume Profit Analysis

### 4.3 Ratio Analysis

Ratio analysis is a technique of analysis and interpretation of financial statement through mathematical expression. It may be defined as the mathematical expression of the relationship between two accounting figures. To evaluate the different performance of an organization by creating the ratios from the figures of different accounts is termed as ratio analysis. Ratio used for financial analysis of business can be classified in to four categories.

“Ratio refers to the numerical relation of component parts of financial statement to each other. Ratio relationships are computed to obtain information about various characteristics and conditions of firm” (Bagavati and Pillai, 2000; 1339)

- Liquidity Ratio
- Leverage Ratio
- Activity Ratio
- Profitability Ratio

#### 4.3.1 Liquidity Ratio

Liquidity Ratio is ability of a firm to pay short term liabilities. Liquidity ratio reflects the short term financial strength of a firm. This ratio is calculated by the help of current assets and current liabilities. Here the researcher is going to calculate the current Ratio of ADBL. Current ratio is calculated dividing current assets by current liabilities.

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

**Table 4.1**  
**Current Ratio of ADBL**

(Amount in '000000')

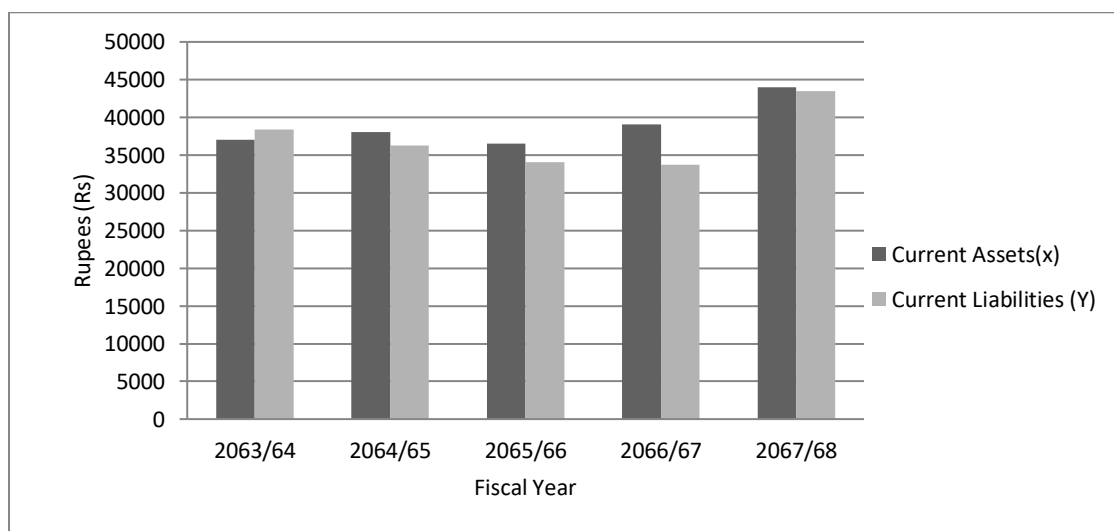
<b>Fiscal Year</b>	<b>Current Assets (x)</b>	<b>Current Liabilities (Y)</b>	<b>Current Ratio (X/Y)</b>
2063/64	37068.87	38347.09	0.96
2064/65	38024.25	36254.95	1.05
2065/66	36521.26	34025.25	1.07
2066/67	39027.36	33690.49	1.15
2067/68	44026.36	43508.18	1.01

*Source: Annual Reports of ADBL*

The above table shows the liquidity position Of ADBL higher the current ratio better the liquidity position, for the many types of business 2:1 is consideration be an adequate ratio. If the current ration of a firm is less tan 2:1, it means the firm has difficulty in meeting its current obligation. If current ratio is more than 2:1 the company may have an excessive investment in current assets that do not produce satisfied return. The current ratio of ADBL has almost met the standard of 2:1 but is not satisfactory in the 2066/67 and 2067/68. It shows higher CA than CL. The relationship between current assets and current liabilities presenting in the bar diagram for the analysis purpose.

**Figure 4.1**

**Figure Showing Current Assets and Current Liabilities**



Above bar diagram shows the status of current assets and current liabilities of ADBL over the five years period. The diagram the position of current assets is higher than position of current liabilities every year except 2064/65.

### 4.3.2 Leverage Ratio

The leverage ratio called capital structure ratio. The leverage ratio calculated to judge the long term financial position of a firm. These ratios measure the firm's ability to pay the interest regularly and to pay the principal on maturity. The following ratios are included in leverage ratio.

- Debt-Equity Ratio
- Interest Coverage Ratio

### 4.3.3 Debt- Equity Ratio

The relationship between long term debt and share holder's equity is called debt equity ratio. Debt equity ratio measures the long term financial solvency of business concern. It is calculated by dividing to long term debt by share holder's equity. **The Debt equity ratio can be calculated dividing to borrowing by share holder equity shown on appendix No.7.**

$$\text{Debt-Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholder's Equity}}$$

**Table 4.2**  
**Debt- Equity Ratio of ADBL**

(Amount in '00000')

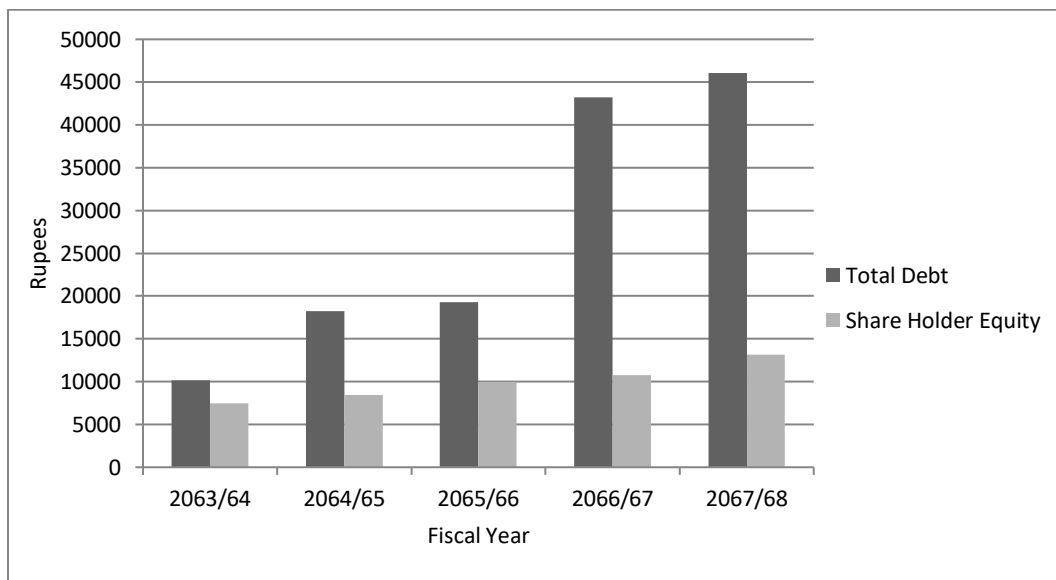
<b>Fiscal Year</b>	<b>Total Debt (X)</b>	<b>Share Holder Equity (Y)</b>	<b>Debt-Equity Ratio (X/Y)</b>
2063/64	10153.65	7502.48	1.35:1
2064/65	18274.8	8426.16	2.17:1
2065/66	19274.66	9825.24	1.96:1
2066/67	43234.31	10785.91	4.0:1
2067/68	46051.88	13189.48	3.49:1

Source: Annual Reports of ADBL

The above table shows the debt equity ratio of ADBL. The column X shows the figure of long term debt and column Y shows the figure of share holder's equity. BY dividing the column X by Y is the result of debt ratio. Here the range of debt equity ratio of ADBL is 1.35:1 to 4.0:1. The trend of debt equity ratio is sector fixed deposit is also considered as long term obligation but in above analysis researcher has calculated on borrowing as long term debt. The above table shows that ADBL's financial strength is strong because it has more internal fund to repay the borrowing capital. The figure of long term debt and share holder's equity is presenting in the bar diagram below.

**Figure 4.2**

**Figure showing Total Debt & Shareholder's Equity**



From the diagram it shows the status of long term debt and share holder's equity. The long term debt is in fluctuating trend and shareholder equity is increasing rapidly over the five year's period. The position of shareholder equity is lower than the long term debts. This indicatives that the bank used more internal fund than external fund.

#### 4.3.4 Interest Coverage Ratio ( ICR)

ICR measures the capacity pay interest expenses. This ratio is calculated by dividing Net Profit before interest & Tax (EBIT) by Interest cost amount.

$$\text{Interest Coverage Raito} = \frac{\text{Net Profit Before Interst and Tax}}{\text{Interst Expenses}}$$

**Table 4.3**

#### **Interest Coverage Ratio of ADBL**

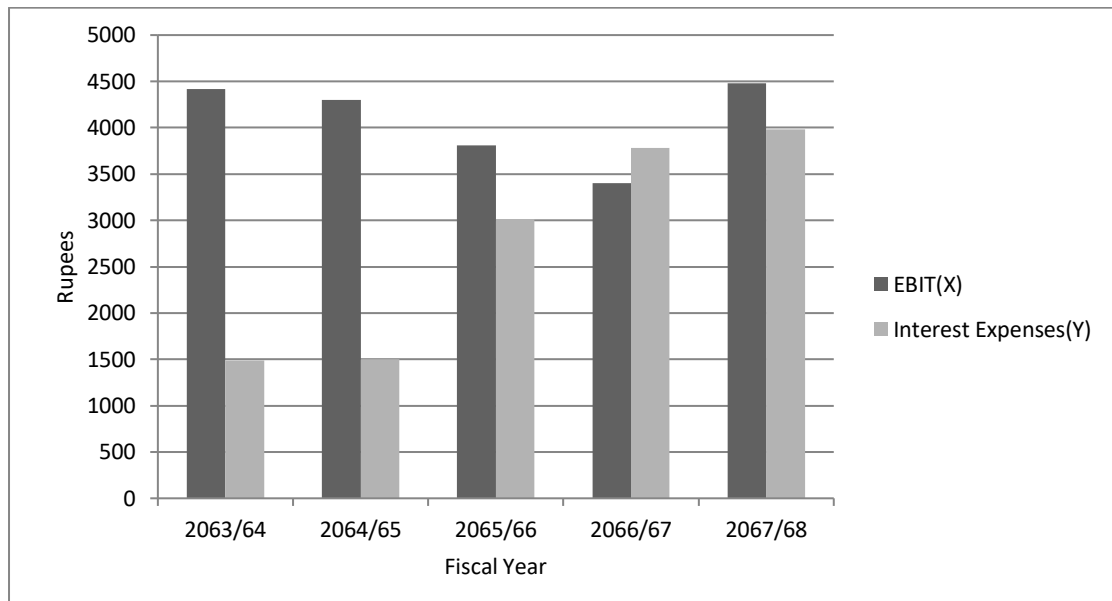
(Amount in '000000')

<b>Fiscal Year</b>	<b>EBIT(X)</b>	<b>Interest Expenses(Y)</b>	<b>Times</b>
2063/64	4415.59	1487.49	2.97
2064/65	4302.83	1501.36	2.87
2065/66	3806.35	3015.36	1.26
2066/67	3400.39	3779.03	0.90
2067/68	4481.97	3984.69	1.12

(Source: Annual Reports of ADBL 2063/64 to 2067/68)

The above table shows the position of interest coverage ratio (ICR) of ADBL. The ICR is 2.97 times in F/Y 2063/64 this means EBIT is 2.97 times more than interest expenses. Likewise the ICR decreased to 2.87 times in F/Y 2064/65. This result represents the ADBL has decreased its EBIT. Again the rate decreased 1.26 in F/Y 2065/66, 090 in 2066/67, 1.12 in 2067/68 The interest coverage ratio of ADBL ranges between 0.90 to 2.97 times. It means that the bank sufficiently capable to pay the interest expense. The figure of EBIT and Interest expenses are presenting in the bar diagram below.

**Figure 4.3**  
**EBIT and Interest Expenses**



From the diagram it shows the status of EBIT and Interest Expenses of ADBL. The Interest Expenses and EBIT are fluctuating trend over the five year's period.

#### 4.3.5 Profitability Ratio

Profitability ratio is related to profit. It shows the overall efficiency of the business concern. The earning capacity of a business is measured by profitability ratio. Maximization of profit is the main objectives of each and every business concern. It is very necessary to earn maximum profit for the successful running of a business concern. Here researcher is going to measure of ADBL profitability by total assets & total capital fund to net profit. It is computed by dividing to net profit by Total Assets & Net Profit to total capital fund

$$\text{Return on Assets (ROA)} = \frac{\text{Net Profit After Tax (NPAT)}}{\text{Total Assets}}$$

$$\text{Return on Capital(ROC)} = \frac{\text{Net Profit After Tax (NPAT)}}{\text{Total Capital Fund}}$$

**Table 4.4**  
**Profitability Ratio of ADBL**

(Amount in '000000')

<b>Fiscal Year</b>	<b>Net Profit after Tax (A)</b>	<b>Total Assets (B)</b>	<b>Return on Assets (C=A/B)</b>	<b>Total Capital Fund (D)</b>	<b>Return on Capital (E=A/D)</b>
2063/64	1584.27	42854.94	3.69%	10325.15	15.34%
2064/65	1768.46	45821.36	3.85%	11584.78	15.26%
2065/66	2158.37	48064.26	4.49%	12681.61	17.01%
2066/67	1892.39	54020.23	3.50%	13085.91	14.46%
2067/68	2365.48	59241.36	3.99%	15489.48	15.27%

(Source: Annual Reports of ADBL 2063/64 to 2067/68)

The above table shows the status of return on assets and return on capital employed of ADBL. The ratio shows the relation of net profit after tax with the total assets and total capital employed. The rate of return on assets is fluctuating trend and it is ranged between 3.69% to 4.49% throughout the five years period. Likewise the return on capital ratio presenting the relation of net profit with the capital employed. The range of return on capital employed is 15.26% to 17.01% it is fluctuation trend through five years of study period.

#### **4.4 Customer Deposit Collection**

As deposit collection is major activities of commercial bank, it is important source of resource mobilization. These deposits are collected from different sectors that are individual and corporate customer. Deposit is collected as per the bank's rules. Some deposits are interest bearing and some interest free. The Bank has categorized the deposit into two types which is as follows:

##### **1. Interest Bearing Account**

- Saving Account
- Call Deposit Account
- Fixed Deposit Account

## 2. Interest Free Account

- Current Deposit Account
- Margin Deposit Account
- Other Deposit Account

### 4.5 Deposit Collection Budget of ADBL

ADBL prepares the plan for the deposit collection. The budgeted and actual deposit collection of ADBL has presented in table below:

**Table 4.5**  
**Budgeted and Actual Deposit Collection**

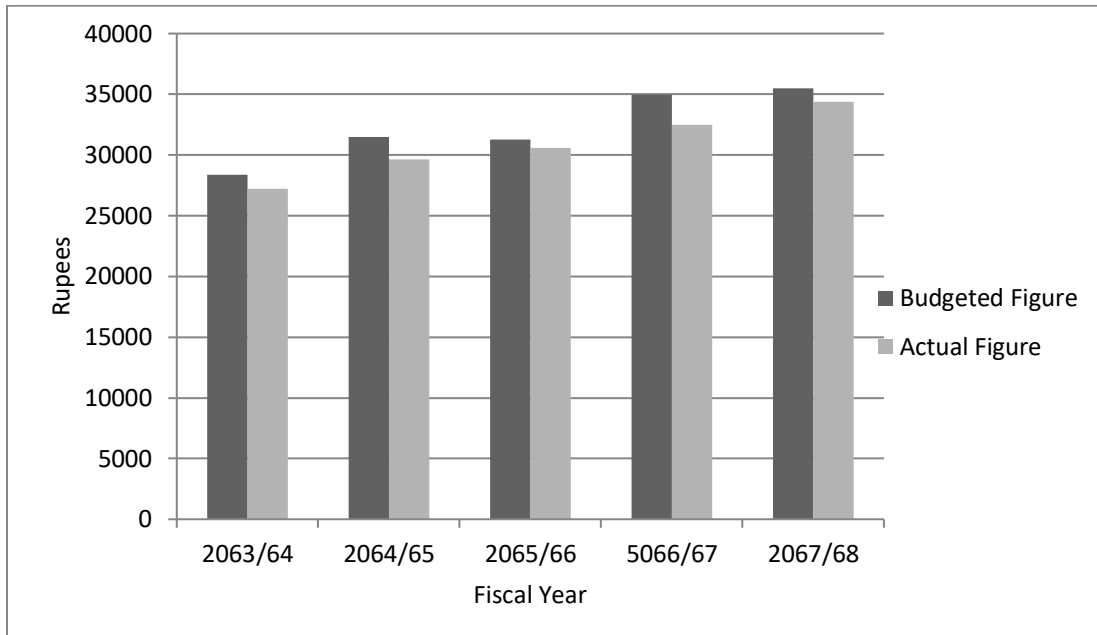
(Amount in '000000')

<b>Fiscal Year</b>	<b>Budgeted Figure</b>	<b>Actual Figure</b>	<b>Achievement</b>
2063/64	28364.26	27223.04	96.32%
2064/65	31482.21	29631.81	94.12%
2065/66	31248.56	30572.64	97.83%
2066/67	34980.94	32472.57	92.83%
2067/68	35500.27	34394.63	96.89%

*(Sources: Annual Reports and Budgeted Statement of ADBL)*

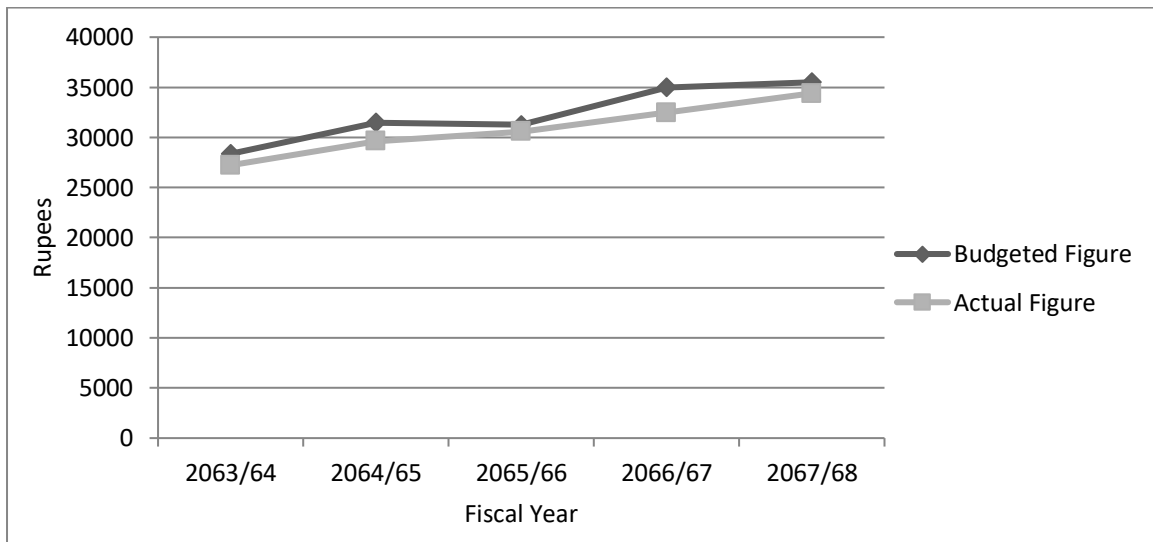
The above table shows the status of budgets and actual deposit collection of ADBL. The bank has achieved its objectives of deposit collection every year almost 96%. The base of preparing the budgets is the actual deposit collection the last year. The achievement range is slightly fluctuating. It ranges between 92.32% to 97.83 %, through the five year of study period. The data of table are presenting in bar diagram for the analysis purpose.

**Figure 4.4**  
**Budgeted and Actual Deposit Collection**



The figure shows the budgeted and actual figure of deposit collection of ADBL. The actual deposit is nearest to the budgeted figure so that the targeted collection of deposit has almost met every year by ADBL. The position of budgeted and deposit collection showing in the trend line. We can see diagram in increasing trend.

**Figure 4.5**  
**Trend of Budgeted and Actual Deposit Collection**



Above table and figure shows the deposit collection is almost meet the target budgeted amount. This gives the high level of achievement made by bank toward deposit collection sector. In the above bar diagram, budgeted deposit is quite higher than actual Deposit. Scatter Diagram shows budgeted collection is higher than actual amounts. ADBL is well performing in the deposit collection sector. The researcher finds the relationship and statistical results between budgets and actual deposit collection by using some statistical tools like arithmetic means, standard deviation, coefficient of variation, correlation and regression and probable error.

**Table 4.6**

**Summary of Deposit Collection Budget and Actual Deposit**

(Amount in '000000')

<b>Statistical Tools</b>	<b>Budgeted Deposit (X)</b>	<b>Actual Deposit (Y)</b>
Mean	32314.8	30858.4
Standard Deviation	2633.98	2445.78
Coefficient of Variation	8.15%	7.93%
Correlation of Coefficient(r)	0.97	
Probable Error(PE)	0.0264	

*(Sources: Appendix-1)*

The above table shows the actual deposit is more variable then budgeted deposit since the CV of actual deposit is higher than budgeted deposit. Budgeted deposit is more consistent and homogeneous than actual deposit which is more variable in nature. A greater CV represent less homogenous. By using another statistical tool correlation co-efficient to analyze the relation between budgeted deposit and actual deposits. It is used Karl person's coefficient of correlation which is denoted by (r). By calculating (r) can examine whether positive correlation between budgeted deposits and actual deposit is or not. Budgeted deposit denoted by X and assumed to be independent variable and deposit is by Y is assumed to be dependent variables. So that increased in budget is support to increase in actual achievement or vice

versa, this meant that should be positive correlation between, budgeted figure and achievement figures. Significance of correlation of (r) tested with probable error (PE) by the calculation as per appendix 1. The researcher have found (r)is 0.97 and PE is 0.0264 the figure of 'r' shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of PE with r is  $r > 6PE$  so it is significant so the actual deposit and actual direction. Another statistical tools regression line can also be fitted to show the degree of relationship between budgeted deposit and actual deposit and to forecast the achievement with given target so that the regression line of 'Y' on 'X' is as follows:-

$$Y - \bar{Y} = r \times \frac{\delta_y}{\delta_x} (X - \bar{X})$$

$$Y - 30858.4 = 0.97 \times \frac{2445.78}{2633.98} (X - 32314.8)$$

$$Y - 30858.4 = 0.9007 (X - 32314.8)$$

$$Y = 0.9007 X - 1752.46$$

Form the above equation it is clear that actual deposit is in increasing trend. By the help of this equation we determine the expected deposits achievement with given value of budgeted deposit (X=45000) ascertain the expected deposits achievement of F/Y 2068/69.

When X=40000

The expected deposit for the year 2068/69

$$Y = 0.9007 X - 1752.46$$

$$Y = 34275.54(000000)$$

The relationship between budgeted and actual amount deposit remain same the amount of deposit in F/Y 2068/2069 will be Rs. 34275540000 stated by above regression line.

## **4.6 Resource Deployment Plan of ADBL**

Deployment of the resources refers to the reasonable allocation of the resources for making comfortable liquidity as well as investing in income generating activities. Besides these, some investments have to be made in fixed assets and other operating assets for the bank. Allocation of available resource into different sector is called deployment of resources plan. Resource can be used for maintain liquidity, investing in income generation activities, investing for fixed assets purchase and other assets. The available resources can be allocated in to three purposes these are listed below.

- To maintain the liquidity position.
- To invest in income generation activity.
- To purchase fixed and other assets.

### **4.6.1 Deployment to Maintain Liquidity Position**

Liquidity need to be maintained for the purpose of payment of withdrawals from deposit amount and payment for other liabilities and expenses. The liquidity can be maintained in terms of cash in vault and balance in bank. The return on such amount may be nominal or no return at all. The central bank of Nepal NRB has instructed to commercial bank to maintain certain liquidity as per their deposits. The liquidity position should be maintained as required higher the liquidity can't give effective return and lower the liquidity became failure to repay the deposit.

### **4.6.2 Deployment for Income Generating Activities**

The major function of a commercial bank is to collection of deposit and invests them in different sector as loan Deployment of fund in income generating activities can divided in to two categories.

- Loan, Discount, Overdrafts (LDO)
- Other Investment

LDO refers loan, Advances, O\D, Bills Purchase & Discount & other loan which generates income in terms of interest other investment includes, investment in securities, Treasury bill etc.

**Table 4.7**

**Total Investment and Loans and Advance of ADBL**

(Amount in '000000')

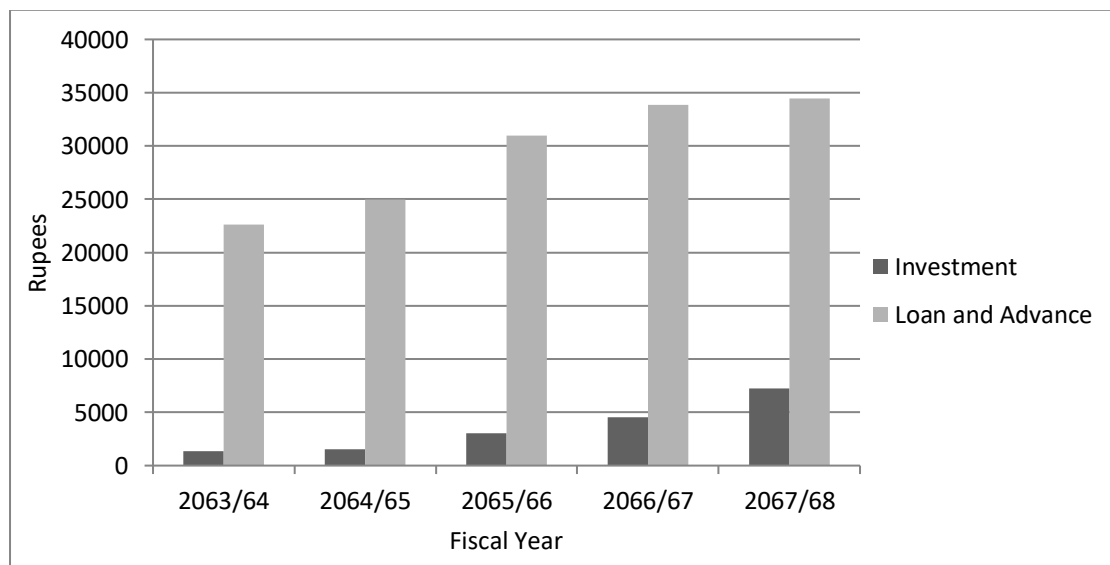
F/Y	Investment		Loan and Advance		Total
	Amount	%	Loan and Advance	%	
2063/64	1355.83	5.66	22638.25	94.34	23994.08
2064/65	1511.33	5.7	24983.59	94.23	26494.92
2065/66	3051.64	8.97	30957.34	91.07	34008.98
2066/67	4540.08	11.82	33876.96	88.18	38417.04
2067/68	7267.29	17.42	34459.92	82.58	41727.21

(Source: Annual Report of ADBL 2063/64 to 2067/68)

The above table shows the status of income generating deployment of ADBL. The major portion of deployment of the bank covers by the loan and advance. The range of loan and advance is 82.58% to 94.34% where as the range of investment is 5.66% to 17.42%. The data of table are presenting in bar diagram for the analysis purpose.

**Figure 4.6**

**Bar Diagram Showing Investment and Loan and Advance**



The above bar diagram shows the investment and loan and advance of ADBL. The loan and advance is increasing trend over the five year's periods. The investment is also increasing trend of ADBL bank in the five years study periods.

#### 4.6.3 Deployment in Other Assets

Assets needs in the organization to show the performance of business such assets may be fixed or current. These assets can't give return directly but without these others activities can't be run smoothly. Fixed assets subject to write off at certain period of time as expenses.

#### 4.7 Interest Expenses

The bank collected from various sources. Among them some are non cost bearing and some are cost bearing sources. Interest expenses incurred for making payment of cost of such deposit amount which are interest bearing depots. The interest holds highest percentage of expenses amount because deposit holds highest portion of total available resources. The bank may have different interest rate in different type of account. Here, the researcher going to analyze the average cost deposit through the study period.

**Table 4.8**  
**Status of average Cost of Deposit**

(Amount in '00000')

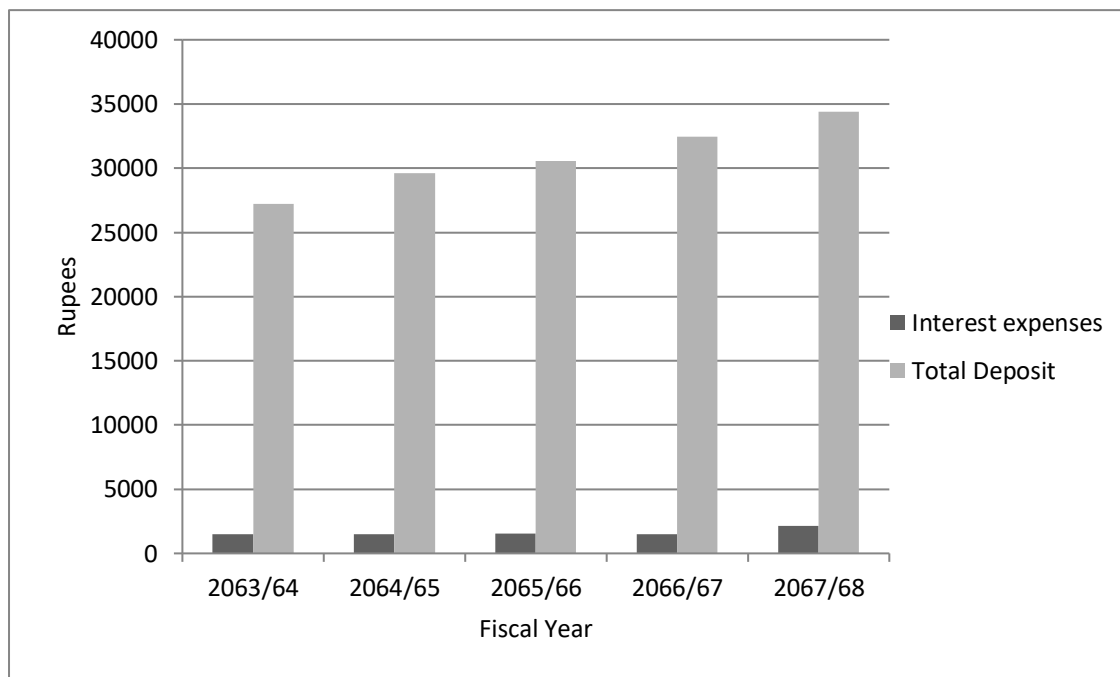
<b>Fiscal Year</b>	<b>Interest Expenses</b>	<b>Total Deposit</b>	<b>Cost of Deposit (%)</b>
2063/64	1478.49	27223.04	5.43
2064/65	1501.36	29631.81	5.07
2065/66	1549.94	30572.64	5.07
2066/67	1507.99	32472.57	4.64
2067/68	2116.49	34394.63	6.15

*(Source: Annual Report of ADBL 2063/64 to 2067/68)*

The above table shows the total deposit and interest expenses of respective year. The deposit amount is in increasing trend likewise the interest too. The table shows the cost of deposit in percentage. The ADBL cost of deposit (interest) range between 4.64% to 6.15% over the study period. The cost of deposit of the bank in fluctuate nature but slightly decreasing trend. In this situation also bank decrease cost of deposit its shows the achievement of the bank. The relation between COD and total deposit can shows on the bar diagram below.

**Figure 4.7**

**Interest Expenses and Total Deposit**



The bar diagram shows the status of interest expensed and total deposit in respective fiscal year. The amount of total deposit is in increasing trend likewise interest is changing trend accordingly. The amount of interest is increasing every year.

**Table 4.9**  
**Summary of Actual Deposit and Interest Expenses**

(Amount in '000000')

<b>Statistical Tools</b>	<b>Actual Deposit(X)</b>	<b>Interest Expenses(Y)</b>
Mean	30858	1630.85
Standard Deviation	2445.91	243.91
CV	7.93%	14.96%
R	0.7559	
PE	0.1917	

#### **4.8 Interest Income**

Interest income also called return of LDO contributes major portion of total revenue mix. Now, researcher is going to analyze the comparative status of Loans and Advance and Interest Income with the help of table & diagrams.

**Table 4.10**  
**Status of Average Return of LDO**

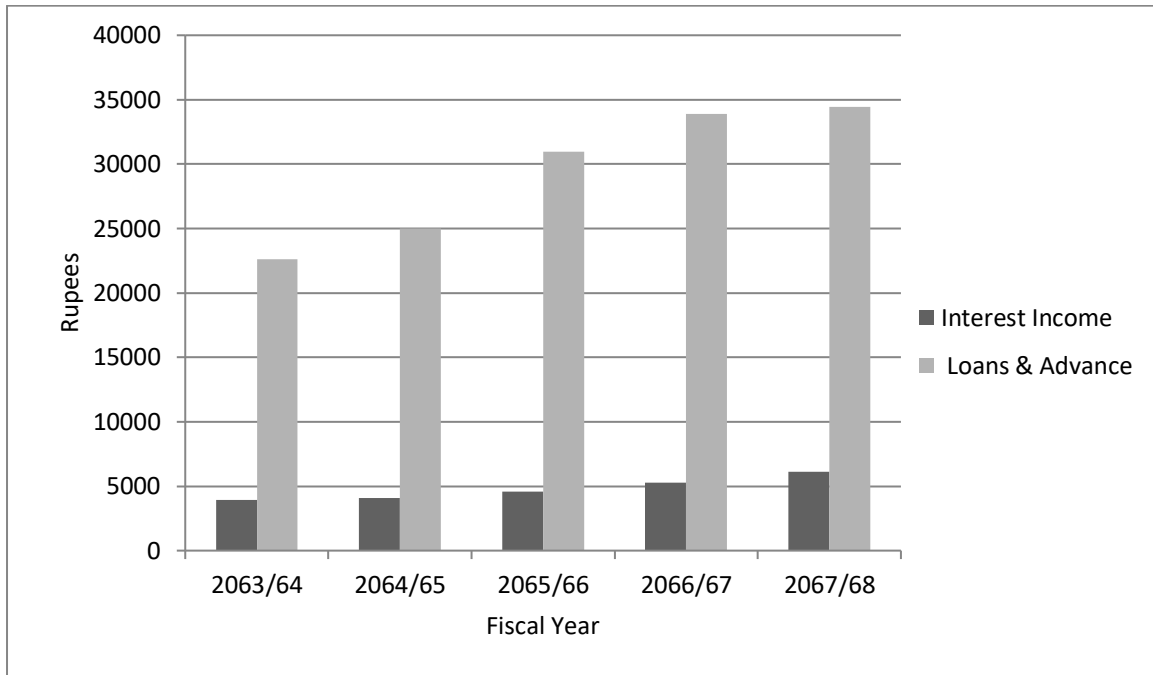
(Amount in Rs. '0000000')

<b>Fiscal Year</b>	<b>Interest Income</b>	<b>Total Loans and Advance</b>	<b>Average Rate of Return</b>
2063/64	3915.22	22638.25	8.79%
2064/65	4095.18	24983.59	8.01%
2065/66	4582.34	30957.34	9.65%
2066/67	5287.03	33876.96	12.98%
2067/68	6101.19	34459.92	14.53%

*(Source: Annual Reports of ADBL 2063/64 to 2067/68)*

**Figure 4.8**

**Bar Diagram Showing Average Return from LDO**



The bar diagram shows the status of interest income and total Loans and Advance in respective of the study five's periods. The amount of total Loans and Advance is in increasing trend likewise interest is changing trend accordingly. The amount of interest income is increasing every year.

**Table 4.11**

**Summary of Actual LDO and Interest Income**

(Amount in '00000')

Statistical Tools	Actual LDO (X)	Interest Income (Y)
Mean	29383.22	4796.19
Standard Deviation	4760.16	807.12
CV	16.20%	16.83%
r	0.912	
PE	0.0752	

(Source: Appendix-3)

The above results show actual o/s LDO is less variable than interest income since CV of LDO is lower than of interest. There is positive correlation

between o/s LDO and interest income. In other words the interest income increases as the o/s LDO sin crease or vice versa. To fang the correlation between interest income and actual o/s LDO we can take the help of Karl person's coefficient o correlation and it is denoted by 'r' we can examine whether there is positive correlation between interest income and actual LDO. The actual LDO (X) is assumed as independent variable and interest income (Y is assumed to be dependent variable. So that increase in LDO will support to increase in interest income and vice verse. After this significance of 'r' is tested with the probable error of 'r' The probable error of 'r' The value of r is 0.912 & P.E is 0.0752 since  $r < 6PE$  the valu of r is insignificant. From the calculation shown in appendix no 6 the value of r is 0.912 Now the coefficient of determination which explains the change in Y variable i.e. interest income by x variable i.e. LDO can be calculated as the  $r^2.r^2 = (0.912)^2= 0.8317$ .

#### 4.8.1 Interest Margin

The difference between interest income and interest expenses is called interest margin. Following table shows the movement in interest margin throughout the study period of ADBL.

**Table 4.12**  
**Movements in Interest Margin of ADBL**

(Amount in '000000)

<b>F/Y</b>	<b>Interest Income (X)</b>	<b>Interest Expenses (Y)</b>	<b>Interest Margin(X-Y)</b>
2063/64	3915.22	1478.49	2436.73
2064/65	4095.18	1501.36	2593.82
2065/66	4582.34	1549.94	3032.4
2066/67	5287.03	1507.99	3779.04
2067/68	6101.19	2116.49	3984.7

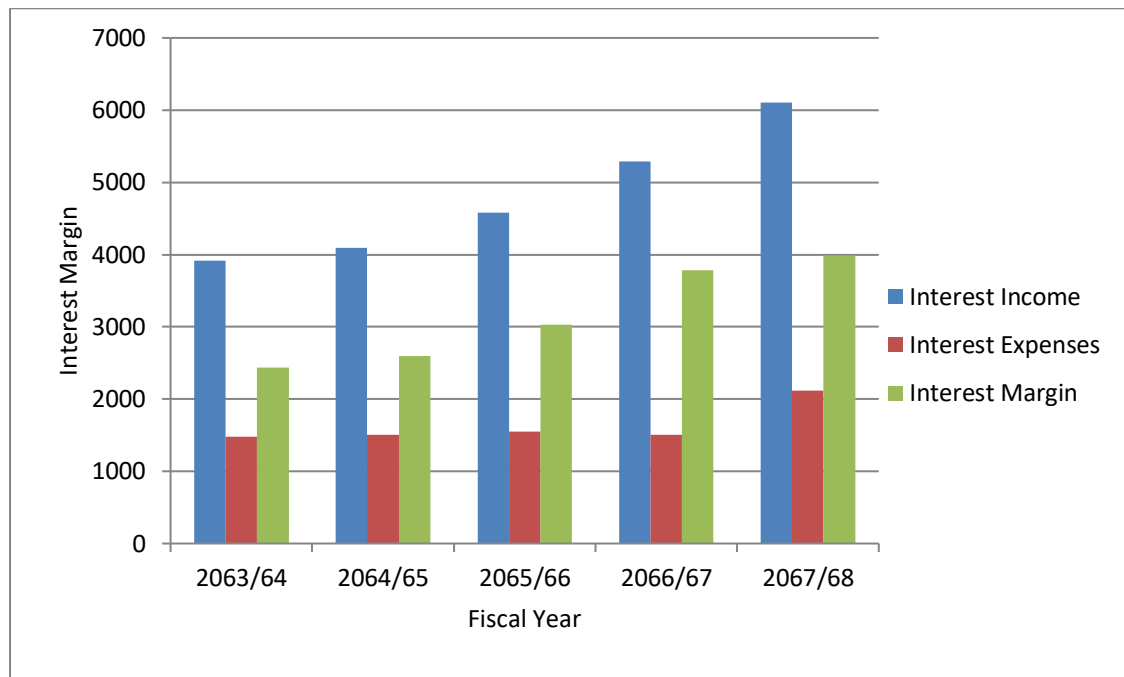
*(Source: Annual Reports of ADBL 2063/2064 to 2067/2068)*

The above table shows the position of interest margin and its growth throughout he study period. The figure of interest margin is fluctuating trend

every year. The position of interest income, interest expenses and interest margin is presenting in the bar diagram.

**Figure 4.9**

**Bar Diagram Showing Interest Margin of ADBL**



The above bar diagram is showing the status of interest margin with comparison with interest income and interest expenses of ADBL. The fundamental purpose of this diagram is to show the relationship of interest margin so the trend of interest margin throughout the five periods is Fluctuating.

#### **4.9 Major Findings of the Study**

- The highest Liquidity ratio of the bank was 1.15:1 in F/Y 2066/67 of ADBL Bank. The range of the liquidity ratio 0.96:1 to 1.15:1 for the five years study period.
- Debt-Equity ratio shows that the ADBL's financial strength is very strong because it has more internal fund to repay the borrowing capital.
- Debt-Equity ratio shows that the ADBL financial strength is very strong because it has more internal fund to repay the borrowing capital.

- The rate of return on assets is fluctuating trend and it is ranged between 3.69% to 4.49% throughout the five years period.
- The range of return on capital employed is 15.26% to 17.01 % it is fluctuation trend through five years of study period.
- The highest Debt to equity ratio of the bank was 4.0:1 in F/Y 2066/67. The range of the debt to equity ratio between 0.06:1 to 1.35:1 for the five years study period. The bank had maintained its debt to equity ratio as per NRB guideline.
- The interest coverage ratio of ADBL ranges between 0.90 to 2.97 % and range of return of total fund is 11.91 to 21.91% over the period.
- ADBL is well performing in the deposit collection sector. Actual deposit is almost to the budgeted figure. It is found  $R^2$  is 0.97 and PE is 0.0264. The figure of 'r' shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of PE with r is  $r < 6PE$ , it is significant so the accrual deposit going on same direction. The relationship between budgeted and actual amount deposit remains same the amount of deposit in F/Y 2068/69 will be RS 34275540000 stated by the regression line.
- The research find that the almost 100% of achievement of deployment for income generating activities.
- Loans and advance is increasing trend over the five;s years study period. Although the average ratio of Loans and advance is almost 91%.
- The interest holds highest percentage of expenses amount as deposit is the major resources of the bank. The cost of capital of ADBL is in the range of 5.07% to 6.15% it means the bank pays the interest 5.61% in average over the period.
- The yearly interest income is in increasing trend in amount where the range of average rate of return lies between 8.01% to 14.53%.
- The amount of interest margin of ADBL is in increasing trend where the increment percentage is also in fluctuating trend over the study period.

- The interest coverage ratio of ADBL ranges between 0.90 to 2.97 times and range of return of total capital fund is 14.46% to 17.01% over the period.

## **CHAPTER- V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

Profit for commercial organizations has been defined as the life-blood for them. A commercial bank also, being a commercial institution has to plan for the reasonable profit earnings. Profit planning is the planning of activities in such way that it helps in increasing the income at a minimum possible cost or at optimum cost. PPC can be used as an effective remedy for the organization running in loss and maintain same or high level profit. It is combination of various financial and physical techniques, which not only helps on increasing profit but also to reduce unnecessary cost and utilize the expenses in the best manner. This study aims at examining the application of profit planning in a commercial bank, with a specific case study ADBL.

This chapter is focused on the findings and conclusions obtained from the study of "Profit Planning and Control: A case Study of Agriculture Development Bank Limited" This chapter is comprised of three sections, the first section deals with the summary of the study; the second section draws the conclusions of the study. Lastly, the third section proposes the suggestions to the problems observed on the basis of the findings.

#### **5.1 Summary**

The economic growth of a country can't imagine without financial institutions. Commercial banks play a vital role as a financial institution which plays a quite important role of every economy by providing capital for the development of industry trade and business. Commercial bank pools between savers and users thereby raising employment opportunity. Besides the economic contribution commercial banks are also recognizes its social responsibilities by contributed to various social and welfare organization. The major income source of bank is interest margin which depends upon the deployment of available resources. The bank generally deployed their resource for the purpose of liquidity, lending

and investment policy. The main objective of the study is to evaluate the budgeting and profit planning system of ADBL. The study is mostly based on secondary data and required data have been collected by using various sources. There are 32 commercial banks, 88 Development banks, 77 Financial companies and 23 Co-operative banks operating in Nepal which are taken as population of the study among them ADBL has been taken as a sample of the study and collected data has been analyzed by using various statistical and financial tools.

ADBL is one of the well established Development bank in Nepal. ADBL is able to maintain. Its positions as a market leader in the banking sector and there is ongoing effort and commitment in enhancing its financial position.

In the first introductory chapter, this study report has tried to give brief introduction of banking and its relation to the economy, brief history of banking in Nepal, brief profile of the concerned bank, general concepts to profit and comprehensive planning, the problem statement, objective of the study and its scope, limitation and significance.

During the research works, an extensive review of various literatures, books, past thesis, journals have been made and internet materials from relevant websites were also consulted. The work was compiled into “review of literature” chapter.

Research methodology followed for this research work is mentioned in the chapter three entitled as “Research Methodology”. Likewise, Data relating to various activities of the bank has been collected, presented in tabular and various diagram form and are tried to be interpreted in the study report in logical ways. Data are then analyzed applying various financial, mathematical and statistical tools have been listed in a systematic manner. All these works are compiled in the fourth chapter titled as “Data Presentation and Analysis” of the study.

Finally, the summary and the recommendation are made for this study is hereby being presented in this chapter five titled as “Summary, Conclusion and Recommendations”

## **5.2 Conclusion**

On the basis of major findings of the study the following conclusion has been drawn about the ADBL:

- Profit Planning and controlling system of ADBL is very effective because it has generated more profit year after year.
- There is variance in budgeted and actual performance but it has always achieved almost budgeted figure.
- Analysis concludes that growth of bank is significant. ADBL is increasing its internal fund by increasing capital year by year this means strengthen their capability internally.
- ADBL is almost able to meet its targeted deposit collection, deployment of Loans and advance. The relationship between budgeted and actual figures is positively correlated.
- The non fund consuming business of ADBL is also remarkable since it gives the return to bank without investing the fund.
- The major income source is interest margin the trend of interest margin is increasing trend every year.
- The liquidity position of ADBL is better position bank has maintained the cash and bank balance to met the current obligations.
- The financial strength of ADBL is strong since Debt equity ratio shows that the ADBL use more internal fund to repay its borrowings.
- The return on assets and return on capital is satisfactory of ADBL it show the good earning capacity of the bank.
- The result of the study shows the overall performance of ADBL is satisfactory and progressive. Finally it's all activities are quite different in year 2067/68 due to its branch expansion. Deposit seems high, LDO also high, and the expenses and assets also in the high range.

- ADBL does not prepare long term strategic profit plan. It only prepares short term profit plan which is usually referred as budgeted.
- The budgeted is not based on past performance but on targeted growth, which is very optimistic in both budgeted year.

### **5.3 Recommendations**

This researcher would like to provide some suggestion for the better improvement of bank future. This recommendation based on the study on profit planning of ADBL these is as follows:

- Financial institutions increasing day by day in Nepal it grows the competition with the banks so ADBL should make some policy to keep its position as before among the Nepalese financial institutions.
- ADBL should be conscious about the factors affecting the business like economic crisis, political uncertainty etc and give more attention to improve technological resource.
- Every business concerns have one another obligation i.e. corporate social responsibility so ADBL need more involvement in social activities in the coming days.
- ADBL's major source of resources collection in deposit since this is cost bearing sources the bank is suggest increasing cost free resource too, and reducing the burden of the bank.
- The bank needs to put more focus on the non fund consuming business activities like LC, Bank guarantee, foreign exchange and other. It supports in the overall profitability of the bank.
- Expenses grow as the volume of activities increases so it can't be avoided but can be controlled. The bank can minimize those expenses not related for income generating activities so the bank enhances its profitability.
- People in rural area of Nepal still out of banking services so ADBL is suggested to take bold steps to expand and upgrade its network to reach such area with their products and services.

- The 'Global Economic Crisis 2008' started from banking sector of USA this crisis may affects to Nepalese financial sectors too so the ADBL suggested to make some policy to be safe from this crisis.
- Cross product selling is also the best way to reduction of cost and increase profit.

The research report is concluded with the above mentioned major findings, Summary, Conclusions, and recommendations.

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## APPENDICES

### Appendix – 1

#### Summary of Budgeted and Actual Deposit

(Amount in '000000')

Year	X	Y	x= X- $\bar{X}$	y= Y- $\bar{Y}$	xy	x <sup>2</sup>	y <sup>2</sup>
2063/64	28364	27223	-3950.8	-3635.4	14362738.3	15608820.6	13216133.2
2064/65	31482	29631	-832.8	-1227.4	1022178.72	693555.84	1506510.76
2065/66	31248	30572	-1066.8	-286.4	305531.52	1138062.24	82024.96
2066/67	34980	32472	2665.2	1613.6	4300566.72	7103291.04	2603704.96
2067/68	35500	34394	3185.2	3535.6	11261593.1	10145499	12500467.4
	161574	154292	0	0	31252608.4	34689228.8	29908841.2

Here, n = 5,  $\Sigma X = 161574$ ,  $\Sigma Y = 154292$ ,  $\Sigma x = 0$ ,  $\Sigma y = 0$ ,  
 $\Sigma xy = 31252608.4$ ,  $\Sigma x^2 = 34689228.8$ ,  $\Sigma y^2 = 29908841.2$

$$\bar{X} = \frac{\Sigma X}{N} = \frac{161574}{5} = 32314.8$$

$$\bar{Y} = \frac{\Sigma Y}{N} = \frac{154292}{5} = 30858.4$$

$$\delta_X = \sqrt{\frac{\Sigma x^2}{n} - \left(\frac{\Sigma x}{n}\right)^2} = \sqrt{\frac{34689228.8}{5} - 0} = 2633.98$$

$$\delta_Y = \sqrt{\frac{\Sigma y^2}{n} - \left(\frac{\Sigma y}{n}\right)^2} = \sqrt{\frac{29908841.2}{5} - 0} = 2445.78$$

$$r_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \times \sqrt{\Sigma y^2}} = \frac{31252608.4}{\sqrt{34689228.8} \times \sqrt{29908841.2}} = 0.97$$

$$CV_X = \frac{\sigma_X}{\bar{x}} \times 100 = \frac{2633.98}{32314.8} \times 100 = 8.15\%$$

$$CV_Y = \frac{\sigma_Y}{\bar{y}} \times 100 = \frac{2445.78}{30858.4} \times 100 = 7.93\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.97^2}{\sqrt{5}} = 0.0264$$

## Appendix – 2

### Summary of Actual Deposit and Interest Expenses

(Amount in  
'000000')

Year	X	Y	x= X- $\bar{X}$	y= Y- $\bar{Y}$	xy	$x^2$	$y^2$
2063/64	27223.04	1478.49	27223.04	1478.49	-3635.9	-152.36	553965.724
2064/65	29631.81	1501.36	29631.81	1501.36	-1227.13	-129.49	158901.064
2065/66	30572.64	1549.94	30572.64	1549.94	-286.3	-80.91	23164.533
2066/67	32472.57	1507.99	32472.57	1507.99	1613.63	-122.86	-198250.582
2067/68	34394.63	2116.49	34394.63	2116.49	3535.69	485.64	1717072.49
	$\Sigma X$ =154294.7	$\Sigma Y$ =8154.27	$\Sigma x=0$	$\Sigma y=0$	$\Sigma xy$ =2254853.23	$\Sigma x^2$ =29912490.1	$\Sigma y^2$ =297468.45

Here,  $n = 5$ ,  $\Sigma X = 154294.7$ ,  $\Sigma Y = 8154.27$ ,  $\Sigma x = 0$ ,  $\Sigma y = 0$ ,  
 $\Sigma xy = 2254853.23$ ,  $\Sigma x^2 = 29912490.1$ ,  $\Sigma y^2 = 297468.45$

$$\bar{X} = \frac{\Sigma X}{N} = \frac{154294.7}{5} = 30858.94$$

$$\bar{Y} = \frac{\Sigma Y}{N} = \frac{8154.27}{5} = 1630.85$$

$$\delta_X = \sqrt{\frac{\Sigma x^2}{n} - \left(\frac{\Sigma x}{n}\right)^2} = \sqrt{\frac{29912490.1}{5} - 0} = 2445.91$$

$$\delta_Y = \sqrt{\frac{\Sigma y^2}{n} - \left(\frac{\Sigma y}{n}\right)^2} = \sqrt{\frac{297468.45}{5} - 0} = 243.91$$

$$r_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \times \sqrt{\Sigma y^2}} = \frac{2254853.23}{\sqrt{29912490.1} \times \sqrt{297468.45}} = 0.7559$$

$$CV_X = \frac{\sigma_X}{\bar{x}} \times 100 = \frac{2445.91}{30858.94} \times 100 = 7.93\%$$

$$CV_Y = \frac{\sigma_Y}{\bar{y}} \times 100 = \frac{243.91}{1630.45} \times 100 = 14.96$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.7559^2}{\sqrt{5}} = 0.1917$$

### Appendix – 3

#### Summary of Actual LDO and Interest Income

(Amount in ‘000000’)

Year	X	Y	x= X- $\bar{X}$	y= Y- $\bar{Y}$	xy	$x^2$	$y^2$
2063/64	22638.25	3915.22	-6744.97	-880.97	5942116.22	45494620.3	776108.141
2064/65	24983.59	4095.18	-4399.63	-701.01	3084184.63	19356744.1	491415.02
2065/66	30957.34	4582.34	1574.12	-213.85	-336625.562	2477853.77	45731.8225
2066/67	33876.96	5287.03	4493.74	490.84	2205707.34	20193699.2	240923.906
2067/68	34459.92	6101.19	5076.7	1305	6625093.5	25772882.9	1703025
	146916.1	23980.96	0	0	17520476.1	113295800	3257203.89

Here,  $n = 5$ ,  $\Sigma X = 146916.1$ ,  $\Sigma Y = 23980.96$ ,  $\Sigma x = 0$ ,  $\Sigma y = 0$ ,  
 $\Sigma xy = 17520476.1$ ,  $\Sigma x^2 = 113295800$ ,  $\Sigma y^2 = 3257203.89$

$$\bar{X} = \frac{\Sigma X}{N} = \frac{146916.1}{5} = 29383.22$$

$$\bar{Y} = \frac{\Sigma Y}{N} = \frac{23980.96}{5} = 4796.19$$

$$\delta_X = \sqrt{\frac{\Sigma x^2}{n} - \left(\frac{\Sigma x}{n}\right)^2} = \sqrt{\frac{113295800}{5} - 0} = 4760.16$$

$$\delta_Y = \sqrt{\frac{\Sigma y^2}{n} - \left(\frac{\Sigma y}{n}\right)^2} = \sqrt{\frac{3257203.89}{5} - 0} = 807.12$$

$$r_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \times \sqrt{\Sigma y^2}} = \frac{17520476.1}{\sqrt{113295800} \times \sqrt{3257203.89}} = 0.912$$

$$CV_X = \frac{\sigma_X}{\bar{x}} \times 100 = \frac{4760.16}{29383.22} \times 100 = 16.20\%$$

$$CV_Y = \frac{\sigma_Y}{\bar{y}} \times 100 = \frac{807.12}{4796.19} \times 100 = 16.83\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.912^2}{\sqrt{5}} = 0.0752$$