

PROFIT PLANNING AND CONTROL
(With Reference to Nepal SBI Bank Limited)

A THESIS

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I hereby declare that the work reported in this thesis entitled “**Profit Planning and Control (With Reference to Nepal SBI 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 **Pitri Raj Adhikari** of Shanker Dev Campus.

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TABLE OF CONTENTS

Recommendation
Via-Vice Sheet
Deceleration
Acknowledgement
Table of contents
List of Table
List of Figure
Abbreviations

	Page No
CHAPTER I	
INTRODUCTION	1-10
1.1 Back Ground of Study	1
1.1.1 Nepal SBI Bank	4
1.1.2 Nepalese economy: Current Macro Economic condition	5
1.1.3 Meaning and Importance of Financial Institution	6
1.2 Statement of Problem	7
1.3 Objective of Study	8
1.4 Significance of Study	8
1.5 Limitation of Study	9
1.6 Organization of the Study	9
CHAPTER II	
CONCEPTUAL FRAMEWORK AND	11-49
REVIEW OF LITERATURE	
2.1 Introduction	11
2.2 Conceptual Framework	12
2.2.1 Fundamental concept of Profit Planning and Control	12
2.2.2 Foundation for Profit Planning and Control	15

2.2.3 Application involved in Profit Planning and Control	16
2.2.4 Importance of Profit Planning and Control	16
2.2.5 Limitation of Profit Planning and Control	17
2.2.6 Mechanism for Profit Planning and Control	17
2.2.6.1 Profit as a Concept	18
2.2.6.2 Long term and short term Profit Planning	18
2.2.7 Concept of Planning	18
2.2.7.1 Long Range and short Range Planning	20
2.2.7.2 Corporate and Division Strategic Planning	20
2.2.7.3 Role of Forecasting in Planning	21
2.2.8 Concept of Control	21
2.2.9 Budget and Budgeting	23
2.2.10 Budgeting: As Device of Profit Plan	23
2.2.11 Essential of an effective Budgeting	24
2.2.12 Development of Profit Plan	25
2.2.12.1 Sales Forecasting and Sales Planning	25
2.2.12.2 Production Budget	26
2.2.12.3 Material Purchase Budget	26
2.2.12.4 Capital Budget	26
2.2.12.5 Cash Budget	26
2.2.13 Concept of Commercial Bank	27
2.2.13.1 NRB Regulation	27
2.2.14 Profit Planning in Commercial Bank	28
2.2.14.1 Planning for Recourse Mobilization	28
2.2.14.2 Planning for Recourses	29
2.2.14.3 Non fund Consuming Income Plan	30
2.2.14.4 Planning for Expenditure	31
2.2.14.5 Planning for Revenue	32

2.2.15 the concept Integrated with Profit Planning	33	
2.2.15.1 Cost Volume Profit Analysis	33	
2.2.15.2 Break Even analysis	33	
2.2.15.3 Zero Base Budgeting	33	
2.2.15.4 Activity Costing	34	
2.2.15.5 Budget Variance	34	
2.2.16 Performance Report	34	
2.3 Reviews of Previous Studies	36	
2.3.1 Review of Books	36	
2.3.2 Review of Reports and articles	37	
2.3.3 Review of Thesis	43	
2.3.4 Research Gap	49	
CHAPTER III	RESEARCH METHELOGOLY	50-56
3.1 Introduction	50	
3.2 Research Design	50	
3.3 Population and Sample	51	
3.4 Sources and Collection of Data	51	
3.5 Data Processing	52	
3.6 Study Variable	52	
3.7 Analytical Tools	52	
3.7.1 Statistical and mathematical Tools	52	
3.7.2 Financial Tools	55	
3.7.3 Trend Analysis	56	
CHAPTER IV	DATA ANALYSIS AND PRESENTATION	57-92
4.1 Introduction	57	
4.2 Resource Mobilization Planning	57	
4.3 Customer Deposit Collection	58	

4.4 Resource Deployment Plan of NSBI	61
4.5 Budget and Actual LDO of NSBI	62
4.6 Resource Deployment in Other Sector (NLDO)	65
4.7 Actual Deposit and Outstanding LDO of NSBI	67
4.8 Interest Expenses	69
4.9 Interest Income	71
4.10 Interest Margin	73
4.11 Performance Evaluation of NSBI	74
4.11.1 Ratio Analysis	75
4.11.1.1 Liquidity Ratio	75
4.11.1.2 Leverage Ratio	77
4.11.1.2.1 Debt Equity Ratio	77
4.11.1.2.2 Interest Coverage Ratio	80
4.11.1.3 Profitability Ratio	81
4.12 Cash Flow Analysis	83
4.13 Trend Analysis	85
4.13.1 Trend Analysis of Total Deposit of NSBI	85
4.13.2 Trend Analysis of Loan and Advance of NSBI	86
4.13.3 Trend Analysis of Total Assets of NSBI	88
4.13.4 Trend Analysis of Net Profit of NSBI	89
4.14 Major Finding of Study	91
CHAPTER V	SUMMARY, CONCLUSIONS AND
	RECOMMEDATIONS
	93-97
5.1 Summary	93
5.2 Conclusion	94
5.3 Recommendations	95
BIBLIOGRAPHY	
APPENDIECES	

LIST OF TABLE

	Page No:
4.1 Status of Available of Resources of NSBI	57
4.2 Status of Budget and Actual Deposit Collection	59
4.3 Summaries of Deposit Collection Budget and Actual Deposit	60
4.4 Total Income Generating Deployment of NSBI	61
4.5 Budgeted and Actual Loan, Discounted, Overdraft of NSBI	62
4.6 Summaries of Budgeted LDO and Achievement	64
4.7 Status of Budgeted and Actual Deployment in Other Sector (NLDO)	65
4.8 Summaries of NLDO of NSBI	66
4.9 Status of LDO vs. Actual Deposit of NSBI	67
4.10 Summaries of Actual Deposit and Actual LDO	68
4.11 Status of Average Cost of Deposit	69
4.12 Summaries of Actual Deposit and Interest Expenses	70
4.13 Status of Average Cost of Deposit	71
4.14 Summaries of Actual LDO and Interest Income	72
4.15 Movements in Interest Margin	73
4.16 Current Ratio of NSBI	75
4.17 Debt- Equity Ratio of NSBI	78
4.18 Interest Coverage Ratio of NSBI	80
4.19 Return on Assets and Return on Capital of NSBI	82
4.20 Cash Flow Statement	84
4.21 Actual Value and Trend Value of Total Deposit	85
4.22 Actual Value and Trend Value of Loan and Advance	86
4.23 Actual Value and Trend Value of Total Assets	88
4.24 Actual Value and Trend Value of Net Profit	90

LIST OF FIGURE

	Page No:
4.1 Status available of Deposit of NSBI	58
4.2 Bar Diagram showing Budgeted and Actual Deposit Collection	59
4.3 Bar Diagram Showing Investment and Loan & Advance	62
4.4 Trend Line Showing the status of Budgeted and Actual deployment LDO	63
4.5 Bar Diagram of Budgeted and Actual NLDO	66
4.6 Trend Line of Actual Deposit and Actual LDO	68
4.7 Bar Diagram of Interest Expenses and Total Deposit	70
4.8 Bar Diagram of Average Return of LDO	72
4.9 Interest Margin of NSBI	74
4.10 Bar Diagram of Current Assets and Current Liabilities of NSBI	76
4.11 Trend Line of Current Ratio	77
4.12 Bar Diagram of Borrowing and Shareholder's Equity of NSBI	79
4.13 Trend line of Debt Equity Ratio	79
4.14 Trend Line of Interest Coverage Raito	81
4.15 Trend line of Return on Assets	82
4.16 Trend Line of Return on Capital	83
4.17 Trend Line of Total Deposit	86
4.18 Trend Line of Loan and advance	87
4.19 Trend Line of Total Assets	89
4.20 Trend Line of Net Profit	90

ABBREVIATIONS

ATM	:	Automatic Teller Machine
BOD	:	Board of Directors
CB	:	Commercial Bank
CEO	:	Chief Executive Officer
COD	:	Cost of Deposit
CV	:	Coefficient of Variance
EBIT	:	Earning Before Interest and Tax
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
i.e.	:	That is
LDO	:	Loan, Discount and Overdraft
LTD	:	Limited
MBS	:	Master of Business Studies
NLDO	:	Non Loan, Discount and Overdraft
NSBI	:	Nepal SBI Bank
NRB	:	Nepal Rastra Bank
PE	:	Probable Error
PPC	:	Profit Planning and Control
ROA	:	Return on Assets
ROC	:	Return on Capital
SD	:	Standard Deviation
SMEs	:	Small and Medium Enterprises
TU	:	Tribhuvan University
WTO	:	World Trade Organization

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The banks and the financial institutions are the important need of the society i.e. mopping up small saving at reasonable rates with several options. Banking system and the financial institutional play a very significantly role in the economic. First and pre most is in the form of cutting to need of credit for all the sectors of society. The modern economics in the world have developed primarily by making best use of the credit availability in their system. An efficient banking system must cater to the needs of high investors by making available to them for new investment and expansion of the exciting units.

The bank and the financial institutions is also perform certain new age functions which could not be thought of a couple of decades ago. The facilities of the internet banking enable consumers to access and operate their bank account without actually visiting the bank premises. The facility of the ATMs and the debit/credit cards has revaluations the choice available with costumers. The tax and the online payment of various bill like the telephone, electricity and tax. The bank customers also their fund in various stock or mutual fund straight from their bank account. In the modern say economy, where people have no time to make these payments by strong in queue, the services provided by the bank is commendable.

Profit planning and control is viewed as a process designed to help management efficiently perform significant phase of the planning and control functions. The profit planning and control model involves the development and application of broad & long range objectives of the enterprise and specification of enterprise goals. It also incorporates the development of strategic long range profit plan in broad terms along with the specification of tactical short range profit plan detailed by assigned responsibilities. Priority is also given to the establishment of a system of periodic

performance report detailed by assigned responsibilities and development of follow-up procedures.

Profit just does not happen, profit are managed. Profit is the primary measure of business in any economy. Before we go further the managerial process of profit planning, it is important to understand the concept of profit. There is several definition of profit. An economist will defined that profit is reward for the entrepreneurship for taking the risk. An accountant will say the excess of firm's profit over the expenditure of producing revenues in a given fiscal year.

Nepal is a small landlocked country in south Asia. Nepal remains as one of the forty-eight least development country in the world. The country per capita income has been growing a little over two percent years a situation which most of the country's population is an absolute poverty line and one half of the labor force is facing the problem of unemployment.

The investment of the productive sectors raises the economic activities. The utilize financial recourses should be diverted to worked creative sectors in order to increase the economic activities to developed the Nepalese economy; the financial institution should be established in every part of the county. The participant of the private sectors plays important rate of the economic development, hence various banks, insurance and financial companies etc have been established in the private sectors and government sectors as well as to develop the economy to develop the country. But even with the rapid development and expansion of the financial institution, the country have not able to achieve the desired income so far which is due to the poor capital market condition of our country and due to the early stage of economic growth .

The financial institution play an essential role in the economic development e.g. the banks, especially the commercial banks, financial companies and insurance companies overall have been established. Planning is the first essence of management and all other function are performed within the framework of planning means deciding in advance what is to be done in future. Planning starts from forecasting and predetermine of future

events. The primary purpose of planning in business is to increase the chance of making profit. The budget is the primary operation planning document. Committed performance budgets are called profit plan. Each manager and subordinate has the authority in varying degrees to make the decisions, the result of which will nearly accomplish or better his budgetary targets.

The excess income over expenditure is called profit. The word profit brings for visions of reserves. "Profit does not just happen, profits are managed" (*Lynch and Williamson, 1989:125*).

The concept of profit is not new but the concept of profit planning and control is new word in business literature. It can be defined profit planning and control is a tool of management use in profit making organization. The managerial skill which increase revenues and minimize the cost is called profit planning and control. Profit planning and control involves long-term commitment waiting for a reward which comes in future and always remains uncertain. Therefore, every planning entails some degree of uncertainty. So, we can conclude profit planning and control is as an organized and formal approach for realizing the planning, synchronization and control responsibilities of management which provides guidelines to the overall managerial task.

Sound-controlled profit planning and control programs facilitate the management to keep a level of profits which will make certain the continuation of the business and the accomplishment of organization responsibilities. Profit planning through volume of cost analysis, however, is a modern concept of management planning tools designated primarily for industrial enterprises. It involves a study of what a business cost and expenses should be and will be at different level of operations and it include a study of the resultant effect due to this hanging relationship between volume and cost.

"A Profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or in prospect of time. It is established against which actual accomplishment is regularly compared" (*Gordon, 2001:305*).

Every business or institution is established on the definite goals and objectives. All the tasks are performed by company according to their objectives. Mainly two types of institutions are established one is profit oriented and another is service oriented. The financial institutions act as mediators by transferring the resources from the surplus to the deficits, which provides fuel to economic development of the country. Economic activities of a nation can't be carried forward without support of the financial institutions.

1.1.1 Nepal SBI Bank Limited

Nepal SBI Bank Ltd. (NSBI) is first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India, Employees Provident Fund and Agriculture Development Bank of Nepal through a Memorandum of understanding signed on 17th July 1992. NSBI was incorporated as a public limited company at the office of the Company Reg. No 17-049/50 with an authorized capital of Rs. 12 crore and was licensed by Nepal Rastra Bank 6th July 1993 under license no. NRB/l.pa./7/2049/50.

NSBI commenced operation with effect from July 7th, 1993 with one full-fledged office at Durbar Marg Kathmandu with 18 staff members. The staff strength has increased to 400 by now. Under the banks & financial institutions act, 2063, Nepal Rastra Bank granted fresh license to NSBI classifying it as an "A" class licensed institution on April 26th, 2006 under license no NRB/l.pra.ka.7/062/63. The authorized and issued capitals has been increased to Rs, 300 corers and Rs.236 corers, respectively as of annual report 31st Ashad, 2070.

The management team and the Managing Director who is also the CEO of the Bank are deputed by SBI. SBI also provides management support as per the Technical Services Agreement. Fifty percent of the total share capital of the organization is held by the State Bank of India, fifteen percent is held by the Employees Provident Fund, five percent is held by the Agriculture Development Bank Ltd and thirty percent is held by the general public. But now the five percent of the total share held by Agriculture Development Bank is also purchased by State Bank of India. Presently State Bank of India has fifty five

percent of total shares. So Nepal SBI is not only the joint venture it is now a subsidiary company of State Bank of India(SBI), Nepal SBI Bank's corporate office is located at Hattisar. The bank at present has eighteen branches (including three extension counter and two administrative office) in Kathmandu valley and thirty eight branches(including extension counter and administrative offices) outside valley.

Nepal SBI Bank Limited (NSBI) has confronted- various banking scenarios, which is ever changing. The bank has been a pioneer in several banking innovations. "Visudda Banking Aru Kehi Haina." has been the slogan and this has truly been implemented when it came to serving the valued customers keeping in view their comfort, time and effort and provide pure Banking facility better than other bank.

Nepal SBI Bank Limited's policy is to extend quality and personalized service to its customers as promptly as possible. All customers are treated with utmost courtesy as valued clients. The bank, as far as possible, offers tailor-made facilities to its clients and customers, Nepal SBI Bank has been adopting innovative and latest banking technology (FINACLE). This has not only helped the bank to constantly improve its service level but has also kept it prepared for future adoption of new technology.

NSBI takes up diverse social responsibility initiative apart from the regular banking business activities to establish the organization as a responsible corporate citizen of this great nation. The key elements of its share values in its business are to build an open and honest corporate culture and engage actively with all its stakeholders. NSBI aim is to achieve this by focusing on six key areas.(*Dahal And Dahal 2000:43*)

- 1) Caring for customers evolving needs and expectations by providing them with products and services.
- 2) Creating a great place to work.
- 3) Exemplary governance and accountability.
- 4) Working in harmony and in mutual satisfaction with our business partners.
- 5) Providing returns on the investment of the owners.

- 6) Investing in local communities in which we operate for the benefit of the society at large .

1.1.2 Nepalese Economy: Current Macro-Economic Condition

Nepal is a landlocked country located between two giant countries India and China having good potential in the tourism, hydropower and other business sector. The total area of the country is 147,181 Sq. Km. and only about 27 percentage of the total land area is under cultivation. Ecologically this country is divided into three regions: The Terai Region, The Himalayan Region and The Mountain Region and politically divided into five development regions, fourteen zones and seventy-five districts. Nepalese economy is basically the agriculture based economy and the contribution of the agriculture sector in the total GDP is significant. The commercialization of the agricultural activities has not yet taken place. There is a wide gap in the distribution of agricultural land. Most of the farmers are landless and the major portion of the land is in the hands of few landlords.

The share of manufacturing sector in the total GDP is 10 percent. The Government of Nepal has initiated liberal, open and market oriented economic policy since 1990s, immediately after the restoration of the democracy. The deteriorating law and order situation, political instability in the country in the past few years has adversely affected the country's economy. The government is required to make huge investment to develop the sufficient infrastructures like roads, powers, health and higher education etc. in order to make a favorable investment climate in the country. Because of the political instability, Nepal has been facing very difficult situation. After a decade of insurgency, now the situation seems to be improved and business sector seems to be much hopeful about the economic growth. Most of the Nepalese people depend on the traditional agricultural sector and the population still resides in the rural areas being engaged in agriculture related survival economic activities. The growth in other sectors of the economy is embarrassed by the small domestic market, poor physical infrastructure, inadequate human and financial resources, and landlocked position of the country, the political instability and the geography of the country.

1.1.3 Meaning and Importance of Financial Institutions

“Financial Institution” means an institution established under the prevailing laws with the objectives of providing loans for agricultural cooperative, industrial or any other specific economic purpose or of collecting deposits from the general public and the word also includes an institution prescribed as financial institution by Government of Nepal by publishing notice in the Nepal Gazette (*NRB Act 2002*). Banking institution is inevitable for resource mobilization and all-round development of the country. It is resources for economic development; it maintains economic confidence of various segments and extends credit to people.

Bank is most important financial intermediaries which accepts the deposits from public and mobilize them in the productive sectors. Banks are the principal source of credit to household: individuals and family business all forms and local units of government. Financial intermediation is advanced to other forms of financing because it fulfills expectations of both savers and users it is the most popular form of moving excessive money from savers to users. Among all financial intermediaries commercial bank is the most leading one. “A bank is an organization whose major function is concerned with the collection of the provisionally idle money of general public for the use of advancing to other of disbursement. Banks nowadays do a large number of financial transactions while 'financial institutions' are authorized to do limited transactions only” (*Dahal and Dahal, 2002:7*).

1.2 Statement of the Problems

The present study has tried to analyze and examine PPC side of commercial bank taking of a case of NSBI Banks. The research report attempt to show the relationship between various functional budgets their achievement and their effective application within the conceptual framework of profit planning for solving the problem that have occurred. NSBI bank is found to have been earning profit over the years. The study will answer, whether it is under a planning or not. If the profit has not been realized under the technique of planning. Profit is the primary measure of success of business. Normal profit

is necessary to run a business smoothly in long run. For this NSBI bank also needs profit so NSBI bank might have been planning the profit.

Profit Planning and 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 early stages therefore, the concept of profit planning has not even been familiar in the most of the business concerns including commercial banks. Commercial banks play vital role in economic growth of a country. As a commercial institution, a commercial bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. A commercial bank's major activities include mobilization of resources, which involves cost, and profitable deployment of those resources, which generates incomes. The differential interest income over the interest cost, which is popularly called interest margin, can be considered as the “contribution margin” in the profit of the bank.

The present study has tried to analyze and examine the profit planning of this bank. Without proper profit planning any business organization can't be run right way. Furthermore the study has tried to answer the following research questions.

- Does Nepal SBI Bank Limited (NSBI) have appropriate profit planning system?
- What is the gap between budgeted and actual performance?
- Does the bank mobilize the deposit and other resources optimally?
- What is the trend of overall performance of Nepal SBI Bank Limited (NSBI)?
- What are the overall PPC problem of NSBI bank and what suggestion can be recommended for their proper solution?

1.3 Objectives of the Study

This study is mainly concerned with budgeting system of Nepal SBI Bank Limited (NSBI). Apart from this following are the other objectives of the study: The basic objectives of this study are:

- To examine the profit planning process adopted by Nepal SBI Bank Ltd.
- To assess the financial position of Nepal SBI Bank Ltd
- To evaluate the variance between target and actual performance.

- To recommend the steps to be taken to improve the profit planning process.

1.4 Significance of the Study

Achievement of objective in every organization depends on the application of available resources most effectively. Mobilization of internal resources is one of the key factors in economic and social development of a county. Financial institutions are the major players in this field. The more healthy banking practice in an economy, the better becomes the economic development. The research study is connected with the profit planning in commercial banks with a case study of Nepal SBI Bank Limited (NSBI), with the major objectives of examining the proper applicability of profit planning system in the bank. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization by the best utilization of resources.

Profit planning is the heart of management. It tells us that profit is the most important indicator for judging managerial efficiency and it cannot be acquired frequently because for this every organization has to manage the profits. Various functional budgets are the basic tools for proper planning of profit control over them.

This research study may also be useful for those who want to know PPC in the Nepal SBI Bank Limited (NSBI). It may also be helpful for future researchers as a reference material. Profit planning is the most useful technique for the analysis the profitability and its performance. Hence, this study provides the guideline for the technique of profit planning.

1.5 Limitations of the Study

The report entitled “Profit Planning and Control (A Case Study of Nepal SBI Bank Limited)” is not a zero defect report since, it incorporates some limitations depending on the availability of the available resources. Some basic limitations which have hampered the authenticity of research have been summarized as follows:

- Analysis is concentrated on some managerial, financial and accounting aspects of the bank. It does not cover other aspects of the bank.

- The comprehensive and the accuracy of the study is based on the data available from the management of Nepal SBI Bank and the response made by respondents on the research questionnaire.
- In this study, the sample of Nepal SBI Bank Limited (NSBI) is selected among all the commercial banks. But these may not represent the character of financial institutions.
- In this study analysis is done with the help of limited financial tools and few statistical tools.
- As detailed analysis and presentation requires enough time and high cost but due to financial and time constraint, this study could not use all the theory of profit planning.
- This study is cover only seven years from F/Y 2063/64 to 2069/70
- The accuracy of the study is based on the data available from the website of Nepal SBI Bank Ltd its various published document and management.

1.6 Organization of the Study

The whole thesis includes five chapters which include

Chapter I: Introduction

The first chapter deals with the general information of the organization as a whole and will pinpoint the objectives and theme of the research. Also included in this chapter is the importance or significance of this report to the end users and the limitations and barriers incorporated while preparing report. Furthermore, a brief synopsis of how the chapter will flow will be shown under the title organization of the study.

Chapter II: Conceptual Framework and Review of Literature

The second chapter presents comprehensive surroundings of profit planning and control. Precisely, this chapter will examine the effectiveness of profit planning and control processes and will also relate it with the practiced approach in Nepalese banking industry. Further this chapter will be synchronized with the other related thesis and research work and will explore the major in-depth of the profit planning and control know-how in the context of Nepalese perspective.

Chapter III: Research Methodology

Third chapter explains the research methodology used in the study, which includes research design, resource of data, population and samples, methods of data analysis.

Chapter IV: Data Presentation and Analysis

The fourth chapter is the major part of the thesis which is related with the presentation, analysis and interpretation of data as well as major finding with reference to the profit planning and control in Nepal SBI Bank Ltd.

Chapter V: Summary, Conclusion & Recommendations

The fifth chapter is the concluding chapter where summary is discussed, conclusions are drawn, and recommendation is made. In this chapter, the theme of the research will be presented. In other words, this chapter will identify what has been achieved through the research and to which extent. In addition, this segment of the research will provide recommendation satisfying the research question priory set.

Additional pages include References, Appendices and other supporting documents.

CHAPTER II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Introduction

In this chapter, attempts have been made to review some of the basic literatures on budgeting theory including review of empirical evidence of previous studies. The researcher has presented the conceptual frame work about the commercial banks, its activities, banking practices, the legal and regulatory frame work, and profit planning concepts and its applicability in a commercial banking activities. In this connection, the researcher has reviewed various literatures in the form of books written by various authors, published newspapers, journals, browsing materials from the concerned web sites, NRB regulation, commercial act, NSBI old annual reports in the related subject matters.

Review of literature is deep seated in every area of research study, which help to find out what research studies have been conducted in chosen field of study. In truth, review of literature being with a explore of a suitable and continue all over the duration of the research works. It is a path to find out what other research in this area has uncovered. It is a process of locating, obtaining, reading and evaluating the research literature in the area of the student interest. It is also a means to avoid investing problem that are already been positively answer. The main reason for a full review of research in past is to know the outcome of those investigation in areas where similar concepts and knowledge and method logic had use successfully.

Review of literature mean receiving research studies or other relevant proposition in the related area of the study so that all the past studies, there consolation and deficiencies may are know and further research can be conducted. The most important reason of literature review is to learn not researcher such as, what research has been done in the

subject? What the ones have been developed? A methods approach is used by other research's area of agreement or disagreement.

Beside enlarge knowledge about the topic, writing a literature review lets gain and demonstrate skill in two areas.

- Information seeking: - The ability to scan the literature, efficiency, using manual or computerized methods, to identify a set of usual articles and books.
- Critical appraisal seeking:- The ability to apply principle of analysis to identify unbiased and valid studies.

A literature review must be doing these things.

- Be organized around and related directly to the thesis or research question you are developing.
- Synthesize results into a summary of what is and is not know.
- Identify areas of controversy in the literature
- Formulated question that need further research.

2.2 Conceptual Framework

In a part of review of literature in this framework of decision about literature review from text books, reference books and practice in profit planning and control are considered.

2.2.1 Fundamental Concept of Profit Planning and Control

Profit planning can be defined as the set of steps that are taken by firms to achieve the desired level of profit. Plans are accomplished through the preparation of number of budget. Which, when brought through form an integrated business plan known as master budget. The master budget is an essential management tool that communicates management's plan throughout the organization allocated resources, and coordinates activities.

Planning involves developing objects and preparing various budgets to achieve that budget. Control involves the steps taken by management to increase in like hood that the objective set down at the planning stage are attained and that all parts of the organization are working together toward goal. To be completely effectively a good budgeting system

must provide for the both planning and control. Good planning without control is just time wasting.

Now's days profit planning and control system is especially familiar to business organization but the particularly of it depends upon the since of the business. The common objectives of PPC system whether applied to business administration is to formulated policy as well as with the implementation of policy, in addition an objective established after the consideration of the probable course of event in the further. In consolation, PPC is directed toward the final objective of the enterprise and generally include all of its important elements. It has main objective of attain the optimum profit the enterprise

Profit planning and control is also called comprehensive budgeting, managerial budgeting or budgeting only. The word profit planning and control has recently introduced in the business literature. Most of profit oriented business concerns use profit planning and control as a managerial tools. "A profit planning and control program can be one of the most effective communication networks in an enterprise. Communication for effective planning and control requires that both the executive and the subordinate have the same understanding of responsibilities."(*Welsch, et al, 2001: 215*).

"Profit planning is an example of short range planning. This planning focuses on improving the profit especially from a particular product over a relatively short period of time. Therefore as used here it is not the same as corporate planning of a cost rendition program"(*Terry, 1968:245*).

"Profit planning is a predetermined detailed plan of action developed and distributed as guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus we can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance" (*Gupta, 1992:3*).

“Comprehensive profit planning and control is a systematic and formalized approach or accomplishing the planning, co-ordination and control responsibilities of management” (Welch et al., 2001:45).

“Profit plan is an exact and rigorous analysis of the past and the probable and desired future experience with a view to substituting considered intention for opportunism in management the establishment of a system of periodic performance reports detailed by assigned responsibility and follow up procedures”(International Management Institution Geneva Conference 1980). The role of profit planning and control is very important in profit oriented enterprises. Roles of PPC are as follows:

- To provide definite goals and objectives that serves as benchmarks for evaluation performance of business.
- To provide information to management timely.
- To point out efficiency and inefficiency.
- To reduce cost and make more profit.
- It provides a valuable means of controlling income and expenditure of business, as it is a “plan for spending”.
- It reflects weakness in the organization very promptly.
- To fix responsibility center for manager.
- It provides a tool through which managerial polices and goals are periodically evaluated tested and established as guidelines for the entire organization.

Profit plan is estimation and predetermination of revenues and expenses that estimated how much income will be generated and how it should be spent in order to meet investment and profit requirements. In the case of institutional operation it presents a plan for spending income in a manner that does not result in a loss.

Profit plan stands for an overall plan of accomplishment, covers exact period of time and prepares the planning decision of the management. It can be viewed as one of the major important approaches that have been developed to make easy successful presentation of the organization procedure. Now a day’s profit planning system is mainly common to

business organization but the viability of it depends upon the size of the business. The common objectives of profit planning system whether applied to business administration are to make policy as well as with the execution of policy. And a purpose established after the deliberation of the feasible courses of events in the future. In conclusion profit planning is directed towards the final objectives of the enterprise and generally includes all of its important elements. It has main objectives of achieving the most favorable profit in the enterprises. The basic concept of PPC model includes: (*Bajracharya, et al 2005*)

- PPC is the plan prepared in advance comprising both short rang plan.
- PPC is the concept where participation and view point of every member of the organization is taken into even though prepared by top management.
- PPC is the management laid process compressing of all management function.
- PPC is focused toward the enterprise goals.
- PPC is totally based in formulating plan and controlling those plan that are formulated with the assistance of budgeting .
- Finally, follow up produce is conducted to check whether it is along with the budgeted plan or not.

2.2.2 Foundation for profit planning and control

An enterprise has to take some major steps to established a sound foundation for initialing a profit planning and control program these are the follows (*Welsch, Gordon and Hilton 2000:59*)

Step -1 there must be strong commitments by the top management to the board concept of PPC and a sophisticate understanding of its implementation and operations.

Step-2 the characteristic of the enterprise and the environment in which it operates including the controller able and non controller variable must be identified and evaluated so that relevant decision may be made about the characteristic of a profit planning and control program that would be effective and practical.

Step -3 There should be an evaluation of the organization structure and assignment of managerial responsibility and implementation of change deemed necessary for effective planning and control.

Step-4 there must be an evaluation and reorganization of the accounting system to ensure that it is tailor to the organization responsibility so that it can provide data particularly useful for planning and control.

Step-5 A policy determination must be made about the time dimensions to be used for profit planning and control purpose.

Step-6 A programmed of budget education should be developed to inform management at all levels about:

- a) The purpose of the programmed
- b) The manner in which it will operates, including the basic management polices and guideline for its administration
- c) The responsibility of each level of a management in the programmed
- d) The ways in which the programmed can facilitate the performance of each manager's function.

2.2.3 Application involved in Profit Planning and Control

Some people say that comprehensive profit planning and control is applicable only to large and complex organization, comments' like "comprehensive budgeting is a fine idea for must business but our is different or it is impossible to project our revenue and expenses" an so on. Such type of comments are common regarding non manufacturing enterprise, services company, financial institutions, hospital, construction company and real estate enterprise. To contrary, profit planning and control can be adapted to any organization, regardless of size special circumstance or condition. The fact that a company has peculiar circumstance or critical problems is frequently a good reason for the adoption of certain profit planning and control procedures. In respect to size when operations are extensive enough to required more than one or two supervisory personal. There is need of profit planning and control applications. The smallest company contrary has difficult needs in this system that is appropriate for all enterprise cannot be design. A profit planning and control system that is appropriate for all enterprise cannot be designed. PPC system must be tailored to fit the particular enterprise and it must be continually adapted the enterprise and its emulate change.

2.2.4 Importance of Profit Planning and Control

The following points show the important of PPC.

- It required adequate and sound organization structure is , there must be a definite assignment of responsibility for each function of the enterprise.
- It required adequate and appropriate historical accounting data.
- It forms early consideration of basic polices.
- It compels management to plan for the most economical use of labors, materials and capital.
- It reduces cost by increasing the span of control because fewer supervisor are needed.
- It pinpoints efficiency and inefficiency.
- It promotes understanding among members of management of their co-workers problems.
- It forms a periodic self- analysis of the company.
- It aids in obtain bank company require projections of further operation and cash flows to support large loan.

2.2.5 Limitations of Profit planning and control

A part from its important of PPC it has certain limitations that should be taken into consideration by the management. The following are the limitations of PPC

- The profit plan based on estimates. The advantage and disadvantage of a profit planning program depend to a large extent. On the realism with which the basic estimates are made. Estimates must be based on all available facts and sound managerial judgment. Estimating sales and expenses cannot be an exact science. Hewer's number mathematical, statically and other technique can be applied to these problem to provide realistic results.
- The profit planning is not a substitute for management. Profit planning cannot substitute for enlightened management. It is a system that can aid in performing the management process. The profit plan should be regarded not as a master, but as a servable. It is one of the best tools yet devised for advisory. The affairs of the company and the individual in their various spheres of managerial activity.

- A profit planning and control program must be continually adapted to fit change circumstance. A comprehensive budget program cannot be started and performed in short time. PPC technique must continually be adapted not only for each particular enterprise but for changing condition within the enterprise, continues budget education is necessary, especially during the formative period.

2.2.6 Mechanism for Profit Planning and control

2.2.6.1 Profit as a Concept

Profit is the basic element of profit plan so that that the concept of profit planning may not be completed and meaningful in absences of the clear cut well defined idea of profit. Profit is excess income over expenditure. Profit is a basic element of profit planning and control. There is no meaning of profit planning and control without profit. Every profit oriented business concerns involves to profit generating activities.

Oxford dictionary defines,” profit as financial gain or amount of money gained in business especially the difference between the amounts earned and the amount spent. Likewise, advantage or benefits gained from something is called profit”

According to the some theory, profit are the factors payment of taking risk for agreeing to take what is left over contractual outlays have been made. In the second type of profit theory they viewed as a wage for the service of innovation. Profits in this theory are tied to dynamic development. Profit around which all enterprise activities directly or indirectly revolve play the significance role for judging the managerial efficiency in assume of profit nobody can think about long-term survivability of the enterprise. The successes and failure of business entity is measured by profit earned by them in certain period of time. The major concern of stack holder is profit so organization always wants to maximize its profit. Performance of management of organization is measured by profit and loss. Survivability and sustainability of enterprises depends on profit.

2.2.6.2 Long Term and Short Term Profit Planning

Strategic profit plan and tactical profit plan is known as long term and short term profit planning respectively. Strategic profit plan is prepared for 5 to 10 years. It is wide and universal in nature and developed by year and amount. The tactical profit plan is detailed and encompasses one year time horizon the upcoming year. The development of strategic and tactical profit plans each year is a process that involves managerial decisions and ideally a high level of management participation (*Welsch et al., 2006:173*).

While preparing the strategic profit plan state of economy, political stability, population study etc. are kept in consideration. Likewise, tactical profit plan is prepared for short period of time. By the time it is prepare for a month, quarter, half year and a year.

2.2.7 Concept of Planning

Planning is the basic element of profit planning and control. Planning is going according to what has been decided, the primary purpose of planning is to reduce uncertainty about future profit, to incorporate management judgment and decisions in the planning process, to provide necessary information for developing other elements of comprehensive profit plan and to facilitate management control of sales activities. “Operational planning is often referred to as short term budgeting and looks at resources, production etc. for a financial period, usually a year. It provides a detailed plan of what the organization hopes will be achieved within the next financial year. Strategic planning often referred to as the long term plan and looks at where the organization is heading over a number of years, for example of five year plan would be a long term plan it presents the organization with an idea of the broad direction that it hopes to be heading in. The strategic plan will incorporate the operational plans of the organization. The operational plan translating the strategic plan into achievable short term goals” (*Lynch & Williamson, 2003:158*).

Planning is the process by which an individual or organization decided in advance on some future courses of action. It is the process of determining how the enterprise can get where it want to go and it involves selecting from among alternatives future causes of action for the enterprise as a whole and for every department and section within. Planning

is the foundation of PPC. We should be clear in concept of planning to “According to Oxford Dictionary, planning means”

- To arrangement for song our usage something, considered or works out in advance
- Way of arrangement something especially when shown on a during scheme.

Planning is deciding in advance what is to be done for future. Planning is a method of course of action to achieve a decide result. Planning started from forecasting and determination of future events. It’s the first function of management and all other functions are performed with the framework of planning.

“Planning is the process of developing enterprise objective and selecting future cases of action to accomplish them. It includes development premises about the environment in which they are to be accomplished. (*Welsch, 1999:27*)

“Planning is essential to accomplished goals. It reduces uncertainty about future. The planning process is based on the convince that management can plan its activities and condition the estate determines its destiny”. (*Pandey 1991.20*)

Planning is the backbone factors of the management. Hence, we can point out their nature of planning.

- Planning is an intellectual process.
- Planning is a goal-oriented task.
- Planning is primary function of management.
- Planning is pervades all management activity.
- Planning is desired to towards efficiency.

2.2.7.1 Long Range and Short Range Planning

Long range planning is closely concerned with the concept of the enterprise as long live institution. It must important for board and long living enterprise. Long range planning varying five to ten years with the enterprise in some times extended to 10 years. Strategic planning is one of the most difficult time span involve is planning as many problems in short range planning can be traced to the absence of a clear since of direction and the practice which a comprehensive long range plan provides. The short term j planning is

limited time dimension and usually it covers one year time. The management as a sustainer of the long range plan uses short term plan.

2.2.7.2 Corporate and Division Strategic Planning

Corporate planning means the systematic process of setting corporate objectives and making strategic decision and developing the plans necessary to achieve these objectives. Corporate planning is one part of plan. It was first started in the USA in 1950 and it's however being used in one form or another in many companies there. According to Andrew Robertson "corporate planning is to be determine the long term goal of a company as a whole and then to generate plan designated to achieve these goals being in mind probable change in its environment" long term planning is include in corporate planning. Corporate planning often is considered synonymous with long term planning. The main objective of corporate planning as follows:

- Achieving objectives
- Embodiment of goal and objectives in the enterprise
- Formulating realistic and attainable objectives.
- Clarity and adequacy of goals and objectives
- Involvement of personal in developing the goal of enterprise

2.2.7.3 Role of Forecasting in Planning

Forecasting is an integral part of decision making achievement of management. An enterprise established goals and objectives seek to predict the environmental factors. The need for forecasting is increasing as management attempts to decrease its dependence on change and become more scientific in dealing with its environment. Since each area of organization is related to other planning or budgeting is not nearly forecasting although forecasts from the basis of budgeting. Forecasting is the estimation of the future environment within the company will operate. Budgeting or planning on the other hand involves the determination of what should be done. How the goals may be reached and what individual our units are to assume responsibility and be held accountable.

Forecasting is indispensable in planning. Forecast is statement of expected future condition definite statement of what will actually happen is presently impossible. The short term forecasting is needed in budgeting making. A budget set for the following year will be useful. It is regarded to sales levels. This will eventuate rather than current sales levels. As budget distributed according to current sales may establish policy as to lines of emphases. But will obviously, required successive adjustment if sales levels change.

2.2.8 Concept of Control

After being clear about the concept of profit and planning we move toward the third component of profit planning and control i.e. control. Control is the process that measures current performance and guides it towards some pre-determined goals; control is the process of checking to determine whether or not plans are being adhered to whether or not proper progress is being made towards the objectives and goals and acting if necessary to correct deviations. Controlling can be defined as a process of measuring and evaluating actual performance of each organizational component of an enterprise and initiating corrective action when necessary to ensure efficient accomplishment of enterprise objectives, goals, policies and standards. Planning establishes the objectives, goals, policies and standards of an enterprises control is exercised by using personal evaluation periodic performance, reports and special reports. Comparison with standard and actual is called controlling. Controlling is a one of the important aspect of managerial function. The oxford dictionary meaning of control are:

- Have a power or authority over some body or something.
- Regulate something.
- Management, guidance and restriction.
- Standard of comparison for checking the result of the experiment.

Control is an ambiguous word. Its means the ability direct one and one work. It can also mean domination of one person by another. Objectives are the basis of control in the first sense, but they must never become the basic their purpose, indeed one of the major contribution of management by substitute management. By objectives are that it enables

us to substitute management by self control for management by domination. (*Drucker, 1954:244*)

A control process help to monitor the provide activities of business and of each responsibility center has following phase:

- Compare actual performance for the period with the planned goals and objectives.
- Prepare a performance report that show actual result planned results.
- Analysis the variation and the related operations to determine the underlying cases of the variations.
- Develop alternative courses of action to correct any deficiencies and learn from the sources.
- Make achieve from the set of alternatives and implement it.
- Follow up to appraise the effectiveness of the correction. Follow with feed forward for re-placing.

The comparison of actual profit result with planned goals and standard constitutes measurement of the effectiveness of control during a specified past period. This provides the basic for effective feedback the facts shown in a performance report cannot be change, however the historical measurement may lead to improve control in the future. The significance concept have is that objectives policy and standards fulfill two basic requirement in the overall control process namely.

2.2.9 Budget and Budgeting

A budget is a detailed plan outing the acquisition and use of financial and other recourses over a given period of time. It reposing the plan for the future express informational advice term. The act of preparing a budget is called budgeting. The uses of a budget to control firm's activities are known as budgetary central.

A budget is called a detailed plan express in quantitative term the specifics how resources will be acquired and use during a specified period of time. The procedures used to develop a budget institute a budgeting system (*Hilton, 2001:404*)

Budgeting is a forward planning and involves the preparation in advance. For the quantitative as well as financial statement to indicate the intention of the management in respect of the various aspects of the business. "A budget is a comprehensive and coordinate plan expressed in financial terms for the operation and sources of an enterprise for some specific period in the future." (*Pandey, 1991:98*)

Budget is defined as a comprehensive and coordinate plan, expressed in financial terms for the operations and resources of an enterprise for some specified period in the future (*Hilton, 2001:409*). According to his definition the essential elements of a budget are:

- Plan
- Operation and resources
- Financial term
- Specified future period
- Comprehensive
- Cooperation

2.2.10 Budgeting: As Device of Profit Plan

Budgeting is a forward planning. It is a device for management, control; it's rather of an effective scheme of control. Budgeting is the principle tool of planning and control offered to management by accounting functions (*Welsch, et. Al 1999.346*). The prime objective of budgeting is to assist in systematic planning and in controlling the operation of the enterprise. In fact budgeting is the best source of communication and an important tool in the hands of management. Since, budgeting deals with fundamental policies and objectives it is prepared by the top management. A formal budget by itself will not ensure that a firm's operation will be automatically geared to the achievement of the goals set in the budget for this to happen, the top level manager and lower level employees have to understand the goals and support them and co-ordinate their efforts to attain them.

Budget is a device of a planning and control that serves as a guide to conduct operation and a basis for evaluating actual results. Actual results can be judged as being satisfactory or unsatisfactory in the light of the relevant budgeted data and in the light of change in conditions. A company controls operations through its budgeting and responsibility reporting

system. Top executive are able to control every area of the organization through a system of budgetary planning and control reporting by responsibility. Budgets are an important tool of profit planning. The main objectives of budgeting are:

- Explain statement of expiration
- Communication
- Coordinate
- Expectation as a framework for judging performance

2.2.11 Essential of an Effective Budgeting

An effective budgeting system should have some essential feature to ensure best result. The following are the chief characteristic of an effective budgeting.

Formation of Budget Committee

As mentioned earlier, budget committee receives the forecast and target of each department as well as period report and reported finalizes. And also approves the department budgets. Thus in order to make a budgeting system more and more effective a budget committee should always be set up.

Clearly Defined Business Policies

Every budget reflects the business policies formulated by the top management. In other word budget should always prepare talking in to accord the policies set for particular department or factors. But for this purpose, policies should be perceived and celerity defined as well as free from any ambiguity.

Support to Top Management

If a budget program is to be made successful, the sympathy of each member of the management team. It should start preferably from top level. The enthusiasm for budget operative as well as direction for it should initiate and come from top.

Sound forecasting

Forecast are the foundation of budget, thus forecast are disused by the executive and when most profitable combination of forecast are silent they become budget the some are the free cost better result would come out of the budgeting system.

An Adequate and Planned Accounting System

There should be proper of accruable and timely information in the entire which is, must for the preparation of budgets. This can be ensued only by having on adequate and planned accounting system in the firm.

Availability of Statically Information

Since budgeting always prepared an express in quantitative term. It is necessary that sufficient and acute relevant that be made available to each department. Such data may not be available from accounting system also and the for they may be processed though statically technique. These data should be as for as possible, reliable account and adequate.

Good Reporting System

An effective budgeting system also requires the presence a proper feedback system. As work proceeds in the budget period actual performance should not only be recorded but it variations should be reported promptly and clearly to the appropriate levels of management.

2.2.12 Development of Profit Plan

2.2.12.1 Sales Forecasting and sales planning

At first, people think the sales planning and sales forecasting are same. But the sales planning and forecasting are quite different. "Sales forecasting is not plan. Rather it is a statement and or a quantified assessment of future condition about a particular subject based on one or more explicit assumption. A forecasting should be varying as only one input for the development of sales plan. The management of the company may accept, modify or reject the forecast. Others imparts and management judgment about such related item as sales plan, where management has brought to bear on its judgment, planned strategies commitment of resources and the managerial commitment to aggressive action to attain sales goal" (*Goet, et all 2060:22*)

2.2.12.2 Production Budget

Production budget is the projection of production of goods specified periods. It has a very important role in planning, coordinating and control. On comprehensive profit plan and

control. Development of production plan required the conversion of sales plan into production plans. It should also consider the estimation of further sales and inventory policies. Production planning is matter of concern for only manufacturing organization.

2.2.12.3 Material Purchase Budget

The purchase budget specific the estimate quantize to be purchased and the estimated cost for each row material and the required delivery dates. The material and part budget provides the purchase manager with the data responsibility for preparing a detail plan for purpose. It is direct responsibility of manager to be knowledge about the market for items that must be purchased and to plan the unit cost for use in purchased and amount to purchases materials. The purchase budget the timing of usage or purchase ordered. The purchase manager orderly maintains the time of purchase material and inventory requirement by martial.

2.2.12.4 Capital Budget

“Capital budgeting is the process of planning and controlling the strategic and tactical expenditure for expansion and contraction of investment in operating foxed assets”. (Welsch, 2000:394)

A capital budgeting is useful to plan future revenue organization and a reduce future cost, capital expenditure includes such as fixed assets as property, plant equipment, major renovation and petal. The main responsibility of capital budget lies on top executives or executive management and departmental managers.

2.2.12.5 Cash Budget

It is an effective way to plan and control the cash flow, assess cash needs and needs and effectively loss excess cash. The p planning and control of cash flow focused on cash inflows, cash outflow and the related financing. Cash budgeting is an attractive way to plan and control the cash flow assets, cash need and effectively use excess with. Therefore, cash management is important in both large and quality of money, right sources of money, right time for solve money, right quality for liquidity and right cost of capital. A comprehensive PPC program. Established the foundation for a realistic budget.

Cash budget show planned cash inflow, outflow and ending position by interim period for a specific time span. Most companies should develop both long term and short term plans about their cash flow.

2.2.13 Concept of Commercial Banks

Meaning of “Bank” in oxford dictionary says 'an establishment for keeping money and valuable safely, the money being paid out on the customer's order by means of cheques. According to commercial bank act 2031 “Commercial Bank is a bank which exchanges money, accepts deposits, funding loans and performs other commercial activities and which is not specially established with the objectives of co-operative, agricultural, industrial or any other of such kind of specified purpose”(Commercial Bank Act, 2031).

The major functions of commercial banks are as follows:

- Accepting various types of deposits
- Lending money in various sectors
- Letter of Credit
- Bank Guarantee
- Remittance
- Bills
- Others

The commercial bank act provided for the modalities of establishing a commercial bank, as per which, a commercial bank can be established under the company acts a limited company only with the recommendations of NRB , the central bank of Nepal . By the various definitions we can bring to a close that a commercial bank is set up to collect funds, spread funds and employ them to creative sector.

2.2.13.1 NRB Regulations

Bank and financial institution regulation act 2063 has been introduced to supervise and control the bank and financial institution. This act was published in Nepal Gazette on 2063/7/19 B.S. The main objectives of the act are as follows:

- To protect and promote the depositors rights by increasing attitude of public towards the bank and financial institutions.

- To provide qualitative services by the means of healthy competition among the banks.
- To provide guidelines about establishment, operation, management, rules, regulations and legal provisions.

2.2.14 Profit Planning in Commercial Banks

Profit planning in manufacturing sector is common as it has been started in organization like banking sector too. Development of profit plan in banking sector begins with the preparation of various functional budgets. A bank prepares budget for deposit collection, lending expenditure, income, investment, non-fund base business etc. these budget are taken as functional budgets despite this budget now day's bank also prepare for future plan which is called profit plan. The following points provide the basic clue to how profit planning covers while associating it with the commercial Banks.

2.2.14.1 Planning for Resources Mobilization

Planning for resources mobilization is the foundation for planning in a bank. The all over planning is based on it. The majors and the sustainable resources of bank are the customer deposit. Therefore, the plan for resources mobilization has a primary focus on the customer deposit mobilization. The including investment activities are depending on the customer deposit mobilization. The lending and investment activities are depending in the deposit mobilized by the bank. So the deposit mobilization or collection plan is the starting point in preparing the other different

Deposit mobilization is the primary function of bank which has major contribution in the total resources of the bank. In term of cost for the bank, customer deposit are two kinds, a) interest free deposit i.e. current deposit, margin deposit etc. b) interest bearing deposit i.e. saving deposit, fixed deposit of various tenure, call deposit etc. the interest rate free deposit are cost free but one generally volatile in nature. Those can be without restriction from the banks. Thus cannot be investment into higher income yielding assets. Further, interest bearing deposit involves cost of deposit but their retention ratio with the bank are much better so they can be put to high income yielding assets having longer tenure. Therefore, a proper mix of cost free and costly deposit are to be minted by the bank in its

deposit mix a order to minimize its average cost of deposit at the same time having comfortable mix of income yielding assets. The cost of deposit of banks is also affected by the prevailing deposit interest rate of other banks in market.

Budget target for deposit mobilization during particular years is set in advance with each view of optimizing the cost of deposit and the same are allowed to the different branches of the banks. Such allocation may be regarded as the tactical plan for deposit mobilization of the banks. Banks resources other than customer deposit are the barrows from other banks meet temporary requirement of liquidity which may occur sometimes, during the occurs of banking operation caused due to unexpected withdraw of deposit or determinate in loan repayment by the borrowers by some reason or there. Such activities are managed from the head office with the least possible cost.

Among the capital fund, the equity capital is farmed generally one time during opening of the bank. The central bank (NRB) may from time to time interest the bank to income the paid up capital adequacy of the bank. Further, the bankers may choose by themselves. Whether or not to increase the owner's capital by receiving the other items made in capital funded besides paid up capital general resources. It is always better to have a higher capital fund base of bank because creation of bank's assets and the size of lending to any particular borrowers are tripe up with the capital adequacy requirement by central bank.

2.2.14.2 Planning for Resources

Planning for resources is functional plan for banking sector. This is also as starting function as all the planning depends on resource planning. The major resources of bank are share capital and deposit. The lending and investment plan depends on their sources plan. Deposit is a primary source of resources collection. There are various types of deposit in the bank some are interest free and some are with interest. A proper mix of cost free and costly deposits corresponding to short term and long term deposits are to be maintained by the bank in its deposit mix in order to minimize its average cost of deposit. Besides the deposits other resources are borrowing loans as inter-bank loan. Certain rate

of interest is directed by the NRB for inter-bank loan the bank can fulfill short term requirement by taking inter-bank loan too. Another resource is reserves and provision of banks. Collection of resources is one of the major functions of bank whereas deployment of such resource is also as important as prior. The assets portfolio is determined by the planning for deployment. Bank can utilize their fund basically in three types of investment sector like liquid assets, lower income generating assets and higher income generating assets. Liquid assets define that banks should maintain certain percentage of total deposit for their short-term fund requirement i.e. liquid assets management. Secondly bank can invest in securities, treasury bills etc. i.e. lower income generating assets and higher income generating assets refers to interest generating sector like loan and advance. Most of the portion of deployment is in the loan and advance of a bank. Lending targets are fixed at various sector of economy for various kinds of trades and commercial activities and to various borrowers ensuring well diversification of the assets.

Development for lower income yielding assets are generally planning the funds in short term securities, treasury bills etc. which provides reasonable liquidity to be bank as well as yield some return although they are low rate. Major proportion the income of bank comes as interest income from the resources deployed to loans advance and bills discounting (LDO). As the most part of the resources are for LDO. Banks make its lending budget in advance as per their lending policies. Lending target and fixed at various sectors of economy for various kinds of trade and commercial activities and to various borrowers thus using well diversification of the assets. The targets are allocated to the branches, which are generally operated as separated profit entries

2.2.14.3 Non Fund Consuming Income Plan

Income without investing of banks fund is called non funded income. They are letter of credit, bank guarantee payment of bills etc. A source of income which is generating without any investment is called non funded business activities. Other activities of commercial banks where is done have to involve its funds. Yet it can generate other income are called non funded business activities of the banks. They are usually letter of credit and banking guarantee business of the bank where the bank under term

payment liabilities. Which are continual in nature and the banks changes certain percentage of commission on such transaction to their which are availing these facilities from the banks? The bank fixed amount target for such business and those are allocated to the branches of the bank.

2.2.14.4 Planning for Expenditure

Income can't imagine without expenditure so expenditure should be planned in proper way. The expenses planning and controlling are very essential for supporting the objectives and planned programs of the business concerns. The income after deducting all of expenditure is called profit. A bank always tries to control their expenses by preparing periodical budget. Expenditure minimization means that the profit maximization so the expenses must be planned carefully for developing a profit plan. In a bank there are generally following expenses which takes place:

- Administrative expenses.
- Interest expenses.
- Operating expenses.
- Loan loss provisions.
- Bad debts.
- Non-operative expenses.
- Expenses by the exchange fluctuation

The interest expenses are incurred while paying for the deposit mobilized by the bank and include the expenses incurred for interest payment in all kinds of interest being deposit as per the agreed rate between the bank and the borrower in the total expenses of a bank. The proportion of interest expenses is quite higher. Therefore, the expenses are categorized into interest expenses and other expenses while this later includes other expenses as include above expect the interest expenses.

Interest income in a bank depends on the average cost of capital mobilization by the bank. Lower the cost of capital lower the interest expenses and thus higher the profitability. Therefore, from profitability point of view banks plan their cost of capital at

lowest possible level. The nature of interest expenses. The interest expenses form interest income of a bank deducting the interest expenses for the deposit mobilization is called Spared which is similar to the contribution margin in sales of commodities by a manufacturing.

Other expenses are the administrative expenses thus are generally incurred by the bank during the levels of its operation together the volume of business transaction of a bank. Higher will be the amount of its other expenses. Therefore, the expenses should yield in income for the bank. The expenses budgets are formulated in correlated with the activities of the banks and the targets are allocated to different banks.

2.2.14.4 Planning for Revenue

The major expenditure of bank is interest and also major head of income is also interest. The main income source of bank or financial institution is interest margin. A bank lends their fund by taking some margin. The sources of income for bank is not only the interest, other non-funded sources can also generate income whereas interest is dominant one. The major sources of revenue which makes major impacts on bank are listed below:

- Interest income on loan.
- Interest received from other bank.
- Dividend.
- Commission and discount.
- Miscellaneous income.
- Foreign exchange income.
- Remittance income.
- Other non-funded income.

Generally, the interest income of a commercial bank holds major sources of a bank. Therefore, total income of a bank is a categorized in two type viz interest income and other income, while the later including other income item are listed above expected the interest income. The interest income is earned by change. The interest of the fund deployed interest earning assets such as loan and advance, overdraft investment is

government securities, debenture etc. for this study, the income from bills discounting has also been treated as interest income, as we consider loans overdraft and bills discounting together as a single asset portfolio as LDO.

As the average rate of interest on LDO are comparatively higher than any other kinds of income yielding assets, from the profitability point view. Higher assets allocation into LDO higher will be the income. The other income are generate form other activities of the bank such as assume of L/C bond guaranties, from remittance charge, services charge commitment charge, trading gain of foreign exchange, revaluation gain on foreign exchange reserve etc. the amount of the other income of a bank greatly contributed in lowering the bearing on the profitability. Together the other income earned by the bank, lower will be the net burden amount and this better will be profitability of the bank.

2.2.15 The Concept Integrated With Profit Planning

2.2.15.1 Cost Volume Profit Analysis

Cost volume profit analysis is a tool to show the relationship between these ingredients of profit planning. It is an analytical technique for strategy the behavior of profit in response to the change in volume, cost, price and profit. It help to determine the minimum scales volume to avoid looses and the sales volume at which the profit goal of the form will be achieved. It is very much and extension or even a part of managerial costing.

2.2.15.2 Break Even Analysis

“Cost volume profit analysis includes both contribution analysis and break even analysis. Break even analysis uses the same concept as contribution analysis. Howe ever, it emphasize the level of output or productive activities at which sales resume exactly total cost i.e. there is no profit or loss. Break even analysis respects upon the foundation of cost variability separate identification and measurement of the fixed and variable components of cost” (*Welsch, 2006: 500*)

Break even analysis is the analysis of the relationship among the three must concerned factor of business. The cost, volume and profit. It provides basic information that is necessary for product pricing, cost planning, sales volume planning and profit planning.

2.2.15.3 Zero Base Budgeting

Under zero base budgeting, every budget is constructed with the promise that every activity in the budget must be justified. Zero base budgeting defines as an operative planning and budget process which requires each manager to justify when they should spend any money at all. The entire program is received and justified from zero bases. It involves three phases of management planning, budgeting and review. Traditional budgeting generally no review organization justification is required in ZBB. A manager is required for growing activities. Whereas to justify not only the new proposal but also the going activities.

2.2.15.4 Activity Costing

“responsibility accounting system generally accountable cost by department and product costing system associate cost with unit of product or service organization also frequently find it useful to associate costs with activities by decomposing and organization production process into discrete set of activities and then associating cost with each of those activities management in a better position to determine the cost as benefits of continuing the activities. More so by systematically identifying the activities through the organization manager can identify redundant activities. Some managers have focused to their surprise that the same activity was being done in different places in the company. An activity was being done in a different place in the company. An activity costing analysis can assist manager in eliminating redundant activities that are not cost benefit and achieving better coordination among the activities that remain” (*Welsch, 2006:42*)

2.2.15.5 Budget variance

Variance analysis is an important tool that can increase the usefulness of periodic performance reports. Rather than talking action only the gaps of different between actual and budget cost variance analysis enable management to decompose such differences into smaller sub variance. It is the deviation between budgeted goals and actual result. As performance reports show variance the next step is to analyze such variance and to determine the underlying causes for managerial planning and control purpose.

2.2.16 Performance Reports

Performance reports are documents that reveal how employee or operational projects are performing in terms of the company's goal. Performance reports can focus on the sales number marketing companies, employee or new mainstay. That has been implemented to increase production. In essence a performance report evaluated a given project or topic and concludes whether it is working or needs to be changed.

Performance reporting is an important part of a comprehensive PPC system. Its phase of comprehensive PPC program significantly influences the extent to which the organization has planned goals and objectives are attained. Performance reports deal with costal aspects of PPC. The conceptual function of management defined as the action necessary to assure the objectives plan, policies and standards are being allocated. Performance reports are one of the vital tools of management of exercise its control function effectively.

Feature of Performance Report

In comprehensive PPC, performance report is very important. The main objectives of performance reports are the communication of performance measurement actual results and related various. Performance reports offer management essential insight into all the facts of operational efficiency, performance reports.

- Adapted to the organizational structure and center of controllability
- Designed to apply the management by expectation principle
- Reparative and related to short term period.
- Adapted to the requirement of the primary users
- Simple understandable and reports only essential information
- Prepared and presented promptly
- Constructed into

Aspects of Performance Reports

The various manager use their performance reports depends on many facts, some behavioral and some technical. One important factor is the extent to which the performance reports services the management and decision making needs of the users. Top management needs reports that give a complete and readily comprehensive summary of the overall aspect of operation. Similarly lower level management needs reports that

must be detailed, simple understand and limited to items having a direct bearing on the supervisor's operational responsibility. Reports should be not laying and complete tabulation should be avoided. Performance reports should be standards to a reasonable degree and if should be relevant.

2.3 Review of Previous Studies

2.3.1. Review of Books

Ojha and Gautam(2010) "*Budgeting: Profit Planning and Control*" Published by Asmita books, According to the book-

Profit Planning and Control Involves are:

- Development and application of board and long range objectives for the Enterprise.
- Development strategic long range profit plan and board terms.
- Specification of tactical short range profit plans detailed by assigned responsibilities.
- Control system
- Follow up procedures.

Fundamental point of Profit Planning and Control are:

- Managerial involvement and commitment
- Organization adaption
- Responsibility accounting
- Full communication
- Realistic expectation
- Flexible application
- Time less
- Individual and group recognition
- Follow up

Limitation of Profit Planning and Control are:

- Based on estimation
- Danger of rigidity
- Application for long period
- Automatic execution is not possible

- Not substitutes for management
- Costly affairs
- Proper evaluation
- Lower morale and productivity

Goet and Poudel (2012) has written book entitle to “*Accounting for Financial Analysis and Planning*”. They express the meaning of Profit Planning and Control of Cash flow. Planning of cash flow is an estimate of cash inflow, cash out flow and ending cash balance on each period of budgeted period. The basic essences of preparing cash budget are to determine cash defect or surplus of cash. A cash budget shows the planned cash inflows, cash outflows and ending position by interim period for a special time period. It is directly related with their budget such as sales budget, expenses budget and the capital expenditure budget. The main objective of preparing cash budget as are follows:

- To determine cash position at the end of each period as a result planned operations
- To identify surplus or deficit of cash by time period.
- To established the need for financing.
- To established the need of investment of idle cash.
- To established a sound basic continuous monitoring of cash position.

Two Type of approach to develop cash budget, a) Cash Receipt Approach and b) Disbursement Approach. They are used to cash budget. This method is also called direct or cash account method. This approach is appropriate for short term period. This approach involves following are:

- Estimate of cash flows
- Estimate of cash out flows
- Determination of surplus or deficit
- Determination of interim finance needs.

2.3.2 Reviews of Reports and Articles

A Report- Published in *“The Kathmandu Post-Money Finance and Economy”* dated April 9, 2012 under the heading *“Rastriya Banijya Bank (RBB) submits three-year capital plan to central bank”*.

Under Rs12.5 billion plan, the bank seeks to fulfill the core capital requirement of Rs 8.5 billion in the first two years.RBB says the amount can be raised either by issuing right shares or issuing bonds. The bank plans to issue debenture for raising the supplementary capital of Rs 4 billion in the third year. The central bank and the government should approve the plan to take it to implementation phase. But the government has been reluctant to inject billions of rupees to rescue RRB.The government is holding discussions with the World Bank about the possibilities of getting soft loans for injecting capital in RBB.

A Report- Published in *“The Kathmandu Post-Money Finance and Economy”* dated December 28, 2012 under the heading *“Bank lending down while deposits swell”*.

“Commercial banks have been able to lend just over 50 percent of their deposits this fiscal year. With only two weeks left for the fiscal year to end, commercial banks are struggling to increase their lending which has stagnated throughout the fiscal year. Bank deposits surged by Rs 133.42 billion in the first 11 months while lending has remained at Rs 69.98 billion. For the last 11 months, the credit-to-deposit ratio has been mere 52 percent which means that for every Rs 100 collected as deposit, Rs 52 has been lent. As per international practice, a healthy credit-to-deposit ratio would be 80 percent.

The current situation is reversal over last year where Nepal Rastra Bank has to caution the banks regularly to maintain the credit-to-deposit ratio as prescribed by the central bank. Credit demand that looked to be improving in the third quarter has again declined in the last two months, in the last two months , banks deposits increased by Rs 32 billion while lending increased by Rs 11 billion only.

According to the bankers, bank has learnt from last year's liquidity crisis and has become more comparative in their lending to ensure that their credit to deposit ratio remains at a comfortable level. This also affected credit flow according to bankers.

They say such stamps in lending will seriously affect the profitability of banks at the end of fiscal years. The aggregate profit of commercial banks had stamped by 15 percent by the end of the third quarter and bankers are expecting a further decline by the end of the fiscal year. It is difficult to predict the actual figure, but the result of the fourth quarter will be much worse than that of the third.

Bankers attribute the political statement for the slow growth in credit demand. Dissolution of the constitution assembly (CA) has further pushed bank investment plans and backing over the new budget has made the private sectors worry. The appreciate for corporate loan has decrease significantly correctly " said BN Gharti, DGM if Kist Bank" hence we have shifted our major trust to over. Like small and medium enterprise (SMEs) and agriculture business. He added that in order to improve the SME portfolio Kist Bank recently decided not to approve loans exceeding Rs 30 million.

Bankers say there has been a steady growth in leading to SME "the portfolio doesn't swell over might while lending to such area" said Gharti it will take at least a couple of years.

Along with sequenced credit demand, difficulties in loan recovery, especially realty loans, have added to have worse of bankers "Realty lending made in the past is still a big problem as recovery has not been satisfactory "said Joshi" this will further hit profitability problem in loan recovery have also pushed loan loss provisioning up, slashing profit other secure of income of banks are investment of government securities and inter-bank lending. However, return on both these investment are low at present. According to the central Bank, the bank inter-bank lending ratio rate 0.56 percent and the return on 91 days Treasury bill is 1.25 percent.

A Report- Published in September 1, 2013 in *“The Kathmandu Post-Money, Finance and Economy”* under heading *“28pc fall in banks’ credit flow to private sector”*.

The Credit demand from industries like cement, iron and steel, which require more energy, has slowed down due to power crisis. Power crisis, protracted political stalemate and a slowdown in trading business have hit banks and financial institutions (BFIs) lending to the private sector. The growth rate of banks credit flow to the private sector has declined by almost 28 percent, according to the latest macro-economic report of the Nepal Rastra Bank. As of the first 10 months of this fiscal year, BFIs credit flow to the private sector increased by Rs 64.24 billion, compared to the rise of Rs 81.84 billion during the same period last year. Liquidity-rich BFIs also acknowledge that the demand for loans from corporate clients have slowed down considerably. NRB statistics show the current misery of BFIs-struggle for lending. It is a credit crunch,” said Anal Raj Bhattarai, CEO of Nepal Commerz and Trust bank. There has been little demand for loans from both industrial and trading sector this year.

Bankers say continued depreciation of the Nepali rupee against the US dollar is another factor affecting credit flow, especially to the trading business. Importers are in wait and see mode as an appreciating dollar has made them rethink their plans to open letters of credit for fresh imports.

Bankers also attribute low credit demand to weak business confidence in the country. Despite decreasing interest rates, banks are finding it hard to lend, said Bhattarai, adding that interest rates on prime loans has come down to 10 percent from 13 percent. I don’t think a further decrease on lending rates is the solution to the problem. Bankers do not see the situation improving anytime soon. People will rethink their investment plans as the country headed towards political uncertainty following the dissolution of the Constitution Assembly,” said Upendra Paudel CEO of NMB Bank.

The recession in lending will also affect profits of BFIs this year as lending is their biggest profit maker. Banks are also not willing to invest in NRB’s treasury bills due to

low return-below 1 percent. This means, banks' profits will be severely affected this year, said Poudel.

A Report- Published in February 2, 2014 in *The Himalayan Times*” under heading “Profit of 30 Commercial Banks Rise by 17%”. The 30 commercial bank in the country have earned net profit of Rs 9.11 billion in the second quarter of the current year. It is 17.18% more than Rs 7.78 billion earned in the corresponding period last years. Starting that the 17% growth in profit of the bank is reflationary good former president of the Nepal Bankers Association Sashin Joshi said ‘the profit is goods corresponding the prevailing situation of the overall economy. We must consider this profit earned even when the banks have not able to expend loans satisfaction nary’. The spread rate of banks is 6.73% according to the data of NRB for five month. The bank succeed to the earning more than other sectors even though their operating cost has not been reduce and the interest rate is falling due to expense liquidity.

Kist Bank suffered a loss of Rs 198.80 million during the period. It had suffered a loss of Rs 69.567 million in the corresponding period last year. The problems facing the bank have been rising after the general manager of the banks was involved in financial crime. Nabil has earned the highest net profit of Rs 1.05 billion among the bank that give published financial details. It is corresponding period last year. It is however, 5.12% less than Rs 1.11 billion it earned in the last year. It has collected deposit of Rs 68.86 billion and mobilization Rs 51.39 billion in loans by the end of the second quarter. It has earned net interest income of Rs 1.81 billion during the period. Nepal Investment Bank is second among the banks earning highest profit at Rs 938.80 billion. The net profit of most of the banks of has increased according to the financial details published by the 31 Commercial banks currently in operation a part from Nepal Bank. Eight of those bank, Agriculture Development Bank, Bank of Kathmandu, Laxmi Bank, Kumari Bank Janata Bank, Commerce and Trust Bank and Nabil Bank have been a drop in net profit in comparison to the corresponding period last year. Janata Bank has earned the least amount of profit among the banks that have published the detailed at Rs 12.60 million. It had earned Rs 70.70 million in the corresponding period last years. Collect Rs 14.50 billion in Deposit

and mobilization Rs 12.94 billion in loans during the period. Its net interest income was Rs 253.80 million. Commerce and Trust Bank, that is the process of benign merged with the Global IME has earned net profit of Rs 14.55 million. Janata and Commerce and Trust had suffered losses during the first quarters, Janata has suffered a losses of Rs 59.80 million and Commerce and Trust Rs 12.60 million in the first quarters.

Dr. Koirala (2014) An articles published in January 08, 2014 “*The Himalayan Times*” - English national daily of Nepal under the heading “*Financial globalization implication of Nepal’s banking sectors*” has express that, Banks and financial institutions regulated by the Nepal Rastra Bank occupy a substantial share of the Nepali financial system. Considering the key role of Banks and financial institutions in promoting economic growth through efficient and effective allocation of resources, they need to be vibrant and stable. Mover above 97 percent securities in NEPSE is share and out of which 80 percent belong to Banks and financial institutions. This corroborates the fact that’s have dominance in the capital market. Hence, stable and properly functioning banking system is vital for enhancing the competitiveness of an economic. It is hearting that access to financial services has substantially increased mainly after the domestic liberalization in mid 1980s. The number of banks and financial institutions surged from 5 in 1985. The number of branches and the population per BEIs branches accordingly reached 3126 and 8475 respectively as of mid July 2013. However, the macroeconomic indicators are not at all conducive to support the rapid growth of the banking sectors.

The recent unfair competition in the banking industry has led to most of these banks engaging in risky exposure e.g. Real estate bubbles in the recent past trapped many BFIs into serious tubule. In addition, the Nepali banking sectors is rapidly globalizing making it important for Nepali banks to ensure their practices match those of the best banks in the world. In fact technology and global exposures have influenced these sectors. Moreover, since Nepal has also opened up its financial sectors to wholesales banking too international players from 2010, they will come with large capital professional management, modern technology and an array of products. The saying “Survival of the fittest” will undoubtedly appear true then for banking business under this kind of

changing business and risk environment. In such a likely scenario of international competition and global exposure, Nepali banking industry has to move ahead with adequate preparation so as to be able to overcome both domestic and international challenges. NRB too needs to develop and execute financial sectors master plan to ensure soundness and stability of the financial system.

However, gradual improvement in the financial indicators of these banks signify that if they are run in a businesslike manner and the undue interference of the government and high handedness of trade union in management activities could be curbed, they can also be a strong players in the banking industry. Unfortunately, Development banks and finances companies are the forefront to contribute toward losing public confidence in the banking sectors. Liquidation of Nepal Development Bank, United Development and Samjhana Finance, rescue fo Vibor Bikas Bank from NRB and declaration as troubled to Gorkha Development Bank and problematic nearly a dozen of financial institutions has tarnished the image of the entire banking sectors. As a fiduciary of public money the current situation in unfortunate and the collapse of BFIs on after another may invite systematic risk. All the stakeholders need to be aware that both the East Asian Financial crisis of 1997 and 2007 were triggered by problems in banking. Hence, the possibility of taking advantage of financial globalization is a matter of distant dream in existing economic and political milieu situation due to multiple risks threatening the sectors.

Upadhyay (2014) An articles published in February 04, 2014 “*The Kathmandu Post*” under the heading “*A well developed banking system is a necessary pre-condition*”. Has express that, in a modern economic development a well developed banking system is a necessary pre condition for economic development. Besides providing financial resources for growth of industrialization, banks can also influence the direction in which these resources are to be utilized. In a modern economy banks are to be considered not merely as dealers in money but also the leaders in development. They are not only the country’s wealth but also utilize the resources necessary for economic development. It is the growth of commercial banking in i8 to 19th centuries that facilitated the occurrences industrial revolution. The main objective of bank is to mobilize the resources for productive use

after collecting them from different places. It brings about greater mobility of resources to meet the emerging necessity of the economy. There are various roles played by commercial banks for the development of an economy. This is capital formation, encouragement to entrepreneurial innovation, influencing economic activity, promotion of trade and other neglected sectors. The major problem in almost all underdeveloped countries like Nepal is the lack of capital formation and their proper mobilization. In such countries, commercial banks should act as a development banks0 Nepal is a small and poor country even though she has sufficient natural resources. To utilize those resources, capital is required. Commercial banks gather monetary resources from different areas in the form of deposit and provides loan to inventing areas like industry, agriculture etc. therefore the fate of the country is greatly determine by the activities role of commercial banks. Banks provide facilities to their customers by providing loans, remitting funds purchase and sales of bill and other market information. These services help to run the business and other economic activities rapidly as well as smoothly which ultimately helps in economic development.

2.3.3 Review of Thesis

Profit planning and control plays the vital role in overall profitability management which provides the guideline for the achievement of organizational goals and objectives. Various studied has been conducted for measuring the behavior of profit planning. There are many researches carried out by different researchers in this topic. The profit planning in the context of particular commercial bank seems to be a new subject of study for research and analysis. So far the researcher was able to find some studies that have been made in this topic. Here are review of thesis of some manufacturing sector and financial sector which can help the end user to understand about their objectives and major findings about this topic.

Kharel (2008), has conducted a research work on the topic *“Profit Planning of Commercial Banks in Nepal: A comparative study of Everest Bank Limited, Nabil Bank Limited, and Bank of Kathmandu Limited”* the main objectives and major finding of this research study are as follows:

Objectives

- To find out the relationship between total investment, 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.

Findings

- The liquidity position of EBL is comparatively better than that of Nabil and Bok.
- In spite of the current ratio is average among the other two banks EBL has maintained the cash and bank balance to meet the customers demand.
- EBL has invested in highest sectors like government securities than BOK and lesser portion than that of Nabil.
- From the analysis of assets management ratio it is assumed 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 debentures to total working fund ratio.
- The interest earned to total outside assets and return on total working fund ratio 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 EBL is in profitable position as it is getting higher return than interest cost.
- .
- The trend of the total investment, total deposit loan and advances and net profit of EBL shows better position than that of Nabil and BoK.

Tiwari (2009), has conducted a research work on the topic “*Profit Planning in Commercial Banks: A case study of Standard Chartered Bank Limited*” the main objectives and major finding of this research study are as follows:

Objectives

- To highlight the current profit planning premises adopted and its effectiveness in SCBL
- 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.

Findings

- Bank management policy is very strong.
- It keeps minimum number of employees and highly qualified personnel for maintaining the job.
- The bank always adopts new technology.
- The bank provides ATM facility 365 days for customers.
- The bank provides funds for NGOs and scholarship for the schools.
- Customer deposit collection is the main resources mobilization of the bank..
- 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 higher than actual outstanding liability LABP.
- LABP holds highest outlet resources deployment among the various portfolios.
- Actual LABP are in increasing trend.

Khatiwada (2010), has conducted a research work on the topic “*Profit Planning in Commercial Banks: A case study of Himalayan Bank Limited*” the main objectives and major finding of this research study 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 analyze the growth of the business of the bank over the period.
- To provide suggestion and recommendations for improvements of the overall profitability of the bank.

Findings

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

Kunwar, (2011) has conducted a research work on the topic of “*Comprehensive profit planning and control of Everest Bank Limited,*” her objectives and major findings are as follows:

Objectives

- To analyze the trend of profit EBL
- To highlight the current profit planning premises adopted and its effectiveness in EBL.
- To observe EBL’s profit planning on the basis of overall managerial budgets Developed by the Bank.
- To analyze the variance of budgeted allocation and actual achievements
- To study the growth of the business of the Bank over the period.
- TO provide suggestion and recommendations for improvements of the overall Profitability of the bank.

Major Findings

- The general trend of bank’s profit is growing stage but cost is not quite been able to make up to its profit potentiality.
- EBL Bank lacks active and organized planning department to undertake

innovative products R & D works

- The major resources of EBL bank are cost bearing deposit
- Major portion of resources has been deployed in loan and advances
- LDO ratio & CD ratios of the bank are at higher position
- Lending policy as well as some restriction provided by NRB seems to be in the way of Bank to reach its major objectives.

Sharma, (2012) has conducted a research work on the topic of “*implementation of profit planning technique in commercial banks: A case study of Nepal Investment Bank Limited*”. The study was mainly concerns with budgeting system of NIBL.

Objectives

- To assess the budgeting system of NIBL
- To study the application of comprehensive PPC system in NIBL

Major finding

- The bank is concision about the human resources due to rapid growth and advent new branches. Develop skills to employees to empower them to provide excellent customer service bank supports to employees further advance causes.
- NIBL is well performing in the deposit collection sector. Budget figure is higher than the actual deposit.
- The development of banks available resources at various portfolio among which LDO hold the highest percent i.e. 54 % in among out of total development amount through the five years of study period.
- The researchers find that the 100 percent of achievement of target in development of resources other than LDO i.e. NLDO.
- The cash flow analysis of the NIBL shows that there are sufficient funds to repay the short term obligation and it has maintained the liquidity position as per the NRB regulation.

Acharya, (2013) has conducted a research work on the topic of “*Analysis of profit Planning procedure with reference to Everest Bank limited*” following are the major objectives and major finding of their thesis work.

Objectives of the study

- To observe profit planning based on overall budgeted by the bank
- To analysis the various of budgeting allocating and actual achievements
- To study the growth of the business of the bank over the period
- To provide suggestion and recommendation for improvement of the overall profitability of the bank

Major Finding

- Everest has followed profit at different component
- Perform SWOT analysis before prepare of profit plan
- Everest is well performing in the deposit collection
- The researcher found that the 100% of achievement of target in resources other than deposit
- The state of income generating deployment of loan and advance is in increasing turn over the period
- The current ratio of Everest has not meet 2:1, it mean the firm has meting current obligation
- Deposit mobilization is the major contributor for cash inflow in the bank
- Loan and Advance is the major cash outflow of the bank
- The bank has not been able to maintain a minimum level of level co-ordination between the department and staff.
- Budget is prepared just too full fill the formalities but there are not used effectively form the profit planning process.

Bhattraï, (2013) has conducted a research work on the topic of “*Profit planning of commercial bank, A case study of Bank of Kathmandu.*” Its objectives and major finding pointed as flowing:

Objective of study

- To find out the relationship between total investment, loan and Advance deposit, net profit and outside assets.
- To identify the of investment primary sectors of commercial bank
- To assess the impact to investment of profitability
- To provide suggestion and possible guideline to improve investment policy and its problems.
- To analysis and forecast the termed and structure of deposit utilization and its projection for five years of bank.

Finding

- Profit is fluting based on various related invariables
- Coefficient correlation between variable is positive
- The trend analysis shows all are in increasing trend.
- The assets quantity and rate of the banks is higher side.
- Lending policy as well as some restriction provide by NRB seems to be in the way of bank to reach its objective.

2.3.4 Research Gap

Today's world is marketed by rapid changes and new developments, as such researchers conducted a few years back may not be adequate to explain current phenomena. Thus continuous attempt needs to be taken and new researcher has conducted to build the 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 of manufacturing organization or production oriented activities. The researcher could find some study so far that has been related to profit planning system of commercial bank in Himalayan Bank Limited, Nepal Investment Bank, Standard Chartered Bank, Everest Bank Limited, Nepal Bangladesh Bank, etc. This study may be a new study in this field as no study has been made on the topic profit planning of Nepal SBI Bank Limited. In the past financial institution depends only in interest margin whereas, in present economic dynamism to indicate interest margin is not sufficient to improve profitability so the researcher has tried to analyzed the extraordinary items of

income generation in financial institution. To find the new developments and to bridge the gap between the past research and the present situation, researcher set out to conduct the research in this stimulating topic. Researcher have been through many literature reviews and given the best to fulfill this work considering dynamic nature of the environment. In this research effort have been made to understand the profit planning and control in commercial bank and the researcher hope this research will be fruitful for future researchers as reference.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

The main purpose of this chapter is to discuss the research methodology such as research design, population and sample, data collection technique and analytical tools of the research study. It is widely accepted that research is simply the process of arriving at dependable solution to problem through the planned and systematic collection, analysis and interpretation of data. It is important tools for advancement of knowledge and accomplishment of purpose, thus research methodology is a way to systematically solve the research problem. It may be understood a science of studying that how research is done scientifically.

Research methodology, as a vital part of research study, describes the various sequential steps to be adopted by researcher in studying research problem along with the logics behind them. This study has intense relation with application of planning and control in a commercial bank with a specific reference to Nepal SBI Bank regarding the objectives to analyze, examine and interpret the application of profit planning in the bank. The research methodology includes, research design, data collection procedures, research variables and tools used.

Research design concern as a blue print for research. It deals with at least following four major problems.

- Which question to study?
- Which data are relevant?
- Which data to collect?
- How to analysis the result?

3.2 Research Design

This research is a case study in nature. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. Recommendation is another important aspect of design strategy. The research design allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives. A research design is the arrangement of conditions for the collection and analysis of data in a manner to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation which imagines obtaining answers to research questions and controlling various things. This study is an examination and evaluation of budget process in profit planning program of Nepal SBI Bank. 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.

3.3 Population and Sample

Population or universe refers to the industries of the same-nature of its service and product. It is the collection or the aggregate of objects or the set of results of an operation. On the other hand sample means the representative parts of population selected from it with the objectives of investigating its properties. Thus, a sample is just a portion of the population selected with a view to draw conclusions about the population under study.

Under the study of profit planning and control, the total number of commercial Banks including domestic and joint venture banks opening in Nepal are the population. At the thirty one licensed commercial banks are running in Nepal. All the thirty one licensed commercial banks have been considered as the total population out of them this study is concerned with one commercial bank. Nepal SBI Bank is the sample to be analyzed on behalf of this population. This research aims to study the profit planning aspect of commercial bank taking the case study of a single bank i.e. Nepal SBI Bank, and data have been analyzed for seven years so the seven years data have been taken as base for this case study.

3.4 Sources and Collection of Data

Here both primary and secondary data has been incorporated for the purpose of analysis. The primary data have been taken from informal discussion with executives. But this study is mainly based on secondary data. The main sources of secondary data are quarterly and annual financial reports of different fiscal years, official records, websites, brochures, prospectus and other relevant publications of Nepal SBI Bank Limited, Nepal Rastra Bank Limited, Central Bureau of Statistics and relevant publications. From these sources the relevant historical data are gathered for analysis purpose.

3.5 Data Processing

Data obtained from the various sources connate be identify used in their original form. Further they need to have to be verified and simplified for the purpose of analysis. Data information's figure and facts. So obtained need to check, reached edited and tabulation for complication.

3.6 Study Variables

Share capital, customer deposit, loan and advances, overdrafts, total resources and deployment, LC, bank guarantees, interest expenses, other expenses, interest income, and other income of Nepal SBI Bank are research variables of this study.

3.7 Analytical Tools

In this research various tools like statistical, mathematical and financial tools have been incorporated to analyze the gathered data to draw genuine conclusion.

3.7.1 Statistical and Mathematical Tools

In this research the analysis has been made possible by utilizing the following tools:

Percentile Increment

This statistical tool gives the percentage change of previous year to current year. This tool helps to find out the increment in the study variable. Simply, the word percentage

means per hundred. In other word, the fraction with 100 as its denominator is known as percentage and numerator of this fraction is known as rate of percent.

Arithmetic Mean 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. Arithmetic mean or arithmetic average is one of the important statistical measures of average. The arithmetic mean of a given set of observation is their sum divided by the number of observation.

Correlation of Coefficient

Correlation analysis is a statistical tool used to find the relationship between variables. If two quantities vary in such a way that movement in one are accompanied by movements in the other these quantities are correlated. It shows the effect on other variable due to the change in one variable. The degree of relationship between the variables under consideration is measured through the correlation analysis. Thus correlation is statistical device, which helps us in analysis the co-variation of two or more variables. Karl Pearson's Coefficient of Correlation is widely used in practice. The Person's Coefficient of Correlation is denoted by the symbol "r".

It is calculated by using the following formula:

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}}$$

Where,

r = the correlation of coefficient

$$x = x - \bar{x}$$

$$y = y - \bar{y}$$

X = Independent Variable

Y = Dependent Variable

- When r= +1, it means there is a perfect positive relationship between the variables.
- When r= -1, it means there is a perfect negative relationship between the variables.

- When $r= 0$, it means that there is no relationship between the variables i.e. the variable are uncorrelated.

Regression Analysis

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 of other variables, in other words 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.

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 and a large standard deviation means just the opposite.

It is calculated by using the following formula:

$$\sigma = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

Where,

σ = Standard Deviation

x = each score

\bar{x} = mean or average

n = the number of values

Coefficient of variance

The relative measure of deviation based on the standard deviation is known as the coefficient of variance. It is independent of units. So two distributed can bitterly be compared with the help of C.V for their variability. Lies the C.V more will be the uniformity, consistency, stable and homogenous etc. and vice versa.

Probable Error (P.E)

The probable error of correlation coefficient of approvable for the measurement of reliability of the computed value of the correlation co-efficient “r”. It is also denote by P.E is calculated by the following formula.

$$\text{Probable Error (P.E)} = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

Where,

R = correlation of coefficient

N = number of pairs of observation

P.E = is used to interpret whether the calculated value of r is significant.

- If $r < P.E$, it is insignificant. i.e. there is no evidence correlation.
- If $r > P.E$ it is significant.
- $P.E < r < 6PE$, nothing can concluded

3.7.2 Financial Tools

Ratio Analysis study as financial analytical tools. The concept of this analysis has been discussed in chapter four in a more precise way. Ratio analysis is main focus as financial tool throughout the study as “Ratio analysis is such powerful tool of financial analysis that thought the help of it economic and financial position of business unit can fully x-rayed” (*Kothari, 1971: 187*).

“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” (*Pillai, 2000: 1339*). 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 rations from the figures of different accounts is termed as ratio analysis. Ratio used for financial analysis of business can be classified in to three categories:

- Liquidity Ratio
- Leverage Ratio

- Profitability Ratio

- **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. Current ratio is calculated dividing current assets by current liabilities. The details of current assets and current liabilities are shown on

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

- **Leverage Ratio**

The leverage ratio also 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.

1. Debt-Equity Ratio
2. Interest Coverage Ratio

- **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 the NSBI's profitability by calculating total assets and total capital fund to net profit. It is computed by dividing net profit by total assets and net profit to total capital fund.

- Return on Assets
- Return on capital

3.7.3 Least square Linear Trend Analysis

Trend analysis has been a very useful and commonly applied statically tool to forecast event in quantities term. On the basic of tendencies in the dependent variable in the post period, thr5 future trend is predicted. This analysis takes the historical data future trend is based on the assumption that the past tendencies of the variable are repeated in future or the past event affects the future events. Significantly the future trend is fore casting by using the following formula.

$$Y_c = a + bX$$

Where,

Y_c = the dependent variable

a = the origin i.e. arithmetic mean

b = the slope coefficient i.e. rate of change

X = the independent variable

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter is devoted to the presentation, analysis, interpretation and scoring empirical finding out of the study through definite course of research methodology. To achieve 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.

4.2 Resource Mobilization Planning

The resource means required fund for bank's daily operation. It includes capital fund, loans and borrowings, deposit collection and other liabilities. Among these, some resources are cost bearing and some are cost free resources. Following data shows the available resource of NSBI in both tabular and graphical representation.

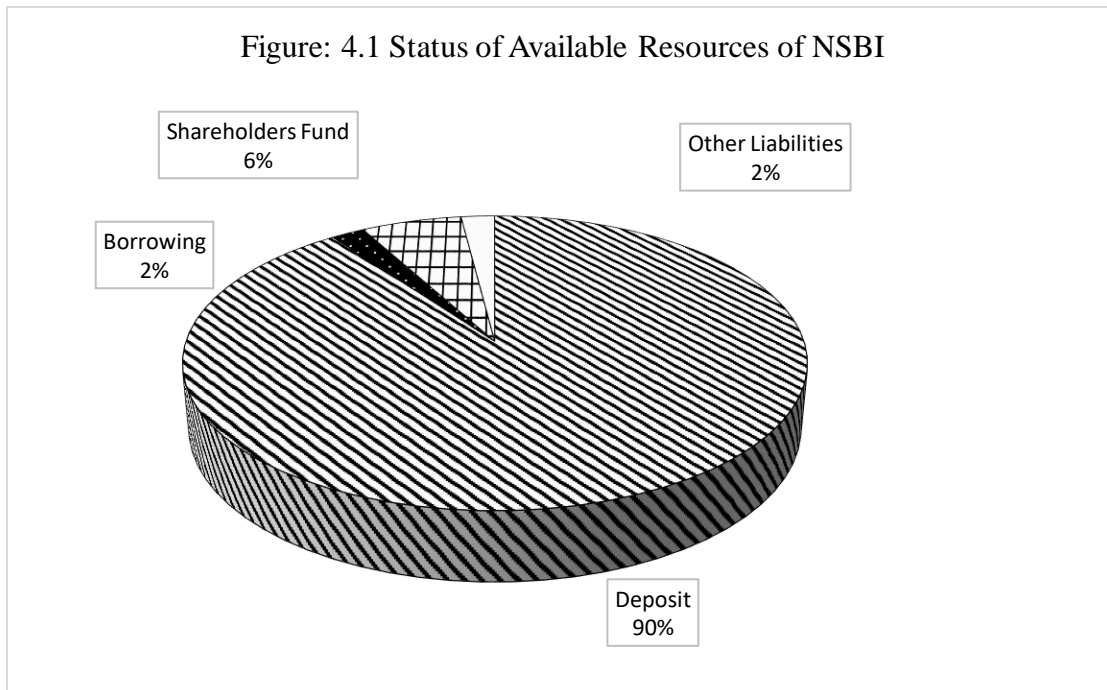
Table: 4.1 Statuses of Available Resources of NSBI

(Rs in Lakh)

F/Y	Deposit		Borrowing		Shareholder's Fund		Other Liabilities		Total
	Amt	%	Amt	%	Amt	%	Amt	%	
63/64	114452.86	82.62	10153.65	5.89	11632.91	8.4	2284.03	5.39	75663.27
64/65	137153.95	79.68	18274.80	10.62	14146.45	8.22	1548.11	5.90	84404.06
65/66	279572.21	90.68	9274.66	3.01	17126.07	5.55	2336.65	4.86	103142.50
66/67	348964.24	91.41	2000	0.52	24505.54	6.42	6283.33	1.48	129896.01
67/68	424154.43	91.40	2000	0.43	28792.93	6.20	9128.	1.65	138523.45
68/69	533372.64	91.67	6000	1.03	31974.59	5.50		0.90	171123.31
69/70	589204.56	9.88	8000	1.23	37989.57	5.86		0.83	308537.34
Total	2426874.89	-	55703.11	-	166168.6	-	22393.41	-	1011289.94

(Source: Annual Report of NSBI)

The above table shows the status of total resources of NSBI. The resources are collected from customer deposit, shareholder fund, other liabilities and borrowing. The major source of resource collection is customer deposit since it has higher figure in the above table. For more analysis purpose the resources plotting is done in the figure below.



(Source: Annual Report of NSBI)

The above figure shows that 90% of deposit contribute to the resources, similarly, 6% of shareholder's fund results into resources, likewise, 2% of borrowings sums up to form available resources of the bank, whereas, 2% of liabilities results into resources.

4.3 Customer Deposit Collection

As deposit collection is major activities of commercial bank, it is important source of resource mobilization. As per the data during the whole seven year the customer deposit is high and is in accelerating rate. These deposits are collected from different sectors that are individual and corporate customer. Deposits are collected as per the bank's rule. Some deposits are interest bearing and some are interest free. NSBI prepares the plan for

the deposit collection. The budgeted and actual deposit collection of NSBI is presented in table below:

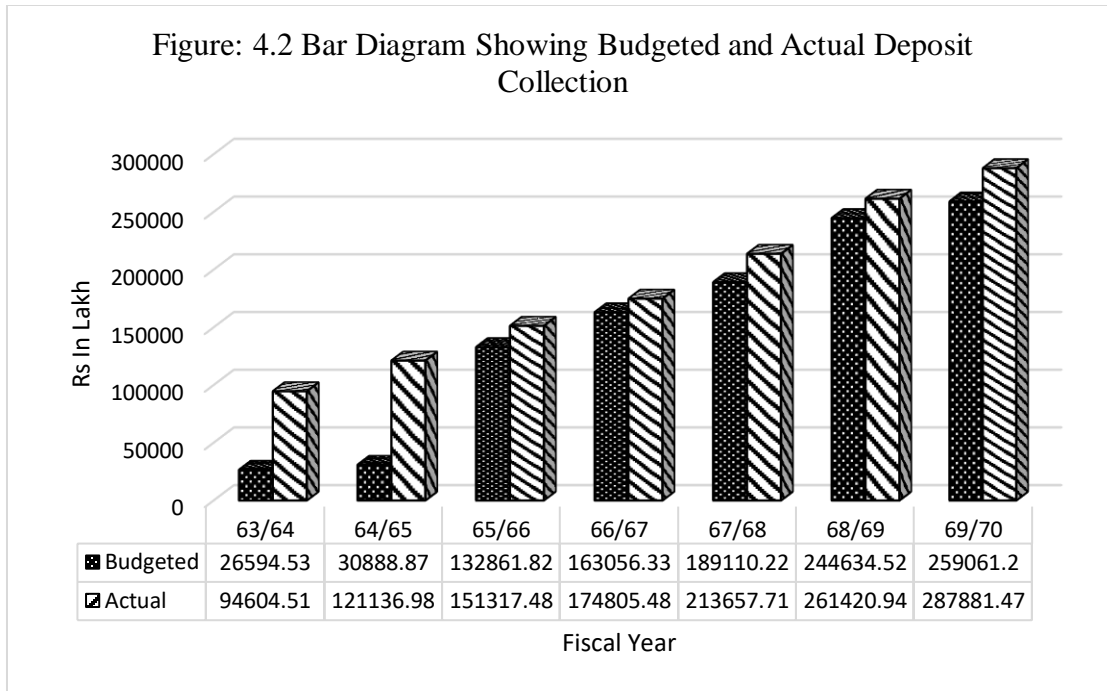
Table: 4.2 Status of Budgeted and Actual Deposit Collection

(Rs in Lakh)

Fiscal Year	Budgeted Figure	Actual Figure	Achievement
63/64	118089	114452.86	96.92%
64/65	140173	137143.95	97.85%
65/66	280250	279572.21	99.66%
66/67	350650	348964.24	99.52%
67/68	430588	424154.43	98.51%
68/69	550728	533372.64	96.85%
69/70	602753	589204.56	97.75%

(Source: Annual Reports and Budgeted Statement of NSBI)

The above table shows the status of budgeted and actual deposit collection of NSBI. The bank has achieved its objectives of deposit collection every year almost 100%. The base for preparing the budgets is the actual deposit collection of the last year. The achievement range is slightly fluctuating. The data of table are presented in bar diagram for the analysis purpose.



(Source: Annual Reports and Budgeted Statement of NSBI)

The above bar diagram shows the budgeted and actual figure of deposit collection of NSBI. The actual deposit is nearest to the budgeted figure so that the targeted collection of deposit has almost met every year. The base of preparing the budgets is the actual deposit collection the last year. The achievement range is slightly fluctuating but it is in increasing trend.

Table: 4.3 Summaries of Deposit Collection Budget and Actual Deposit

Statistical Tools	Budgeted Deposit (X)	Actual Deposit (Y)
Mean	353304	346696
Standard Deviation	174548	169880
Coefficient of Variation (CV)	49.40%	49%
Correlation of Coefficient (r)	0.8879	
Probable Error (6PE)	0.3231	

(Source: Appendix 1)

The above table shows that actual deposit is more variable than budgeted deposit since the CV of actual deposit is higher than budgeted deposit. Budgeted deposit is more consistent. Here by calculating (r) can examine whether there is positive correlation between budgeted deposits and actual deposit. Budgeted deposit is denoted by X and

assumed to be independent variable and actual deposit is denoted by Y and is assumed to be dependent variable. Significance of correlation of (r) is then tested with probable error (6PE) by the calculation shown as per in appendix 1. The researcher have found that (r) is 0.8879 and PE is 0.3231 the figure of 'r' shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of probable error with r is $r > 6PE$ so it is significant and states that the actual deposit is going on same direction. Another statistical tools regression line can also be fitted to show the degree of relationship between budgeted deposits and actual deposit and to forecast the achievement with given target.

$$Y - \bar{Y} = r \times \frac{\sigma_y}{\sigma_x} (X - \bar{X})$$

$$Y - 346696 = 0.8879 \times \frac{169880}{174548} (X - 353304)$$

$$Y - 346696 = 0.8642(X - 353304)$$

$$Y - 346696 = 0.8642X - 305325.32$$

$$Y = 0.8642X + 41370.68$$

With the help of above equation we can determine the expected deposit achievements with given value of budgeted deposit. For instance if the budgeted deposit is 320000 then we substitute the amount with X in the equation to generate the expected deposit achievements for the coming years.

4.4 Resources Deployment Plan of NSBI

Allocation of available resources into different sector is called deployment of resources plan. Resources can be used for maintaining liquidity, investing in income generating activities, investing for fixed assets purchase and other assets.

Table: 4.4 Total Incomes Generating Deployment of NSBI

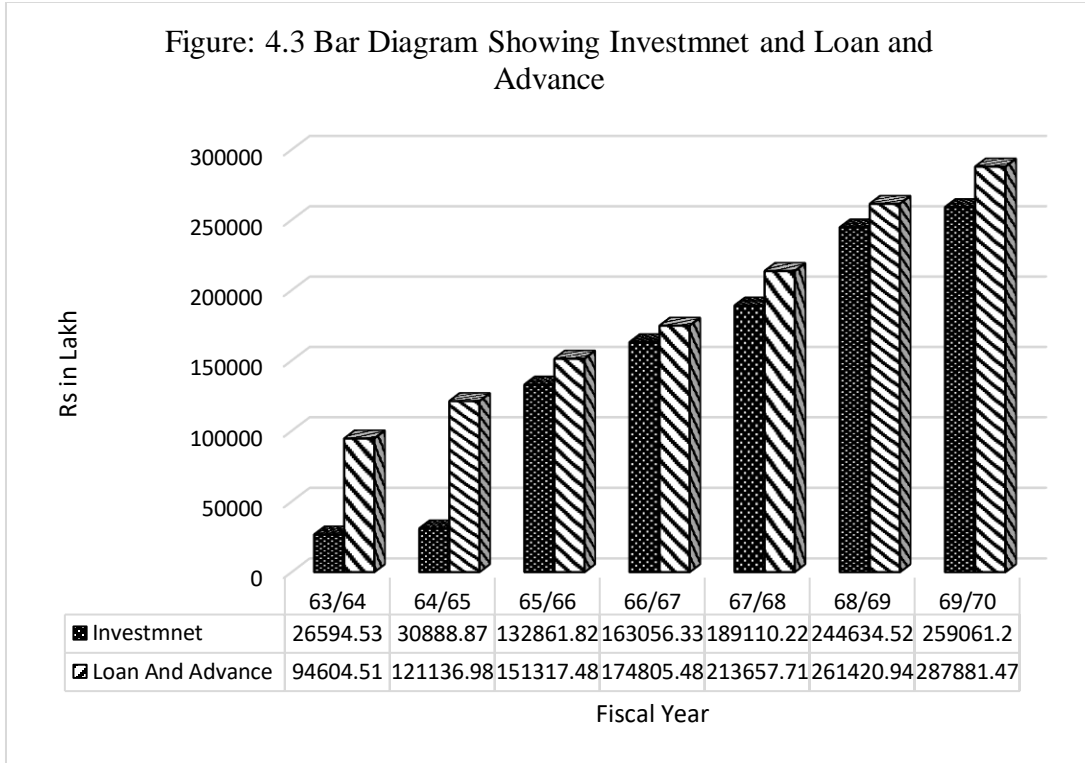
(Rs in Lakh)

F/Y	Investment		Loan and Advances		Total
	Amt	%	Amt	%	
63/64	26594.53	21.94	94604.51	78.06	121199.04
64/65	30888.87	20.32	121136.98	79.68	152025.85
65/66	132861.82	46.75	151317.48	53.25	284179.30
66/67	163056.33	48.26	174805.48	51.74	337861.81
67/68	189110.22	46.95	213657.71	53.05	402767.93
68/69	244634.52	48.34	261420.94	51.66	506055.46
69/70	259061.20	47.74	287881.47	52.64	546942.67

(Source: Annual Report from 63/64 to 69/70)

The above table shows the status of income generating deployment of NSBI. The major portion of deployment of the bank covers by the loan and advance. The range of loan and advance is 51.64% to 79.68% whereas the range of investments 20.32% to 48.34%. The data of table are presented in bar diagram for the analysis purpose.

Figure: 4.3 Bar Diagram Showing Investment and Loan and Advance



(Source: Annual Report from 63/64 to 69/70)

The above diagram shows the status of the total Investment and Loan and Advance income-generating deployment of NSBI. Every year, Loan and Advance and Investment growth rate. Fiscal year 63/64 Rs 26594.53 investment amount growth to 69/70 is to 259061.2. And loan and advance also growth Rs 94604.51 to Rs 287881.4.

4.5 Budgeted and Actual LDO of NSBI

Since the LDO is a major sector of deployment of the bank here the researcher is going to analyze about the position of LDO of NSBI. Following table shows the budgeted amount of LDO and the same achieved actually.

Table: 4.5 Budgeted and Actual Loans, Discounted, Overdraft of NSBI

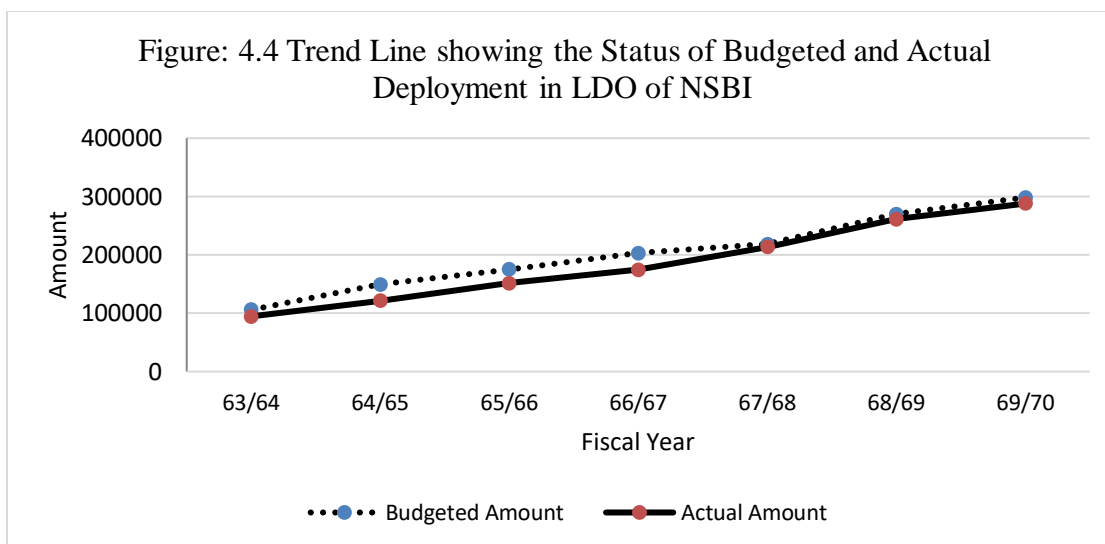
(Rs in Lakh)

Fiscal Year	Budgeted Amount	Actual Amount	Achievements
63/64	105832	94604.51	89.31%
64/65	149134	121136.98	81.23%
65/66	175282	151317.48	86.33%
66/67	203125	174805.48	86.61%
67/68	218724	213657.71	97.68%
68/69	270152	261420.94	96.77%
69/70	298248	287881.47	96.52%

(Source: Annual Report from 63/64 to 69/70)

Above table shows that status of budgeted and actual LDO of NSBI. The actual achievement of LDO is able to achieve almost 100% of targeted LDO. This indicates that the bank is successful enough to meet the targeted achievement.

The range of achievement over the 7 year period is 81.23% to 97.68% it shows that NSBI has met the targeted investment in LDO in every year but the achievement trend is not same i.e. in incremental trend. For the study purpose the figure of LDO are presented in scatter diagram and to draw some conclusion accordingly.



The budgeted deployment in LDO is in higher position than actual LDO throughout the study period; it means the scatter diagram shows that the relation between actual achievements is quite down than budgeted LDO.

Table: 4.6 Summaries of Budgeted LDO and Achievement

(Rs in Lakh)

Statistical Tools	Budgeted LDO (X)	Actual LDO (Y)
Mean	202928	186404
Standard Deviation	62037	66247
Coefficient of Variation (CV)	30.57%	35.54%
Correlation of Coefficient (r)	0.9922	
Probable Error (6PE)	0.0237	

(Source: Appendix 2)

The above table shows that budgeted LDO is more variable than actual LDO since the CV of budgeted LDO is higher than actual LDO. Actual LDO is more consistent. Here by calculating (r) can examine whether there is positive correlation between budgeted LDO and actual LDO. Budgeted LDO is denoted by X and assumed to be independent variable and actual LDO is denoted by Y and is assumed to be dependent variable. Significance of correlation of (r) is then tested with probable error (6PE) by the calculation shown as per in appendix 2. The researcher have found that (r) is 0.9922 and PE is 0.0237, the figure of 'r' shows that there is positive perfect correlation between budgeted LDO and actual LDO. The relation of PE with r is $r > 6PE$ so it is significant and states that the actual LDO is going on same direction. Another statistical tools regression line can also be fitted to

show the degree of relationship between budgeted LDO and actual LDO and to forecast the achievement with given target.

$$Y - \bar{Y} = r \times \frac{\sigma_y}{\sigma_x} (X - \bar{X})$$

$$Y - 189404 = 0.9922 \times \frac{66247}{62037} (X - 202928)$$

$$Y - 186404 = 1.0595(X - 96869)$$

$$Y = 1.0595X - 28598.22$$

With the help of above equation we can determine the expected LDO achievements with given value of budgeted LDO. For instance if the budgeted LDO is 225000 then we substitute the amount with X in the equation to generate the expected LDO achievements for the coming years.

4.6 Resources Deployment in Other Sector (NLDO)

The portfolio of NLDO consists of liquidity in terms of cash and bank balance, investment, fixed and current assets. The budgeted and actual deployment in other sector is listed in following table over the study period.

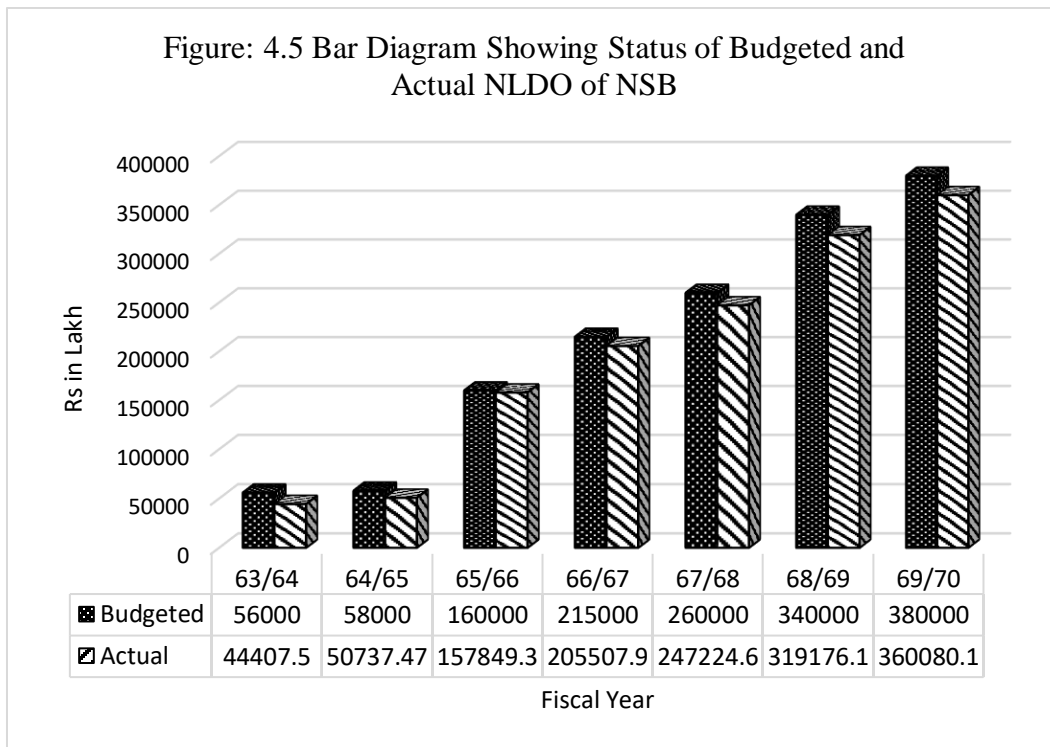
Table: 4.7 Status of Budgeted and Actual Deployment in Other Sector (NLDO)

(Rs in Lakh)

Fiscal Year	Budgeted Amount	Actual Amount	Achievements
63/64	56000	44407.5	79.30%
64/65	58000	50737.47	87.48%
65/66	160000	157849.3	98.66%
66/67	215000	205507.89	95.59%
67/68	260000	247224.64	95.09%
68/69	340000	319176.14	93.38%
69/70	380000	360080.05	94.76%

(Source: Annual Reports and Budgeted Statement of NSBI)

The above table shows the status of budgeted and actual deployment in other sector than LDO (NLDO). The actual achievement of investment in other sector has achieved almost 100% on each year. The rate of such achievement is in fluctuating trend over the study period. The achievement is 79.30% in F/Y 63/64 and it increased in F/Y 64/65 to 87.48%. Again in F/Y 65/66 it increases to 98.66% and slightly fluctuating up to F/Y 66/67. The average rate of achievement over the five year is 92.04 % this indicates that the bank have to achieve its target by 11.50% approximately. For the analysis purpose the status of budgeted and actual NLDO is presenting in diagram below.



The above table shows how the actual target has been achieved with respect to set budgeted amount. The end result is highly satisfactory since almost 100% result has been achieved over the study period.

Table: 4.8 Summary of NLDO of NSBI

(Rs in Lakh)

Statistical Tools	Budgeted NLDO (X)	Actual NLDO (Y)
Mean	209857	197858
Standard Deviation	118106	113593
Coefficient of Variation (CV)	56.28%	57.41%
Correlation of Coefficient (r)	0.9972	
Probable Error (6PE)	0.0086	

(Source: Appendix 3)

The above table shows the summary of investment in other sector (NLDO). Here the target has been almost achieved. The actual NLDO is more variable in nature since it has higher C.V and the budgeted figure is more consistent. The correlation between budgeted and actual NLDO is denoted by r. The value of r is 0.9972 so the relationship between budgeted and actual figure is highly correlated. The significant of r can be measured by the probable error here the $r > 6PE$ so the r is significant.

4.7 Actual Deposit and Outstanding LDO of NSBI

Customer deposit and deployment in LDO is major activities of NSBI. It is understood that the major source of resources mobilization of NSBI is the customer deposit and similarly the major outlet for deployment portfolio is for loan and advance and bills discount (LDO). It is desirable to analyze the comparative status of the same for the study period. Following table shows actual balance of deposit and actual position of deployment toward LDO.

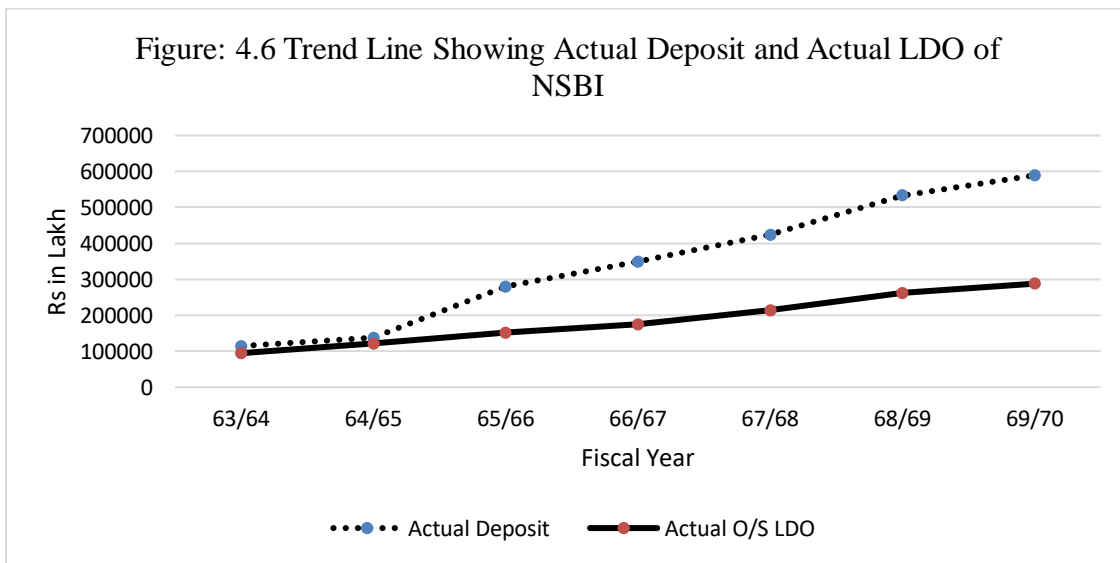
Table: 4.9 Status of LDO VS Actual Deposit of NSBI

(Rs in Lakh)

Fiscal Year	Actual Deposit Balance	Actual OS (LDO)	LDO to Deposit Ratio
63/64	114452.86	94604.51	82.66%
64/65	137153.95	121136.98	88.32%
65/66	279572.21	151317.48	54.12%
66/67	348964.24	174805.48	50.09%
67/68	424154.43	213657.71	50.37%
68/69	533372.64	261420.94	49.01%
69/70	589204.56	287881.47	48.86%

(Source: Annual Report from 63/64 to 69/70)

The above table 4.9 shows the status of actual deposit balance and actual O/S LDO. The actual deposit balance and actual O/S LDO both are in increasing trend throughout the study period. The utilization of deposit collection in terms of LDO is fluctuating trend in percentage. The range of LDO to deposit ratio is 48.86% to 88.32%. This indicates that the bank invests in LDO out of total deposit in the range of 48.86% to 88.32% over the seven-year time period. For the analysis purpose, the figure of actual deposit balance and actual O/S LDO is presented in the figure below:



The above diagram is showing the position of actual deposit balance and actual outstanding balance of LDO. The position of actual deposit is higher than the actual LDO. Both are in increasing trend throughout the study period. The average ratio of LDO to deposit is 72.00%. It means that the bank invest in NLDO 26.00% in average.

Table: 4.10 Summary of Actual Deposit and Actual LDO of NSBI

(Rs in Lakh)

Statistical Tools	Actual Deposit (X)	Actual OS (LDO) (Y)
Mean	346696	186404
Standard Deviation	169880	66247
Coefficient of Variation (CV)	49%	35.54%
Correlation of Coefficient (r)	0.8645	
Probable Error (6PE)	0.3858	

(Source: Appendix 4)

The above table shows that actual O/S LDO is less variable than actual deposit since it has lower C.V. On the other hand actual deposit less consistent than outstanding LDO it means the deposit is more variable in nature. The relationship between actual deposit and actual outstanding LDO can be measured by co relation between them. We can take the help of Karl Person's Co-efficient of correlation to find correlation between actual deposit and actual outstanding LDO. The correlation r is 0.8645 this means it is perfectly correlated. Significance of correlation r is tested with probable error (PE) here the 6PE < r so the calculation of r is highly significant.

4.8 Interest Expenses

The bank collects fund from various sources. Among them some are non-cost bearing and some are cost bearing sources. Interest expenses are incurred for making payment of cost of such deposit amount which are interest bearing deposit. The interest holds highest percentage of expenses amount because deposit holds highest portion of total available resources. The bank may have different interest rate indifferent types of account. The analysis of the average cost of deposit throughout the study period is shown in the table below:

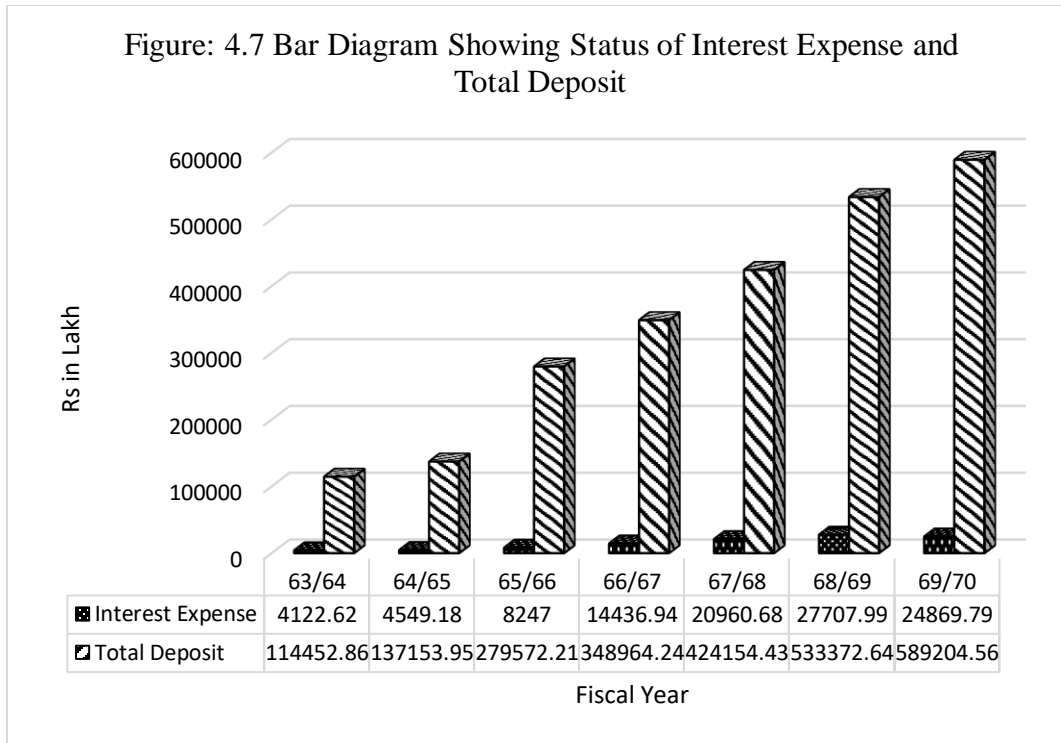
Table: 4.11 Status of Average Cost of Deposit

(Rs in Lakh)

Fiscal Year	Interest Expense	Total Deposit	Cost of Deposit (%)
63/64	4122.62	114452.86	3.60%
64/65	4549.18	137153.95	3.32%
65/66	8247.00	279572.21	2.95%
66/67	14436.94	348964.24	4.14%
67/68	20960.68	424154.43	4.94%
68/69	27707.99	533372.64	5.19%
69/70	24869.79	589204.56	4.22%

(Source: Annual Report of NSBI from 63/64 to 69/70)

The above table shows the total deposit and interest expenses of respective years. The deposit amount is in increasing trend likewise the interest too. The table shows the cost of deposit in percentage. The NSBI cost of deposit (interest) range between 2.95% to 5.19% over the study period. The cost of deposit of the bank is fluctuating in nature and is in slightly decreasing trend. The relation between interest expense and total deposit is also shown on the bar diagram below.



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

Table: 4.12 Summaries of Actual Deposit and Interest Expenses

(Rs in Lakh)

Statistical Tools	Actual Deposit (X)	Interest Expense (Y)
Mean	346696	14985
Standard Deviation	169880	9007
Coefficient of Variation (CV)	49%	60%
Correlation of Coefficient (r)	0.9708	
Probable Error (6PE)	0.0878	

(Source: Appendix 5)

The above table shows that actual interest expense is less variable than actual deposit since it has lower C.V. On the other hand actual deposit less consistent than interest expense it means the deposit is more variable in nature. The relationship between actual deposit and interest expense can be measured by co relation between them. We can take

the help of Karl Person's Co-efficient of correlation to find correlation between actual deposit and interest expense. The correlation r is 0.9708 this means it is perfectly correlated. Significance of correlation r is tested with probable error (PE) here the $6PE < r$ so the calculation of r is highly significant.

4.9 Interest Income

Interest income is also called as return of LDO which contributes major portion of total revenue mix.

Table: 4.13 Status of Average Cost of Deposit

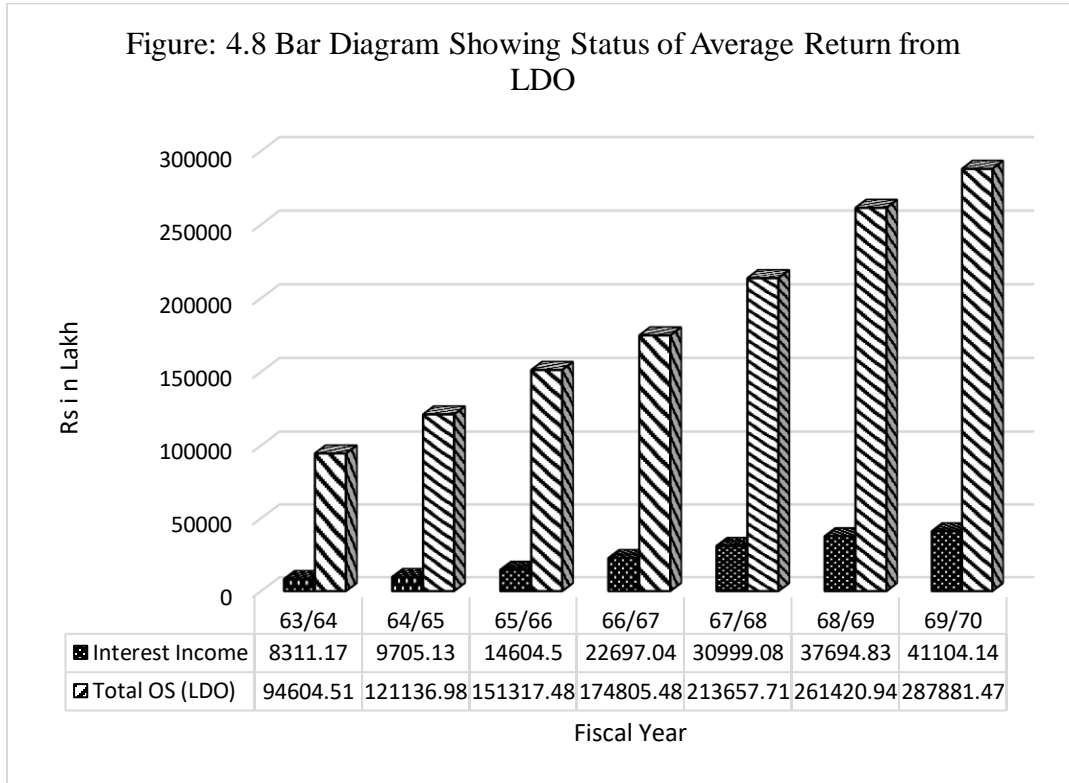
(Rs in Lakh)

Fiscal Year	Interest Income	Total OS (LDO)	Average Rate of Return
63/64	8311.17	94604.51	8.79%
64/65	9705.13	121136.98	8.01%
65/66	14604.5	151317.48	9.65%
66/67	22697.04	174805.48	12.98%
67/68	30999.08	213657.71	14.51%
68/69	37694.83	261420.94	14.42%
69/70	41104.14	287881.47	14.29%

(Source: Annual Report of NSBI from 63/64 to 69/70)

The above table shows the comparative status of interest income with the OS (LDO) and the return on same LDO. The interest income is in fluctuating trend as the LDO has increased whereas the rate of return on LDO is also in fluctuating trend. The range of rate of return lies between 8.01% to 14.51% during the study period. It is effective to analyze the relationship between outstanding LDO and interest income by using the statistical tools to find out the variability of actual LDO and actual income of different years in order to do that there is a need to calculate arithmetic mean, standard deviation coefficient of variation, coefficient of determination and correlation of coefficient. The

detail calculations of these statistical tools are presented in appendix no 6 whereas the summary of calculation is listed below after the bar diagram.



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

Table: 4.14 Summaries of Actual LDO and Interest Income

(Rs in Lakh)

Statistical Tools	Actual LDO (X)	Interest Income (Y)
Mean	186404	23588
Standard Deviation	66247	12354
Coefficient of Variation (CV)	35.54%	52.54%
Correlation of Coefficient (r)	0.9906	
Probable Error (6PE)	0.0423	

(Source: Appendix 6)

The above result shows that actual outstanding LDO is less variable than interest income since CV of LDO is lower than that of interest. There is positive correlation between outstanding LDO and interest income. In other words the interest income increases as the outstanding LDO increase or vice versa. To find the correlation between interest income and actual outstanding LDO we can take the help of Karl person's coefficient of 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 value of rise 0.9906 and 6P.E is 0.0423 since $r > 6PE$ the value of r is significant.

4.10 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 NSBI

Table: 4.15 Movements in Interest Margin

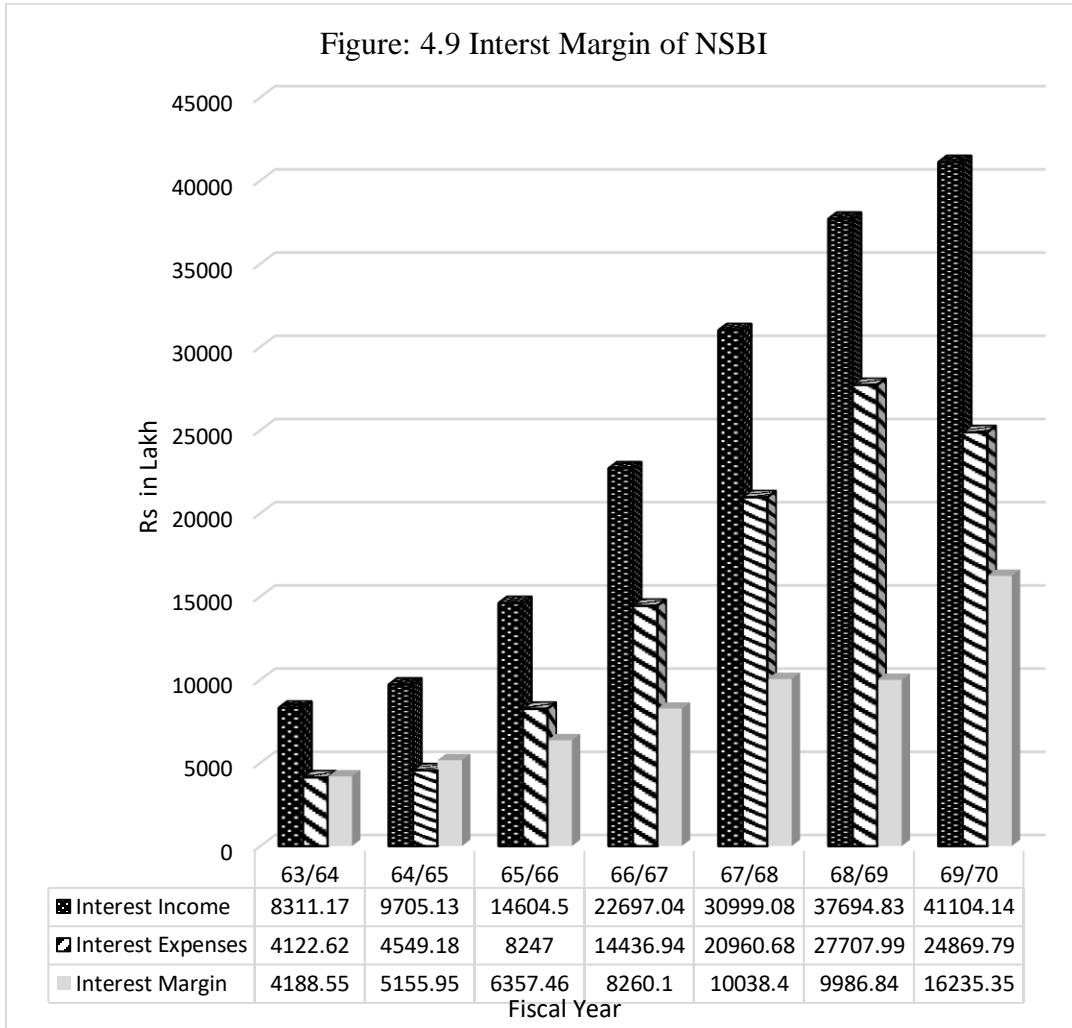
(Rs in Lakh)

Fiscal Year	Int. Income (X)	Int. Expenses (Y)	Int. Margin (X - Y)	Growth in Int. Margin
63/64	8311.17	4122.62	4188.55	-
64/65	9705.13	4549.18	5155.95	23.10%
65/66	14604.5	8247.00	6357.46	23.30%
66/67	22697.04	14436.94	8260.10	29.93%
67/68	30999.08	20960.68	10038.40	21.53%
68/69	37694.83	27707.99	9986.84	0.51%
69/70	41104.14	24869.79	16235.35	62.26%

(Source: Annual Report of NSBI from 63/64 to 69/70)

The above table shows the position of interest margin and its growth throughout the study period. The figure of interest margin is in fluctuating trend every year. The base year to

calculate the interest margin is F/Y 63/64. The position of interest income, interest expenses and interest margin is presented in the bar diagram below:



The above bar diagram is showing the status of interest margin with comparison to interest income and interest expenses of NSBI. The fundamental purpose of this diagram is to show the relationship of interest margin thus it is seen that the trend of interest margin throughout the seven years period is fluctuating.

4.11 Performance Evaluation of NSBI

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 goals. Here different analysis by using various technique and criteria to evaluate performance of NIBL will be incorporated; some of the financial tools which are used are as follows:

4.11.1 Ratio Analysis

“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” (*Pillai, 2000: 1339*). 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 three categories:

1. Liquidity Ratio
2. Leverage Ratio
3. Profitability Ratio

4.11.1.1 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. Current ratio is calculated dividing current assets by current liabilities. The details of current assets and current liabilities are shown on

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

Table: 4.16 Current Ratio of NSBI

(Rs in Lakh)

Fiscal Year	Current Assets (X)	Current Liabilities (Y)	Current Ratio (X / Y)
63/64	13340.78	12437.68	1.07:1
64/65	16840.78	19822.91	0.94:1
65/66	14949.24	11611.31	1.29:1
66/67	38432.56	13283.33	2.89:1
67/68	53944.36	16310.12	3.30:1
68/69	65599.91	21463.68	3.07:1
69/70	93013.71	25113.85	3.70:1

(Source: Appendix 7)

The above table shows the liquidity position of NSBI. Higher the current ratio better the liquidity position, for the many types of business 2:1 is considered to be an adequate ratio. If the current ratio of a firm is less than 2:1, it means the firm has difficulty in meeting its current obligation. If the 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 NSBI has almost met the standard of 2:1. But it is not satisfactory since, in the beginning year it showed higher CL than CA and in later some years it showed less CL than CA. The relationship between current assets and current liabilities is presented in the bar diagram and trend line for further analysis.

Figure: 4.10 Current Assets and Current Liabilities of NSBI

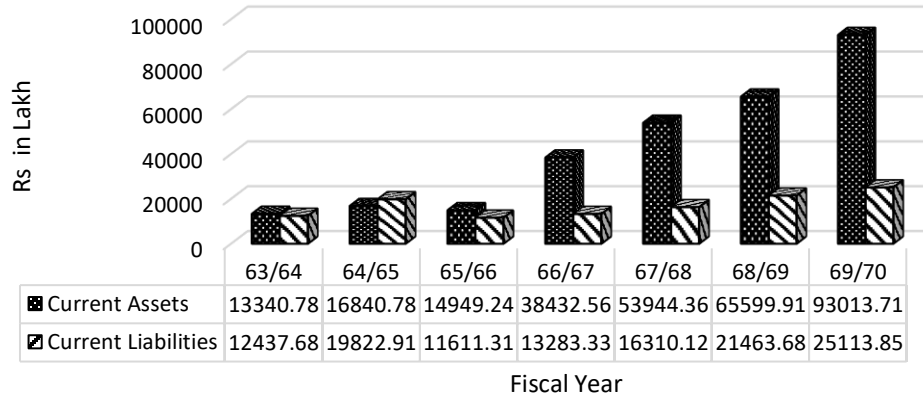
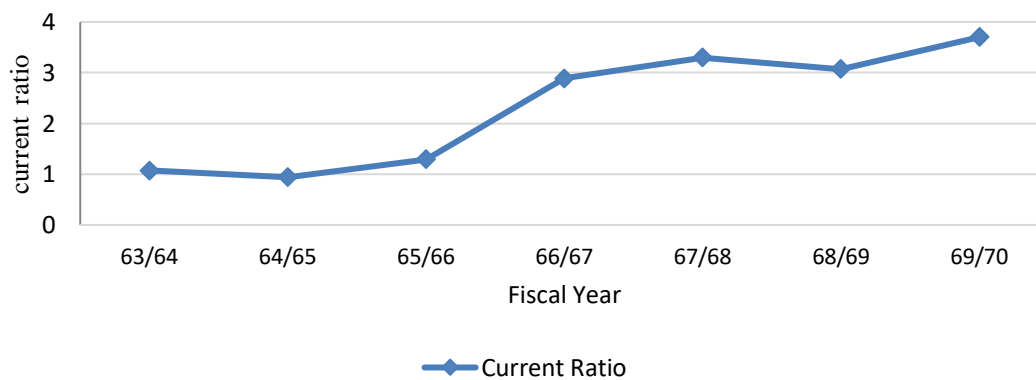


Figure:4.11 trend line of current Ratio of NSBI



Above bar diagram and trend line shows the status of current asset, current liabilities and current ratio of NSBI over the seven years period. By the diagram it is concluded that the position of current assets is higher than the position of current liabilities in every year except 63/64 and 64/65. It means the bank have maintained its liquidity position every year for good performance. The current ratio is higher from fiscal years 66/67 to fiscal years 69/70. The bank is maintaining strong position on Current Raito.

4.11.1.2 Leverage Ratio

The leverage ratio also 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.

1. Debt-Equity Ratio
2. Interest Coverage Ratio

4.11.1.2.1 Debt-Equity Ratio

The relationship between long term debt and shareholder's equity is called debt equity ratio. Debt-Equity ratio measures the long term financial solvency of a business concern. It is calculated by dividing to long term debt by shareholder's equity. The Debt-Equity ratio can be calculated by dividing borrowings with shareholder equity, the details of borrowings and shareholder's equity is shown on appendix8.

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

Table: 4.17 Debt-Equity Ratio of NSBI

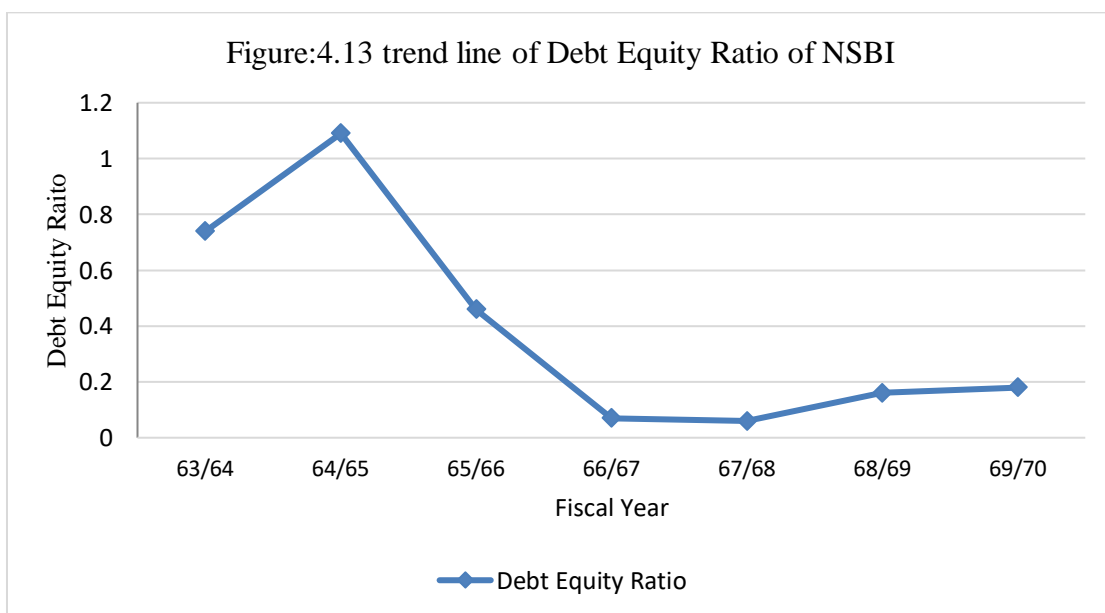
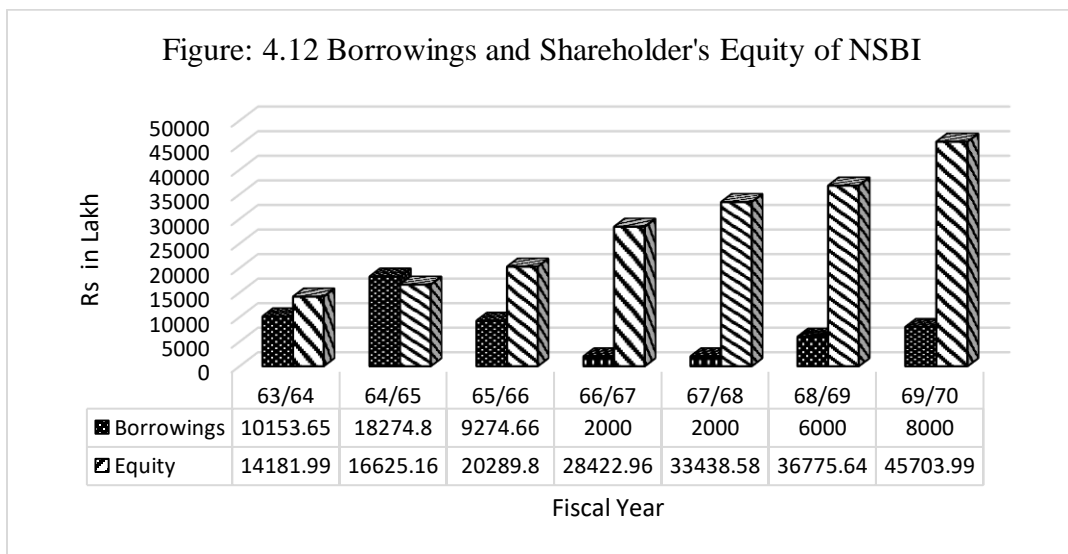
(Rs in Lakh)

Fiscal Year	Borrowings (X)	Shareholder's Equity (Y)	Debt-Equity Ratio (X / Y)
63/64	10153.65	14181.99	0.74:1
64/65	18274.8	16625.16	1.09:1
65/66	9274.66	20289.8	0.46:1
66/67	2000	28422.96	0.07:1
67/68	2000	33438.58	0.06:1
68/69	6000	36775.64	0.16:1
69/70	8000	45703.99	0.18:1

(Source: Appendix 8)

The above table shows the debt equity ratio of NSBI. The column X shows the figure of borrowings and column Y shows the figure of shareholder's equity. By dividing the

column X by Y debt equity ratio is calculated. Here the range of debt equity ratio of NSBI is 0.06:1 to 1.09:1. The trend of debt equity ratio is fluctuating every year. NSBI has high portion of equity than long term debenture whereas for a banking sector fixed deposit is also considered as long term obligation but in above analysis researcher has calculated only borrowing as long-term debt. The above table shows that NSBI's financial strength is strong because it has more internal fund to repay the borrowing capital except 64/65. The figure of long term debt and shareholder's equity is presented for further analysis in the bar diagram and Trend line below.



The above diagram and Trend line shows the status of long term debt, shareholder's equity and Debt equity Ratio. The long term debt is in fluctuating trend and shareholder equity is increasing rapidly over the seven year's period. The position of shareholder equity is higher than the long term debt except 64/65. Fiscal year 65/66 to 69/70 every years shareholder equity is increase but long term debt are goes to decreasing so the bank have efficient fund to pay long-term debt. This indicates that the bank uses more internal fund than external fund. Here the trend of debt equity ratio of NSBI is fluctuating every year.

4.11.1.2 Interest Coverage Ratio (ICR)

ICR measures the capacity to pay interest expenses. This ratio is calculated by dividing net profit before interest and tax (EBIT) by interest cost amount.

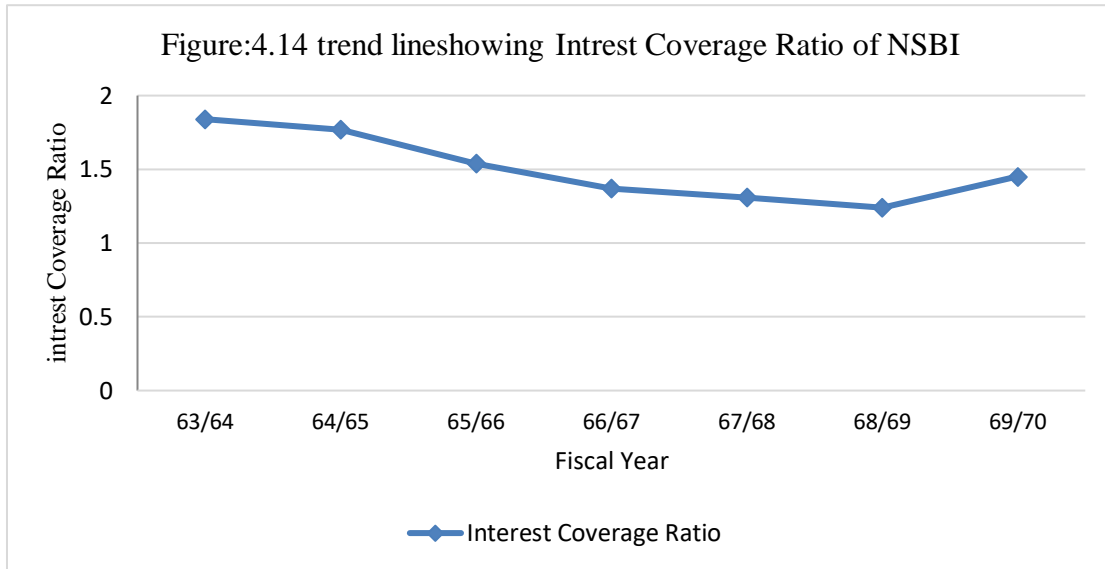
$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest Expenses}}$$

Table: 4.18 Interest Coverage Ratio of NSBI

(Rs in Lakh)

Fiscal Year	EBIT (X)	Interest Expenses (Y)	Times (X / Y)
63/64	7568.52	4122.62	1.84
64/65	8029.52	4549.18	1.77
65/66	12677.32	8247.00	1.54
66/67	19820.56	14436.94	1.37
67/68	27495.37	20960.68	1.31
68/69	34574.53	27707.99	1.24
69/70	35969.38	24869.79	1.45

(Source: Annual Report of NSBI from 63/64 to 69/70)



The above table and trend line shows the position of interest coverage ratio (ICR) of NSBI. The ICR is 1.84 times in F/Y 63/64 this means EBIT is 1.84 times more than interest expenses. Likewise the ICR reached to 1.77 times in F/Y 64/65. This result represents the NSBI has fluctuation its EBIT. Again the rate increased to 1.54 in F/Y 65/66, 1.37 in 66/67, 1.31 in 67/68 but it decreased in 68/69 and 69/70. The interest coverage ratio of NSBI ranges between 1.24 to 1.84 times. It means that the bank is capable to pay the interest expenses.

4.11.1.3 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 the NSBI's profitability by calculating total assets and total capital fund to net profit. It is computed by dividing net profit by total assets and net profit to total capital fund.

$$\text{Return on Assets Ratio} = \frac{NPAT}{\text{Total Assets}}$$

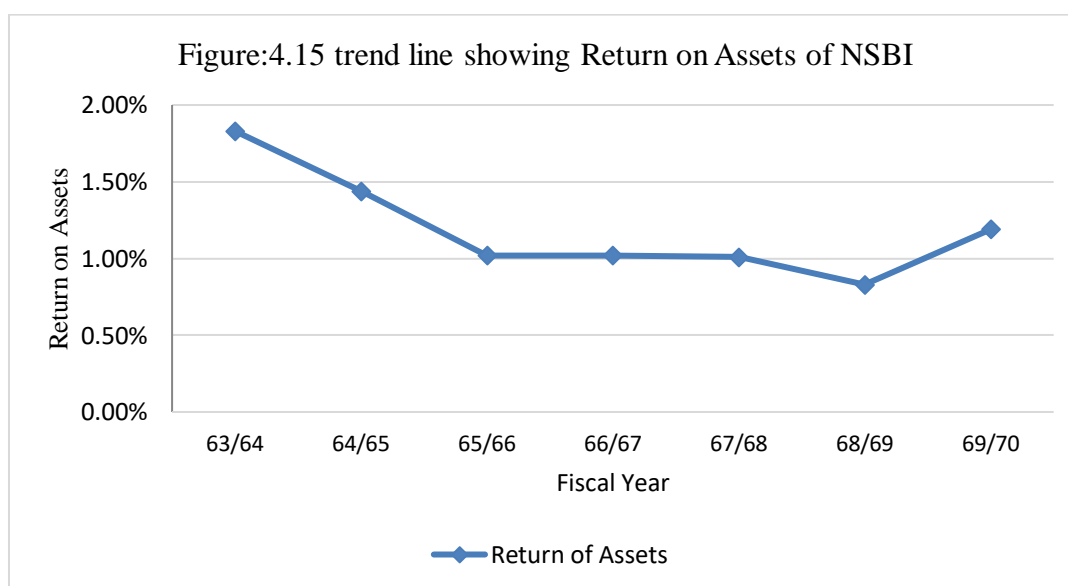
$$\text{Return on Capital Ratio} = \frac{\text{NPAT}}{\text{Total Capital Fund}}$$

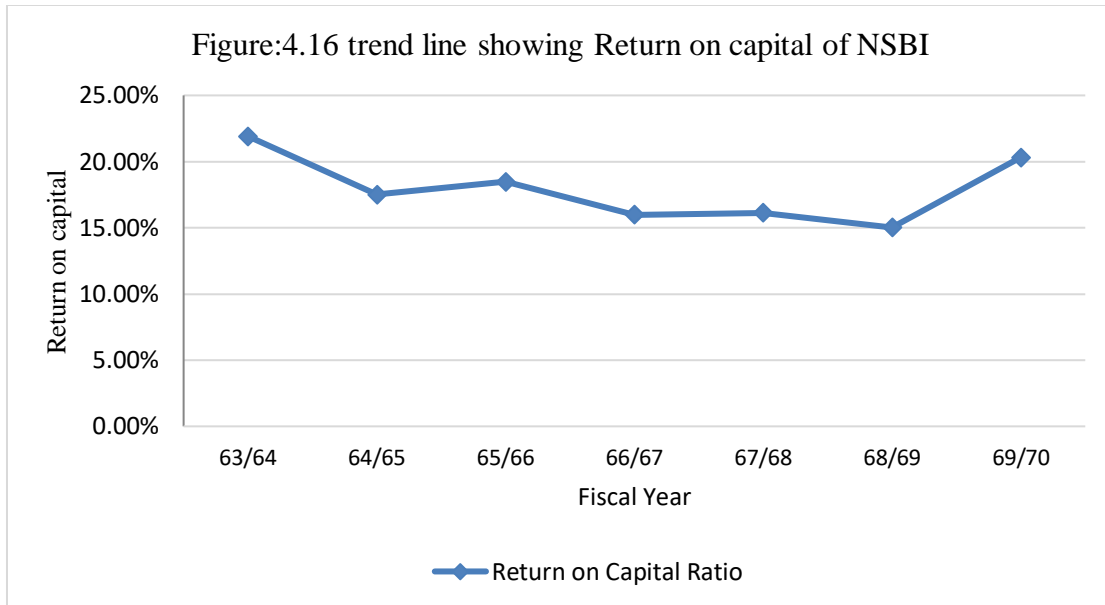
Table: 4.19 Return on assets and return on capital Ratio of NSBI

(Rs in Lakh)

F/Y	Net Profit After Tax (A)	Total Assets (B)	Return on Assets (C=A/B)	Total Capital Fund (D)	Return on Capital (E=A/D)
63/64	2549.09	139012.01	1.83%	11632.91	21.91%
64/65	2477.71	171874.46	1.44%	14146.45	17.51%
65/66	3163.73	301664.82	1.02%	17126.07	18.47%
66/67	3917.42	380476.79	1.02%	24505.54	15.99%
67/68	4645.65	460882.33	1.01%	28792.93	16.13%
68/69	4801.05	580597.07	0.83%	31974.59	15.02%
69/70	7714.41	647961.52	1.19%	37989.57	20.31%

(Source: Annual Report of NSBI from 63/64 to 69/70)





The above table and trend lines show the status of return on assets and return on capital employed of NSBI. 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 in a fluctuating trend and it ranges between 0.83% to 1.83% throughout the seven-year period. Likewise, the return on capital ratio shows the relation of net profit with the capital employed. The range of return on capital employed is 15.02% to 21.91% and it is also in a fluctuating trend through seven years of study period.

4.12 Cash Flow Analysis

Cash flow planning or cash budget is not an expense budget, but it is a plan of cash flow, it provides relevant information about the cash receipt and cash payment of enterprises during a period. Information about enterprise cash flow is useful in assigning its liquidity, financial flexibility, profitability and risk. Planning of cash flow indicates the needs for financing probable cash deficit. The need of investment planning to put excess cash for profitable use. Cash budget is prepared with the help of other financial budget such as sales, plan account receivable and expenditure.

The major sources of cash flows of NSBI are the collection of deposits from the customers and the other sources are income from interest income from exchange money, increase by

issuing shares, loan received from other person. The main place of cash flow is the capital expenditure, administrative expenses, interest payment of Loan, Loan reimbursement advance to the staff and inventory.

Table: 4.20 Cash Flow Statement of NSBI

(Rs in Lakh)

Particular	63/64	64/65	65/66	66/67	67/68	68/69	69/70
Cash flow from Operating activities	4540.21	2377.70	684.23	18843.45	15068.36	64251.33	20607.34
Cash flow from Investing Activities	(148.21)	(224.65)	(2235.40)	(2538.07)	(1282.3)	(4071.7)	(6024.76)
Cash flow from Financing Activities	75.62	2667.29	138.01	636.85	576.39	3920.21	2000
Income/loss from change in exchange rate cash and bank	21.03	94.62	(52.05)	(27.01)	31.60	31.96	45.34
Current years Cash Flow from all Activities	45.32	2202.70	(1665.21)	22648.22	14365.65	6305.57	22050.20
Opening Balance of Cash and Bank	11181.58	11226.90	13429.60	11764.39	34412.61	48778.25	55683.82
Closing balance of cash and Bank	11226.90	13429.60	11764.39	34412.61	48778.25	55083.82	77134.03

(Sources: Annual Report of 63/64 to 69/70 of NSBI)

From the above cash flow statement we can say the closing balance of cash and bank is positive every years and it is increasing every years expected 65/66. Cash flow from operating activities which shows the strong or weak position of organization is positive in fiscal year 2063/64 to 69/70 expected 2065/66.

4.13 Trend analysis

Under this topic, trend analysis of Total Deposit, Loan and Advance, Total Assets and Net profit of NSBI is shunted during the period. The objectives of this topic are to

forecast the total Deposit, Assets, Loan and Advance and Net Profit for the next five years. The projected are based on the flowing assumptions.

- The bank will run in the present style
- NRB and Government of Nepal will not make any amendments in the guideline for the operation of commercial banks
- Other all thing also reaming unchanged

4.12.1 Trend analysis of Total Deposit of NSBI

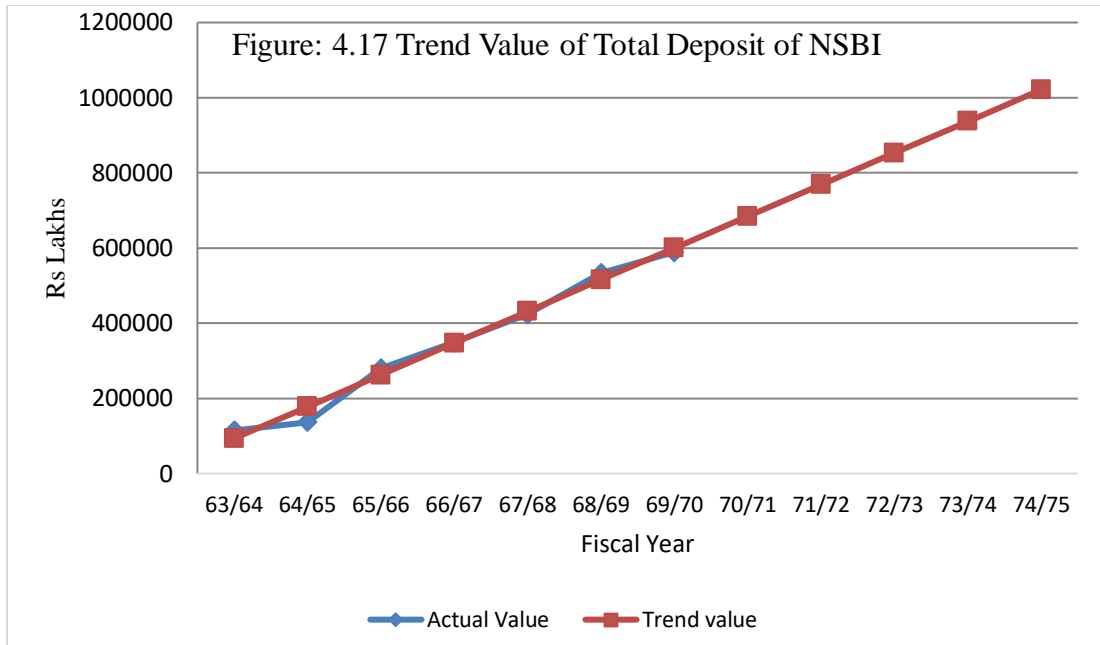
For the analysis purpose the trend value of deposit for seven years from 2062/63 to 68/69 calculated in Appendix 9 which present in the table below and forecasted for next five years till 2073/74. The following table shows the trend value of 12 years from 062/63 to 73/74 of NSBI.

Table: 4.21 Actual Value and Trend Value of Total Deposit

(Rs in Lakh)

Fiscal years	X	Actual Value	Trend Value
63/64	-3	114452.86	93702.69
64/65	-2	137153.95	178033.93
65/66	-1	279572.21	262365.17
66/67	0	348964.24	346696.41
67/68	1	424154.43	431027.65
68/69	2	533372.64	515358.89
69/70	3	589204.56	599690.13
70/71	4	-	684021.37
71/72	5	-	768352.61
72/73	6	-	852683.85
73/74	7	-	937015.09
74/75	8	-	1021346.33

(Sources appendix-09)



The table 4.20 and figure 1.17 shows the trend value of total deposit from 2063/64 to 2074/75 of the bank. Since the calculated value of 'b' is positive. It means the bank's deposit is increasing with time. If other things remaining the same, it shows that revenue is increasing by Rs 'b' value (84331.24) in every year and it will be Rs 1021346.33 in the fiscal year 2074/75.

4.12.2 Trend Analysis of Loan and Advance of NSBI

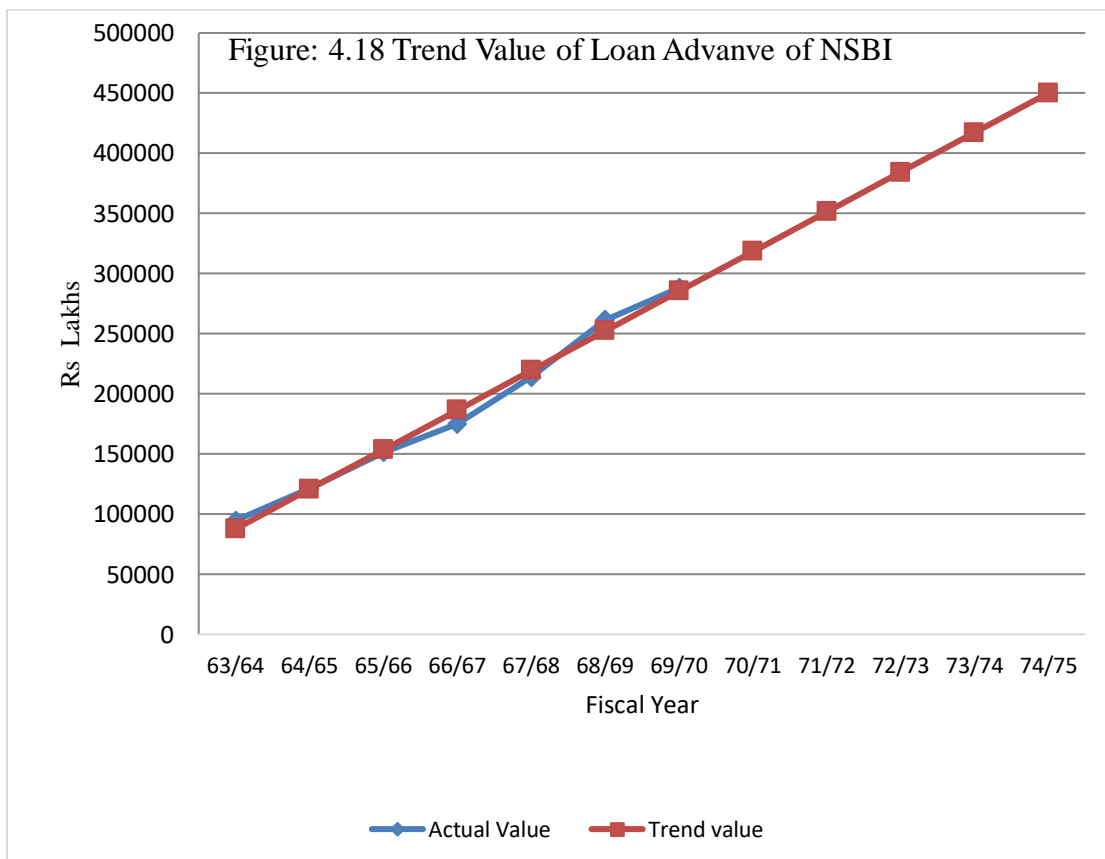
Under the topic on effort has been made to calculate the trend value of Loan and Advance of NSBI for a study period of less than seven years and project the trend for the next five years. The following table shows the trend value of Loan and Advance of NSBI.

Table: 4.22 Actual Value and Trend Value Loan and Advance

(Rs in Lakh)

Fiscal years	X	Actual Value	Trend value
63/64	-3	94604.51	87538.64
64/65	-2	121136.98	120493.6
65/66	-1	151317.48	153448.56
66/67	0	174805.48	186403.52
67/68	1	213657.71	219358.48
68/69	2	261420.94	252315.44
69/70	3	287881.47	285268.40
70/71	4	-	318223.36
71/72	5	-	351178.32
72/73	6	-	384133.28
73/74	7	-	417088.24
74/75	8	-	450043.20

(Sources appendix-10)



The table 4.21 and figure 1.18 shows the trend value of Loan and Advance from 2063/64 to 2074/75 of the bank. Since the calculated value of 'b' is positive. It means the bank's loan and advance is increasing with time. If other things remaining the same. It shows that revenue increasing by Rs 'b' value (32954.96) in every year and it will be Rs 450043.20 in the fiscal year 2074/75.

4.12.3 Trend analysis of Total Assets

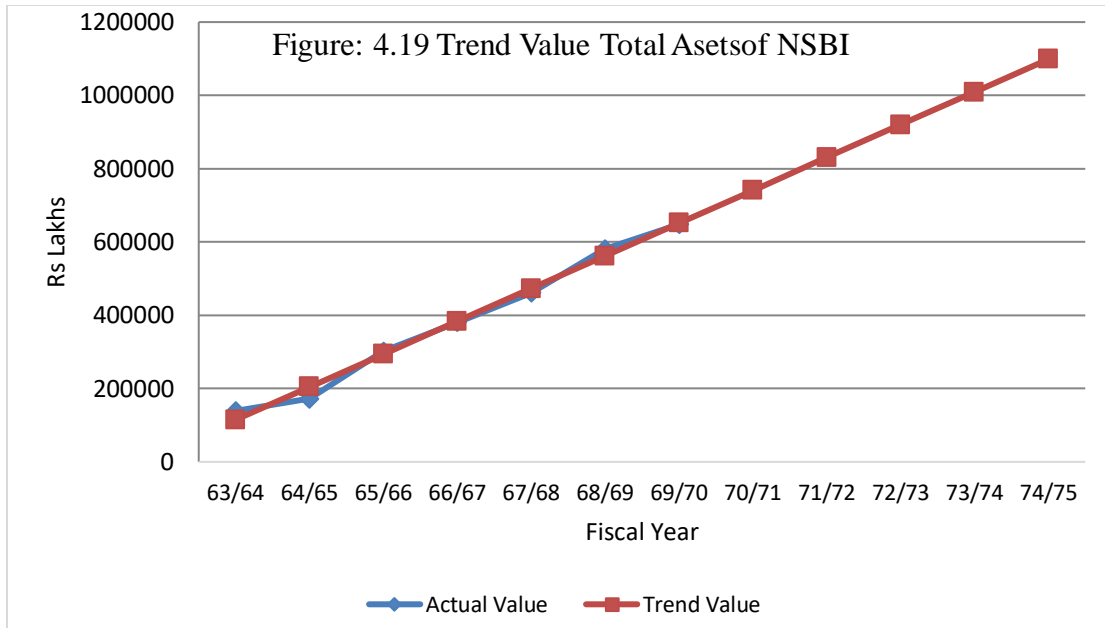
Under the topic on effort has been made to calculate the trend value of Total Assets of NSBI under seven years study period and projected the trend for next five years. The following table shows the trend value of Total Assets of NSIB.

Table: 4.23 Trend Value Total assets

(Rs in Lakh)

Fiscal years	X	Actual Value	Trend values
63/64	-3	139012.01	114976.41
64/65	-2	171874.46	204387.54
65/66	-1	301664.82	293798.67
66/67	0	380476.79	383209.80
67/68	1	460882.33	472620.93
68/69	2	580597.07	562032.06
69/70	3	647961.52	651443.19
70/71	4	-	740854.32
71/72	5	-	830265.45
72/73	6	-	919676.58
73/74	7	-	1009087.71
74/75	8	-	1098498.84

(Sources appendix-11)



The table 4.22 and figure 1.19 shows the trend value of Total Assets from 2063/64 to 2074/75 of the bank. Since the calculated value of 'b' is positive. It means the bank's deposit is increasing with time. If other things remaining the same. It shows that revenue is increasing by Rs 'b' value (89411.13) in every year and it will be Rs 1098498.84 in the fiscal year 2074/75. By analysis of the above trend value, it is found that the Total Assets position is better in next years.

4.12.4 Trend analysis of Net Profit

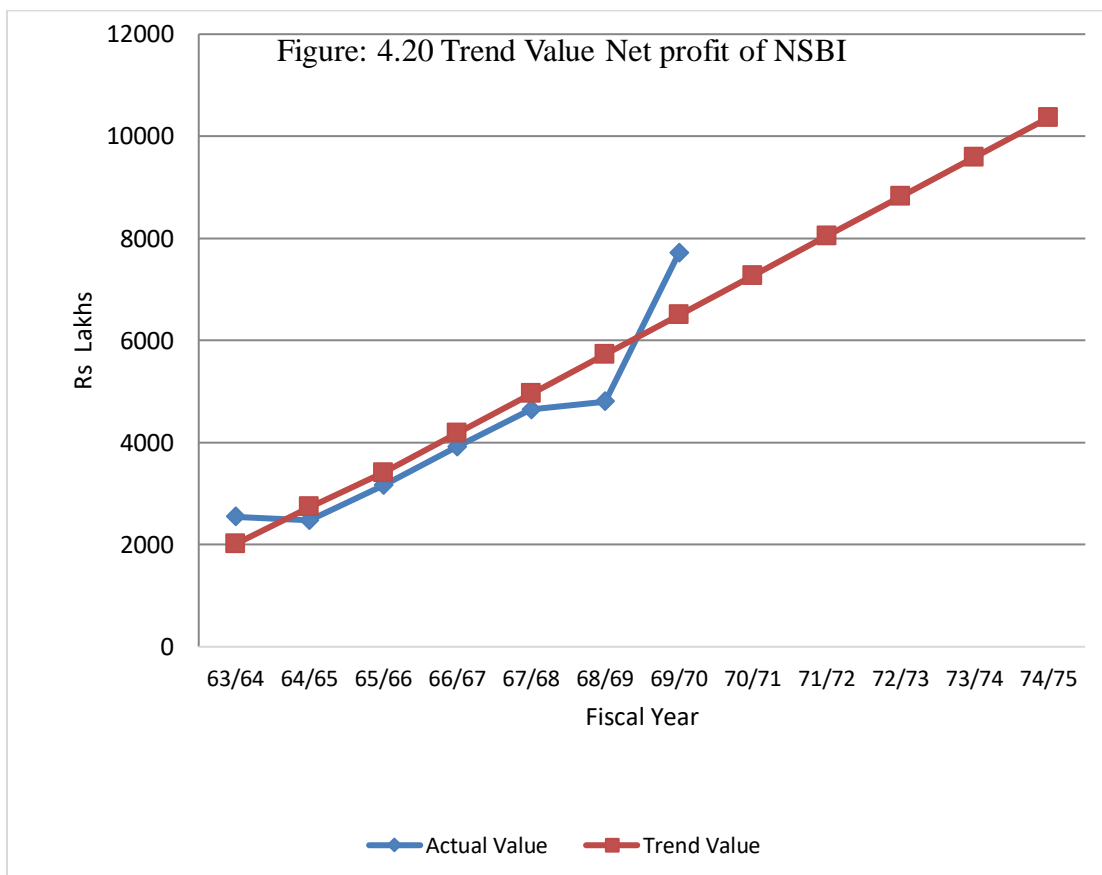
Under the topic on effort has been made to calculate the trend value of Net Profit of NSBI for less than seven years study period and projected the trend for next five years. The following table shows the trend value of Net Profit of NSIB.

Table: 4.24 Trend Values of Net Profit

(Rs in Lakh)

Fiscal Years	X	Actual Value	Trend Values
63/64	-3	2549.09	2014.39
64/65	-2	2477.71	2736.69
65/66	-1	3163.73	3408.70
66/67	0	3917.42	4181.29
67/68	1	4645.65	4953.59
68/69	2	4801.05	5725.89
69/70	3	7714.41	6498.19
70/71	4	-	7270.49
71/72	5	-	8042.79
72/73	6	-	8815.03
73/74	7	-	9587.39
74/75	8	-	10359.69

(Sources appendix-12)



The table 4.23 and figure 1.20 shows the trend value of Total Assets from 2063/64 to 2074/75 of the bank. Since the calculated value of 'b' is positive. It means the bank's deposit is increasing with time. If other things remaining the same. It shows that revenue is increasing by Rs 'b' value (772.30) in every year and it will be Rs 10359.69 in the fiscal year 2074/75. By analysis of the above trend value, it is found that the Net profit position is better in next year's.

4.13 Major Findings of the Study

1. The bank has 90% average contribution of customer deposit in the resources mobilization as per the data F/Y 63/64 to 69/70 and uses the other resources of 10% in average.
2. NSBI is well performing in the deposit collection sector. Actual deposit is almost to the budgeted figure. It is found (r) is 0.8879 and PE is 0.0539. The figure of 'r' shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of PE with r is $r > 6PE$ (0.3231), it is significant so the actual deposit is going on same direction.
3. The statistical tool CV represents that NSBI's budgeted LDO is of variable nature than actual LDO. The correlation between budgeted and actual LDO is 0.9922 it means the relation between budgeted and actual LDO are high and the degree of positive correlation exists. Significance of r is tested with PE there is $r > 6PE$ this means the value of r is more significant. So it is not doubtful that actual LDO will go on same direction like that of budgeted LDO.
4. Almost 100 % of achievement of targets in deployment of resources other than LDO i.e. NLDO has been tracked. The correlation between budgeted and actual NLDO is 0.9972 it means the relation between budgeted and actual NLDO are high and the degree of positive correlation exists. Significance of r is tested with PE there is $r > 6PE$ this means the value of r is more significant. So it is not doubtful that actual NLDO will go on same direction like that of budgeted NLDO.
5. LDO is in fluctuating trend over the period. Although the average ratio of LDO to deposit is 72%.

6. The relationship between actual deposit and actual outstanding LDO is in fluctuating trend over the period.
7. 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 5.19% it means the bank pays the interest 4.07 % in average over the period.
8. The yearly interest income is in fluctuating trend in amount where the outstanding LDO is increasing. In the term of average rate of return it is also seen to be in fluctuating trend as it ranges from 8.01% to 14.51%. The average rate of return over the study period is 11.26%.
9. The amount of interest margin of NSBI is in fluctuating trend where the increment percentage is also in fluctuating trend over the study period.
10. The current ratio of NSBI has almost met the standard of 2:1 but not in well position in 2063/64 to 65/66 but fiscal years 2066/67 to 69/70 of current ratio is very well position.
11. 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 64/65.
12. The interest coverage ratio of NSBI ranges between 1.24 to 1.84 times. It means the bank sufficiently capable to pay the interest expenses.
13. The range of return on total assets is 0.83% to 1.83% and range of return of total capital fund is 15.02% to 21.91% over the period.
14. The cash flow statement, the closing balance of bank and cash is positive and increasing every year expected 65/66.
15. The trend analysis of Total deposit, Loan and Advance, Total Assets and Net Profit shows the increasing trend thought the study period and the forecasting in next five years has also seem increasing.
16. NSBI has been making policy, plan budget and program by using planning team of the bank which in up to branch level.
17. The bank has skilled and qualified employee and catering services in various sectors.
18. The bank has able to maintain proper empress by optimum utilization of available resources which help to generate more profit.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is focused on the findings and conclusions obtained from the study of “Profit Planning and Control: A case Study of Nepal SBI 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 whereas, the third section proposes the suggestions to the problems observed on the basis of the findings.

5.1 Summary

Nepal is a developing country, which started its economic development plans and policies more than four decades ago and has adopted the economic development plans through liberalization recently. The policy of liberalization that the government adopted after restoration of democracy in 1990 calls for primitive and facilitative role of the government together with its strict regulatory functions. The subject matter of economic development has been limited due to variety of geographical structural and economic constraints.

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 contributing 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 resources for the purpose of liquidity, lending and investing in securities. So the overall profitability of bank depends on lending procedure, lending policy and investment policy. The main objective of the study is to evaluate the budgeting and profit planning system of NSBI. The study is mostly based on secondary data and required data have been collected by using various sources. There are 31 commercial banks operating in Nepal which are taken as population

of the study among them NSBI has been taken as a sample of the study and collected data has been analyzed by using various statistical and financial tools.

NSBI is one of the well-established commercial bank in Nepal. NSBI is able to maintain its position as a market leader in the banking sector and there is ongoing effort and commitment in enhancing its financial position. The main target of the study is to examine to budget and profit plan procedure system of NSBI. This study is based on secondary data and collected through various sources. The collected data have been only using various statically tool, financial tool and variance. The above examine show data the collection from customers deposit is the main sources of capital formation in the NSBI. The key sources of income in the NSBI are interest income which generate by appropriate consumption of available sources. Threats from the external environment like, unstable political situation, high inflation and unfavorable government policies have made problems for the development of the bank. The NSBI has been making successful performance since its established despite of unfavorable and competition banking sectors.

5.2 Conclusion

On the basis of major findings of study some conclusion has been drawn about the NSBI. Profit planning and controlling system of NSBI 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. NSBI is increasing its internal fund by increasing capital year by year this means they are strengthening their capability internally. NSBI is almost able to meet its targeted deposit collection, deployment of LDO. The relationship between budgeted and actual figures is positively correlated. Then on-fund consuming business of NSBI is also remarkable since it gives the return to bank without investing the fund. The average cost of deposit (COD) of bank is normal it means the bank is able to collect cost free deposit. The major income source is interest margin the trend of interest margin is in increasing trend every year. The liquidity position of NSBI is in better position since bank has maintained the cash and bank balance to meet the current obligations. The financial strength of NSBI is strong since debt equity ratio shows that the NSBI use more internal fund to repay its borrowings. The return on assets and return on capital is satisfactory of

NSBI it shows the good earning capacity of the bank. The result of the study shows the overall performance of NSBI is satisfactory and progressive. Finally it's all activities are quite different in year 69/70 due to its branch expansion. Deposit seems high, LDO also high, and the expenses and assets also in the high range.

Nepal SBI 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. NSBI has lack of clear cut mission and goals of the company inadequate coordination between departments, unnecessary interference of the governing board in the functioning organization. The bank is facing competition from increasing number of financial institution these years. These had led to substantial decrease in interest rates in the market thus attributing to lower yield. But NSBI has strength of highly experience staff at the top level to down level with extensive exposure in international banking environment.

- Huge volume of business origination from successful businessman of Indian origin.
- Extensive network of Branches Company in India of its parent company State Bank of India.
- Very friendly and cordial ties between Nepal and India in all aspects.
- Increasing volume in cross border trade between India and Nepal.

5.3 Recommendations

The researcher would like to provide some suggestion for the better improvement of bank in future. These recommendations are based on the study on profit planning of NSBI.

- Nepal's accession to the WTO would permit international banks to operate in Nepal so NSBI need to make their business plan and strategy accordingly which can convert challenges into opportunities.
- Financial institutions are increasing day by day in Nepal and with its growth the competition with other banks is high so NSBI should make some policy to keep its position as before among the Nepalese financial institutions.
- NSBI should be conscious about the factors affecting the business like global economic crisis, existing abnormal situation, political uncertainty etc. and give more attention to improve technological resources.

- Every business concerns have their own obligation i.e. corporate social responsibility so NSBI needs more involvement in social activities in the coming days.
- NSBI's major source of resources collection is deposit since this is the cost bearing sources the bank should increase cost free resources too, thereby 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 does not have an access to banking facilities so NSBI 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 affect Nepalese financial sectors too so NSBI should make some policy to be safe from this crisis.
- In the light of growing competition in the banking sectors the business of the bank customer orient. It should strength and active its marketing function as it's on effective tool of attracting and retains customers. The bank should develop on innovation approach to bank marketing and formulate new stage of servicing customers in a more convenient way.
- Nepal Ratra Bank are allowed to bank operative Branches less banking in Nepal so banks need to make their business plan and strategy accordingly which can challenge into opportunities.
- Continue depiction of Nepali rupee against US dolar is another factor affecting credit flow, especially to the trading business. Importers are in wait and see modes. In this situation to increase credit flow NSBI should make innovation credit flow plan to ensure high return to the importer.
- NSBI should be concise about to convert threats of external environment into opportunities.

- The bank should be mechanism made for the purpose of active mission, vision and goal.
- Investment in the safe sector to utilize to the fund. It does not increase any losses.
- The bank should improve and change their servicing and operational behavior and should invite modern technologies accorded to the situation.
- The government before issuing license of the commercial banks should make a market study for the background and reputation of the people establishment bank.

The studies report is accomplished with the above maintain major finding, summary, conclusion and recommendations.

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APPENDIX

Appendix-1

Calculation of correlation between budget Deposit and Actual Deposit

(Rs in lakh)

F/Y	Budgeted Deposit (X)	Actual Deposit (Y)	x = X - \bar{X}	y = Y - \bar{Y}	x ² (00000)	y ² (00000)	Xy (00000)
63/64	118089	114453	-235215	-232244	553262.99	539370.67	314029.11
64/65	140173	137154	-213131	-209542	454250.06	439080.43	446600.84
65/66	280250	279572	-73054	-67124	53369.50	45056.58	49037.20
66/67	350650	348964	-2654	2268	70.46	51.43	60.20
67/68	430588	424154	77284	77458	59727.50	59997.45	59862.32
68/69	550728	533372	197424	186676	389760.66	348480.15	368542.88
69/70	602753	589205	249449	242508	622245.89	588102.03	604933.11
Total	$\sum X =$ 2473231	$\sum Y =$ 2426874	$\sum x = 0$	$\sum y = 0$	$\sum x^2 =$ 2132687.06	$\sum y^2 =$ 2020138.74	$\sum xy =$ 1843065.66

$$\bar{X} = \frac{\sum X}{N} = \frac{2473231}{7} = 353304$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{2426874}{7} = 346696$$

$$\sigma_x = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2} = \sqrt{\frac{2132687.06}{7}} = \sqrt{304669.58 \times 100000} = 174547$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{N} - \left(\frac{\sum y}{N}\right)^2} = \sqrt{\frac{2020138.74}{7}} = \sqrt{288591.25 \times 100000} = 169880$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{1843065.66}{\sqrt{2132687.06} \times \sqrt{2020138.74}} = 0.8879$$

$$CV_x = \frac{\sigma}{\bar{X}} = \frac{174547}{353304} = 49.40\%$$

$$CV_y = \frac{\sigma}{\bar{Y}} = \frac{169880}{346696} = 49\%$$

$$P.E = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.8879^2}{\sqrt{7}} = 0.0539$$

$$6PE = 6 \times 0.0539 = 0.3231 \quad (r > 6PE)$$

Appendix-2

Calculation of correlation between budget LDO and Actual LDO

(Rs in lakh)

F/Y	Budgeted LDO (X)	Actual LDO (Y)	x = X - \bar{X}	y = Y - \bar{Y}	x ² (00000)	y ² (00000)	xy(00000)
63/64	105832	94605	-97096	-91799	94276.33	84271.35	89133.57
64/65	149134	121137	-53794	-65267	28937.94	42597.84	35109.74
65/66	175282	151317	-27646	-35087	7643.01	12310.64	9700.02
66/67	203125	174805	197	-11599	0.39	1345.57	22.85
67/68	218724	213658	15796	27254	2495.14	7427.65	4304.99
68/69	270152	261421	67224	75017	45190.66	56275.41	50429.39
69/70	298248	287881	95320	101477	90859.02	102977.32	96728.32
Total	$\sum X =$ 1420497	$\sum Y =$ 1304824	$\sum x = 0$	$\sum y = 0$	$\sum x^2 =$ 269402.49	$\sum y^2 =$ 307205.78	$\sum xy =$ 285428.88

$$\bar{X} = \frac{\sum X}{N} = \frac{1420497}{7} = 202928$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{1304824}{7} = 186404$$

$$\sigma_x = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2} = \sqrt{\frac{269402.49}{7}} = \sqrt{38468.07 \times 100000} = 62037$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{N} - \left(\frac{\sum y}{N}\right)^2} = \sqrt{\frac{3070205.78}{7}} = \sqrt{43886.54 \times 100000} = 66247$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{285428.88}{\sqrt{269402.49} \times \sqrt{3070205.78}} = 0.9922$$

$$CV_x = \frac{\sigma}{\bar{X}} = \frac{62037}{202928} = 30.57\%$$

$$CV_y = \frac{\sigma}{\bar{Y}} = \frac{66247}{186404} = 35.54\%$$

$$P.E = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.9922^2}{\sqrt{7}} = 0.0039$$

$$6PE = 6 \times 0.0039 = 0.0237 \quad (r > 6PE)$$

Appendix-3

Calculation of correlation between budget NLDO and Actual NLDO

(Rs in lakh)

F/Y	Budgeted NLDO (X)	Actual NLDO (Y)	x = X - \bar{X}	y = Y - \bar{Y}	x ² (00000)	y ² (00000)	xy(00000)
63/64	56000	44408	-153857	-153451	236719.76	235470.56	236094.34
64/65	58000	50737	-151857	-147121	230605.48	216444.50	223412.82
65/66	160000	157849	-49857	-40009	24857.20	16006.98	19947.14
66/67	215000	205508	5143	7650	264.50	585.21	393.43
67/68	260000	247245	50143	49387	25143.20	24390.40	24763.94
68/69	340000	319176	130143	121318	169372.00	147180.91	157887.07
69/70	380000	360080	170143	162222	289468.40	263159.94	276009.46
Total	$\sum X =$ 1469000	$\sum Y =$ 1385002	$\sum x = 0$	$\sum y = 0$	$\sum x^2 =$ 976430.54	$\sum y^2 =$ 903238.50	$\sum xy =$ 938508.20

$$\bar{X} = \frac{\sum X}{N} = \frac{1469000}{7} = 209857$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{1385002}{7} = 197858$$

$$\sigma_x = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2} = \sqrt{\frac{976430.54}{7}} = \sqrt{139490.08 \times 100000} = 118106$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{N} - \left(\frac{\sum y}{N}\right)^2} = \sqrt{\frac{903238.50}{7}} = \sqrt{129034.07 \times 100000} = 113593$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{938508.20}{\sqrt{976430.54} \times \sqrt{903238.50}} = 0.9972$$

$$cv_x = \frac{\sigma}{\bar{X}} = \frac{118106}{209857} = 56.28\%$$

$$cv_y = \frac{\sigma}{\bar{Y}} = \frac{113593}{197858} = 57.41\%$$

$$P.E = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.9972^2}{\sqrt{7}} = 0.0014$$

$$6PE = 6 \times 0.0014 = 0.0086 \quad (r > 6PE)$$

Appendix-4

Calculation of correlation between Actual Deposit and Actual LDO

(Rs in lakh)

F/Y	Actual Deposit (X)	Actual LDO (Y)	x = X - \bar{X}	y = Y - \bar{Y}	x ² (00000)	y ² (00000)	xy(00000)
63/64	114453	94605	-232244	-91799	553262.99	84271.35	213198.26
64/65	137154	121137	-209542	-65267	454250.06	42597.84	136762.12
65/66	279572	151317	-67124	-35087	53369.50	12310.64	23551.55
66/67	348964	174805	2268	-11599	70.46	1345.57	263.03
67/68	424154	213658	77458	27254	59727.50	7427.65	21110.18
68/69	533372	261421	186676	75017	389760.66	56275.41	140038.80
69/70	589205	287881	242508	101477	622245.89	102977.32	246091.14
Total	$\sum X = 2426874$	$\sum Y = 1304824$	$\sum x = 0$	$\sum y = 0$	$\sum x^2 = 2020138.74$	$\sum y^2 = 307205.78$	$\sum xy = 681015.08$

$$\bar{X} = \frac{\sum X}{N} = \frac{2426874}{7} = 346696$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{1304824}{7} = 186404$$

$$\sigma_x = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2} = \sqrt{\frac{2020138.74}{7}} = \sqrt{288591.25 \times 100000} = 169880$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{N} - \left(\frac{\sum y}{N}\right)^2} = \sqrt{\frac{307205.78}{7}} = \sqrt{43886.54 \times 100000} = 66247$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{681015.08}{\sqrt{2020138.74} \times \sqrt{307205.78}} = 0.8645$$

$$CV_x = \frac{\sigma}{\bar{X}} = \frac{169880}{346696} = 49\%$$

$$CV_y = \frac{\sigma}{\bar{Y}} = \frac{66247}{186404} = 35.54\%$$

$$P.E = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.8645^2}{\sqrt{7}} = 0.0643$$

$$6PE = 6 \times 0.0643 = 0.3858 \quad (r > 6PE)$$

Appendix-5

Calculation of correlation between Actual Deposit and Interest Expenses

(Rs in lakh)

F/Y	Actual Deposit (X)	Interest Expenses (Y)	x = X - \bar{X}	y = Y - \bar{Y}	x ² (00000)	y ² (00000)	xy (00000)
63/64	114453	4123	-232244	-10863	553262.99	1179.89	25226.92
64/65	137154	4549	-209542	-10436	454250.06	1089.04	21867.24
65/66	279572	8247	-67124	-6738	53369.50	453.99	4522.75
66/67	348964	14437	2268	-548	70.46	3.00	12.42
67/68	424154	20961	77458	5976	59727.50	357.10	4628.73
68/69	533372	27708	186676	12723	389760.66	1618.77	23751.00
69/70	589205	24870	242508	9885	622245.89	977.11	23971.69
Total	$\sum X =$ 2426874	$\sum Y =$ 104895	$\sum x = 0$	$\sum y = 0$	$\sum x^2 =$ 2020138.74	$\sum y^2 =$ 5678.90	$\sum xy =$ 103980.75

$$\bar{X} = \frac{\sum X}{N} = \frac{2426874}{7} = 346696$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{104895}{7} = 14985$$

$$\sigma_x = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2} = \sqrt{\frac{2020138.74}{7}} = \sqrt{288591.25 \times 100000} = 169880$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{N} - \left(\frac{\sum y}{N}\right)^2} = \sqrt{\frac{5678.90}{7}} = \sqrt{811.27 \times 100000} = 9007$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{103980.75}{\sqrt{2020138.74} \times \sqrt{5678.90}} = 0.9708$$

$$CV_x = \frac{\sigma}{\bar{X}} = \frac{169880}{346696} = 49\%$$

$$CV_y = \frac{\sigma}{\bar{Y}} = \frac{9007}{14985} = 60.11\%$$

$$P.E = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.9708^2}{\sqrt{7}} = 0.0145$$

$$6PE = 6 \times 0.0145 = 0.0878 (r > 6PE)$$

Appendix-6

Calculation of correlation between LDO and Interest Income

(Rs in lakh)

F/Y	Actual LDO (X)	Interest Income (Y)	x = X - \bar{X}	y = Y - \bar{Y}	x ² (00000)	y ² (00000)	xy(00000)
63/64	94605	8311	-91799	-3178	84271.35	2333.87	14024.13
64/65	121137	9705	-65267	2939	42597.84	1927.38	9061.02
65/66	151317	14605	-35087	-2091	12310.64	806.94	3151.87
66/67	174805	22697	-11599	-788	1345.57	7.94	103.35
67/68	213658	30999	27254	436	7427.65	549.23	2019.79
68/69	261421	37695	75017	1830	56275.41	1990.07	10582.65
69/70	287881	41105	101477	6730	102977.32	3068.45	17775.73
Total	$\sum Y =$ 1304824	$\sum Y =$ 165117	$\sum x = 0$	$\sum y = 0$	$\sum y^2 =$ 307205.78	$\sum y^2 =$ 10683.88	$\sum xy =$ 56718.54

$$\bar{X} = \frac{\sum X}{N} = \frac{1304824}{7} = 186404$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{165117}{7} = 23588$$

$$\sigma_x = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2} = \sqrt{\frac{307205.78}{7}} = \sqrt{43886.54 \times 100000} = 66247$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{N} - \left(\frac{\sum y}{N}\right)^2} = \sqrt{\frac{10683.88}{7}} = \sqrt{1526.27 \times 100000} = 12354$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{56718.54}{\sqrt{307205.78} \times \sqrt{10683.88}} = 0.9906$$

$$CV_x = \frac{\sigma}{\bar{X}} = \frac{66247}{186404} = 35.54\%$$

$$CV_y = \frac{\sigma}{\bar{Y}} = \frac{12354}{23588} = 52.24\%$$

$$P.E = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.9906^2}{\sqrt{7}} = 0.0071$$

$$6PE = 6 \times 0.0071 = 0.0423 (r > 6PE)$$

Appendix-7

Calculation of Current Assets and Current Liabilities

(Rs in lakh)

F/Y	Total Current Assets=Total uses–Investment– Fixed Assets	Total Current Liabilities= Total Sources–Capital and Reserve–loan
63/64	13340.78	12437.68
64/65	16840.78	19822.91
65/66	14949.24	11611.31
66/67	38432.56	13283.33
67/68	53944.36	16310.12
68/69	65599.91	21463.68
69/70	93013.71	25113.85

Appendix-8

Calculation of Share Holder Equity and Borrowing

(Rs in lakh)

F/Y	Paid up Capital	Reserve	Borrowing	Profit/Loss	Share Holders Equity
63/64	6477098	5154.92	10153.65	2549.09	14181.99
64/65	8475.28	5401.17	18274.8	2477.71	16625.16
65/66	12243.39	4882.68	9274.66	3163.73	20289.80
66/67	18613.24	5892.30	2000	3917.42	28422.96
67/68	21029.66	7763.27	2000	4645.65	33438.58
68/69	23557.39	8417.20	6000	4801.05	36775.64
69/70	26502.06	11487.52	8000	7714.41	45703.99

Trend Analysis

Appendix-09

Calculation of Trend value of Total Deposit of NSBI Bank from 2063/64 to 2074/75

(Rs In lakh)

F/Y(t)	Total Deposit(Y)	X=(t-2066/67)	X ²	XY	Yc= a+ bX
2063/64	114452.86	-3	9	-343358.58	93702.69
2064/65	137153.95	-2	4	-274307.9	178033.93
2065/66	279572.21	-1	1	-279572.21	262365.17
2066/67	348964.24	0	0	0	346696.41
2067/68	424154.43	1	1	424154.43	431027.65
2068/69	533372.64	2	4	1060745.28	515358.89
2069/70	589204.56	3	9	1767613.68	599690.13
	$\Sigma Y=2426874.92$	$\Sigma X=0$	$\Sigma X^2 = 28$	$\Sigma XY=2361274.70$	

$$a = \frac{\Sigma Y}{N} = \frac{2426874.92}{7} = 346696.41$$

$$b = \frac{\Sigma XY}{\Sigma X^2} = \frac{2361274.70}{28} = 84331.24$$

Now, by using straight line method for calculation of trend of Total Deposit, we have

$$Y_c = a + bX$$

$$Y_c = 346696.41 + 84331.24X$$

Now expected Trend Values from 70/71 to 74/75

F/Y(t)	X=(t-2066/67)	Yc=a+bX
70/71	4	684021.37
71/72	5	768352.61
72/73	6	852683.85
73/74	7	937015.09
74/75	8	1021346.33

Appendix-10

Calculation of Trend value of Loan and Advance of NSBI Bank from 63/64 to 74/75

(Rs In lakh)

F/Y(t)	Loan and Advance (Y)	X=(t-2066/67)	X ²	XY	Yc= a+ bX
2063/64	94604.51	-3	9	-283813.71	87538.64
2064/65	121136.98	-2	4	-242273.96	120493.6
2065/66	151317.48	-1	1	-151317.48	153448.56
2066/67	174805.48	0	0	0	186403.52
2067/68	213657.71	1	1	213657.71	219358.48
2068/69	261420.94	2	4	522841.88	252315.44
2069/70	287881.47	3	9	863644.41	285268.40
	∑Y=1304824.63	∑X=0	∑X ² = 28	∑XY=922738.85	

$$a = \frac{\sum Y}{N} = \frac{1304824.63}{7} = 186403.52$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{922738.85}{28} = 32954.96$$

Now, by using straight line method for calculation of trend of Loan and Advance , we have

$$Y_c = a + bX$$

$$Y_c = 186403.52 + 32954.96X$$

Now expected Trend Values from 2070/71 to 2074/75

F/Y(t)	X=(t-2066/67)	Yc=a+bX
70/71	4	318223.36
71/72	5	351178.32
72/73	6	384133.28
73/74	7	417088.24
74/75	8	450043.20

Appendix-11

Calculation of Trend value of Total Assets of NSBI Bank from 63/64 to 74/75

(Rs In lakh)

F/Y(t)	Total Assets (Y)	X=(t-2066/67)	X ²	XY	Yc= a+ bX
2063/64	139012.01	-3	9	-417036.03	114976.41
2064/65	171874.46	-2	4	-343748.92	204387.54
2065/66	301664.82	-1	1	-301664.40	293798.67
2066/67	380476.79	0	0	0	383209.80
2067/68	460882.33	1	1	460882.33	472620.93
2068/69	580597.07	2	4	1161194.14	562032.06
2069/70	647961.52	3	9	1943884.56	651443.19
	ΣY=2682468.58	ΣX=0	ΣX ² = 28	ΣXY=2503511.68	

$$a = \frac{\sum Y}{N} = \frac{2682468.58}{7} = 383209.80$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{2503511.68}{28} = 89411.13$$

Now, by using straight line method for calculation of trend of Total Assets, we have

$$Y_c = a + bX$$

$$Y_c = 383209.80 + 89411.13X$$

Now expected Trend Values from 2070/71 to 2074/75

F/Y(t)	X=(t-2066/67)	Yc=a+bX
70/71	4	740854.32
71/72	5	830265.45
72/73	6	919676.58
73/74	7	1009087.71
74/75	8	1098498.84

Appendix-12

Calculation of Trend value of Net Profit of NSBI Bank from 63/64 to 74/75

(Rs In lakh)

F/Y(t)	Net Profit (Y)	X=(t-2066/67)	X ²	XY	Yc= a+ bX
2063/64	2549.09	-3	9	-7647.27	2014.39
2064/65	2477.71	-2	4	-4955.42	2736.69
2065/66	3163.73	-1	1	-3163.73	3408.70
2066/67	3917.42	0	0	0	4181.29
2067/68	4645.65	1	1	4645.65	4953.59
2068/69	4801.05	2	4	9602.1	5725.89
2069/70	7714.41	3	9	23143.23	6498.19
	ΣY=29269.06	ΣX=0	ΣX ² = 28	ΣXY=21624.41	

$$a = \frac{\sum Y}{N} = \frac{29269.06}{7} = 4181.29$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{21624.41}{28} = 772.30$$

Now, by using straight line method for calculation of trend of Net Profit, we have

$$Y_c = a + bX$$

$$Y_c = 4181.29 + 772.30X$$

Now expected Trend Values from 2070/71 to 2074/75

F/Y(t)	X=(t-2066/67)	Yc=a+bX
70/71	4	7270.49
71/72	5	8042.79
72/73	6	8815.03
73/74	7	9587.39
74/75	8	10359.69