

A
CASE STUDY
ON
Profit Planning & Control Of
Himalayan Bank Ltd.



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SUBMITTED TO:
Office of the Dean
Faculty of Management
Tribhuvan University

*In partial fulfillment of the requirement for
Master in Business Studies(M.B.S.)*

Birgunj, Parsa
2011

RECOMMENDATION

THESIS REPORT ENTITLED
A CASE STUDY
ON
PROFIT PLANNING AND CONTROL OF
HIMALAYAN BANK LIMITED
BIRGUNJ

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A case Study on Profit planning and Control of Himalayan Bank Ltd.

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DECLARATION

I declare that the project entitled “**A Report on Profit Planning and Control of Himalayan Bank Ltd.**” is a result of my own research carried out in the year 2011 .The study is concluded within the academic framework and conclusion is derived out of the limited data and financial statistical operations.

CERTIFICATE

This is to certify that **Miss Rajani Kumari Sharma**, a student of Master of Business Studies (M.B.S), affiliated to Tribhuvan University, has submitted her project work entitled “**A Report on Profit Planning and Control of Himalayan Bank Ltd.**” which is purely on original and a complete personal research endeavored under my supervision. I carefully that I have read this document and in my opinion, it is satisfactory in scope and quality as an Report for the partial fulfillment of M.B.S program held at Birgunj Public College.

ACKNOWLEDGEMENT

During the study, **“Profit Planning and Control”** I found myself fortunate enough to receive a great deal of help and pursuance from various individuals. I am heartily grateful to all of them.

At first, I would like to express my deep gratitude towards my family members who supported me a lot in preparing and completing this report.

I am also grateful to the Branch Manager of Himalayan Bank Limited, Mr. Gyanendra Shrestha for his kind cooperation and valuable suggestion. I would also like to thank Mr. Shuvashchan Sakhha (Senior Officer) for his intimacy in sharing information regarding my topic. I would also like to take this opportunity to express my gratitude to all the employees of credit department, Mr. Anil Shriwastav (Supervisor), Mr. Ashish Amatya, Mr. Bisheshwar Nayak and Mr. Prabir Dangol for their dynamic guidance, support and supervision through out mine intern period.

At the time of report preparation, I am very grateful to all the seniors and teacher, especially to Mr. Deepak Shakya (Director) & Mr. Binay Thakur (Project In-charge), lecturer of College for their guidance and precious suggestion for the completion of mine field work report successfully. I am very much thankful to all my friends who supported, encouraged and inspired me for completing my report.

At last, I do not like to state that this report is complete and limitation and shortcoming because of constraints of time and resources. I am alone responsible foe any defects of analysis or errors in this study.

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ABBREVIATIONS

AD:	Anno Domini
ATM:	Automatic Teller Machine
B.P.C:	Birgunj Public College
B.S:	Bikram Sambat
CEO:	Chief Executive Officer
F/Y:	Fiscal Year
GDP:	Gross Domestic Product
HBL:	Himalayan Bank Limited
LTD:	Limited
MBS:	Master in Business Studies
MR:	Mister
MRS:	Misses
NRB:	Nepal Rastra Bank
PVT:	Private
PPC:	Profit Planning and Control
PCV:	Price Cost Volume
RBB:	Rastriya Banijya Bank
TU:	Tribhuwan University

CHAPTER – ONE

Introduction

1.1 Introduction

1.1.1 Background of the study

Nepal is a small landlocked country with the area of 147,181 sq. km. The country is bordering between the most popular countries of the world i.e. India and China. According to the result of census 2001, the population growth rate is 2.24% per annum. The most of the population lies under poverty line. Per capita income is estimated to be \$210. Economic inequality is also high. More than 80 % (eighty) of the people depends on agriculture sector and most of them live in rural areas. 91% of the total population lives in rural being engaged in agriculture related activities and 9% live in urban areas. Agriculture is still the main source of the income and this sector contribute 39.22% on Gross Domestic Product (GDP) and remaining 60.68% contribute from non-agriculture sector in year 2001/02 where in 2000/01 contribution from agriculture sector is 38.88% and from non-agriculture is 61.61%.

Every organization is established with a definite goal. Some organizations are established to earn profit where as some to provide services to the people or the customers. Besides these profit oriented organization, some organizations are service-oriented organizations. Such organization's objective is to earn profit through providing services to the customers. For example:- financial institution like banks, insurance companies etc. these organizations directly sell services to the customers and receive revenue from them as service charges, Banks give loans to the people and charge certain interest against the loan.

So profit is the main measuring tools of the success of the organization. Organization should survive in competitive market for the long period. The investors are attracted towards the profitable company for investment. Profit is also required to provide more and more services to the customers. Profit is the difference between earning and expenditure. Increase in earning or decrease in expenditure, increases profit whereas the decrease in earning or increase in expenditure decreases the profit. So organization always try to minimize the expenditure that's why profit increase. But minimizing the expenditure is not the only way to increase profit. The entire factor affecting the appropriate profit planning should be done for increasing profit.

Planning is one of the primary functions of the management. Planning is deciding in advance what to do? When to do? How to do? And who is to do? Planning is the process of

selection best course of action among different alternatives to achieve the objectives. Planning is done with past experience, present information and for future. Thus profit planning is very tough. Profit is directly related to the sales. Sales mean transfer of the product or services from seller to buyer and buyer has to pay for it. Seller adds some value on the cost price and determines the selling price. So sell of each product or services contributes some in total earning of profit.

1.1.2 Importance of Financial Institutions

Financial Institutions play an important role in the economic development. Commercial Bank is one of the vitals banks of these sectors, which deals in the process of channeling the available resources in the necessary sectors. It is the intermediary between the deficit and financial resources. Financial Institutions like bank are necessary to collect scattered savings and put them in to productive factors through various channels. In the absence of such institutions it is possible that the saving will not be safely and profitably utilized within the economy.

As a result developing countries are trapped into various circles of poverty. In order to collect the enough savings and put them into productive sectors, so banking sector is necessary. It will be utilizing within the economy and will either divert abroad or use for unproductive consumption speculative activity. Commercial banks are suppliers of finance for trade and industry, which play an essential role in accelerative the economic growth in nations. They help in the formation of the capital by investing the saving in productive area. Rural people of developing countries like Nepal need various Banking facilities to enhance its economy.

In Nepal there are several kinds of financial institutions such as commercial Banks, development Bank, finance companies, co-operative involving in saving and credit activities etc. Most of the financial institutions are under regulation of Nepal Rastra Bank (NRB), the central Bank of Nepal. Therefore the development plan is very important for our country. It is difficult to imagine the development of any country without the development of the financial institutions.

1.1.3 Historical background / Origin and growth of banking sectors in Nepal

The growth of banking sector in Nepal is not so long, is still in evolutionary phase. In comparison with other developing or developed country, the institutional development in banking system in Nepal is far behind. Nepal has to wait for a long time to come to this

present banking position. The origin of Bank in Nepal and its beginning of growth is controversial.

Even though the specific data of the beginning of money and Banking facilities in Nepal is not so obvious, it is speculated that during the reign of the king Mandev, the coin “Manak” and “Gunank” during the reign of the king Gunakamadev were in use. Historically, we find the evidence of minted coin of Anshuverma in 7th century and later coin of Jishnu Gupta. In the beginning of 8th century, king gunankamadev renovated the Kathmandu city by taking loan and at the end of the same century; a merchant named shankhader had started the “New Year” Nepal Sam bat after freeing all the people of the Kathmandu from the debt. Sadashiva Dev in 12th century, introduced, silver coins, king Jayasthiti Mallas had given the responsibility to a caste of the society called “Tankadhar” while he had given the name of the castes and their profession for the purpose of transaction of money in the society. In the same century copper coins were used by king Rita malla of Kathmandu, silver coins by Mahendra Malla and the gold coins by the last Malla king of Kathmandu, Jayaprakash Malla.

After the unification of Nepal, Prithvi Narayan Shah, the great king had used coin mohar in his name. An institution called tasker was established in 1989 and started to issue the coin scientifically. In this way, we see that the coins have been in use from the ancient time and there was practice of taking and giving loan for the purpose of trade and other various purposes. During the reign of Ranodip Singh, an office named ‘Tejarath’ was established in Kathmandu in 1933(B.S.). It was used to provide loans to the government officials and the people against deposit of gold and silver. It had also extended its branches outside Kathmandu valley for giving loan. But this office had no right to accept deposit of public and it had no characteristics of modern bank. Nevertheless, we can say that the institutional Banking system had started from then after having a treaty with British India in 185 (B.S.), Nepal could trade oversea freely for the diversification of trade. As a result, in 1993(1936), the draft of the company Act and Banking act were prepared by forming industrial council “A jute Mill” was established in Biratnagar under this act and both commercial and industrial development as well as institutional Banking system had been started together at a time in Nepal.

After the establishment of Nepal bank limited on 30th kartik, 1994(1938), modern banking system started in Nepal. As a first commercial Bank of Nepal, the bank was established to render services to the people and for economic progress of the country prior to the establishment of Nepal Rastra Bank. It played the role of central bank with the establishment of NRB in 1959; the development of financial system took a momentum. After

then the Nepal Rastra Bank came into existence as the central Bank on April 26, 1956. It had authorized capital of Rs 10 Million fully subscribed by the government. It was empowered by Act to have direct control over financial institutions within the country. It started issuing the currency in 1959 A.D. The second commercial bank Rastriya Banijya Bank was established in 1966 A.D. beside Nepal Bank Ltd and RBB other commercial Bank did not come into existence until 1984 A.D. The commercial Banking act 1974 was amended in 1984 A.D. to increase the competition between commercial Bank as per the provision made in this act private sectors[including foreign investment] was given freedom in opening commercial bank. Subsequently, embarked upon structured adjustment program encompassing measures to increase domestic resource and mobilization strengthen financial sectors and liberalize industrial and trade policy. Since then several financial institutions and commercial private banks have been established in the process of development and liberalization policy for the economic development of the nation.

The basic objective to allow foreign joint venture and private Banks for operation in Nepal was mainly to develop the banking sectors to create healthy competition for future development of already existing old banks. To introduce new technological efficiency in banking sectors, HMG/N has made an umbrella act called Bank and financial institution ordinance 2060, to promote the trust of public over banking and financial system. Promote the rights of depositors and private reliable and quality service through healthy competition among the financial institutions to strengthen the national economic through liberalization of banking and financial sectors and establishment, operation and monitoring of the financial institution. This Act has freeze all the previous acts relating to banks and financial institution. At a present, there are commercial Banks, development financial company and cooperative and a central Bank. Accordingly Nepal Rastra bank has given approval to operative following commercial banks.

S. No.	Commercial Banks	Date of establishment
1	Nepal Bank Ltd.	1994
2	Rastriya Banijya Bank	2022
3	Nepal Arab Bank Ltd.	2041
4	Nepal Investment Bank Ltd.	2042
5	Standard Chartered Bank Ltd.	2043
6	Himalayan Bank Ltd.	2049
7	Nepal SBI Bank Ltd.	2050
8	Nepal Bangladesh Bank Ltd.	2051

9	Lumbini Bank Ltd.	2055
10	Kumari Bank Ltd.	2056
11	Machhapuchhere Bank Ltd.	2057
12	Laxmi Bank Ltd.	2058
13	Siddhartha Bank Ltd.	2059
14	Global Bank Ltd.	2061
15	Kist Bank Ltd.	2062
16	Nepal Merchant Bank	2063
17	Bank of Asia	2063
18	Sunrise Bank Ltd.	2064
19	Asian Development Bank	2065
20	Mega Bank Ltd.	2067

Table-1 List of commercial bank in Nepal/ sources Nepal Rastra Bank publications 2010/11

1.1.4 Conceptual Framework of profit planning.

Profit planning is a part of overall process of an organization. Therefore this concept has wide application of any kind of business concern for the best utilization of the scarce (limited) resources and effectively and efficiently achieving its goal. Profit is the life blood of any business organization which not only keeps it alive but also assures the future and markets it sound. In other words, every such organization needs profit to survive and complete in the open market. The success and failure of firm depends upon the margin of profit because profit is primary requirement for its success. More ever the margin of profit is regarded as an indicator of economic situation of the business firm. Since profit earning plays a vital role for achieving the objective of an organization. It is necessary for all organization to earn reasonable profit.

The main objectives of any organizations are to maximize its profit and at the same time render reliable service to its customers. Both of the objectives have a great significance for the proper management of the organizations. Profit is a device with the help of which efficiency of enterprises can be measured. However profit cannot be achieved without good organization management. Before we make an intelligent approach to managerial process of profit planning, it is important that we understand the management concept of planning and budget. Planning is the process of developing enterprises objectives and selecting future

course of action to accomplish them. Planning means deciding in advance what is to be done in future. Planning starts from forecasting and predetermining of future events. The main objective of planning is to increase the chance of making profit. The budget is the primary planning operating document committed to perform. In this sense budget is also called a profit plan.

Profit planning is comprehensive plan expressed in financial terms by which operating programs can be made effective for a given period of time. It is the tool of direction, coordination and control and as such it is the most important administrative device for this purpose. Profit planning and control (PPC) is the latest invention in the field of modern management. According to G.A. Welsch, R.W. Hilton and Gordian's, "comprehensive profit planning and control is viewed as the process designed to help management effectively perform significant phases of planning and controlling functions. Profit planning is now important responsibility of financial manager while activities of this sort require an accounting background. They also set heavily upon the knowledge of business, economics statistics and mathematics. Hence, from organization point of view, any effort to continue profit planning activities within the framework of accounting procedure would be to determine the long range interest of the firm. Therefore in the both of the definition, we could find a fit similar rigor that is it is the business decision making which is the mainly exercised by financial manager in order to achieve good prospect in business in terms of returns of investment. In fact, profit does not acquire immediately, it is managed. The technique of managing profit is called profit planning. For the long run, stability of a firm, every task should be performed according to long term vision. Profit planning directs organization towards achieving the largest on profit. Therefore it is a part of several planning process on organization. Budget is a primary operating documents in this regard. Profit planning requires commitments on the performance of budgeting. To be more specific various functional budget are the basic tools for proper profit planning. Therefore later is in fact a management technique. It is a formal statement of policy, plan, objectives and goals of the organization established by the top management. So commercial bank has to make reasonable profit for its survival. Most of the commercial Banks are registered as a company with joint stock and the share being traded at stock actions. Therefore profit made by them has also remained as are of vital parameter for measurement of the efficiency of these banks.

1.1.5 Focus of the study

This research study is focused on evaluating the use of different types of functional budgets and corporate planning system for the effective implementation of profit planning in HBL. This study is designed to describe the purpose of the different kinds of budget used, how they are applied and finally settled and how they assist in policy making and in financial control. The study is intended to clarify the purpose of different budgets and to identify the person responsible for different budgets and to identify the person responsible for different items in the problems.

Generally, two types of profit planning practices are used in an organization; they are strategic long range profit and tactical short range profit plan. Long range profit covers horizon of two years or more and short range profit plan made generally for coming years. Both of these plans are equally important for the successful operations of the organization but this study is designed so as to give more consideration in short range planning.

For the purposes of analyzing the short range planning of Himalayan Bank Ltd following plan will be specially analyzed. The process and techniques of preparing them responsibly to prepare them, their drawback and other relevant facts as well as in profit planning will be discussed in detailed.

- ✓ The study is to find out the impact of the remittance in the economic development of the nation.
- ✓ The study is intended to clarify the purpose of different budgets.
- ✓ The study is to identify the person responsible for different items in the problems.
- ✓ The study is to give more consideration in short range planning.
- ✓ The study is to provide some knowledge about the importance of PPC to managers and practitioners.
- ✓ Cost volume profit relationship.
- ✓ Cash flow budget.
- ✓ Loan disbursement plan.

1.1.6 Profit of Himalayan Bank Limited

1.1.6.1 Introduction

Himalayan bank was established in 1993(204BS) in joint venture with Habib Bank Ltd of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector,

Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following the lead of HBL by introducing similar products and services. Therefore, HBL stand for the innovations that have brought about in this country to help Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, it can be believed that HBL obviously lead the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number 1 Bank easily confirms the claim.

All Branches of HBL are integrated into T24 browser (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- Himal Remit online money transfer. By its own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an "outside-in rather than inside-out" approach where Customers' needs and wants stand first.

Himalayan Bank has now 14 years of banking experience. Customers have been the focus of HBL and 'Think customer' the corporate philosophy. HBL has been innovative right from the beginning, pioneering products and services based on the changing needs of the customers. The Vision, Mission and Objective of the Bank clearly demonstrate where we want to be and how we would like to be there.

THE BANK VISION:

Himalayan Bank Limited holds of a vision to become a **Leading Bank of the country** by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Banks.

THE BANK MISSION:

The bank mission is to become preferred of quality financial services in the country. There are two components in the mission of the Bank; **Preferred provider and quality Financial Services**; therefore we at HBL believe that the mission will be accomplished by satisfying.

THE BANK OBJECTIVE:

The major objective of Himalayan Bank Limited is to become the Bank of first choice. Today HBL stands tall amongst private sector commercial banks of the country with the largest asset based. HBL has well tailored tariff structure that leads the market pricing, it is for these reasons and our continuous customer focused services that lead the market pricing. It is for these reasons and our continuous customer focused services that the Bankers Almanac, United Kingdom recently ranked HBL once again as the Number 1 Bank of the country.

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<p>Parsa Branch Naya Road, Parsa, Chitwan Phone no.: 056-583628 Tele/Fax no: 056-583629 Email: parsa@himalayanbank.com</p>	<p>Sorakhutte Branch Sorakhutte Chowk, Kathmandu Tel# 4389035 Fax# 4389036 Email: sorakhutte@himalayanbank.com</p>

Dilli Bazaar Branch Bijay Memorial School, Dilli Bazaar, Kathmandu Tel# 4431658 Fax# 4431659 Email: dilibazaar@himalayanbank.com	Dhangadi Branch Address: Rato Pool Dhangadi Telephones : 091-520202 Fax : 091-520204 Email : dhangadi@himalayanbank.com
Gorkha Branch Address: Bus Park, Gorkha Telephones : 064-421520 Fax : 064-421521 Email : gorkha@himalayanbank.com	Kalanki Branch Address: Kalanki Chowk Telephone :4279762 Fax : 4279765 Email : kalanki@himalayanbank.com
Satdobato Branch Satdobato Branch Satdobato Chowk, Lalitpur Phone: 01-5526345	

The shareholders of the bank are as follows:-

Promoter and Other Institution	85%	
▪ Foreign Institution	20%	
▪ Other Entities	65%	
Nepalese Public Share	<u>15%</u>	
Total		100%

Himalayan Bank Limited holds of a vision to become a **Leading Bank of the country** by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Banks.

Awards and Recognitions

Awards and Recognitions received by Himalayan Bank Limited in the last five years

-) Best Presented Accounts and Corporate Governance Disclosure Award - 2008 awarded by South Asian Federation of Accountants
-) Best Presented Accounts Award - 2008 awarded by The Institute of Chartered Accountants of Nepal
-) Number 1 Bank of Nepal- 2006 awarded by The Bankers' Almanac, Britain
-) Number 1 Bank of Nepal- 2003 awarded by The Bankers' Almanac, Britain

National Excellence Award- 2003 awarded by Federation of Nepal Chambers of Commerce and Industry



**Best Presented Accounts (BPA) and
Corporate Governance Disclosure Award
2008**



**Best Presented Accounts (BPA) Award
2008**



**The Bankers' Almanac
World Ranking 2006**



**The Bankers' Almanac
World Ranking 2003**

Clean Up the World - Certificate of Appreciation 2010



FNCCI - National Excellence Award 2003

1.1.6.2 Organizational Management

The success of business largely, depends on management quality. Generally the management of body of any business organization has two fold major objectives, first to manage the firm well and second to maximize profit and enhance shareholder's wealth.

Himalayan Bank Limited is managed by chief executive officers (CEO) under the supervision and control of board of director. Board of directors appoints the chief executive officer. The board of directors of Himalayan Bank Limited is constituted by the body of nine (9) members. Altogether directors are appointed as follow:-

- 1:-Mr. Manoj Bahadur Shrestha, Chairman
- 2:-Mr. Ashraf M. Wathra, First Vice Chairman
- 3:-Mr. Himalaya SJB Rana, Chief Advisor to the Board
- 4:-Mr. Sushil Bikram Thapa, Director
- 5:-Mr. Bijay Bahadur Shrestha, Director
- 6:-Mr. Upendra Keshari Poudyal, Professional Director
- 7:-Dr. Ramesh Kumar Bhattarai, Director
- 8:-Mr. Prachanda Bahadur Shrestha, Director
- 9:-Mr. Prem Prakash Khetan, Second Vice Chairman

Chief Executive Officer (CEO) **Ashok SJB Rana**

The management under the board is entrusted to nominate CEO under which corporate office at various branch operations.

1.2 Statement of the problems

Profit is the primary measure of business success. At least normal profit is necessary for the operation of any kind of organization. But commercial bank must profit out of its operations for its survival and fulfillment of the responsibilities assigned. The commercial bank has to maximize profit as well as to render service. Both of these objectives have their linkage with the managements of an organization. A manager generally says that profit is the return of good management. Therefore, we can say that management is the part of the profit planning.

Profit planning and control (PPC) model provides a tool for more effective supervision of individual operations and practical administration a business as a whole. So, the successful operations of any it largely depend upon the planning system that it has adopted. Profit plan is one of the most important managerial devices that plays key role for effective formation and implementation of strategic as well as tactical plan of an organization. Profit planning system requires the effective co-ordination between various functional budgets of an organization like as sales plan, production, material requirement budget, labor cost budget and capital expenditure budget.

The major activities are including in commercial bank to mobilize resources, which involve cost and profitable deployment of those resources, which generates income. The differential interest income over the interest, which is popularly called as interest margin can be considered as the contributed margin in the profit of the bank.

The present study has tried to analyze and examine the PPC side of commercial Bank taking the case of HBL. The research report attempts to show the relationship between various functional budgets their achievements and their effective applications within the conceptual framework of profit planning for solving the problems that have occurred. HBL is fund to have been earning profit over the years. This study will answer, whether it is under a planning or not. If the profit has not been realized under the technique of profit planning then this study will explore how the profit of HBL is occurring? How far HBL has been able to mobilize the deposit and other resources at optimum cost? Does the Bank deploy the resources generation satisfactory yield? And what are the overall problem of HBL and what suggestions can be recommended for their proper solution?

1.3 Objectives of the study

The main objective of the present study is to examine the main approaches of profit planning and to test the extent of achievement of planning of HBL with consistently the present research will try to meet the following:-

- ✓ To examine the present profit planning premises adopted by HBL on the basis of budgeting.
- ✓ To analyze the variance of budgeted and actual achievement.
- ✓ To sketch the trend profit and loss.
- ✓ To analyze the various functional budget and financial plans formulated and implemented in HBL.
- ✓ To provide the suggestion and recommendations for improving of the overall profit ability of the bank.

1.4 Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. Research methodology depends upon the various aspects of the research project. The main objective of this thesis is however to examine and analyze the PPC system adopted by HBL. Besides this thesis is also means for analyzing the position of deposit, loan recoding and investment policy and to provide the appropriate suggestion and recommendation. Thus, the researcher has tried to undergo the following methodology for the evaluation of various aspects of financial position of Himalayan Bank Ltd.

1.5 Significance of the study

The research study is concerned with the profit planning in commercial bank with case study of HBL bank which analyzes the proper applicability of profit planning system in the bank. The report when prepared will be useful for different purpose for different parties. The report basically will be useful for the banking career oriented individual and the bank itself to properly evaluate the yearly flow of remittance in the country and it's impact in the country's overall economic situation. Basically the report will be useful for following users.

- ✓ **Banks:** - For banks the report will provide the exact flow of remittance in the country and will also suggest implementing the modern technique that will help to increase the remittance. In case of HBL the report tries to indicate the weaknesses of the bank's remittance system and as a whole bank, so the report is intended to improve on the weaknesses of HBL.
- ✓ **Student:** - For the student who are seeking for the study of the remittance, the report will be the theoretical framework to conduct their study. And also provide the information on the overall situation and impact of remittance in the country like Nepal and other developing country.
- ✓ **Shareholders:** - the owners of the firm are also benefited from this report by being informed about the actual remittance trend and the impact of the remittance on the profit. Shareholder is the investors for the expansion and growth of the institution, if they know the impact of the remittance on the profitability, then they will be attracted to that branch of the banking.
- ✓ **Government:** - the government of the country can also be benefited from this report by knowing the effect of the remittance on the development of the country. And how the foreign employment is increasing and the positive and negative impact of the foreign employment in the country's future.

1.6 Limitation of the study

Today world is dynamic, every things existing here are of limit character. Every principal rule and formula and conditions are applied with in the limitation likewise, this study cannot escape from limitation and study is confined only to profit planning and budgeting in HBL. The study is limited to the related profit planning of HBL. The study has been predominantly based on secondary data. One of the major limitations of this report is that the report has not addressed the problem of the brain drain, i.e. the problem due to outgoing of the skilled manpower. In Nepal it has been the trend of going abroad if the people are capable of doing a special task. It means the country side by side is affected due to the outgoing of skilled manpower like Engineer, Doctors, and Bankers and so on. As it is obvious that there is nothing 100% perfect in this world. So the report also lacks the information that was needed because some information needed was confidential for the bank. But it has been tried to do best with the information available and provided by the bank.

The report doesn't cover the remittance that comes through the illegal way like Hundies and so on. So that the exact remittance flow can't be presented.

CHAPTER- TWO

REVIEW OF LITERATURE

2.1 Introduction

In this chapter the research has presented the commercial Bank its activities, banking practice worldwide and within the country. The legal and regulatory framework and profit planning and its applicability in a commercial banking activities. This connection, the researchers has reviewed various literatures in the form of books written newspapers journal browsing materials from the concerned websites, previous dissemination in the relevant subject matters etc.

2.2 Conceptual Reviews of commercial Banks

2.2.1 Commercial Banks as a Concept

The word Banking has been to denote a certain kind of trading in money. It consists of principally the exchange of money: the depositing of money: and the transmitting of money. I this context, there is much confusion, they perform in the economy.

In modern times in one of the important financial institution dealing with the money, credit and financial assets, fact the term bank has been derived from Latin word "Banco" which means lending and borrowing of money sitting on bench. On this basis, banking is defined as an institution dealing with money, credit and other financial assets.

Banking experts or eminent authorities on the subject have defined bank as follows:

"The banker's business is to take the debts of other people to offer his own in exchange, and there by create money" According to Prof.Crowther:-

"Ordinary banking business consists of changing cash for bank deposits and bank deposits for cash," According to Prof.Sayers:-

Chamber's twentieth century dictionary defines a bank as an "Institution for the keeping, lending and exchanging etc of money."

“A Bank is an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure.” According to Kent:-

"Banking means the accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawal cheque draft order or otherwise." According to Indian banking companies Act 1949

Commercial Bank Act.2031B.S.- Nepal has defined commercial Bank as “an organization which exchanges money, deposit money, accept money, grants loans and performs commercial Banking functions and which is not a Bank meant for co-operatives agriculture industries or for such specific purpose”

From the various definitions made and opinion produced regarding commercial Banking, we can conclude that a commercial Bank is set up to collect scattered funds and employ them to productive sector of economy.

2.2.2 Evaluation and Development of commercial Bank

The word Bank is derived from the Italian word banco which means a bench or which the merchant of Italy put on different types of currencies to show that they transect their business. There is not unanimity among the economists about the origin of the word "Banking" The term bank has been derived from following words:- In Latin, it has been derived from "**Bancus**" which meaning is bench. In French word, from "**Banquee**" which meaning is bench? In Italian word "**Banca**" which means a bench for keeping lending and exchanging of money or coins to manage capital. In ancient, Greece around 2000B.S. the famous temple of Ephesus, Delphy and Olympia were used as depositories for people surplus fund and these temples were the centre for money lending transactions. The priests of these temples acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. Later, however, for a few countries, Banking is an organized system of money lending recorded because of religious belief that the charging of interest was immortal. However, the banking as we known today, made its first beginning around the middle of 12th century in Italy. The Bank of Venice founded in 1157 A.D. was the first public Banking institution following this 14th century, the bank of Barcelona and

the Bank of Genoa were established in 1401A.D and 1407A.D respectively (vanish1996).

In England, start of Banking can be accounted for as the reign of Edward 3. Those days, the loyal exchanger used to exchange the various coins into British money and also used to supply foreign money to the British men going out of the country. The Bankers of Lombardy were famous in medieval Europe as the credit planting the seed of modern Banking in England goes to them when they settled in London in the locality now famous as the Lombard street.

In ancient times, merchant money lender and gold smith had provided great contribution on establishing bank. Money lender provided a facility of lending money to other who needed and took a high rate of interest. Then they also collected money from others to provide loan. On the other hand, people deposited their precious ornaments to goldsmith as protection and took a sum of money. Thus this mutual relationship among them established an institution named banking.

In India, the ancient Hindu scriptures refer to the money lending activities in the Vedic period. During the Ramayana and Mahabharata eras, Banking has become a full-fledged business of Banking activity and during the smriti period (after the Vedic period) the business of Banking was carried on by the member of Vaish community. Manu, the great lawgiver of the time speaks the earning of interest as the business of Vishyas. The bankers in the smriti period performed most of these function with the back in modern times performs such as the accepting of deposits, granting loans, acting as the treasure granting loans to the state and issuing and managing the currency of the country (vanish 1996).

Due to the lack of post historical records on banking it is quite impossible to give a correct chronological history of development of Bank in Nepal. However, the history of development banking and currency in Nepal dates back to the fifth century i.e. in the Lichhavi period when the first coin is minted. It is known the history of banking in Nepal in the form of money lending was started during the reign of Ganakama Dev towards 8th century in 723 A.D. Gunakama Dev borrowed money to rebuilt Kathmandu. It showed that was also transaction of money in the form of lending from the times of Gunakama Dev. Towards the end of 14th century, Jayasthiti Malla, the ruler of Kantipur classified the people in 64 classes according to their occupation. The categories of the people who worked as money lender,

Tankadhari invested in his money to the needy people charging some percentage as interest.

Development of banking and currencies in Nepal become more consistent after the Gorkha conquest in 1768 B.S. In 1846 B.S., the first Rana prime minister, Shree Jung Bahadur brought the diplomatic relation of Nepal with the western world especially with Britain. One of his younger brothers Ranodip Singh got interested in the problem. Tejarath Adda was established in 1980. It used to blend the public money on security of gold silver and other precious metals.

Prior to the establishment of Nepal Bank Limited, people relied on borrowings from corrupt moneylenders, who charged very high interest rates and added other dues. At the first time with the cooperation of Imperial Bank of India, Nepal Bank LTD was established under the Nepal Bank Act 1937. Nepal Bank Limited played the dual role of a commercial bank and the Central Bank until the establishment of Nepal Rastra Bank on 26th April 1956. As a result of the provision of providing the facility to private sector as well as foreign investment to open the commercial bank Himalayan bank was established on 5th October 2049 as a Joint venture. From that date the banking sector took the speed of increasing. Now there are more than 26 commercial, 60 development banks and many finances and co-operatives.

In the beginning, function of commercial bank was limited to accepting and giving loans. However, at present, these include wide range of worldwide activities. In the early of 1980, B.S. when the government of Nepal permitted their joint venture like Nepal Arab Bank Ltd, Nepal Grinlays bank Ltd, Nepal Indosuez Bank Ltd, the government of commercial Bank was increased rapidly. After the restoration of democracy in 1990, the elected government adopted liberal and market oriented economic policy. As a result, more and more commercial Bank were opened in foreign joint venture and private sectors in Nepal which has contributed a lot to bring the commercial Banking of present day position, Machhapuchhre Bank has established in the year 2057 B.S.

2.2.3 Function of commercial Bank

Commercial bank is directly related with the people, institutions. The commercial Bank is an important Bank. Its activities are very attractive for people. Although, these banks are truly inspired by the objective of gaining profit, these commercial banks are established to accelerate common people's economic welfare to make available loan to the agricultures, industry and commerce and to provide the banking service to public and the

state. Traditionally, the primary activities of a bank are essentially deposits and making loans and advances. Commercial Banks are found to be having been defining by their activities.

As per the Commercial Banking Act 2031, a Bank is a commercial established under Act and banking transaction are the activities of accepting deposit from the others for the purpose of lending or investing, repayable on demand or after some stipulated time period by means of generally accepted procedure (Commercial Bank Act 2031). In the book, banking law of practice written by Gulshan & Gulshan, has quoted H.P Sheldon's opinion as "the function of receiving money from his customers and repaying it by honoring their cheques as and when required, is the function. Above all function which distinguish a banking business from any other kinds of business.

Similarly, the same book has also quoted Sir John Paget's saying as 'no person or body or corporate or otherwise cannot be a banker who doesn't (i) take deposit account (ii) take current account (iii) issue and pay cheques drawn on himself and (iv) collect cheques for his customer's (Gulshan & Gulshan 1994).

From above points, it is cleared that a commercial Bank's primary activities are twofold viz. one, that of accepting deposit from public, which is the major source of the resources of the bank and another making loans and investment which is basically creating income yielding assets of the bank for the fulfillment of its commercial objectivities. The functions of commercial bank are as follows. Commercial bank perform a variety of functions which, can be divided as (i) accepting deposit (ii) advancing loans (iii) credit creation (iv) financing foreign trade (v) agency services and (vi) miscellaneous services.

2.2.3.1 Deposit collection

This is the oldest function of bank and the banker used to charge a commission for keeping the money in its custody when banking was developing as an institution. Now a day, a bank accepts three types of deposit from its customers. The first is saving deposits on which the bank pays interest relatively at low rate to the deposits who are usually small savers. Depositors are allowed to draw their money by cheques up to a limited amount during a week or a year. Businessmen keep their deposit in current account. They can withdraw any amount standing to their credit in current deposits by cheques without notice. The bank doesn't pay interest on such accounts but instead levies service charges to its customers. Current accounts are known as demand deposit. A bank accepts fixed or time deposit. Saver

whom don't need money for stipulated period from 6 months to longer period ranging up to 10 years or more encouraged to keep it in the fixed deposits. The rate of interest increases with the length of the time period of the fixed deposit. But there is always the maximum limit of the interest rate on fixed deposit.

2.2.3.2 Advancing Loans

One of the primary functions of the commercial bank is to advance loans to its customers. A bank lends a certain percentage of the cash lying in deposits at a higher interest rate it pays on such deposits. This is how it earns profit and carries on its business. The bank advances loans in the following ways.

Cash credit: The bank advances loans to businessmen against certain specified securities. The amount of the loan is credited to the current of the borrower. In case of a new customer, a loan account for the sum is opened. The borrower can withdraw money through cheques according to his requirements but pays on the full amount.

Call loans: There are very short loans advanced to the bill broker for not more than fifteen days. They are advanced against first class bill or securities. Such loans can be recalled at a very short notice. In normal times they can also renew.

Overdraft: A bank often permits a businessman to draw cheques for a sum greater than the balance lying in this current account. Bank provides the overdraft facilities up to a specific amount to the businessman. But bank charges interest only on the overdrawn amount.

Discounting Bills of exchange: If a creditor holding a bill of exchange wants money immediately, the bank provides him the money by discounting the bill of exchange. It deposits the amount of bill in the current account of the bill holder after deducting its rate of interest for the period of the loan which is not more than 90 days when the bill of exchange mature, the bank gets its payment from the banker of the debtor who accept the bill.

2.2.3.3. Credit Creation

Credit creation is one of the most important functions of the commercial Bank. Like other financial institutions, they aim at earning profits. For this purpose, they accept deposits and advance loans by keeping small cash in reserve for day to day transactions. When a bank advances a loan, it opens an account in the name of the customers and does not

pay him in cash but allows him to draw money by cheques according to his needs. By granting a loan, the bank creates credit or deposit.

2.2.3.4. Financing Foreign Trade

A commercial bank finance foreign trade of its customer by accepting foreign bills of exchange and collecting them from foreign Banks. It also transacts other foreign exchange business buying and selling of foreign currency.

2.2.3.5. Agency services

A bank acts as an agent of its customer in collecting and paying cheques, bills of exchange, drafts, dividends etc. It also buys and sells shares, securities, and debenture etc. for its customers. Further, it pays subscription, insurance premium, rent, electricity and water bills and other similar charge on behalf of its clients. It also acts as trustee and executor of the property and will of its customers. Moreover, the bank acts as consultants to its clients. For some of these services, the bank charges a nominal fee while it renders other free of charge.

2.2.3.6 Miscellaneous Services

Besides the above noted services, the commercial bank performs a number of other services. It acts the custodian of the valuables of its customers by providing those lockers where they can keep their jewelry and valuable documents. It issues various forms of credit instruments, such as cheque, drafts and travelers cheques etc which facilitate transactions. The bank also issues letters of credit and acts as a referee to clients. It underwrites share and debenture of companies and helps in the collection of funds from the public. Moreover, it provides statistics on money market and business trends of economy.

2.2.4 Role of commercial Banks in the development of the economy.

A well-developed banking system is a necessary re-condition for economic development in a modern economy. Besides providing financial resources for the 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 storehouses of the country's wealth but also utilize resources necessary for economic development. It is due to the growth of commercial banking in 18th and 19th centuries that facilitated the occurrence of industrial revolution.

The main objective of commercial banks is to mobilize idle 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 a commercial bank for the development of an economy, which are capital formation, encouragement to entrepreneurial innovations, influencing economic activity, promotion of trade and industry, development of agriculture and other neglected sectors.

The major problem in almost all underdeveloped countries like Nepal is lack of capital formation and their proper mobilization. In such countries, commercial banks should act as a development bank. Nepal is a small and poor country but she has sufficient natural resources. To utilize those resources, capital is required. Commercial banks gather monetary resources from different areas in the form of deposits and provide loan to investing areas like industry, agriculture etc. Therefore, the fate of the country is greatly determined by the active role of commercial banks. Banks provide facilities to their customers by providing loans, remitting funds, purchase and sale of bills 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 Conceptual Review of Profit Planning

2.3.1 Concept of profit planning

Any business firm is established to make profit; profit is the primary measure of success of any institution. Generating profit requires a good deal of managerial capability and talent. Usually profits do not happen. Profits are managed. Before making an approach to the managerial process of profit planning, it is worthy of being familiar with the terms profit planning and control.

2.3.1.1 Profit

Profit is the primary objective of any organization. Profit means different things to different people; profit is a reward for any organization. In simple sense profit is a surplus over the expenditure for any kind of business firm. Every organization has its own business firm. Every organization has its own objectives. To achieve such objectives, business organization should run smoothly and to run successfully these business organization need some profit. Without profit no organization can run for a long period. Although in modern days many alternatives objectives of firm has been cited. Nobody has been able to complete wipeout the profit maximizing objective and objective of earning reasonable rate of profit. Profits are main test of individual firm's performance.

Profit is the primary measure of success of business enterprise. It is the main test of business enterprise performance. Simply stating, profit is the excess of income over cost of production. But the profit is very controversial and these are several different interpretations about this. An economist will say that profit is rewarded for entrepreneurship for risk taking. A labor leader might say that it is a measure of low efficiently labor has produced and that provides a base for negotiating a wage increase. An investor will view it is a gauge of the return of his/her money. An internal revenue agent might regard it as the base for determining income taxes. The accountant will define it simply as the excess of a firm's revenue over the expenses of producing revenue in a given fiscal period.

It could be noted that profit are residual income after the payment of the contracted rewards to other factor of production.

According to accounting concept profit is the residual of sales revenue minus accounting cost of doing business. Profit in the accounting sense tends to become a long term objective, which measures not only the success of a product but also the development of the market for it. But the economic concept of profit is different from accounting to economist. Profit is business profit minus the limit cost [equity or other owner provided inputs used by the firm].

From the above definition we can conclude that profit is an essential need for any organization. It is a backbone for any organization. It also helps organization to stand freely and sustain for a long period. Profit measure a success of any business and if the

business is in profit, it can easily acquire the type of loan and capital to expand its business. So profit is the very important aspects for any business organization.

2.3.1.2 Planning

Planning is one of the primary functions of the management. Planning is deciding in advance what to do? When to do? How to do? And who is to do? Planning is the process of selection best course of action among different alternatives to achieve the objectives. Planning is done with past experience, present information and for future expectations. Planning is a basic function of management. It may be defined as the selection from among alternatives of courses for further action. It is the function by which manager decides what goals are to be accomplished and how they are to be reached. Planning is the process of deciding in advance what is to be done in future. So it is a future oriented concept. According to I.M. Pandey “planning is the feed forward process to reduce uncertainty about the future. The planning process is based on conviction that management can plan its activities and action of the enterprise that determine its desiring.”

Planning can be defined as “the establishment of objectives and the formulation evaluation and selection of the policies, strategic, tactics and action required to achieve these objectives. Planning comprises long-term/strategic planning and short term operational planning and short term operational planning. The letter refers to a period one year.”

Planning is a rational way and systematic way of perceiving how business industry on any organizations will get, where it should go by examining future alternatives course of action open to any organizations and desirable courses of action a perspective frame of reference is established of current decisions. In this process planning examines the involving claims of causes and effect likely to result in the future and respectively exploit or combat them. Planning means assessing the future provision and assuring that establish goal that can be met with acceptable home frame. Planning in simplest term is the determination of anything in advance of action. It is especially a decision making process that provides a basic for economical and effective action in the future. Effective planning sets the stage for integrated action to take place, reduce the number of enforceable crises, promotes to use of more efficient methods and provides the basis for the managerial function of control thereby assuring to courses on organization objectives.

2.3.1.2.1 Types of Planning

Planning can be divided into three types on the basis of the time span.

1. Tactical Planning (short term Planning)
2. Medium term Planning
3. Strategic Planning (Long term Planning)

1. Tactical Planning: Short term planning is made for one year or less time period. It is prepared to fulfill the short-term objectives by the management.

2. Medium term Planning: Medium term Planning is prepared for at least two years or three years at most. Medium term Planning is used mainly to determine the allocation of resources among competing activities to revise long range plans in view of more recent development. In practice this planning is less used in comparison with short and long range planning.

3. Strategic Planning: Strategic is prepared for at least three years to generally five years; sometimes it can be extended to ten years. Basically long range is more important for large and long living enterprises. According to George R. Terry the main objectives of long range Planning are: To keep enterprise strong to focus on long term opportunities to evaluate management personnel, to expedite new financing to bring attention to new technique.

Major decisions made in preparing long-term planning are:

1. Determination of goals, objectives and strategic
2. Capital formation and expenditure scheme.
3. Design and structure.

2.3.1.3 Profit Planning

The term comprehensive profit planning and control is defined as systematic and formalized approach for performing significant phases of the management planning and control function, especially it involves:

- a. The development and application of broad and long range objectives for the enterprise.
- b. The significant of enterprise goals.
- c. A long- range profit plan developed in broad terms.

- d. A short- range profit plan detail by assigned responsibilities.
- e. A system of periodic performance reports detailed by assigned responsibilities and
- f. Follow – up procedures.

When the management plans for profit for a certain period of time it is called profit plan. “Profit planning is the heart of management. Without proper planning profit will not just happen. So every enterpriser should systematically plan for profit on proper way. Profit plan is a predetermined detailed plan of action developed and distributed as an audit to current operations and as a partial basis for the subsequent evaluation of performance. Thus, profit planning is tool, which may be used by the management in planning the future courses of action and controlling the actual performances.

Profit planning is a part of an overall planning process and is an area in which finance function play major role. The success of each enterprise in realizing its optimum profit in each year will be determined by the extent to which establishes objectives, developed co-ordinate plans to meet those objectives and exercise control of all faces of its activity so as to have actual result reach or exceed those planned. This entire process constitutes the budgetary planning and control program.

Glenn A. Wish summarized the broad concept of profit planning in few words as “the Profit planning means development and acceptance of objectives and goals and moving an organization efficiently to achieve the objectives and goals”.

Profit planning is not a separate technique that can be thought of and operated independently of the total management process. The broad concept of profit planning entails an integration of numberings managerial approaches and techniques that might be exploited such as sales forecasting, sales quota system, capital budgeting, cash flow analysis, cost volume profit analysis, variable budget time and motion study, standard costing accounting, strategic planning, production planning, management by objectives, organizations manpower planning and cost control.

The broad concept of profit planning entails integration of numerous managerial approaches and techniques.

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

- a. To provide a realistic estimate of income and expenditures for a period and the financial position at the end of the period detailed by areas of management responsibility.
- b. To provide coordinated plan of action which is designed to achieve the estimated, reflected in the budget.
- c. To provide a comprises of actual results with those budgeted and an analysis and interpretation of deviation by areas of responsibility to indicate course of corrective action and lead to improvement in procedures in building plans.
- d. To provide a guide for management decision in adjusting plans and objectives and uncontrollable conditions change.
- e. To provide a basis for making forecasters during the budget period to guide management in making day to day decision.

2.3.1.4 Corporate Planning

“Corporate planning was started in united states in 1950 at the first time in the world. Now a day it is expanse rapidly in one form or another in the several companies in all over the world.”

“Corporate planning is the systematic process of setting corporate objectives and making the strategic decisions and developing the plans necessary to achieve these objectives.”

Corporate planning thus is action oriented and not concerned with more plans since, corporate planning is action also concerned without a forecasting whose purpose is to anticipate the future based on factors. From the forecasts one knows what one has to aim to achieve. That is he formulates the objectives and then determines the means, which must be orchestrated in order to achieve the Corporate planning therefore seems to be the techniques for action how for ensuring the goal.

Corporate planning embrace the long and short term covers one geographic area with which the business is concerned. It covers whole planning systematically process in sequential logical manners.

2.3.1.5 Four premises of the corporate planning

1. Before drawing up a plan, which is designed to do something, decide what you want it to do.
2. In these days of rapid change it is necessary to look ahead as far as possible to anticipate these changes.
3. Instead of treating a company as a collection of departments treat it as a corporate whole
4. Take full account of the company's environment before drawing up any plan.

Corporate planning is done for the company as a whole on a continuous basis for making present entrepreneurial risk for taking decisions systematically and probable outcome and effects organizing systematically the efforts and resources needed to carry out these decisions and measuring the results of these decisions against the expectations through organized systematic feedback.

2.3.1.6 Corporate planning Vs Long range planning

Very often Corporate planning is considered synonymous with long-term planning and are interchanged by used they are noted by Koirala. Corporate planning is concerned with job determination and developing means to achieve the job. It may encompass both short range as well as long term plan: long and short is not determined arbitrarily. It all depends on how far an ahead of company needed to forecast and can make a plan. It will be determined by the company's commitment of resources. He thus sees long range planning as a part of corporate planning.

There are three most relevant aspects of the PPC. They are:

- I. PPC requires major planning by management.
- II. PPC entails pervasive management control activities.
- III. PPC recognizes many of the critical behavior implications throughout the organization.

The main principles and purposes of profit planning are follows:

- a. To state the firm's expectation (goals) in clear formal terms to avoid confusion and to facilitate their attainability.
- b. To communicate expectation to all concerned with the management of the firms so that they are understood, supported and implemented.

- c. To provide a detailed plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals.
- d. To coordinate the activities and efforts in such a way that the use of resources is maximized.
- e. To provide a means of measuring and controlling the performance of individuals and to supply information on the basis of which the necessary correlative action can be taken.

2.4 Purpose of Profit Planning.

- 1. To state the firms expectations (goals) in clearly formal to avoid confusion and facilities their attainability.
- 2. To communicate expectations to all concerned with management of the firms so they are understand by supporters and implemented.
- 3. To prepare detailed plan of action for reducing uncertainty and top direct individual and group efforts to achieve goals.
- 4. To coordinate the activities and efforts in such a way that the use of resources is maximum.
- 5. To provide a guide for management decision in adjusting plan and objectives as controllable conditions change.

2.5 Fundamental Distribution of Profit Planning.

The concept of budgeting was originally established with the function of an account. As its origin the function of budgeting was assigned to the accountant. But in modern days budgeting is given much more importance and is regarded as a way of management and in move important sense regarded as basic techniques of decision making and is given the name “profit planning and control program”.

A well established and a well understood profit planning and control concept lends an organization to ultimate success. But a failure to grasp this concept leads to chaos for a business. So just to understand this concept better consideration should be given to following points:

1. The mechanism of planning and control

Mechanism of profit planning includes the matter related with design of budget schedules, clerical computation of such schedules and routine computation and check of such schedules.

2. The techniques of profit planning and controls

Techniques are special approaches and method of developing information for managerial use in decision making process. Those approaches like forecasting sales volume, a frequent application operation research, (approaches in resolving the sales – production inventory problems) break- even analysis, resources determinants (such as discounted cash flow approach) cash flow analysis and variable budget procedures which can be developed and used for managerial decision making process are known as techniques.

3. The fundamental of profit planning and control.

The fundamentals are concerned with effective application of theory of management process. It is applied for desired management orientation; these fundamentals need to be established as a foundation of managerial commitment.

Following are some of the important fundamentals of profit planning and control.

- 1. Managerial involvement and commitment**
- 2. Organizational adaption.**
- 3. Responsibility accounting.**
- 4. Full communication.**
- 5. Realistic expectation**
- 6. Timeliness.**
- 7. Flexible application.**
- 8. Behavioral view point**
- 9. Activity costing**
- 10. Zero base budgeting**
- 11. Follow up**

An outline of the fundamental Concepts of PPC.

According to the Welsch, the fundamental concept of the PPC includes underlying activities or task that must be generally carried out to attain maximum usefulness from PPC. These fundamental have never been fuller codified. An outline of the fundamental concept identified with PPC is given below.

- a. A management process that includes planning, organization, staffing, leading and controlling.
- b. A managerial commitment to effective management participation by all levels in the entity.
- c. An organization structure that clearly specifies assignment of management authority and responsibility at all organizations levels.
- d. A management planning process.
- e. A management control process.
- f. A continuous feed forward, feedback follow-up and re-planning through defined communication channels (both ward and upward)
- g. A strategic (long-range) profit plan.
- h. A tactical (short-range) plan.
- i. A responsibility accounting system.
- j. A continuous use of the exceptions principles.
- k. A behavioral management program.

2.5.1 Managerial Involvement and Commitment

Managerial support, confidence, participation and performance orientation includes managerial involvement. All level of managerial especially top level management should engage itself to comprehensive profit planning and control means to understand to select, to devote ourselves, to support by all its development and to evaluate the performance of the profit planning and control of profit planning and control the direction flow it in total.

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

involvement also deals with idea of direct participation of lower staff on the program, but one should not get forget the fact that the idea of “project owns self” should be totally controlled.

2.5.2 Organizational Adaption

A success of profit planning and control program depends upon the sound organizational structure and also on clear-cut designation of authority and responsibilities of all departments of an enterprise. The responsibility of each departmental management should be well clarified. Some time indirect relationship of responsibility also plays a great role. So it is advisable to clarify well coordinate all round responsibility and authority of and between the departments.

For easy and effective control sometime the organizational structure are divided into different functional sub units and each unit chiefs are assigned with specific responsibilities. These sub units are known as decision centre or responsibility centre are use to be in form of division or department or a sales district. But most of the cases these centre are use to be functional are like.

- a) Cost centre: Which is only responsible for controllable costs incurred in the sub units but not responsible for profit or investment.
- b) Profit centre: Which is the responsible for cost and revenue and hence profit and
- c) Investment centre: Which is responsible for cost revenue profit and amount of investment invested assets.

2.5.3 Responsibility Accounting

Planning is done with the help of the historical data supplied by accounting section and control is done by comparing actual data with projected data. So for this reason accounting system of any enterprise should be build around the responsibility accounting. For responsibility accounting system one should have to define responsibilities of the various divisions then the relevant parameters of the cost, revenue, and other financial data should be utilized for preparing plan.

If the parameter of cost and revenue used for planning purpose are not used in accounting system are not used for costing purpose. Valuation of the result by comparing it with planned goal will not effective. So for evaluation purpose and accounting purpose each

of the responsibility centre have to prepare chart accounting parameter to be used for planning purpose and have to supply it with full instruction to respective unit then only the main objective of responsibility accounting can be fulfilled.

2.5.4 Full Communication

Communication can be defined as an interchange of thought or information to bring about a mutual understanding between two or more parties. Communication is needed for both feed forward and feedback process, which are most important for operation of any one. Role of communication can be justified in all aspects of management. It is communication either for decision or for supervision or for evaluation flow of information must be adequate in all sides.

For comprehensive PPC effective communication means development of well defined objective, specification of good, development of profit plans and reporting and follows up activities related to performance evaluation for each responsibility centre. To have effective communication for PPC both the parties related with planning activities must have some understanding responsibilities and goals. Full participation in all matter well defined downward flow of information and well defined reporting system is needed.

2.5.5 Realistic Expectation.

PPC must be based upon realistic approach or estimation management must be realistic assumption and must not take either irrational optimism or unnecessary conservatism. Perfection on setting goal or objectives of the future sales, production levels, cost capital expenditure and cash flow and so on determines the success of profit planning and control purpose a realistic approach reared with the time dimension and time span should be considered. This is called realistic expectation.

For budgeting purpose also realistic expectation is needed, because of both over or under estimation of the budget in one unit use to have negative effect on the other units, which ultimately destroy whole planning of the enterprise.

2.5.6 Timeliness (Time Dimension.)

Effective implementation of PPC concept requires that the management of the enterprise establish definite time dimension for certain type of decision. In viewing time dimension prospects in managerial planning, a clear cut destination should be made between historical consideration and futuristic consideration. Timing of planning activities suggest that there should be a definite management time schedule establish for initiating and completing certain phased of planning process. Planning horizon is the time for which the planning is done or we can call it life span of the plan. For any enterprise there must be used by many planning horizons to maintain the continuity of planning activity.

In conclusion we can say that for PPC purpose planning activities should be based on time dimension and management must careful to accomplish the activities in time.

2.5.7 Flexible Application

PPC program or any other managerial tool must be flexible, not rigid because these are techniques of only not end of management itself, because the main aim of the management is to utilize the resources in most effective way and earn on investment and for this purpose PPC or techniques are used as means only.

Unlike budgets, which impose rigidity on an activity and puts constraints on the decision- making freedom of managers? This possible in profit planning process because in the course of preparation PPC program all level of managers are involved and hence the top level management will have privilege to make necessary decision and delegate more responsibilities to the managers, the power of making favorable decision. In such a situation the profit plan place management in position of being able to asses on a more objective basis the soundness of contemplated decision. PPC approach also use to have place for such unanticipated effects and adjustment for the same.

Finally it can be said that for PPC purpose budget should not be regarded as “straight Jacket” and for management purpose the PPC approach should not be regarded as the constraints for the management to seize the opportunities, which is going to be most beneficial for the enterprise in long run.

2.5.8 Behavioral Viewpoint

Behavior aspect of human being are of the field of the study the psychologist, educator and businessman and finding was that there can be so many unknown misconception and speculation which has to be considered for efficient management. A good and dynamic leadership can resolve this problem by integrating all the groups, effort for the betterment of the organization. This fact also has been well considered under PPC approach and a focus has been given to resolve the behavior problems goal orientation is the characteristics of ambitious and competent individuals who are normally involved in management process. Goal, which has identified for an individual can enhance such persons it identify their preference. The motivate men there should be a good harmony between their personal interest and organizational interest and good have to be identify accordingly.

Due to lack of understanding between the working group of the problem and it is operation, effects of over pressure and disagreements with planning and control approach which is mainly based upon the recognition of group and individual importance on management but careful management have to tackle the problem very carefully and have to divert the affection of the workers in positive way.

2.5.9 Activity Costing

Responsibility according systems generally accumulate costs by department and product costing systems association costs with units of products or services organization also frequently find a useful to associate cost with activities. By decomposing on organization is production process into a discreet set of activities and then associating costs with each of these activities management is in a better of continuing the activities. Moreover by systematically identifying the activities throughout the organization, management, can identify redundant activities. Managers have found to their surprise that same activity was being done in a dozen different places in the company. An activity cost analysis can assist management in eliminating relevant activities.

2.5.10 Zero Based Budget

Under zero based budgeting, every budget is constructed on the premise that every activity in the budget must be justified zero base budgeting has been used to manage organizations both private and governmental units.

(Some organizations find that the concept starting from a zero point in budget construction is unrealistic to be useful.)

It starts with the basic prize that the budgets for next year in zero and that every expenditure. Old and new must be justified on the basis of its cost and benefit. The discipline of zero based budgeting takes a different approach in fact a reverse approach to this problem of justifying everything. What it says is this being with where you are establishes a business as usual budget for next years. The same way and same thing would do it that was not concern about constraints or total justification.

2.6 Budgeting

A budget is comprehensive and coordinate plan expressed in financial terms for the operations and resource of an enterprise for some period in the future.

“A budget is the plan of the firm’s expectations in the future. As started previously, planning involves the control and manipulation of relevant variables controllable and reduces the impact of uncertainty. It makes management active to include the environment in the interest of the enterprise. A budget expresses the plan informal terms and helps to realize the firm’s expectation. It is a comprehensive plan. In the sense that all activities and operation are considered when it is prepared as a whole budget are indeed prepared in various segment of the total budget the master budget.”

Budget planning is one of the methods used for preplanning and coordinating the activities of an enterprise. The budget is a technique for comparing various alternatives in terms of results. It is the heart of the curt of business decisions. Budgeting as a tool of planning related to the broader system of planning in an organization planning involves the specification of the basic objective that the organization will pursue and fundamental policies that will guide it.

“In operational terms it involves the step of setting objective specifying goals formulating stragglng and expressing budget. A budget is a comprehensive and coordinated plan expressed in financial terms for the operation and resources of an enterprise for some specified in the future.

A firm without financial goals may find it difficult to make proper decisions. A firm with specific goals in the form of a budget makes many decisions a head of time. Budget helps a firm to control its costs by setting guidelines for spending money for in needed items

because they know at all costs will be compared to the budget, if cost exceeds the budgeted costs, an explanation will be required. Frequently exceeding the budget may even be grounds for dismissal. A budget helps to motivate the employees to do a good job; this is particularly true, when employment help in setting up the budget the complete budget for a form is often called the master budget. The master budget consists of many functional budgets. These budgets include a sales budget, production budget a purchase budget an expense budget, equipment purchase budget and a cash budget one all of these budgets are completed. The master for the entire form is prepared.

In summary, the budget involves the statements of plans the coordination of these plans in well balanced programs and the constant watching act actual operations to ensure that they are kept in line with the predetermined plans. In this way limits are set on expenditure, standards of performance are established and forwarded thinking is made an essential part of business management, care must be taken however not to fall into the error of regarding the budget as an end in itself it is a means to an land. It is not a method as business management, but an aid to clear thinking and its fundamental object is to enable considered intention to be substituted for opportunity in management.

2.6.1 Objectives/ Purposes of the Budget

Different authors hold different view about the purposes of budget but they are alike same. There is four main purpose of budget and or all may be reflected in any one budget first explain set out the proposals and decisions of those running the organizations. Second a forecast of the result expected third and authorization, the instruments where by supreme governing body sanctions. The raising the revenue or increasing the expenditure and finally a yardstick of what expenditure or revenues ought to be it the organizations are working effectively. **Main purpose of an operating budget as following**

- 1) It is a plan which reflects the policy of a business in financial terms
- 2) It is a control document by which management can monitor actual performance.
- 3) It acts as motivator of employs
- 4) It is a measure against which to evaluates the quality of man agreement

- 5) It is a means of forecasting financial position.
- 6) It is a means of giving information in organizations future intentions.

Objectives of Setting are as following

- 1) it is a plan of action and serves as a detraction of policies.
- 2) It defines the objectives for all the execrative communication.
- 3) It provides a means of coordination and communication.
- 4) Budget facilitates centralized control which delegated authority and responsibility.
- 5) It provides compilation of actual performance with budgets.
- 6) Only the expectations are reported to the management so that corrective action can be taken in order to achieve the objectives laid down by management in the purpose of budgeting.

2.7 Forecasting vs. planning

“Forecasts are in dispensable in planning. Forecasts are statement of expected future conditions, definite statements of what will happen are patently impossible expectations depending upon the assumptions made if the assumptions are plan stable the forecast has a better chance of being useful forecasting assumptions and techniques very with the king for planning needed”.

The forecasting aim at reducing the area of uncertainly that surrounds management decisions making with the respects the future tend to like the past. These good things since without same element of continuing between past, present and future there would be little possibility of successful participant”.

F.D. Newbury rightly says, “There can be no intelligent or effecting planning for a business enterprise without the primary stamps of pre-casting”.

“A forecasting system must establish mutual relationship among forecasts made by different management areas. There is a high degree of enter depends among the forecast of various divisions or departments which cannot be ignored if forecasting is to be useful for example error in sale projections can trigger a series of reactions affecting budget forecast operating expenses cash flows, investment level pricing etc. Similarly; budgeting

errors in projecting the amount of money available to each division will affect project, developments hiring of personal and advertising expenditures.

This, in turn, will influence if not determine the level of sales operating costs and cash followers. Clearly there is a strong inter- dependence among the different forecasting areas in organizations.

This distinction between forecasting and planning is not an easy one, forecasting is our best thinking about what will happen to us in future. Forecasting we define situations and recognize problem and opportunities planning we develop our objective in practical detail and we corresponding develop schemes of actions to achieve these activities.

“A forecasting is a prediction of future events, condition or situation where as plan includes a programmer of intended of future actions and desired results forecasting predicts the future even in such a way that the planning process can be performed more accurately. “A forecast is not a plan rather it is a statement qualified assessment of future coordination about a particular subject (e.g. Sale revenue based) based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be view as only one input into the development of a sales plan. The management of company may accept, modified or reject- the forecast on contrast sales plan incorporate management decision that are based on forecast other inputs and management judgments about such related items as sales volume, prices sales effort, production and financing. Another reason for identifying sales forecasting as only one step in sales planning is that sales forecast are conditional.”

Finally we can say that forecasting is very necessary items for good plan but it is not as accurate as plan but it is attainment of future aspects functions may be three types, they are as follows.

2.7.1 Short-term planning

Short-term planning is that plan which covers one year time period. The management as a substantial part of long range and short range plan uses it.

“The short term plan is synonyms with the classical budgetary period of one year. This is made after a freeze is taken on the consideration of possible. Short term forecasting is a predication extending a maximum of two years into the future while it is difficult to desire examples that fit every situation, some generalization can be made to indicate the application of short term forecasting. A business firm can be adjust more

smoothly to an indicated higher or lower volume of sales if plans can be set out reasonably well in advance. This forecast is useful in making internal estimated of company operation. Internal estimates of forecasting made by the accounting department in the large enterprises can be interpreted with up to date predication of course of general business projections covering inventory positions manufacturing expenses, selling and administrative expenses, gross margin, net earning and the cash position enterprise then reflect the most comprehensive internal and external data sales. Forecasting adds in more effective scheduling of goods in process and inventory requirement. Here forecasting provides might more rationally ordered information and sounder base for decision making.

2.7.2 Medium –term planning

“The intermediate range forecast cover from three to five years. This is one of the least development areas of predication, because forecast doesn’t have advantage of surveys of consumer and business intentions nor can be extra plate trends nor it is particularly in good position to rank the importance of qualitative factors. The surveys of business and consumer spending intentions are of vital assistance in the development of short run predication similarly the extrapolation of historical trend. Forecasting are limited to an appraisal of the three to give year outlook may be especially valuable in formulating capital expenditure program and related financial plan. The forecasting is formed to rely very heavily upon its judgment.

“Two or three years generally not exceed this period and planning usually establish interim objective between goals and for use in the development of annual program and budgets. In these case target with specific results be developed more details is involved than one plate but less than for plan while resource.

2.7.3 Long- term planning

Long-term planning five to ten years varying with the enterprise, sometimes extended to ten years. One’s planning is one of the most difficult times span involved in planning as many problems in planning can be traced to the absence of clear sense of direction and the practices which comprehensive one plan provides.

“Basically it is more important for broad and long living enterprises. Long range planning is closely concerned with the concept of the corporation as long living institutions”.

“The purpose of one projection is to give a rough picture of future prospects; a picture that has some empirical foundation sought is reasonable statement of the most probable outcome of an explicit combination of assumptions is varied to yield a range of possible results. Typically, aggregate projections have been set in a gross nation product framework once an appraisal has been made of the growth potential of aggregate economy consideration may be given first to the magnitude of future industry sales and second to the size of the company sales by product development and diversifications, indicate the most desirable channels of distribution and point up personnel needs and the specialties must required. Finally a long range forecast may indicate the volume of investment necessary in plant and equipment.

2.8.4 Objectives of planning

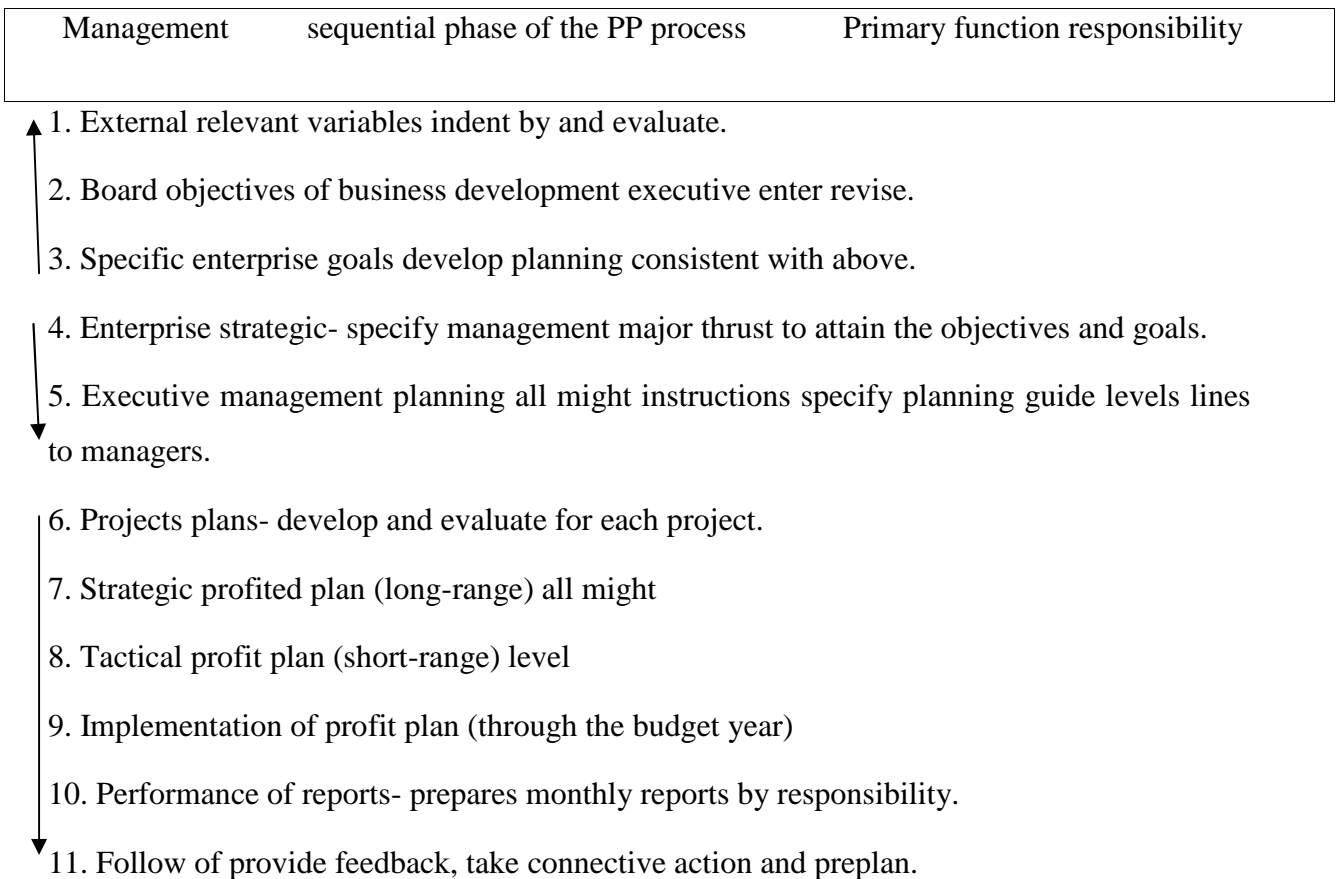
“Objectives of planning are as follows:-

- a. To provide a clear picture of whether the enterprise is handed
- b. To focus on long term opportunities.
- c. To keep enterprise strong.
- d. To evaluate management personnel.
- e. To bring attention to new techniques.
- f. To expedite new financing.

2.8 Process or Profit planning

“The planning process should involve periodic, consistent and in-depth re-planning so that all aspects of operations are carefully re-examined and re- evaluated. This prevents budget planning approach that involves only justification increase over the prior period. The concept of re-evaluation and the necessity to justify all aspects of the plans periodically finds its strongest support in what has been called Zero-base budgeting”. Following table provide an overview of a typical profit planning process.

Overview of the PP process



Explanation of major process of profit planning

2.9.1. Identification and Evaluation of External Various

The managerial planning is necessary with to the entire relevant variable.

These variables exert major in fluencies on enterprise.

The variable identification phase of the profit planning process focuses on

a) Identifying.

b) Evaluating the effect of the internal variables identification also involves separate consideration of variables that are non-controllable and those that are controllable this means that management planning must focus on hot to manipulate the controllable variables more ever that must be managerial and Planning of now to work with no controllable variables. That is for both kinds of variables now can management take advantage of potential unfavorable impact on the enterprise. Analysis and evaluation of the environmental variables must be continuing concern of management.

2.9.2. Development of the broad objectives of the enterprises

Development of the broad objectives of the enterprise is a responsibility of executive management based on realistic evaluation of the relevant variables and an assessment of the strength and the weakness of the organization.

The statement of broad objectives should express the mission, vision and ethical character of the enterprise, its purpose is to provide enterprise identify, continuity of purpose and definition.

Stewart Thompson listed the purpose of the statement essentially as follows:-

- a) To define the purpose of the company (to state exactly why the company is in business)
- b) To classify the philosophy- character of the company
- c) To create a particular climate with to the business.
- d) To set a guide for managers so that the decisions they make will reflect the interest of the business with fieriness and justice to these concerned.

The statement of the broad objectives should represent the basic foundation or building block upon which to develop and positively reined force pride in the company by management, other employees, owner's customers and other enterprises that have commercial contact with it. I should be designed for wide dissemination and should be believable which means that in the long run the company's action must be harmony with the statement.

2.9.3. Development of specific goals for the enterprises.

“The purpose of the “goal phase” of the profit planning process is to bring the statement of broad objectives in to sharper focus and to move from the realm of general information. It provides both narrative and quantitative goal that are definite and measurable. Such goals should be categorized as specific and common.

These broad, but specific, goals must be developed for the strategic long range plans and tactical short range plans. This statement of specific enterprise goals should define such operational goals, as expansion or construction of product and service lines, geographic areas, share of the market by major product service lines, growth trends, production goals, profit margin return to investment and cash flow.

2.9.4. Development and evaluation of company strategy.

“Enterprises strategies are the basic trust, way and tactics that will be used to attain planned objectives and goals. A particular strategy may be short term or long term.

The purpose of developing and disseminating enterprise strategies is to find the best alternatives for attaining the planned broad objectives and specific goals strategies focus on now therefore, they outline a plan of action for the enterprise.

Although strategy formulation is continual concern to executive management better managed companies have found that periodic reassessment of the strategies is essential variables and their probable future impact on the enterprise.

2.9.5 Executive Management Planning Instruction.

“The executive planning instruction issued by top management, communication the planning foundation that is necessary for the participation of all level of management in the development of the strategic and tactical profits plans for the upcoming budget year. Executive leadership is fundamental in developing and articulating this planning foundation, the formulation of relevant strategies consequently at this point planning process, the foundation has been established to articulate the broad and specific objectives of the enterprise and the strategies that facilitate their attainment.

2.9.6 Development and approval of strategies and tactical profit plans

“The strategic long range plans are usually developed concurrently. It is possible (and not frequent) that executive management or chief financial executive will develop the strategic and tactical profit plans. This approach is seldom advisable because it defines full participation in the planning process by middle manager. Lack of participation can cause unfavorable behavioral effects. The manager of each responsibility centre will immediately initiate activities within his/her responsibility centre to develop a strategic long range profit plan (say five years) and in harmony with the five years plan a tactical short range profit plan (say one year) the underlying causes”.

Analysis to determine the underlying causes of both favorable and unfavorable performance variance should be given immediate priority. In the case of unfavorable performance variances, after identifying the basic cause as opposed to the results and alternative for corrective action must be selected. Then the corrective action must be implemented in the cause of favorable performance variances the underlying cause should also be identified. Finally, there should be a special “follow-up of the prior follow- up

action”. This step should be designed 1) to determine the effectiveness of prior corrective action and 2) provide a basis for improving future planning and control procedures.

2.9 Importance and Limitation of profit planning

2.9.1 Importance

Importance of profit as follow:-

1. It forces early consideration of basic policies.
2. It requires adequate and sound organization structure that is; there must be definite assignment of responsibility for each function of the enterprise.
3. It compels all the members of management, from top to down, to participate in the establishment of goals and plans.
4. It compels departmental manager to make plans on harmony with the plans of other departments and the entire enterprise.
5. It requires that management put down in the figures what necessary for satisfactory performance.
6. It requires adequate and appropriate historical accounting data.
7. It compels management to plan for the most economical use of the labour material and capital.
8. It instills at all level of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.
9. It reduce cast by increasing the spam of control because fewer supervisors are needed.
10. It frees executives from many days to days internal problems through predetermined policies and clear-cut authority relationship. Thus, it provides more executive time planning and creative thinking.
11. It tends to remove the cloud of uncertainty that exists in many organizations, especially among lower levels of management, relative to basic policies and enterprise objective.
12. It promotes understanding among members of management of their co-workers problems.
13. It forces management to give adequate attention to the effect of general business conditions.

14. It aids in obtaining Bank credit, Bank commonly require a projection of future operations and cash flow to support large loans.
15. It checks progress or lack of progress towards the objectives of the enterprises.
16. It forces recognition and corrective action (including rewards).
17. It forces management to consider expected future trends and conditions.

2.10.2 Limitation

Following are the main limitation of profit planning.

1. It is not realistic to write out and distribute our goals, policies and guidelines and all the supervisors.
2. It is difficult, it is not possible to estimate revenues and expenses an our company realistically.
3. Our management has not interested in all the estimate and schedules. Our strictly in formal; system is better and works well.
4. Budgeting places too great a demand on management time, especially to revise budget constantly. Too much paper work is requiring.
5. It takes away management flexibility.
6. It creates all kinds of behaviors problems.
7. It places the management in a straight jacket.
8. It added level of complexity that is not needed.
9. It is too, costly abide from management time.
10. The managers, supervisors and other employee's rate budget.

2.10 Development of profit planning.

“Development of profit plan includes the preparation of various functional budgets, analysis of variance and presentation of projected income statement and balance sheet. To management of with the participation on lower management involves in the development of profit plan. Developing profit plan begins with preparation of master budget are outlined as follows”.

- Step1: Forecast demand for products or services.
- Step2: Identify cost patterns for responsibility centre.
- Step3: Estimate product cost.
- Step4: Specially operating objectives.
- Step5: Develop sales budget.
- Step6: Develop a production budget.
- Step7: Develop a purchasing budget.
- Step8: Formulate a profit plan.
- Step9: Compare a profit plan with operating objectives.
- Step10: Formulate a projected cash budget.
- Step11: Prepare a projected statement of financial position.

2.11.1. Consideration of Alternatives

Developing a realistic sales plan involve consideration of humorous policies and related alternatives and final choices by executive management among many possible course of action. We will consider too pervasive sales planning problems.

a. Price-cost-volume considerations:

“PCV strategy is a vital part of sales planning. In a competitive market, price and sales volume are mutually interdependent. Because sales volume and price are so closely tied together, a complicated problem is posed for the management almost every company. Thus, two related basic relationship involving the sales plan must be considered (1)Estimation of the demand curve, that is the extent to which sales volume varies at different offerings praises and (2)the unit cost curve, which varies with the level of the productive output. This PCV relationship has significant impact on the managerial strategy that should be adopted”.

b. Product-line consideration

Both the strategic and tactical sales plans include tentative decision about new product –line to be introduced old product line to be dropped, innovations and product mix.

2.11.2. Direct Labor cost Budget

“A comprehensive profit planning program should incorporate approaches applicable to each problem area. A profit-planning program cannot resolve special personal problems, but it directs careful consideration to them and aids in planning them in perspective. Effective planning of long term and short term labor cost will benefit both the companies and its employees. Planning labor costs involve major and complex problems areas: 1) personal needs 2) recruitment 3) training 4) job description and evaluation 5) performance measurement 6) union negotiation and 7) wage and salary administration.

Labor generally is classified as direct or indirect labor sets include the wage paid to employee who works directly on specific productive output, as with direct labor costs. Labor cost that can be directly on specific production are defined as direct. Direct materials and direct labor costs are frequently referred to collectively as the prime costs of the product. Indirect labor involves all other labor costs such as supervisory salaries and wages paid to tool makers, repair personnel, shopkeepers and custodians.

The direct labor budget includes the planned direct labor requirement necessary to produce the types and quantities of outputs planned in the production budget. When the production budget is completed and planned into each product to be produced is budgeted then labor budget will be prepared by multiplying the estimated labor hours per units and unit to be produced for each product to determine the direct labor hours to be planned.

2.11.3 Developing the direct Labor budget

“The approach used to develop the direct labor budget depends primarily on the 1) Methods of wage payment 2) type of production process involved 3) availability of standard labor or times and 4) adequacy of the cost according record relating to direct labor costs”.

Basically there are three approaches to develop the direct labor budget.

- a) Estimate the standard direct labor hours required for each product then estimates the average wage rates by department, cost centre, of operation. Multiply the standard time per unit of product by the average hourly wage rate, giving the direct labor cost per unit of output for the department, cost centre or operation, multiply the unit direct labor cost by product.

- b) Estimate rate of direct labors cost to some measure of output that can be planned realistically.
- c) Develop personal tables by enumerating personal requirements (including costs) for direct labor in each responsibility centre. Four approaches commonly used in planning standard labor times, they are following:
 - 1) Time and motion study
 - 2) Standard costs
 - 3) Direct estimated by supervisors
 - 4) Statistical estimates by a staff group.

2.11.4 Expenses, (over head) budget or plan

“Marriage should view expensive planning as necessary to maintain responsible expense a levels to support the objectives and planned programs of the enterprises. Expenses planning should not better on decreasing expenses but rather on better utilization of limited resources. Viewed in this light, expense planning may cause either increased or decreased expenditures planning should focus on the relationship between expenditure and the benefit derived from these expenditures. The direct benefits should be viewed as goals, and sufficient resources must be planned to support the operating activities essential for their accomplishment.

2.11.4.1 Cost behavior

“In the expense planning the knowledge of cost behavior is important cost behavior in the response of a cost of different volume of output. There are three distinct categories of expenses, they are as follows:-

a) Fixed expenses:

These expenses that changes in total, from month to month regardless of fluctuations in output or volume of work done.

b) Variable expenses

These expenses changes in total directly with changes in output or volume of work done. The output must be measured in terms of some activity base, such as unit

completed, direct labor hour, sales dollars or number of services calls, depend on the activities on the responsibility centre.

c) Semi variables expenses:

These expenses are that which are neither fixed nor variable because they possess some characteristics of both as output changes in the same direction but not in proportion to the change in output.

2.11.4.2 Administrative Expenses Budget

“Administrative expenses include those expenses other than manufacturing and distribution. They are included in the responsibility centre that provides supervision of and services to all functions of the enterprises rather than in the performance of any one function because a large portion of administrative expenses fixed rather than variable. The nation persists that they cannot be controlled; aside from certain top management salaries, most administrative expenses are determined by management decision.”

It is advisable to base budgeted administrative expenses on specific plans and programs. Past experiences adjusted for anticipated change in management policy and general economic conditions, is helpful because most administrative expenses are fixed, an analysis of historical record will often provide a sound basis for budgeting them.

2.11.4.3 Capital Expenditure Budget

“A capital expenditure is the use of funds to obtain operational assets that will help to earn future revenues or reduce future costs. Capital expenditures include such fixed assets as property, plant, equipment, major renovations and patents.

Capital expenditures are invested because they require the commitment of resources today to receive higher economic benefits in the future. Capital expenditures become expenses in the future as their related goods and services are being used to earn a higher profit from future revenues or to achieve future cost savings. The related future expenses such as depreciation expenses are identified with the future periods when the capital additions are used for their intended purposes. Therefore capital expenditures involve two planning phases 1) investments and 2) expenses.”

Capital budgeting is the process of planning and controlling the strategic (long and tactical (short-term)) expenditures for expansion and contraction of investments operating (fixed) assets.

Capital budgeting involves the generation investment proposals the estimate of cash flow for the proposals the evaluation of cash flows the selection of projects based upon an acceptance criterion and finally the continual revaluation of investment projects after their acceptance.

“Capital projects are those that are expected to generate returns for more than one year capital budgeting refers to the process of planning capital projects, raising funds and efficiently allocating resources to those capital projects.”

“Capital expenditures are made in order to reduce cost, increase output expand into new products or market or meet government regulations. In general capital expenditures are made until the rate or the latest dollar invested equals the marginal cost of capital.”

Capital budgeting may be defined as the decision making processes by which firms evaluate the purchase of major fixed assets, including buildings, machinery and equipment. It is part of the firm’s formal planning process for the acquisition and investment of capital.

2.11.4.4 Cash Budget

One of the major responsibilities of management is to plan, control and safeguard the cash assets of the enterprise. The planning of the cash inflows, the cash outflows and related financing is important an all enterprises. Cash budgeting is an effective way to plan the cash flows, assess cash needs and effectively use excess cash. A primary objective is to plan the liquidity position of the company as a basis for determining future borrowings and future investment.

Planning cash inflows and cash outflows gives hype planned beginning and ending cash position for the budget period. Planning the cash inflows and outflows will include the need for financing probable case deficits or the need for investment planning to put excess cash to profitable use.

The primary purpose of the cash budget is:

1. Give the probable cash position at the end of each period as a result of planned operations.
2. Identify cash excesses or shortages by time periods.

3. Establish the need for financing and for the availability of idle cash for investment.
4. Coordinate cash with
 - a. Total working capital
 - b. Sales revenues
 - c. expenses
 - d. investments and
 - e. liabilities
5. Establish a sound basis for continuous monitoring of the cash position.

2.11.4.5 Performance report

“The performance reporting phase of a comprehensive profit planning program significantly influences the extent to which the organization planned goals and objectives are attained. Performance reports are usually prepared a monthly basis and follow a standardized format from period to period. Such reports are designed to facilitate internal control by management. They should be composed of carefully selected series of data related to each responsibility centre. Fundamentally, they report actual results, since these reports are designed to pinpoint both efficient and inefficient performance. The efficiency of management at attaining the desired result depends by and large on information it receives performance reports act as an important tool to provide necessary information centre. The main objective of such report is the communication of performance measurement, actual results and the related variances performance reports should be prepared by considering following criteria.

- i. Tailored to the organization structure and focus of controllability (that is by responsibility centers).
- ii. Designed to implement them by exception principle.
- iii. Respective and related to short time periods.
- iv. Adapted to the requirements of the primary users.
- v. Simple understandable and report only essential information.

2.11 Review of previous Research works.

The review of literature is a crucial aspect of the planning of the study. The much purpose of the literature review is to find out what works have been done in the area of research study being undertaken.

The profit planning in the context of particularly commercial banks seems to be new subject of study for research and analysis so for this research could find very few studies. An attempt is made here to review some of the research.

1. Miss Abha Devi Subedi has conducted a research on the topic profit planning of commercial bank. She has done a case study of Rastriya Banijya Bank Limited. Miss Subedi also tried to compare the income and expenditure as well as burden to the bank. The study covers five years period of time from 1993/94 to 1997/98. Data were taken from primary and secondary sources. Study is focused on secondary data. The main objective of the study was to examine the effectiveness profit planning system in the commercial banks and other objectives are as follows:-

- a. Examine the profit with trend and regression of regression method with deposits.
- b. Examine the loan of advance with trend of regression method with deposits.
- c. Highlight the total revenue and expenditure of the bank.

Shad has point out various findings and recommendations. A few of them are as follows:-

Findings

- a) The rate of expansion of branches of RBB was increased after introduction of priority sectors program in 2031 but his growth could not be a desired concentration of the branches is more in urban areas in rural areas.
- b) The banking cost is relatively higher.
- c) Most of the investment made against the security of land, gold and silver.
- d) The analysis of the positions of deposit in NRB shows that the deposits which are raised by the bank are not properly utilized.
- e) Bank has not been managed in true professional approach but manages in bureaucratic approach to sustain with political environment rather that commercial environment.

Recommendations

1. Performance of every branch with needed to be evaluated and those having performances below satisfactory level should be close down.
2. The interest rate on the deposit may be reducing in order to reduce the same in the credit.

3. Personal influence and interference by high ranking official should stop in order to improve the condition of the bank.
 4. RBB needs trends personal for providing adequate banking facility and good evaluation of the project to whom the banking giving loan.
 5. RBB should introduce new technique in banking system such as computer system.
2. Miss Uma Devi Karki has been conducted in the research on comparative profit planning of commercial bank. She has conducted the research study in 5 year period of time 050/051 to 054/055.

The basic objective of this study is to highlight the current practices of profit plan and its effectiveness in commercial banks and other specific objectives are as follows:-

- a. To analyze the major functional and financial plans for emulated and implemented in both bank.
- b. To sketch the main problems of developing and implementing profit planning system in both bank. To examine the outcome of those planning in term of achievement.
- c. To print out possible suggestions and recommendations of both banks to earn the profit planning system comparatively.

Finding:

- a. Cost controlled mechanism is found not to follow.
- b. No proper profit planning strategies seen to be developed although HBL is operating at profit but RBB is running with heavy cumulative loss.
- c. There is no detail publicity of the utilizations of much effectiveness except interest rate and annual final account report.
- d. RBB is unable to control idle expenses and its profit is negative or highly fluctuation.
- e. Government seems less conscious in the present situation of RBB.

Recommendations

1. It is recommended for the bank to check out target rate of return every year and on the basis of which the bank should plan profit by linking its activities with income generation programs whether fund based or non-fund based.

2. Accounting system should be systematic so that proper strategy can be applied specially in case of RBB and auditing of accounts should be done in time.
3. Government should be conscious in the present of RBB.
4. RBB should focus on constant return because it has always negative earning on capital.
5. Local experts should be involved more in top level of management of RBB so that they can run the bank easily in future.

CHAPTER – THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the methods and process applied in the entire subject of the study.

Research methodology depends upon the various aspects of the research project. The main objective of this thesis is however to examine and analyze the PPC system adopted by Himalayan Bank Limited.

Besides, this thesis is also means for analyzing the position of deposit, loan recoding and investment policy and to provide the appropriate suggestion and recommendation.

Thus, the researcher has tried to undergo the following methodology for the evaluation of various aspects of financial position of Himalayan Bank Ltd.

3.2 Research Design

A research design is the arrangement of conditions for collections and analysis of data that aims to combine relevance the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research and to control variances. To achieve the objective of this study descriptive and analytical research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques which have been adopted to evaluate investment performance of Himalayan Bank Ltd.

3.3 The Population and sample

This research work is designed with profit planning and control in Nepalese commercial bank. The total number commercial bank in Nepal is the population of the study. Among the total population of HBL has been chosen randomly for case study purpose.

3.4 Nature and sources of data

This study is mostly based on secondary data. However, primary data have also been used.

3.5 Data collection Procedures

The primary information has been obtained through discussions with the staff of the bank. Secondary data have been collected from the annual published accounting and financial statement of HBL. Similarly other necessary data have collected from publication of the Nepal Rastra bank publications of national planning commission central bureau of statics and related publications.

3.6 Statistical Tools Used

Data collected from various sources are managed, analyzed and presented in proper tables and formats. Such formats and tables are interpreted and explained wherever necessary.

To analyze the collected data, financial and statistical tool are used as financial tools mainly used are financial ratio. CPV analysis and flexible budget similarly the statistical tools used are means correlation regression, time series, coefficient of variance standard deviation, graphs diagrams etc.

3.7 Research Variables

Loan disbursement, deposit collection, capacity utilization, profit and loss, total assets, total capital employed, capital expenditure outstanding balance of letter of credit and bank guarantees and cash flow relating to short term and long term periods of HBL are the research variables of the present study.

3.8 Research Methodology

This study will be confined to examine the profit planning and control of HBL wherever financial, mathematical and statistical tools will be used to analyze the present data which will includes ration analysis in percentage, regression analysis, test of goodness of fit of regression estimate (r^2), correlation mean standard deviation, coefficient if variances etc.

CHAPTER – FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction:

Data presentation is most important part of the study. Therefore, for the effective study, data are presented in a condensed and organized form which light the comprehensible form and also highlighted study. This chapter presents the data, their analysis and interpretation with a view to find out the customer satisfaction towards the banking services of HBL. This section deals with genuine research work of the author in finding the true and fair picture of the institution and its transactions. After the collection of research data, an analysis of data and the interpretation of the results are necessary. So, analysis of data comes before interpretation. However, these two operations are so mixed up that they cannot be as two separate operations. There is something more crucial that the fact and figure in research. The purpose of research is to find out that something. The purpose of analysis is to build up a sort of intellectual model where relationship evolved is carefully brought out so that some meaningful inferences can be done.

4.2 Deposit composition

Table 1

Deposit Composition (In %)	2065/66	2066/67
Call deposit	12.57	14.08
Other deposit	1.92	2.52
Current deposit	9.28	9.52
Fixed deposit	18.39	30.12
Saving deposit	57.84	43.32

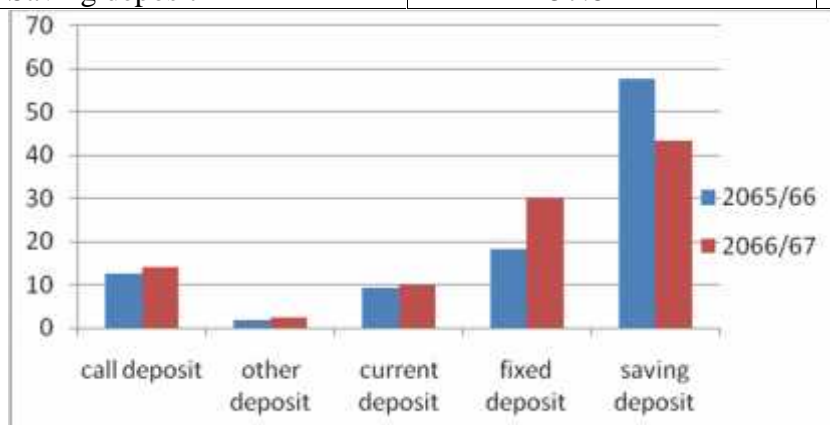


Table 2

4.3 Loan Composition

Loan Composition (In %)	2065/66	2066/67
Bills purchased & discount	1.12	0.51
Mergin lending	1.64	4.35
Deprived sector loan	2.27	2.98
Other loan	3.29	4.69
Hire purchase loan	4.28	5.05
Real estate loan	5.33	13.46

Term loan	15.42	16.23
Import/Export loan	17.19	11.69
Working loan	48.93	41.05

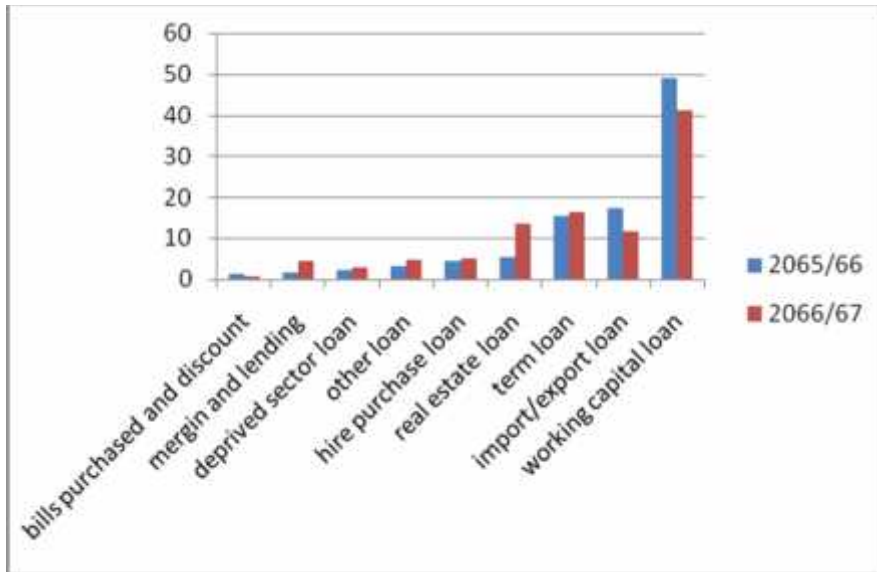


Table 3
4.4 Income Composition

Income Composition (In %)	Current Year	Previous Year
	2065/66	2066/67
Exchange fluctuation income	8.55	4.86
Commission & discount	9.73	7.28
Interest	80.13	84.83
Other income	1.59	3.03

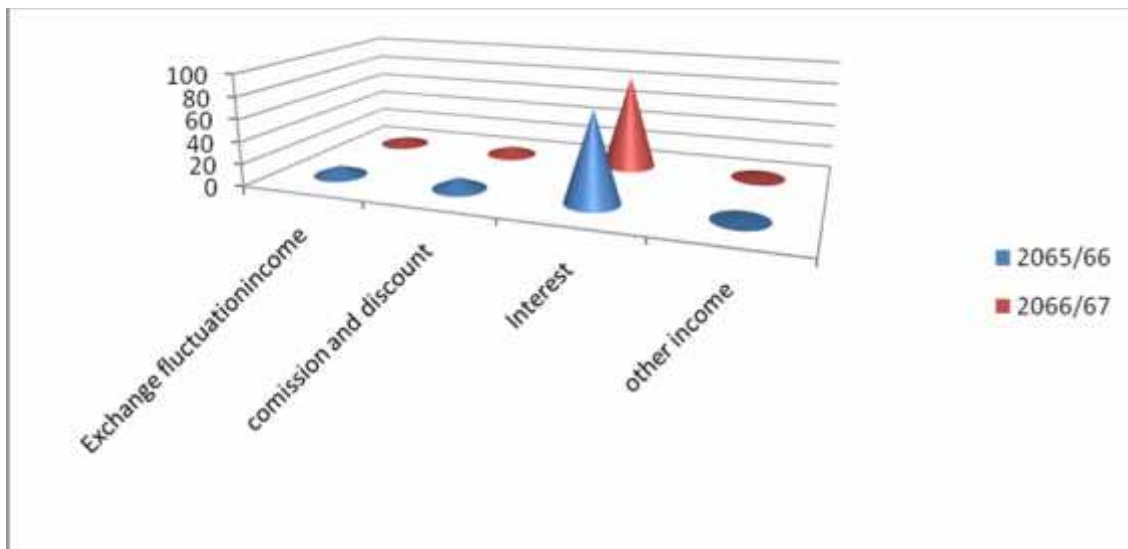


Table 4
4.5 Expense Composition

Expense Composition (In %)	Current Year	Previous Year
	2066/67	2066/67
Administration expenses	23.51	19.31

Staff expenses	21.31	17.01
Interest expenses	55.18	63.68

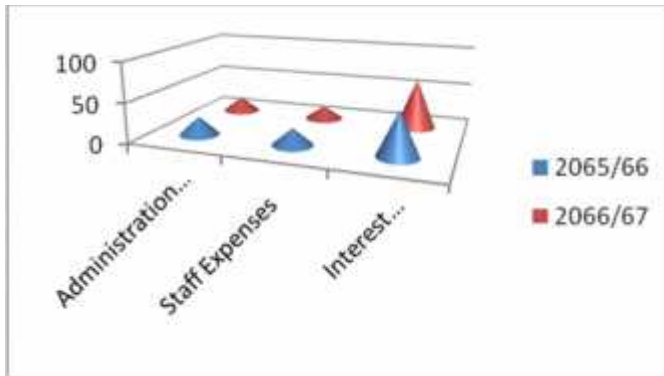


Table 5
4.6 Interest Expenses

Particulars	Current Year	Previous Year
	2066/67	2065/66
A. On Deposit Liabilities		
1. Fixed Deposits	709,662,939	260,932,125
1.1 Local Currency	687,201,288	212,676,014
1.2 Foreign Currency	22,461,651	48,256,111
2. Saving Deposits	560,238,241	433,809,243
2.1 Local Currency	551,660,582	422,797,883
2.2 Foreign Currency	8,577,659	11,011,360
3. Call Deposit	205,670,132	144,811,239
3.1 Local Currency	187,603,970	122,693,356
3.2 Foreign Currency	18,066,162	22,117,883
4. Certificate of Deposits - -		
B. On Borrowings	77,959,375	95,225,408
1. Debentures and Bonds	40,000,000	70,264,657
2. Loan from Nepal Rastra Bank	26,105,543	2,980,197
3. Inter Bank/Financial Institutions Borrowing	11,853,832	21,980,554
4. Other Corporate Bodies	-	-
5. Other Loans		
C. Others	-	-
Total	1,553,530,687	934,778,015



Table 6
4.7 Interest income

Particulars	Current Year	Previous Year
	2066/67	2065/66
A. On Loan, Advances and Overdraft	2,836,250,975	1,861,044,726
1. Loan and Advances	2,003,145,512	1,449,886,617
2. Overdraft	833,105,463	411,158,109
B. On Investment	216,035,586	354,949,455
1. Nepal Government Securities	216,035,586	354,949,455
a. Treasury Bills	192,869,090	335,229,682
b. Development Bonds	23,166,496	19,719,773
c. National Saving Certificate	-	-
2. Foreign Securities	-	-
a.	-	-
b.	-	-
3. Nepal Rastra Bank Bonds	-	-
4. Debenture and Bonds	-	-
5. Interest on Inter Bank Lending	-	-
a. Bank/Financial Institutions		
b. Other Organizations		
C. On Agency Balances	481,828	6,781,593
1. Local Banks	410,959	-
2. Foreign Banks	70,869	6,781,593
D. On Money at Call and Short Notice	9,258,974	7,733,909
1. Local Banks	9,200,947	3,824,965
2. Foreign Banks	58,027	3,908,944
E. On Others	86,577,833	111,688,496
1. Certificate of Deposits	-	-
2. Inter-Bank Loan	8,926,075	3,436,385
3. FCY Placements	77,651,758	108,252,111
Total	3,148,605,196	2,342,198,179



Table 7
4.8 Commission and discount income

Particulars	Current Year	Previous year
	2066/67	2065/66
A. Bills Purchased and Discounted	16,501,290	21,978,566
1. Local	16,304,133	19,726,224
2. Foreign	197,157	2,252,342
B. Commission	180,201,381	209,335,29
1. Letters of Credit	40,276,536	64,670,167
2. Guarantees	51,766,899	48,958,868
3. Collection Fees	10,929,607	9,490,295
4. Remittance Fees	49,921,094	50,940,107
5. Credit Cards Fee	27,307,245	35,275,857
6. Share Underwriting /Issue	-	-
7. Government Transactions	-	-
8. Agency Commissions	-	-
9. Exchange Fees	-	-
C. Others	73,556,061	52,988,417
Total	270,258,732	284,302,277

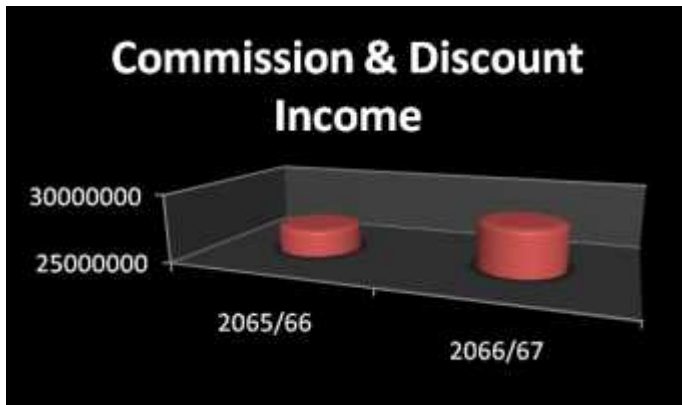


Table 8
4.9 Other Operating Income

Particulars	Current Year	Previous Year
	2066/67	2065/66
1. Safe Deposit Lockers Rental	8,214,273	8,597,296
2. Issue and Renewal of Credit Cards	43,595,966	19,520,532
3. Issue and Renewals of ATM Cards	2,419,335	1,702,253
4. Telex/ T. T	11,998,618	9,769,637
5. Service Charges	-	-
6. Renewal Fees	-	-
7. Others	46,118,233	6,753,154
Total	112,346,425	46,342,872

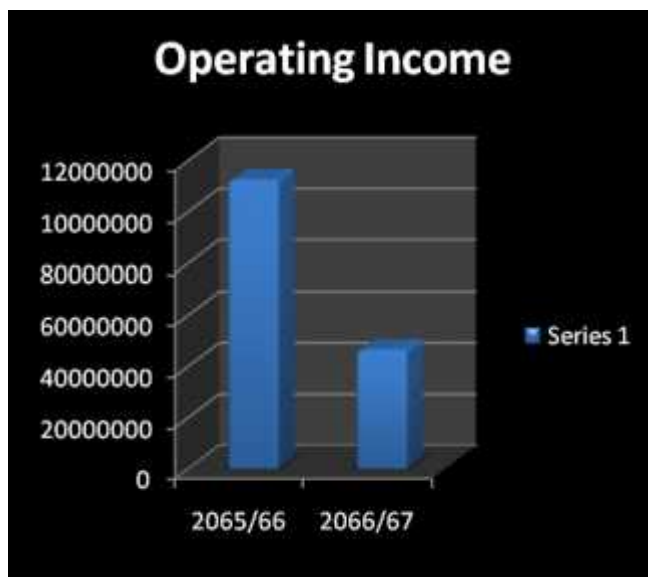


Table 9

4.10 Exchange Gain / (Loss)

Particulars	Current Year	Previous Year
	2066/67	2065/66
A. Revaluation Gain/(Loss)	(10,045,679)	8,948,268
B. Trading Gain (including exchange Fee on INR)	190,324,422	241,034,338
Total Income / (Loss)	180,278,743	249,982,606

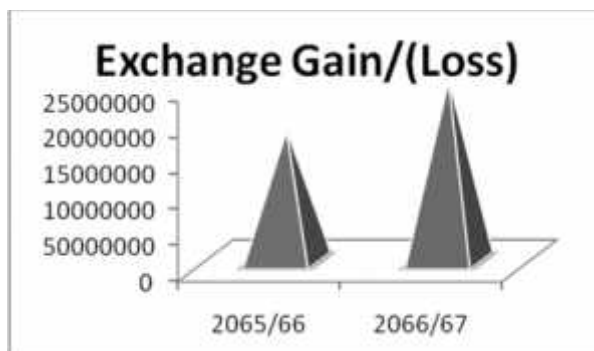


Table 10**4.11 Other Operating Expenses**

Particulars	Current Year	Previous Year
	2066/67	2065/66
1. Office Rent	63,493,567	51,558,878
2. Electricity & Water	13,109,944	9,929,846
3. Repairs and Maintenance	36,951,270	31,798,053
a. Building	440,023	451,136
b. Vehicles	1,092,520	950,752
c. Others	35,418,727	30,396,165
4. Insurance	10,708,504	10,045,893
5. Postage Telex, Telephone, Fax	17,309,966	14,973,073
6. Office Equipment & Furniture-Repairs	799,796	699,150
7. Travelling Allowances and Expenses	16,111,266	12,505,322
8. Printing and Stationery	15,665,683	15,279,909
9. Periodicals and Books	706,943	622,720
10. Advertisements	38,090,485	27,720,226
11. Legal Expenses	229,350	280,371
12. Donations	21,400	1,241,584
13. Expenses Relating to Board of Directors	4,739,988	3,075,956
a. Meeting Fees	883,800	748,800
b. Other Expenses	3,856,188	2,327,156
14. Annual General Meeting Expenses	722,656	1,066,761
15. Expenses Relating to Audit	1,052,623	980,920
a. Audit Fees	678,000	678,000
b. Other Expenses	374,623	302,920
16. Commission on Remittances		
17. Depreciation on Fixed Assets	62,533,206	57,422,384
18. Amortization	39,162,479	33,048,802
19. Share Issue Expenses	-	
20. Technical Services Fee	-	
21. Entertainment	1,011,29 5	2,532,447
22. Written off Expenses	3,175,040	2,184,051
23. Security Expenses	14,867,166	10,187,950
24. Credit Guarantee Premium	-	132,978
25. Commission and Discount	26,972,288	28,412,567
26. Others	103,668,051	82,616,725
a. Registration Fee and Charges	19,727,348	6,967,115
b. Card Membership and other expenses	50,974,985	43,518,961
c. Committee Meeting Fees	830,310	817,600
d. Fuel, Janitorial & Cleaning	20,304,453	20,818,635
e. Others	11,830,955	10,494,414
Total	471,102,966	398,316,566

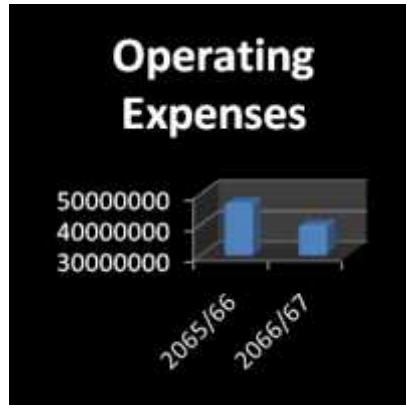
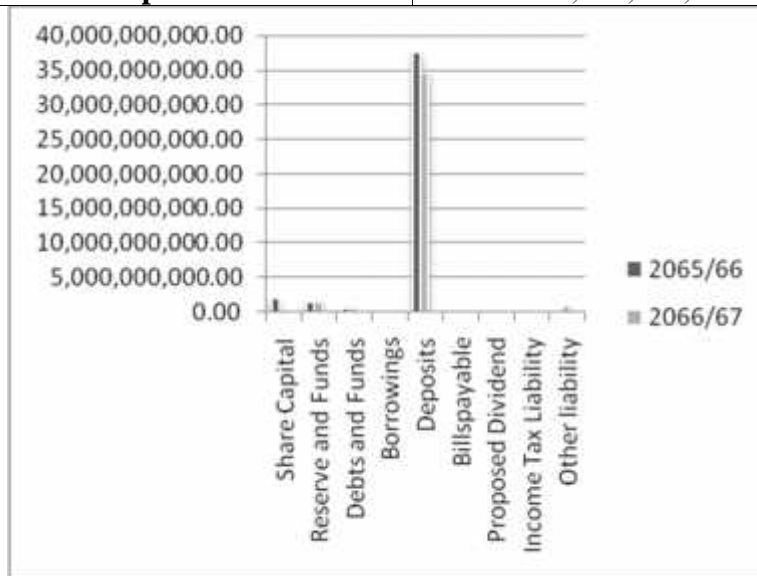


Table 11
4.12 Balance sheet
 As at 16 July 2010 (32 Ashadh 2067) Amount in NPR

Capital and Liabilities	Current Year	Previous Year
	2066/67	2065/66
1. Share Capital	2,000,000,000	1,600,00,000
2. Reserves and Funds	1,439,205,130	1,519,880,537
3. Debentures and Bonds	500,000,000	500,000,000
4. Borrowings	-	-
5. Deposits	37,611,202,274	34,682,306,863
6. Bills Payables	216,158,879	31,847,391
7. Proposed Dividend	189,473,600	162,096,954
8. Income Tax Liabilities	-	10,163,115
9. Other Liabilities	7,084,730	823,836,963
Total Capital & Liabilities	42,717,124,613	39,330,131,823



Assets	Current Year	Previous Year
	2066/67	2065/66
1. Cash Balance	514,223,569	473,759,695

2. Balance with Nepal Rastra Bank	2,604,790,901	2,328,405,821
3. Balance with Banks / Financial Institutions	747,476,214	246,361,272
4. Money at Call and Short Notice	308,840,000	1,170,793,650
5. Investments	8,444,910,165	8,710,690,646
6. Loan Advances and Bills Purchase	27,980,628,760	24,793,155,269
7. Fixed Assets	1,061,870,757	952,196,395
8. Non - Banking Assets	-	22,694,688
9. Other Assets	1,054,384,247	632,074,387
Total Assets	42,717,124,613	39,330,131,823

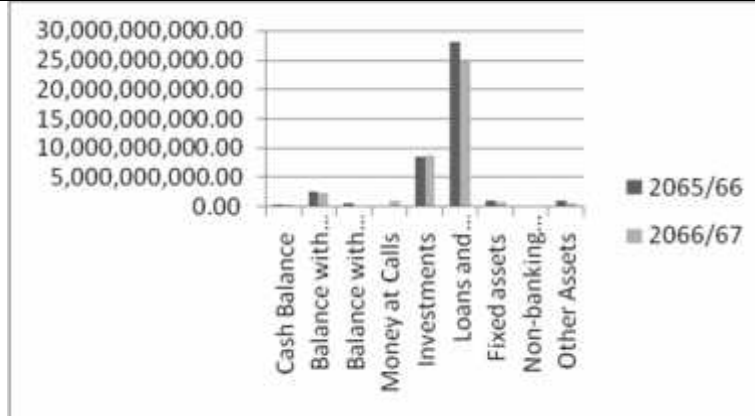


Table 12

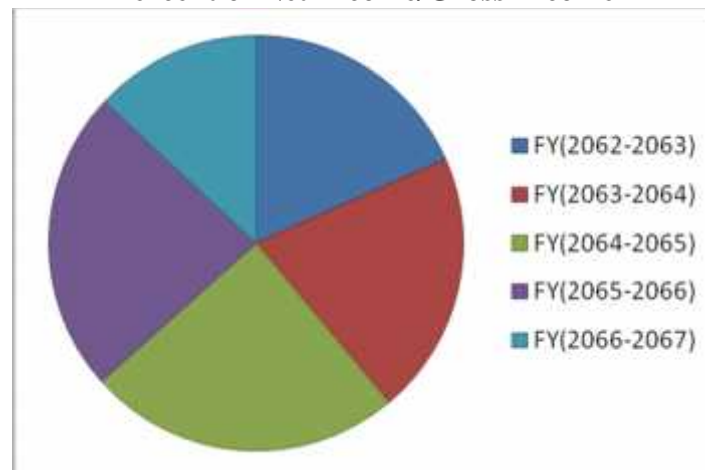
4.13 Principle Indicators:

Particulars	UNIT	FY 2005-2006	FY 2006-2007	FY 2007-2008	FY 2008-2009	FY 2009-2010
		2062-2063	2063-2064	2064-2065	2065-2066	2066-2067
Net Profit/ Total Income	Percent	35.16	34.90	41.58	39.96	22.13
Per Share Income	RS.	59.24	60.66	62.74	61.90	31.80
Per Share Market Value	RS.	1,100	1,740	1,980	1760	816
Price Earning Ratio	Ratio	18.57	28.69	31.56	28.43	25.66
Dividend in Share Capital	Percent	35.00	40.00	45.00	43.56	36.84
Cash Dividend in Share Capital	Percent	30.00	15.00	25.00	12.00	11.84
Interest Income/Loans and Advances	Percent	10.32	9.98	9.73	9.18	10.81
Staff Expenses/ Total Operating Expenses	Percent	41.57	47.40	48.31	47.54	46.83
Interest Expenses in Total Deposits	Percent	2.45	2.55	2.59	2.70	4.13
FX Fluctuation Gain/ Total Income	Percent	9.42	6.71	7.52	8.51	4.80

Staff Bonus/ Total Staff Expenses	Percent	35.16	19.78	23.58	22.81	15.41
Net Profit/ Loan and Advances	Percent	59.24	2.89	3.26	3.04	1.82
Net Profit/ Total Assets	Ratio	1,100	1.47	1.76	1.91	1.19
Total Loans/ Deposits	Percent	18.57	56.57	61.23	71.49	74.39
Total Operating Expenses/ Total Income	Percent	35.00	30.32	28.54	29.49	25.60
Capital Adequacy Ratio:						
Core Capital	Percent	8.65	9.61	9.36	8.81	8.68
Supplementary Capital	Percent	2.62	1.51	3.06	2.21	2.04
Total Capital Fund	Percent	11.26	11.13	12.42	11.02	10.72
Liquidity (CRR)	Percent	5.92	5.92	5.13	6.76	6.76
Non-performing Loan/ Total Loan	Percent	6.60	3.61	2.36	2.16	3.52
Weight Average Interest Rate Spread	Percent	3.80	3.57	3.66	3.66	4.25
Book Net worth per Share	Number	228.72	264.74	247.95	256.52	226.79
Total Share	Number	7,722,000	8,108,100	10,135,125	12,162,150	16,000,000
Total Staff	Number	561	584	591	591	577

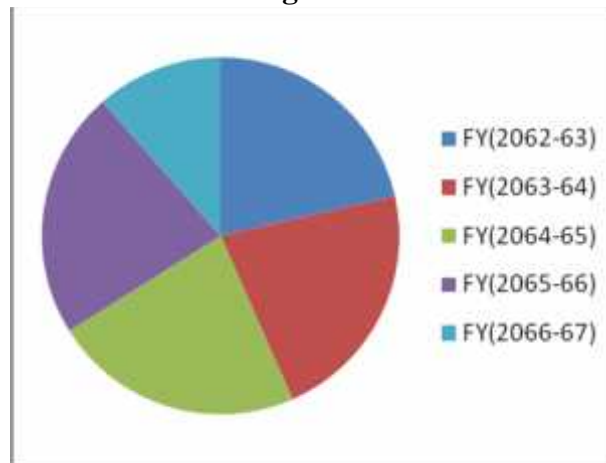
4.14 Analysis of Data:

Percent of Net Income/Gross Income



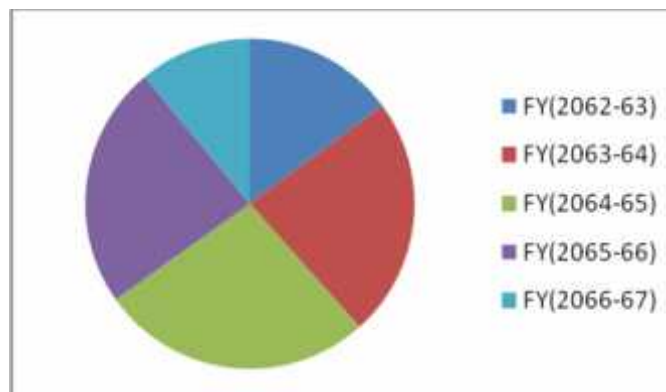
From above figure we can illustrate that the profit of Himalayan bank has been increasing accordingly every year. Its profit increased to 35.16% in FY 2062-63. But in FY 2063-64 its profit decreased to 34.90% in comparison to FY 2062-63 because of the political condition of the country. Again in FY 2064-65 its profit increased to 41.58%, similarly its profit decreased to 39.96% in FY 2065-66 comparison to FY 2064-65 and 22.13 in FY 2066-67 in comparison to FY 2065-66. This shows that the bank is in trend of developing every year.

Earning Per Share



From above figure we can illustrate that the EPS of Himalayan bank is on increasing trend every year. In FY 2062-63 its EPS was RS. 59.24 increased to RS. 60.66 in FY 2063-64. Similarly its EPS increased to RS. 62.74 in FY 2064-65, decreased to RS. 60.66 in FY 2065-66, to RS 31.80 in FY 2066-67 respectively.

Market Per Share



From above figure we can illustrate that the Market Value Per share of Himalayan bank is RS.1,100 in FY 2062-63, RS.1,740 in FY 2063-64 and RS.1,980 in FY 2064-65, RS.1,760 in FY 2065-66, RS. 816 in FY 2066-67 respectively.

Chapter-Five

SUMMARY CONCLUSION AND RECOMMENDATION

5.1 Summary

Past restoration of democracy and formation of democratic government, the country has taken a giant leap in the financial sector. The commercial banks started mushrooming every year and Himalayan Bank Ltd. is one of the banks whose growth rates in the recent years have been phenomenal. The economic development of any country is moved around with the development of banking sector in the country. It performs the task of mobilization and distribution of money in the economy. In context of Nepal, Nepal is a developing country and the development of this can't be achieved without the banks efforts.

This study tried to analyze and examines the practice, promote, procedure and techniques of preparing of various functional budgets for the application of the profit planning in commercial bank with a specific case study of Himalayan Bank Ltd. The basic objectives of this study are to highlight current prefaces of profit planning and it's effective in Himalayan Bank. The study has been organized in five main chapters consisting of introduction, review of literature, research methodology, presentation and analysis of data and summary, conclusion and recommendation.

5.2 Conclusion

After analyzing in details are the present practice of profit planning and control in HBL, this study concludes the following:

- ✓ The loan portfolio, deposit and profit of the bank are increasing every year.
- ✓ The bank's overall growth rate in terms of its assets, profits and deposits in the recent years is one of the best among the commercial banks in Nepal.
- ✓ Effective valuation of security.
- ✓ The bank has its own trained employees to the credit operations and investigation of customer integrity.
- ✓ Interest income amount of the bank is highest among total expenses items of the bank every year.

5.3 Recommendation

- ❖ The HBL has its branches only in urban areas so the bank should open branches in rural areas too.
- ❖ The operation and remittance department of the bank should behave in good manner with its customer because customer's satisfaction is bank's main motto.
- ❖ The bank should give more focus on customer's satisfaction.

- ❖ Climbing of the ladder and reaching up the top is easy, but remaining at the same position is difficult task. So, HBL has to be more aware of its competitors and must be one more step a head.
- ❖ The goal of HBL should be cleared. Employees of all level should be identified clearly with their duties and responsibilities respectively.
- ❖ The HBL most consider globalization scenario and develop its policy in that direction to meet the competition and build up credit in global areas.
- ❖ The blacklisting system has created havoc among the genuine customers. This issue should be raised with the central bank.

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Annexure

Table and Calculation:

Balance sheet

As at 16 July 2010 (32 Ashadh 2067) Amount in NPR

Capital and Liabilities	Current Year	Previous Year
	2066/67	2065/66
1. Share Capital	2,000,000,000	1,600,00,000
2. Reserves and Funds	1,439,205,130	1,519,880,537
3. Debentures and Bonds	500,000,000	500,000,000
4. Borrowings	-	-
5. Deposits	37,611,202,274	34,682,306,863
6. Bills Payables	216,158,879	31,847,391
7. Proposed Dividend	189,473,600	162,096,954
8. Income Tax Liabilities	-	10,163,115
9. Other Liabilities	7,084,730	823,836,963
Total Capital & Liabilities	42,717,124,613	39,330,131,823

Assets	Current Year	Previous Year
	2066/67	2065/66
1. Cash Balance	514,223,569	473,759,695
2. Balance with Nepal Rastra Bank	2,604,790,901	2,328,405,821
3. Balance with Banks / Financial Institutions	747,476,214	246,361,272
4. Money at Call and Short Notice	308,840,000	1,170,793,650
5. Investments	8,444,910,165	8,710,690,646
6. Loan Advances and Bills Purchase	27,980,628,760	24,793,155,269
7. Fixed Assets	1,061,870,757	952,196,395
8. Non - Banking Assets	-	22,694,688
9. Other Assets	1,054,384,247	632,074,387
Total Assets	42,717,124,613	39,330,131,823

Principle Indicators:

Particulars	UNIT	FY 2005- 2006	FY 2006-2007	FY 2007- 2008	FY 2008-2009	FY 2009-2010
		2062- 2063	2063-2064	2064- 2065	2065-2066	2066-2067
Net Profit/ Total Income	Percent	35.16	34.90	41.58	39.96	22.13
Per Share Income	RS.	59.24	60.66	62.74	61.90	31.80
Per Share Market Value	RS.	1,100	1,740	1,980	1760	816
Price Earning Ratio	Ratio	18.57	28.69	31.56	28.43	25.66
Dividend in Share Capital	Percent	35.00	40.00	45.00	43.56	36.84
Cash Dividend in Share Capital	Percent	30.00	15.00	25.00	12.00	11.84
Interest Income/Loans and Advances	Percent	10.32	9.98	9.73	9.18	10.81
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