

PROFIT PLANNING IN COMMERCIAL BANK OF NEPAL

(With Reference to Laxmi Sunrise Bank)

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RECOMMENDATION

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DECLARATION

I hereby declare that the work reported in this thesis entitled **Profit Planning In Commercial Bank of Nepal (With Reference to Laxmi Sunrise Bank)** submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my original work conducted in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (M.B.S.) under the supervision of **Dr. Tri Ratna Manandhar** and **Lecturer Romakant Bhattarai** of Shanker Dev Campus.

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ABBREVIATIONS

| | | |
|-------|---|-----------------------------|
| A.D | = | Anno Domini |
| A/C | = | Accountancy |
| ATM | = | Automated teller Machine |
| B.S | = | Bikram Shambat |
| BDO | = | Board of Director |
| BEP | = | Break Even Point |
| CBs | = | Commercial Banks |
| C.O.D | = | Cost of Deposit |
| C.V. | = | Coefficient of Variation |
| Co. | = | Company |
| CRR | = | Cash Reserve Ratio |
| CVP | = | Cost Volume Profit |
| Etc. | = | Etcetera |
| i.e. | = | That is |
| LBL | = | Laxmi Bank Limited |
| LC | = | Letter of Credit |
| Ltd. | = | Limited |
| NRB | = | Nepal Rastra Bank |
| O.P | = | Operation Profit |
| P.E | = | Profitable Error |
| PPC | = | Profit Planning and Control |
| Rs | = | Rupees |
| S.D. | = | Standard Deviation |
| T.U. | = | Tribhuvan University |
| VS | = | Versus |
| YOF | = | Yield on Fund |

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is small landlocked country with the area of 147,181 sq. km. The country is bordering between the two 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 the poverty line. Per capita income is estimated to be \$210. Economic inequality is also high. More than 80% (Eighty) of people depends on agriculture sector and most of them live in rural areas. 91% of total population lives in rural being engaged in agriculture related activities and 9% live in urban areas. Agriculture is still the main source of 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 sector 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. Beside 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 are directly sell services to the customer 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 success of such 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 different between earning and expenditure. Increase in earning or decrease in expenditure, increases the profit whereas the decrease in earning or increase in expenditure decrease 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 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 Means transfer of 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 sale of each product or services contribute some in total earning or profit.

Importance of financial institutions

Financial institutions play an important role in the economic development. Commercial Bank is one of the vital aspects of these sectors, which deals in the process of channeling the available resources in the necessary sector. It is the intermediary between the deficit and financial resources. Financial institutions likes Bank are necessary to collect scattered saving and put them into productive sectors through various channels. In the absence of such institution, 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 circle of poverty. In order to collect the enough saving and put them into productive sectors, so banking sector is necessary. It will be utilizing within the economy and will either divert abroad or used for unproductive consumption speculative activities. Commercial Banks are suppliers of finance for trade and industry, which play an essential role in accelerating the economic growth in nation. 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 or rural 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.

1.2 Introduction of Profit Planning Control (PPC)

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 lifeblood 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 compete 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 over 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 customer. 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's 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 in business 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.

A budget is a numerical plan of actions, which generally covers the areas of revenues and expenditures. The main aim of budgeting is to present the future forecasting numerically expressed in appropriate format. So as, to have proper control over profits and costs.

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 a 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 P.N. Gordian's

comprehensive profit planning and control is viewed as a process designed to help management effectively perform significant phases of planning and controlling functions. Profit planning is now an 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 viewpoint, 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 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 on 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 the part of several planning process on organization. Budget is the 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.

1.2.1 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 LBL. 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 items in the problems.

Generally, two types of profit planning practices are used in an organization; they are strategic long range profit plan and tactical short range profit plan. Long range profit

covers horizon of two years of 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 purpose of analyzing the short range planning of Laxmi Bank Limited 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 role in profit planning will be discussed in detailed.

- Loan disbursement plan
- (Loan disbursement plan will be analyzed by the category of loans)
- Fund collection plan. (This budget contains the money collection by different types of account loan from NRB and other Bank and financial companies.)
- The expenses budget (LBL prepares many expenses budget are following employee, salary and allowance operations and maintenance vehicles, over time overhead).
- Capital expenditure budget
- Cash flow budget
- Cost volume profit relationship.

1.3 Profile of Laxmi Bank Limited. (LBL)

Corporate Profile

Massive changes and developments have taken place during the past two decades in the financial sector. Amidst all these changes, for economic growth and development of New Nepal, Liberalization, Privatization and Globalization in this sector has given birth to the largest commercial bank, “Laxmi Bank Ltd”. Laxmi bank limited (LBL), was incorporated in April 2002 as the 16th commercial bank in Nepal. In 2004 Laxmi Bank merged with HISEF Finance Limited, a first generation financial company which was the first merger in the Nepali corporate history. Laxmi Bank is a Category ‘A’ Financial Institution and re-registered in 2006 under the “Banks and Financial Institutions Act” of Nepal. The bank has 1.69 billion paid up capital. The Bank’s shares are listed and actively traded in the Nepal Stock Exchange (NEPSE). It has 35 branches and 2 extension counter. The bank is technologically driven progressive

Bank with strong risk and corporate governance foundations. The bank is known for innovation and claim to many “firsts” in the Nepalese financial market. The bank has the best asset quality among all financial institutions in the country and technology has been rated “Highly Secure” by an independent internationally accredited information system auditors.

Laxmi Bank’s award winning Annual Reports has set the standards for quality, presentation and disclosure for the Nepalese corporate sector to follow since 2005. Laxmi Bank promotes a separate life insurance company – Prime Life Insurance Limited which came into operation in 2009.

1.4 Statement of the Problem

Profit planning & control (PPC) model provides a tool for more effective. The concept of profit planning hasn’t even been familiarized in the most of the business by proper profit planning a business can be managed more effectively & efficiently. Commercial banks play vital role in economic growth of a country. As a being a commercial institution, a commercial bank must make profit out of its operations for its survival & fulfillment of the responsibilities assigned. The study has analyzed & examined the PPC side of commercial bank taking a case of Laxmi Bank Ltd. Furthermore the study is answered the following research questions:-

- What are the premises adopted by LBL in profit planning?
- What is the condition on growth of the business of the bank over the periods?
- What is the difference between variances of budgeted and actual achievements?

1.5 Objectives of the Study

The basic objective of this study is to apprise Laxmi Bank Ltd. appropriately for the application of comprehensive PPC system. Thus the major objectives are:

- To assess current profit planning premises adopted in LBL.
- To analyze the variances of budgeted and actual achievements.
- To analyze the growth of the business of the bank over the periods.

1.6 Limitations of Study

The researcher has however tried to eliminate the limitations to the best possible extent, yet it will suffer from the following limitations:-

- The study will be made for partial fulfillment of the requirements of Master in Business Studies (M.B.S.), therefore only Laxmi Bank Ltd. will be for this study.
- Only the profit planning aspect of the bank has been analyzed leaving other area uncovered.
- The study covers the related data of the bank F/Y 2074/75 to 2078/79. Based on the data available from the management of Laxmi Bank Ltd., the various published documents of the bank and the response made by the respondent during the discuss.

1.7 Significance of the Study

The researcher study is concerned with the profit planning in commercial banks with a case study of Laxmi Bank Ltd. with the major objectives of examining the proper applicability of profit planning system in the bank. Profit Planning process significantly contribution to improve the profitability as well as the overall financial performance of an organization by the best utilization resources.

1.8 Organization of the Study

The study has been organized into five chapters; the titles of each of these chapters are as follows.

Chapter –I: Introduction

This chapter contains the introductory part of the study. As already mentioned, this chapter describes the major issues to be invested along with the general background, brief profiles of the sample bank, statement of problem, objectives, significance of the study, limitation of the study, limitation of the study and organization.

Chapter –II: Conceptual Framework and Review of Literature

This chapter is devoted to theoretical analysis and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies in general.

Chapter -III : Research Methodology

This chapter deals with methodology that includes research source and nature of data, data collection techniques, statistical tool used for the study.

Chapter – IV: Data Presentation and Analysis

Various data have been gathered from the published reports and documents. Data have been analyzed with the help of various analytical tools and techniques. It also includes major findings of the study.

Chapter – V : Summary, Conclusions and Recommendations

This chapter includes summary, conclusion and recommendation of the study.

Bibliography and Appendix will be included in the last page of the thesis

CHAPTER - II

REVIEW OF LITERATURE

It is a part of review of literature. In this part the framework theoretical review from text books, reference books article and thesis written on related topic profit planning and control has been reviewed.

2.1 Conceptual Framework

2.1.1 Fundamental concept of Profit Planning and Control

In modern-day business except in very small companies, it is virtually impossible for the top manager to have firsthand knowledge of all the relevant factors operating throughout a business. Nor can a single lower-level manager be expected to have the range of knowledge, experience and competence to make all the decisions for the large segments of a company, either as a source of reliable information or as a participation in decision-making. The quality of the judgments of the total management effort will continue to distinguish the better- managed and more successful companies. Profit planning and control is the tool that is used to increase significantly the effectiveness of a management and to place managerial judgments on a more objective and informed foundation.

Managing in fact implies co-ordination and control of the total enterprise efforts to achieve the organizational objectives. The process of managing is facilitated when management charts its course of action in advance. The function of management includes decision-making facilitated by various managerial techniques, procedures and by utilizing the individual and group efforts in a co-coordinated and rational way. Profit planning is one of the systematic approaches for attaining effective management performance. Profit planning is a predetermined detailed plan of action developed and distributed as a guide to current operations and as partial basis for the subsequent evaluation of performance (Joshi, 2013).

The profit planning and control means the development and acceptance of objectives and goals. It is a tool that may be used by the management in planning the future course of action and in controlling the actual performance. Profit planning is merely a tool of management; it is not an end of management or substitute of management. It is strictly an

internal affair; it should not be made public. Profit planning and control provide guidelines to management and it acts as signal light for the management and enables the management to correct its policy.

Koontz and Donnel have given emphasis on planning and control function of management. The role of management on profit planning and control has been defined and the assumption that management can plan and control long term destiny of an organization through perfect decision making process. In favor of planning and control economist and the management experts have said that planning means prosperity and unplanned means happenstance. So, a modern management expert has given more importance to profit planning and control. Profit planning and control has been regarded as a basis for perfect decision-making.

Profit planning and control also known as comprehensive profit planning and control is a new term in the literature of business through it is a new term but it is not a new concept in the management. Comprehensive profit planning and control or PPC on other terms are business budgeting, managerial budgeting and budgeting. It is an integral part of management. Profit plan is a financial and narrative expression of the expected results from the planning decisions. It is called the profit plan (or the budget) because it explicitly states the goals in terms of time expectations and expected financial results (return on investment, profit, and cost) for each major segments of the entity. Typical profit plans establish the content and format of the internal –control reports with respect to operations, inputs, outputs and financial position developed by the entity for monthly performance reporting to the various levels of management (Welsch, et al., 2006).

Profit planning in fact is a managerial technique and is such a written plan in which all aspects of business organization with respect to definite future period are included. It is a formal statement of policy; plan; objective and goal established by the top management in respect of some future period. Profit plan is a pre-determined detailed of plan action developed and distributed as guide to current operation and as a partial basis for the subsequent evaluation performance. Thus, we can say that profit plan is a tool, which may be used by management in planning the future course action and in controlling the actual performance (Gupta, 2012).

The fundamental concept of PPC includes the underlying activities of tasks that must generally be carried out to attain maximum usefulness from PPC.

- A management process that includes planning, organizing, staffing, leading and controlling.
- Managerial commitment effective management participation by all level in the entity.
- An organization structure that clearly specifies assignments of management authority and responsibility at all organizational levels.
- A management planning process.
- A management control process.
- A continuous and consistent coordination of all the management functions.
- Continuous feed forward, feedback, follow-up preplanning through defined communication channels (both downward and upward).
- A strategic profit plan.
- A tactical plan.
- A responsibility accounting system.
- A continuous use of the exception principle.
- A behavioral management program.

2.1.2 Basic Elements of Profit Planning and Control

The basic elements of profit planning are as follows (Kothari, 1990): Comprehensive and co-ordinate plan: The profit planning considers all activities and operations of an organization. The budget prepared by different departments inside an organization is compiled. So, before preparing a profit planning firstly the entire budget prepared by departments have to be compiled to form comprehensive profit planning.

- It expressed in financial terms: All activities covered by budgets are related with funds. Therefore the budget has to be expressed in money units i.e. in rupees, dollars, pounds etc.
- Plan for firm's operating and resource of budget: It is a mechanization to plan for the firm's all operation are revenue and expenses. The budgets must plan for quantity, revenue and expenses related to specific operations. Planning should not be done for revenue and expenses only. The plan should be made to carry out the

operations. The planning for resources will include planning assets and sources of funds.

- Plan for specific periods: Time dimension must be added in a budget. A budget is meaningful only when it is related to a specific time. The budget estimates will be relevant only for some specific period.

2.1.3 Foundation for PPC

An enterprise has to take some major steps to establish a sound foundation for initiating a profit planning and control program. These steps are as follows (Welsch, et al., 2006):

Step-1: There must be strong commitments by the top management to the broad concept of profit planning and control and a sophisticated understanding of its implications and operations.

Step-2: The characteristics of the enterprise and the environment in which it operates including the controllable and non-controllable variables must be identified and evaluated so that relevant decisions may be made about the characteristics of a profit planning and control program that would be effective and practical.

Step-3: There must be an evaluation of the organizational structure and assignment of managerial responsibilities and implication of changes deemed necessary for effective planning and control.

Step-4: There must be an evaluation and reorganization of the accounting system to ensure that it is tailored to the organizational responsibilities so that it can provide data particularly useful for planning and control purposes.

Step-5: A policy determination must be made about the time dimensions to be used for profit planning and control purposes. (i.e. long range, medium range and short range).

Step-6: A program of budget should be developed to inform management at all levels about (a) the purpose of the program; (b) the manner in which it will operate, including the basic management policies and guidelines for its administration; (c) the responsibility of each level of a management in the program; and (d) the ways in which the program can facilitate the performance of each manager's functions.

2.1.4 Activities Involved in PPC

Profit planning has the ultimate objectives of attaining the optimum profit as indicated by many successful applications. The most reasonable approach to attain the optimum profit

is to plan as a percentage of capital employed to produce them and to manage the enterprise with the objectives of achieving the planned percentage. It is the heart of management with proper planning. Profits will not just happen thus every enterprise should be systematically planned for profit and control over them. Profit planning in fact is management technique and a profit plan I such a written plan in which objectives and goal established by the top management in respect of some future period plan of action development and distributed as a guide to current operations and as a partial basis for the subsequent evaluation (Welsch, et al., 2006).

The following are the activities involved in PPC.

- Development and applications of broad and long range objectives of the enterprise.
- Specification of enterprise goals.
- Development of a storage long-range profit plan detailed by assigned responsibilities (division, department and project).
- Development of follow up procedures.

2.1.5 Application of PPC

Some people say that comprehensive profit planning and control is applicable only to large and complex organizations. Comments like “comprehensive budgeting is a fine idea for most businesses, but ours is different” or “it is impossible to project our revenues and expenses,” and so on. Such types of comments are common regarding non-manufacturing enterprise, service companies, financial institutions, hospitals certain retail business, construction companies, and real estate enterprises. To the contrary, profit planning and control can be adapted to any organization (profit or non-profit, service or manufacturing), regardless of size, special circumstances or conditions. The fact that a company has peculiar circumstances or critical problems is frequently a good reason for the adoption of certain profit planning and control procedures. In respect to size, when operations are extensive enough to require more than one or two supervisory personnel, there is a need of profit planning and control applications. The smallest company certainly has different needs in this respect than a large one. As with accounting, a single profit planning and control system that is appropriate for all enterprise cannot be designed. A profit planning and control must be tailored to fit the particular enterprise, and it must be continually and the enterprise and its environment change (Kothari, 1990).

2.1.6 Importance of PPC

A profit planning and control program helps the management perform its control function by providing realistic goals and standards. It emphasized on developing goals, coping with the effects of budgetary pressure, resolving budget, padding problems and using budgets for control. The following points show the importance of PPC (Welsch, et al., 2006):

- It forces early consideration of basic policies.
- It requires adequate and sound organization structure; that is, there must be a definite assignment of responsibility for each function of the enterprise.
- It compels all members of management, from the top down, to participate in the establishment of goals and plans.
- It compels management to plan for the most economical use of labor, material and capital.
- It instills at all level of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.
- It reduces cost by increasing the span of control because fewer supervisors are needed.
- It frees executives from many day-to-day internal problems through predetermined policies and clear-cut authority relationships. It thereby provides more executive time for planning and creating thinking.
- It tends to remove the cloud of uncertainty that exists in many organizations, especially among the lower levels of management, relative to basic policies and enterprise objectives.
- It pinpoints efficiency and inefficiency.
- It promotes understanding among members of management of their co-workers' problems.
- It forces a periodic self-analysis of the company.
- It forces management to give adequate attention to the effect of general business conditions.
- It aids in obtaining bank credit; banks commonly require projections of future operations and cash flows to support large loans.
- It checks progress or lack of progress toward the objectives of the enterprise.
- It forces recognition and corrective action (including rewards).

- It rewards high performance and seeks to correct unfavorable performance.
- It forces management to consider expected future trends and conditions.

2.1.7 Problems of PPC

Although PPC has lot of importance and usefulness it is not a full proof concept. It has some problems. The following are the major problems of profit planning and control (PPC) (Kulkarni, 1981):

- It is difficult, if not impossible to estimate revenues and expenses realistically.
- Management has no interest in all the estimates and schedules.
- It is not realistic to write out the distribution of the goals, policies and guidelines to all the supervisors.
- Budgeting places too great a demand on management time, especially to revise budgets constantly. Too much paper work is required.
- It takes away management flexibility.
- It creates all kinds of behavioral problems.
- It places the management in a straitjacket.
- It adds a level of complexity that is not needed.
- It is too costly, aside from management time.
- The managers, supervisors and other employees hate budgets

2.1.8 Critical Features or Limitations of PPC

Apart from its importance and problems of PPC it has some certain limitations that should be taken into consideration by the management. The following are the critical features of PPC.

The Profit Plan is Based on Estimates

The advantage and disadvantages of a profit planning program depend to a large extent on the realism with which the basic estimates are made. Estimates must be based on all available facts and sound managerial judgment. Estimating sales and expenses cannot be an exact science; however, numerous mathematical, statistical and other techniques can be applied to these problems to produce realistic results.

A Profit Planning and Control Program Must be Continually Adapted to Fit Changing Circumstances

A comprehensive budget program cannot be started and perfected in a short time. Profit planning and control techniques must continually be adapted, not only for each particular enterprise but for changing conditions within the enterprise. Continuous budget education is necessary, especially during the formative period.

Execution of a Profit Plan will not Occur Automatically

Profit plan will be effective only if all responsible executives exert continuous and aggressive efforts toward their accomplishment. All levels of management must understand the program, must be convinced of its relevance to their function, and must participate in its implementation in an appropriate way.

The Profit Plan is not a Substitute for Management

Profit planning cannot substitute for enlightened management. It is a system that can aid in performing the management process. The profit plan should be regarded not as a master, but as a servant. It is one of the best tools yet devised for advancing the affairs of a company and the individuals in their various spheres of managerial activity (Welsch, et al., 2006).

2.1.9 Types of Planning

On the basis of period of time, planning can be classified into three groups; they are short-term planning, medium-term planning and long-term planning.

Short-Term Planning

Planning having the period one year or less than one year is called short-term planning. Generally short-term planning is called functional or operational planning. The short range planning is selected to conform to fiscal quarters or one year. Short range planning or operational planning or functional planning are determined help to get the achievement of medium-term & long-term planning. Quarterly sales plan, quarterly purchases plan of raw materials, quarterly production plan etc are the example of short-range planning. Generally short-term planning is prepared by lower level management (Maclead, 1983).

Medium-Term Planning

Planning which covers the period generally more than one year and less than five years is called medium-term planning. This type of planning is to establish interim objectives between long range goal and for use in the development of annual programmer and budget. In their causes, target with specific results and definite time table must be

developed. It is used mainly to determine the allocation of the resources among competitive activities and revised long range planning after takes form of budgeting in which divisions, departments or units is allocated certain resources during the coming years. More detail is involved in it than short range but less than long range plans. While resources allocation is important final approval will only be required for the short range and a consideration of alternatives is still possible (Maclead, 1983).

Long-Term Planning

Planning which covers generally more than five years and prepared by top level management is called long range planning. Generally long range planning is called strategic planning. Strategic planning is prepared showing many possible effects in long run and overall development. Increment of efficiency, change in capital, purchase of very expensive fixed assets etc are fall under the long range planning.

“Long range planning decisions systematically and with the best, possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions and measuring the results of those decisions against the expectation through organized systematic feedback.”

The objectives of long range planning (Maclead, 1983):

- To provide a clear picture of weather the enterprises is handed.
- To keep enterprise strong.
- To focus on long-range opportunities.
- To evaluate management personnel.
- To expend new Financing.

2.1.10 Forecasting

To predict what will happen in future is forecast. A forecast is the likelihood of event or happening given the part of data and expected changes. There is no assumption regarding the commitment of management realizing the forecast. In other word forecasting is the prediction of future within the prediction of future within the base of historical information and not necessary negotiation approval and Review, Some features of forecasting (Maclead, 1983):

- It is based on historical information and revises whenever new data become available.
- It doesn't involve any commitment on the parts of the forecaster to attain the forecasting. It is not based within time period.

- It doesn't involve negotiation approval and review.
- It doesn't need expressed in the financial term.

2.1.11 Control System

Control means by which a variable quantity or set of variable quantities is made to conform to a prescribed norm. It either holds the values of the controlled quantities constant or causes them to vary in a prescribed way. A control system may be operated by electricity, by mechanical means, by fluid pressure (liquid or gas), or by a combination of means. When a computer is involved in the control circuit, it is usually more convenient to operate all of the control systems electrically, although intermixtures are fairly common.

There are various cases in industrial control practice in which theoretical automatic control methods are not yet sufficiently advanced to design an automatic control system or completely to predict its effect. This situation is true of the very large, highly interconnected systems such as occur in many industrial plants. In this case, operations research, a mathematical technique for evaluating possible procedures in a given situation, can be of value.

In determining the actual physical control system to be installed in an industrial plant, the instrumentation or control-system engineer has a wide range of possible equipment and methods to use. He may choose to use a set of analogue-type instruments; those that use a continuously varying physical representation of the signal involved i.e. a current, a voltage, or an air pressure. Devices built to handle such signals, generally called conventional devices, are capable of receiving only one input signal and delivering one output correction. Hence they are usually considered single-loop systems, and the total control system is built up of a collection of such devices. Analogue-type computers are available that can consider several variables at once for more complex control functions. These are very specific in their applications, however, and thus are not commonly used. The number of control devices added to an industrial plant may vary widely from plant to plant. They may comprise only a few instruments that are used mainly as indicators of plant-operating conditions. The operator is thus made aware of off-normal conditions and he himself manually adjusts such plant operational devices as valves and speed regulators

to maintain control. On the other hand, there may be devices of sufficient quantity and complexity so that nearly all the possible occurrences may be covered by a control-system action ensuring automatic control of any foreseeable failure or upset and thus making possible unattended control of the process (Welsch, et al., 2006).

With the development of very reliable models in the late 1960s, digital computers quickly become popular elements of industrial-plant-control systems. Computers are applied to industrial control problems in three ways: for supervisory or optimizing control; direct digital control; and hierarchy control.

In supervisory or optimizing control the computer operates in an external or secondary capacity, changing the set points in the primary plant-control system either directly or through manual intervention. A chemical process, for example, may take place in a vat the temperature of which is thermostatically regulated. For various reasons, the supervisory control system might intervene to reset the thermostat to a different level. The task of supervisory control is thus to “trim” the plant operation, thereby lowering costs or increasing production. Though the overall potential for gain from supervisory control is sharply limited, a malfunction of the computer cannot adversely affect the plant.

In direct-digital control a single digital computer replaces a group of single-loop analogue controllers. Its greater computational ability makes the substitution possible and also permits the application of more complex advanced-control techniques. Hierarchy control attempts to apply computer to all the plant-control situations simultaneously. As such, it requires the most advanced computers and most sophisticated automatic-control devices to integrate the plant operation every level from top-management decision to the movement of a valve.

The advantage offered by the digital computer over the conventional control system described earlier, costs being equal, is that the computer can be programmed readily to carry out a wide variety of separate tasks. In addition, it is fairly easy to change the program so as to carry out a new or revised set of tasks should the nature of the process change or the previously proposed system prove to be inadequate for the proposed task. With digital computers, this can usually be done with no change to the physical equipment of the control system. For the conventional control case, some of the physical

hardware apparatus of the control system must be replaced in order to achieve new implementations of them (Welsch, et al., 2006).

Control systems have become a major component of the automation of production lines in modern factories. Automation began in the late 1940s with the development of the transfer machine, a mechanical device for moving and positioning large objects on a production line (e.g., partly finished automobile engine blocks). These early machines had no feedback control as described above. Instead, manual intervention was required for any final adjustment of position or other corrective action necessary. Because of their large size and cost, long production runs were necessary to justify the use of transfer machines.

The need to reduce the high labor content of manufactured goods, the requirement to handle much smaller production runs, the desire to gain increased accuracy of manufacture, combined with the need for sophisticated tests of the product during manufacture, have resulted in the recent development of computerized production monitors, testing devices, and feedback-controlled production robots. The programmability of the digital computer to handle a wide range of tasks along with the capability of rapid change to a new program has made it invaluable for these purposes. Similarly, the need to compensate for the effect of tool wear and other variations on automatic machining operations has required the institution of a feedback control of tool positioning and cutting rate in place of the formerly used direct mechanical motion. Again, the result is a more accurately finished final product with less chance for tool or manufacturing machine damage (Welsch, et al., 2006).

2.1.12 Budgeting as Tools for PPC

Budget planning is one of the methods used for planning, coordinating and control of activities of an enterprise. The budget is a technique for comparing various alternatives in terms of results and costs. It forces consideration of all compassing climbs as to the direction in which the effort of an organization should be applied. Budgeting is the heart of the cut of business decision. It involves objectives and compares the means of reaching them.

Budgeting has long been recognized as the accepted procedure for profit planning and many of the most successful companies have applied it to good effect over a period of years. Budgeting as a tool of planning and control is closely related to the broader systems of planning and control in an organization. It serves as a guide to conduct operations and a basis for evaluating actual results.

Budget as tools of management are an integral part of the broader system of planning and control. One of the primary objects of an annual budget is to measure the profit expectations for the next financial year with due regards to all the circumstances that can influence the trading prospects. Profits do not emerge of their own accord. They have to be influenced by management. The quality of management is often judged by the size of the profit figures at the end of the financial year. For its own protection and in the interest of business, management must plan to make profit and the accepted basis for this is the annual budget, properly supported by long-term strategic planning and operation planning.

Profit planning is a heart of management and budget is sole appropriate technique for this most for the Nepalese PEC have been suffering the problem of poor performance and sometimes losses also. Functional budget are the tools for planning and controlling the profit of any enterprise. In budgeting, we plan the desired profit and in the time of execution the performance is verified and controlled by the budget. Budgeting as a tool of planning and control is closely related to the broader system of planning in any organization will pursue and the fundamental policies that will guide it. In operational term budgeting involves four steps (Khan & Jain, 2003).

- Setting the objectives.
- Specify the goals.
- Laying down the strategies.
- Preparation of budgets & profit plans

A budget is a realistic statement of income and cost objectives for a year. It is a plan against which ensuring actual performance is compared to achievement and control by detecting and correcting off standards performance (Morse, 1997).

A budget is a detailed quantitative plan to guide its operations in the planning, organizing and controlling all the financial operating of the firms in the forthcoming period (Lynch & Williamson, 1984). Thus, the primary purpose of budgeting is profit planning and control and in this connection it is concerned with every aspect and every activity of a business. The essence of the accurate budgeting is to be used to the events and for this reason it is unusual to operate through an annual budget as the ideal project. There is the further aspect that the performance of companies is judged by the annual accounts and it follows that management should focus its profit aims on the same period. There are two distinct stage of budgeting: first the formulation of the plan and the means of achieving them and second the translation of these plans into financial terms and preparing a profit budget and balance sheet. Such that, the first stage is generally a function of line management and the second is an accounting function (Morse, 1997).

2.1.13 Development of Profit Plan

(a) Sales Forecasting and Sales Planning

At first, people think the sales planning and sales forecasting are same. But the sales planning and forecasting are quite different. “Sales forecasting is not a plan, rather it is a statement and or a quantified assessment of future conditions about a particular subject based on one or more explicit assumptions. A forecast should always state the assumption upon which it is based. A forecast should always state the assumption upon which it is based. A forecast should be viewed as only one input for the development of sales plan. The management of the company may accept, modify or reject the forecast. In contrast, a sales plan incorporates the management decisions that are based on the forecast, other inputs and management judgment about such related items as sales volume, prices, sales efforts, production and financing. It is converted to a sales plan when management has brought to bear on its judgment, planned strategies, commitment to aggressive action to attain sales goal” (Kothari, 1990).

(b) Production Budget

Production budget is the projection of goods for specified periods. It has a very important role in planning, coordinating and control on comprehensive profit plan and control. Developments of production plan require the conversion of sales plan into production plans. It should also consider the estimation future sales and inventory policies. Production planning is the matter of concern for only manufacturing organizations. The

production plan specifies the planned volume of each product to be produced for each time period throughout the planning period. This entails the development of policies about efficient production level, use of productive facilities and inventory levels. It can be presented in equation.

$$\text{Production Requirement} = \text{Sales Volume} + \text{Inventory}$$

The main purpose of production plan is to bring balance between the sales, inventory and production. So that firm does not suffer from cost of carrying and cost of not carrying inventory, opportunities cost and stock is run out cost. The production budget is the initial step in budgeting manufacturing operations. In addition to the production budget, three other principal budgets are relevant to manufacturing (Khan & Jain, 2003).

Direct Material and Purchase Component Budget

It specifies the planned material and component requirement.

Labor Budget

It shows the planned quality and cost of direct labor.

Manufacturing Expenses or Factory Overhead Budget

It includes the plans to all factories, costs other than direct material and labor.

To plan production effectively, the manufacturing operations are necessary for each product. The manager should develop information about the use and output capacities of each manufacturing department. The manager must provide historical data about production units, cost and the availability of resources. Production planning responsibility rests directly upon the production managers to management policies must be considered in such matters as inventory levels, stability of production and capital addition with respect to production planning, the manager must plan an optimum coordination between sale, inventory and production levels (Khan & Jain, 2003).

(c) Material Purchase Budget

The purchase budget specifies the estimated quantities to be purchased and the estimated cost for each raw material and the required delivery dates. The material and part budget provides the purchasing manager with the data responsibility for preparing a detail plan of purpose. It is direct responsibility of purchasing manager to be knowledge about the market for items that must be purchased, and to plan the unit cost for use in the purchased and amount to purchase materials. The purchase budget is directly concerned with timing

of usage or purchase orders. The purchase manager orderly maintains the time of purchase materials and inventory requirement by material (Khan & Jain, 2003).

(d) Direct Labor Budget

It deals the planned direct labor requirements necessary to produce the type and quantities of outputs planned in the production budget. The main objectives of direct labor budget are assessing labor requirements, prepare manpower planning, estimate per unit labor cost, estimate cash budget, control labor budgets etc.

Effective planning and systematic control of labor costs are essential for planning and controlling labor costs involves major and complex problem are;

- Personnel needs
- Requirement
- Training
- Job description and evaluation
- Performance measurement
- Union negotiations
- Wages and salary administration

Labor costs include all expenditure for employee from top executives to unskilled labor. To plan and control labor costs effectively the different types of labor costs must be separately considered. DLC includes the wage paid to employees who work directly on specific product. While indirect labor costs refer to the costs of other employees who do not work directly on the product. The responsibility for preparing the direct labor budget should be assigned to the executive responsible for the production function. The approach used to develop the direct labor budget depends as follows:

- Method of wage payment
- Type of production process involved
- Availability of standard labor hours
- Adequacy of the cost accounting records relating to DLC
- Basically, three approaches are used to develop the direct labor budget.
- Estimate the standard DLH required for each unit of each product, and then estimates the average wage rates by department, cost center or operation.
- Estimate rations of DLC to some measure of output that can be planned realistically.

- Develop personnel tables by enumerating personnel requirements for direct labor in each responsibility center.

Here, the primary elements of control of DLH are day to day attention to such costs and performance reporting and evaluation of results (Khan & Jain, 2003).

(e) Capital Budget

“Capital budgeting is the process of planning and controlling the strategic (long term) and tactical (short term) expenditures for expansion and contraction of investments in operating fixed assets” (Welsch, et al., 2006).

Capital budgeting’s the planning of expenditure whose returns stretch the beyond a one-year time interval. It is the processes of deciding whether or not to commit resources to a project whose benefits would be spread over several time periods (Gupta, 2012).

The investment decisions are commonly known as capital budgeting. Capital budget means planning for capital expenditure in acquisition of capital assets such as new building, new machinery or new project as whole. Thus, the capital budgeting involves following steps (Morse, 1997):

- Consideration of investment proposal including alternatives.
- Application of profits, cash flows and analysis of cost benefit of the project.
- Estimation of available funds and utilization of funds.
- The objective is to maximize the profits with the utilization of available funds.

A capital budgeting is useful to earn future revenues organization and to reduce future a cost, capital expenditures includes such as fixed assets as property, plant, equipment, major renovation and potential. The main responsibility of capital budget lies on top executives or executive management and departmental managers. The organization capital budgeting for planning and controlling purpose can be as follows:

- To avoid excess capacity.
- To avoid ideal operating capacity.
- To avoid investment in capacity that will earn less than adequate returns as the invested amount.
- To keep evaluate alternative capital expenditure etc.

(f) Cash Budget

It is an effective way to plan and control the cash flows, assess cash needs and effectively use excess cash. Cash budgeting is an attractive way to plan and control the cash flows assets; cash needs and effectively use excess with. Therefore, cash management is important in both large and small enterprise, planning and controlling of cash includes right quality of money, right source of money, right time for solve money, right quality and right costs of capital.

A comprehensive PPC program establishes the foundation for a realistic budget. Cash budget shows the planned cash inflows, outflows, outflow and ending position by interim periods for a specific time span. Most companies should develop both long term and short term plans about their cash flows.

A cash budget basically includes two parts.

- The planned cash receipts (inflows) and,
- The planned beginning and ending cash position for the budget period and this will indicate.

The need for investing planning is to put excess cash to profitable use. The primary purposes of cash budgets are as follows (Welsch, et al., 2006):

- Give the probable cash position at the end of each period.
- Indentify cash excess organization shortage by time periods.
- Establish the need for financing and or the availability of idle cash for investment.
- Establishing a sound basis for continuous monitoring of the cash position

Preparation of the cash budget should be the responsibility of the company treasurer. The cash budget is a forecast of expected cash receipts and payments for a future period. Cash forecast precedes a cash budget. The cash budget consists of three parts.

- Estimates of cash receipts
- Estimates of cash disbursement and
- Cash balances each month of budget periods

Cash budget may be done daily, weekly or monthly basis. The period and frequency of cash budget generally depends upon the size of the firms and philosophy of management. The cash budget can be prepared by two approaches (a) The cash receipt and cash disbursement approach organization (b) The financial accounting approach.

Now, the cash receipt and disbursement approach basically involves the use of detailed data from the budgeted cash amount. Financial statement approach states with net income which is adjusted to a cash basis to compute cash flow from continuing operations. The remaining cash sources and uses must be determined by using data from various budgets already prepared. The cash receipt and disbursement approach is usually used for the tactical short-term plan because it provides more details. The financial statement method is usually used for broad analysis of the cash position and for strategic long range planning.

2.1.14 The Concept Integrated with Profit Planning

(a) Cost Volume Profit Analysis

Cost volume profit analysis is a tool to show the relationship between these ingredients of profit planning. It is an analytical technique for studying the behavior of profit in response to the changes in volume, cost, prices and profit. It helps to determine the minimum scales volume to avoid losses and the sales volumes at which the profit goal of the firm will be achieved. It is very much an extension or even a part of marginal costing. ‘Contribution analysis involves a series of analytical technique used to determine and evaluate the effects on profit of changes in sales volume (i.e. units sold), sales prices, fixed costs and variable cost. It focuses on contribution margin, which is sales revenue minus total variable costs’ (Welsch, et al., 2006).

The income statement is based on a contribution margin approach and contribution margin is equivalent to revenue minus variable cost. It will change if any one of the following variable cost ratio.

(b) Break Even Analysis

“Cost volume profit analysis includes both contribution analysis and break even analysis. BE analysis uses the same concepts as contribution analysis, however, it emphasizes the level of output or productive activity at which sales revenue exactly totals cost i.e. there is no profit or loss. Break even analysis rests upon the foundation of cost variability separate identification and measurement of the fixed and variable components of cost” (Welsch, et al., 2006).

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

(c) Zero Base Budgeting

Under zero budgeting every budget is constructed as the promise that every activity in the budget must be justified. ZBB defines as an operative planning and budgeting process which require each manager to justify his entire budget in detail from scratch and shifts the burden of responsibility of each manager to justify when he should spend any money at all. It envisages a review of the total expenditure with a view to justify his entire budget. The entire program is reviewed and justified from zero bases. It involves three phase of management planning, budgeting and review. Traditional budgeting generally no review organization justifications is required in ZBB. A manager is required for going activities, where as to justify not only the new proposal but also the going activities (Welsch, et al., 2006).

(d) Activity Costing

Responsibility accounting system generally accumulates costs department and product costing systems associates cost with unit of product or service organizations also frequently find it useful to associates costs well activities. By decomposing and organizations productions process into discrete set of activities and then associating cost with each of those activities management is in a better position to determine the costs and benefits of contributing the activities. More over by systematically identifying the activities. Some managers have found to their surprise that the some activity was being done in a dozen of different places in the company. An activity cost analysis can assists managers in eliminating redundant activities that are not cost benefit and achieving greater coordination's among the activities that remain" (Welsch, et al., 2006).

(e) Budget Variance

Variance analysis is an important tool that can increase the usefulness of periodic performance reports. Rather than taking action only the basis of differences between actual and budgeted costs variance analysis enables management to decompose such differences into smaller sub variances. It is the deviation between budgeted goals and actual results. As performance reports shows variances the next step is to analyze such

variance and to determine the underlying causes for managerial planning and control purpose.

“Variance analysis or comparison of actual results with budgeted goals has been emphasis as an integral part of control process. A basic feature of performance reports is the reporting of variances between actual and planned goals. If variance is significant a careful management study should be made to determine the underlying cause. There are numerous ways to investigate variances to determine the underlying cause” (Welsch, et al., 2006).

2.2 Review of Related Studies

2.2.1 Review of Books

Bajracharya et al., (2012) Written has a book entitled “*Management Accounting*”. They analyzed the meaning of Profit Planning and Control of Cash Flows. Planning of cash flow is an estimate of cash inflows, cash outflows and ending cash balance in each period of budgeted period. The basic essence of preparing cash budget is to determine cash defect or surplus of cash. A cash budget shows the planned cash inflows, cash outflows and ending position by interim periods for a special time period. It is directly related with other budgets such as sales budget, expenses budget and capital expenditure budget.

The book has described that the three important function of management are planning, operating and control. Planning relates to the future, operating to the present and control to the past. For assisting the management in the functions of planning and control, two techniques are applied i.e. budget and standard costing system. Budgeting is usually operated with a system of standard costing therefore both the system are inter related but these systems are not interdependence. Generally, the word budget is concerned with the limitation on spending. For example, government approves spending budgets for their various bodies. Then expect the bodies to keep their expenditures within the limit prescribed by the budgets. In contrast most business organizations use budget to focus alternation on company operations and finances. Not just to limit spending, budgets highlights potential problems and advantages early, allowing manager to take steps to avoid these problems or use the advantages wisely.

They analyze the concept of cost volume profit analysis. The main objective of a business is to maximize profit. There are different internal and external factors which affect profit. Profit is maximized with the decrease in cost and increase in revenue i.e. sales. The costs of products are determined by the purchase of raw materials and other manufacturing and operational activities. Similarly, sales are dependent in selling price, demand and quality of product, competition level, advertisement and publicity etc. Profit planning is a function of selling price per unit of product, variable cost associated with it and total fixed cost. In this way, the analysis of cost, volume and profit is essential to earn the target profit and maximize it.

The Main objectives of preparing cash budget are as follows:

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

Purpose of Cost-Volume-Profit Analysis

The main objectives of CVP analysis are given below:

- To forecast the profit by the analysis of cost and volume of sales.
- To calculate breakeven point.
- To help preparing flexible budget.
- To show the effects of the changes in price, cost and profit.
- To estimate the sales volume to earn a desired or expected profit.
- To measure the elements or factors that affect profit.
- To select the best alternative for maximizing profit.
- To select the optimum product mix for production.
- To help to make decision on manufacturing or buying.

Baye & Jansen (2012) In their book entitled "*Money, Banking and Financial Markets*" have tried to analyzed a bank's profitability under an economic approach. They state" To maximize profit, Bank should attract the interest rate paid on deposit".

Rose (2012) Has written a book entitled “*Commercial Bank Management*”. He has highlighted the superior Profitability for Bank Depends upon Several Crucial Factors:

- Care use of financial leverage (or the proportion of the bank assets financed by debt as opposed by the share holders equity capital).
- Careful use of operating leverage from fixed assets.
- Careful control of operating expenses so that more dollar of sales revenue becomes net income.
- Careful management of assets portfolio to meet liquidity needs while seeking the highest return from any assets acquired.
- Careful control of the bank's exposure to risk so that the loose don't overwhelm its income and equity capital.

2.2.2 Review of Articles

Mohammad Khurram Manzoor, Hassan H. Sumra and Momina Abbas. (2011) has written an article on title”The Impact of E-Banking on the Profitability of Banks: A Study of Pakistani Banks”. This research paper aims at examining the impact of electronic banking on the profits of Pakistani banks. E banking has increased the competition among the banks and both domestic and foreign banks are offering more and more modern ways of e-banking. The study investigates the services provided by the banks and their impact on their profitability in particular. It is significant due to the proliferation of the service sector and its importance in the economy. It also discusses about the services provided by the banks to its customers and also reveals the major rationales for the banks to use internet and other electronic mediums as the means to providing services to their customers. It is a distinguished one because it reveals the factors which lead to the success of the operations, giving more profits and the ability to manage risks of using electronic means and using the electronic services for the benefit of the bank and how they differentiate through these services in the market and the factors which lead to the increased profitability of banks, be it public or private.

Mohammad Abu Sayeed, Piyadasa Edirisuriya and Mohammad Hoque. (2012) has written an on “Bank Profitability: The Case of Bangladesh”. The article attempts to conclude their study to examine the impact of asset and liability management on the profitability of commercial banks in Bangladesh. Commercial banks are segmented into

high profitable and low profitable and private and public banks. While applying Statistical Cost Accounting (SCA) methods study finds high earning banks experience higher returns from their assets and lower returns from their liabilities than the low earning banks. Results are inconclusive with regard to private banks' and public banks' returns. This study finds that assets management of large commercial banks is better than those of small banks, but they are not better than small banks in respect of liability management.

Focus on Profit Centers

A profit center is a basic small business function or set of activities when done with more efficiency or effectiveness leads to increased profitability. For example, if you can produce more sales by streamlining your sales steps to take less time and produce even more results, your marketing profit center then becomes more profitable – profit solved.

Use Profit Plans

To solve your profit problem you must have a written plan based on the steps most likely to take the least amount of time to produce the greatest return on your investment. For most small business owners this does not have to be extensive or complex. It needs to be specific, actionable and project the amount of time and money required for step of the profit plan. A good place to start when you develop a profit plan is with a blank piece of paper. This just means start as though you had no current plan. Develop your plan from an ideal point of view with a fresh approach and maybe, with a little out of the box thinking. Make sure you are willing to implement the plan – profit solved.

Monitor Profit

The most critical of the 3 steps to success to be able to say “Profit Solved” is monitoring results and making any necessary adjustments. Good reporting procedures are needed to know what is happening with your profit plans for each profit center you are focused on. This step closes circle of the profit solved cycle. If a profit plan is not working: refocus the profit center, revise the profit plan, and resume monitoring.

Jana Erina and Natalja Lace 2013:

- The aim of the present article is to determine the impact of the external and internal factors of bank performance on the profitability indicators of the Latvian

commercial banks in the period from 2006 to 2011. On the basis of research conducted abroad on bank and

- macroeconomic profitability indicators, in order to obtain research results the authors
- evaluated return on assets (ROA) and return on equity (ROE) indicators of the Latvian commercial banks. The authors conducted the survey of scientific literature and analyzed profitability indicators of commercial banks using descriptive methods, as well as SPSS data analysis methods, data correlation and regression analysis. On the basis of the obtained results, the authors have concluded that profitability has had a positive effect on operational efficiency, portfolio composition and management, while it has had a negative effect on the capital and credit risks, as measured according to ROA, while according to ROE, positive influence is exerted on composition of the capital portfolio and negative—on operational efficiency and credit risk. With regard to macroeconomic indicators, the authors have revealed that GDP has a positive impact on profitability as measured by ROA and ROE. The methodology used in the present research can be applied to determine not only profitability indicators of some commercial bank in particular, but also to compare performance indicators of several banks. Having conducted the present research, the authors have obtained empirical evidence on interrelationship between microeconomic and macroeconomic indicators and their effect on the profitability indicators of the Latvian commercial banks.

Mundul (2014) has written an article on “*Corporate Financial Sector: Restructuring*”. He Conducted that maintained the amount of debt and company can sustain and in which lenders can expect reliable debt service is determined by the unit’s cash flow. Indeed, a company cannot sustain interest payments in excess of its cash (I.e. interest coverage $< 1:1$), let alone make any repayments on the principal. Hence, substantially higher ratios of interest coverage are most desirable. He concluded that the corporate debtors and financial institution creditors will naturally seek to minimize their losses from corporate restructuring. The government has a role to play in balancing a variety of conflict interest.

Lynch (2015) has written an article on “*Three Steps to Profit Success*” He Conducted that there are 3 easy steps you can take to feel the same way about your small business profit. It lack of profit is frustrating you there is a quick solution so, you can say “Profit Solved” and move on to even more profit.

Pksal (2015) has written an article on “*Marginal Costing*”. *A Management Technique for Profit Planning, Cost Control and Decision Making*”. He Conducted that Marginal costing is one of the technique of costing of costing which guides management in pricing, decision making and assessment of profitability, it differentiates the total cost of production into variable expenses and fixed expenses. Variable expenses increases or decrease with the proportional increase or decrease in output. Thus as the increase in variable expenses is proportional to the increase in production the per unit cost not change. In case fixed expenses they remain constant at certain level of production and they go on changing per unit with every increase in output. Thus, Marginal costing by differentiating between the variable cost and fixed cost explains managerial problems in the basis of the difference between variable overheads, fixed overheads and sales.

Hilton (2016) written an article on “*Developing a Profit Plan for your Business*”. He Conducted that Profit panning is simply the development of your operating plan for the coming period. Your plan is summarized in the form of an income statement that serves as your sales and profit objective and your budget for cost. The profit plan is used in the following ways.

- Evaluating operations: Each time you prepare an income statement, actual sales and cost are compared with those you projected in your original profit plan. This permits detection of areas of unsatisfactory performance so that corrective action can be taken.
- Determining the need for additional resources such as facilities or personal: For example, the profit plan may show that a sharp increase in expected sales will overload the company’s billing personnel. A decision can be made to add additional invoicing personnel, to retain an EDP service, or to pursue some other alternative.
- Planning purchasing requirements: the volume of expected sales may be more than the business usual suppliers can handle or expected sales may be sufficient to permit taking advantage of quantity discounts. In either case, advance knowledge of

purchasing requirements will permit taking advantage of cost savings and ensure that purchased goods are readily available when needed.

- Anticipating any additional financing needs: with planning, the search for needed funds can begin as early as possible. In this way, financial crises are avoided and financing can be arranged on more favorable terms.

Mthur (2016) written an article on “*Forecasting Sales & Gross Profit*”. He Conducted that Development of your profit plan should usually begin with a forecast of your expected sales and gross profit for the coming year. The sales and gross profit must be considered together since they are so closely interrelated. Gross profit percentages are determined by pricing policy, which also affects expected sales volume. A decision to increase the expected gross profit percentage will usually tend to decrease expected sales, while reducing the expected gross profit percentage should increases sales.

A second major reason for beginning the profit plan with a sales forecast is that the volume of expected sales often determines a number of other factors such as the following:

- Expected changes in variable expenses, those expenses that tend to change in direct proportion to changes in sales. These could include expenses such as sales commissions or delivery cost.
- The impact of the added sales volume on the various fixed costs of operating your business. These costs, by definition, do not tend to vary in direct proportion to changes in sales volume. However, substantial increases in sales over an extended period can force an increase in many fixed expenses. For example, a sales increase realized through the addition of many new accounts could affect bookkeeping and credit costs.
- The ability of present resources such as storage space, display area, delivery capability, or supervisory personnel to accommodate the added volume.
- The need for funds to invest in increased inventory or accounts receivable to accommodate sales increases.
- Cash generated from operations to meet current operating needs as well as expansion requirements, debt repayments, and owners’ compensation.

2.3 Research Gap

Profit planning system is getting a wide scope in the field of management for planning and controlling function. Many researchers and planners have realized PPC as a significant tool for the success of an organizing. So, there have been made many dissertations in the field of profit planning and control.

The entire dissertation reviewed while preparing this study has pointed out that there is no proper planning system and have recommended for the effective implementation of profit planning system. The previous researchers have given more emphasis on sales and production budget but not of them have focused on controlling various types of costs. The study would be different in the sense of focusing the specific area of overall profit planning starting to all other departmental budget. In this study used latest data from fiscal year 2074/75 to 2078/79 and take some statistical and financial tools. And this study helps to every profitable field not only profit planning field of the organization.

CHAPTER–III

RESEARCH METHODOLOGY

3.1 Introduction

Research is the process of a system and in-depth study or search of any particular topic, subject or area of investigation backed by the collection, compilation, presentation and interpretation of the relevant details or data. It is a careful search or inquiry into any subject matter, which is an endeavourer to discover or find out valuable facts, which will be use full for further application or utilization. The search that involves the discover or find out valuable facts, which will be use full for further application or utilization. The research that involves the discovery of new techniques, a modification of old concepts or a knocking off an existing theories, concepts and techniques. It may develop a hypothesis and test it by establishing relationship between different variables and identify the means for problem solving.

Research methodology is a systematic way to solve the research problem. In other words research methodology describes the methods and process applied in the entire aspect of the study. It may be understand as a science of studying how search is done scientifically. It help to analyze, examine and interpret various aspect of research works such as sales, cost and other aspects of PPC analysis, related to effective tools of profit planning. The objective of this study will be to analyze the PPC analysis of LBL and thereby forward some measures to improve the situation.

3.2 Research Design

Research design means defining procedures and techniques which guide to study and propound ways for research work. It is an analytical as well as descriptive approach to achieve the objectives. It is the arrangement of condition for collection and analysis of data relevance to the study purpose with economy in procedure. In order to make type or research, this fulfills the objectives of the study.

The research design is an organized and not a collection of loose unrelated parts. It is an integrated system that guides the researcher in formatting, implementing and controlling the study. Useful research design can product the answers to the proposed research

questions. The research design is thus an integrated frame that guides the researcher in planning and executing the research works.

Data and information are the lifeblood or major portion of any study. This study would be attempted to show the relationship among cost, volume, profit and various functional budgets for solving the problems that has accrued in LBL. Profit planning and control of LBL is presented and analyzed by analytical and descriptive research design. A study design is the arrangement of the conditions for collection and analyze of data in manner that aims to combine relevance to the study purpose with the economy in producer. These studies will an intensive based on analysis of the past financial performance. To fulfill the objective of the objective of the study mainly secondary data will be used and analytical and descriptive research design has been used.

3.3 Period Covered

This study covered five fiscal years from 2074/75 to 2078/79 of Laxmi Bank Limited. This analysis is basically made an in the basis of these 5 years.

3.4 Population and Sample

Under the study of profit planning and control, the total numbers of commercial banks including domestic and joint venture banks operation in the Nepal are the population. At present there are twenty licensed commercial banks are running in Nepal. All twenty licensed Nepalese CBs has been considered as the total population out of them this study is concerned with one commercial bank i.e. LBL has been chosen with simple random sampling methods have been used of this study.

3.5 Nature and Source of Data

This study was based on secondary data. In secondary sources, mainly annual reports published by Laxmi Bank Limited were taken as main source of data. The necessary data were collected from the following sources.

- Published annual accounting and financial report of LBL.
- Publication of NRB, publication of National Planning Commission, Bureau of Statistics and related publication.
- Books, booklets, articles, magazines and official records of LBL.

- Previous dissertations, electronic media such as websites.
- Published and unpublished document related to LBL.

3.6 Data Collection Procedures

The primary information was obtained through informal discussion with the staff of the bank. Secondary data were collection from the annual published accounting and financial statement of Laxmi Bank Limited. Similarly, other necessary data were collected from the Nepal Rastra Bank, National Planning commission & Central Bureau of Statistics and related Publications.

Financial and statistical tools were used to analyze data. Financial tools mainly used were financial ratios. Similarly, the statistical tools used included mean, standard deviation, variance, covariance correlation, trend analysis and diagram etc. The data and information collected were tabulated, presentation, analysis and interpretation.

3.7 Research Variables

Research variables play vital role in developing profit plan. Customer deposit, loan, investment, profit, interest expenses, other income, other expenses, other assets, liabilities, capital, staff of LBL were research variables of this study.

3.8 Research Study Tools

Data collected from various sources were managed, analysis and presented in proper tables and format. Interpretation and explanation were made wherever necessary. To analyze the collected data financial and statistical tool such as trend analysis, percentage, ratio analysis, correlation & regression analysis, graphs diagram etc were used.

3.8.1 Financial Tools

Following financial tools have been used to analyze the data in this study:

Ratio analysis: By ratio analysis we study the arithmetical relationship of two data, in this study, we have applied various tools of ratio analysis.

3.8.2 Statistical and Mathematical Tools

The study has analyzed the data presented in this study by applying following statistical and financial tools:

- Mean
- Standard Deviation
- Coefficient of Variance
- Correlation of coefficient

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 Budgeting System of LBL and its Application

LBL prepares budget based on the forecast for three to twelve months depending on actual progress of the bank. The budget of LBL is based on 20% addition on the actual achievement of previous fiscal year. Management always engage to improve its operation, market aspects and undertakes make the personnel enrichment program. Bank has been trying to improve profit by giving training to the personal.

4.1.1 Investment

LBL prepares investment plan for every fiscal year based on 20% addition to the actual investment of the earlier fiscal year. The following table shows the picture of investment of LBL for the fiscal year 2074/75 to 2078/79.

Table 4.1

Budgeted and Actual Investment

| (Rs. in Millions) | | | |
|-------------------|---------------------|-------------------|-----------------|
| Fiscal Year | Budgeted Investment | Actual Investment | Achievement (%) |
| 2074/75 | 11163.15 | 7411.39 | 66.392 |
| 2075/76 | 8893.67 | 7025.46 | 78.994 |
| 2076/77 | 8430.55 | 10425.63 | 123.66 |
| 2077/78 | 12510.76 | 13004.4 | 103.95 |
| 2078/79 | 15605.28 | 16816.56 | 107.76 |

Source: Annual Reports of LBL

The above table shows that budgeted investment and actual investment for the study period. The actual investments for the study period were decrease from first fiscal year to second fiscal year than increasing trend for the study period. The maximum actual investment is Rs. 16816.56 million in the fiscal year 2078/79 and minimum actual investment is Rs. 7025.46 million in the fiscal year 2075/76. The percentage of maximum actual investment on budgeted investment is 123.66% in the fiscal year 2076/77 and

minimum is 66.392% in the fiscal year 2074/75. The figure of budgeted investment and actual investment amount is given below:

4.1.2 Analysis of Total Deposit

LBL sets each fiscal year's budgeted deposit by adding 20% to the actual deposit amount of the immediate earlier fiscal year. The budgeted and actual deposit amount for the period of five fiscal year covering the fiscal year 2074/75 to 2078/79 are reported in the following table.

Table 4.2

Budgeted and Actual Deposit

| (Rs. in Millions) | | | |
|--------------------|-------------------------|-----------------------|------------------------|
| Fiscal Year | Budgeted Deposit | Actual Deposit | Achievement (%) |
| 2074/75 | 71029.14 | 65561.51 | 92.302 |
| 2075/76 | 78673.81 | 80324.63 | 102.1 |
| 2076/77 | 96389.56 | 98370.76 | 102.06 |
| 2077/78 | 118044.91 | 114605.49 | 97.086 |
| 2078/79 | 137526.59 | 139537.1 | 101.46 |

Source: Annual Reports of LBL

The above table shows that budgeted deposit and actual deposit for the study period. The actual investments for the study period were increasing trend for the study period. The maximum actual deposit is Rs. 139537.1 million in the fiscal year 2078/79 and minimum actual deposit is Rs. 65561.51 million in the fiscal year 2074/75. The percentage of maximum actual deposit on budgeted deposit is 102.06% in the fiscal year 2076/77 and minimum is 92.302% in the fiscal year 2074/75. The figure of budgeted deposit and actual deposit amount is given below:

Table 4.3*Types of Deposit*

(Rs. in Millions)

| Fiscal Year | Current Deposit | Other Deposit | Saving Deposit | Call Deposit | Fixed Deposit |
|--------------------|------------------------|----------------------|-----------------------|---------------------|----------------------|
| 2074/75 | 3197.93 | 2077.69 | 18706.21 | 8634.1 | 32945.57 |
| 2075/76 | 4325.02 | 2742.57 | 23945.91 | 7709.44 | 41601.69 |
| 2076/77 | 6369.52 | 1979.83 | 29396.59 | 8462.78 | 52162.05 |
| 2077/78 | 7433.82 | 3739.07 | 39931.76 | 8320.02 | 55180.83 |
| 2078/79 | 7940.3 | 3080.53 | 36155.25 | 10268.84 | 82092.19 |

Source: Annual Reports of LBL

The above table shows the deposit position of LBL. The current deposit is increasing trend over the study period. The highest current deposit is Rs. 7940.3 million in the fiscal year 2078/79 and that of lowest is Rs. 3197.93 million in the fiscal year 2074/75. The other & call deposit were fluctuating trend for the study period. Saving deposit was increasing trend except last fiscal year for the study period. Fixed deposit was increasing trend for the study period. The figure on types of deposit was given below:

4.2 Actual Investment and Actual Deposit

Every bank earns income by investing the amount received in the form of deposits. Therefore, it is relevant here to analyze the actual investment and actual deposit of LBL. The actual investment and actual deposit of LBL along with percentage are given in the following table.

Table 4.4*Actual Investment to Actual Deposit Ratio*

(Rs. in Millions)

| Fiscal Year | Total Actual Investment | Total Actual Deposit | Ratio (in Times) |
|--------------------|--------------------------------|-----------------------------|-------------------------|
| 2074/75 | 7411.39 | 65561.51 | 0.113 |
| 2075/76 | 7025.46 | 80324.63 | 0.087 |
| 2076/77 | 10425.63 | 98370.76 | 0.106 |
| 2077/78 | 13004.4 | 114605.49 | 0.113 |
| 2078/79 | 16816.56 | 139537.1 | 0.121 |

Source: Annual Reports of LBL

The above table show total actual investment to total actual deposit ratio. The ratio of total actual investment to total actual deposit ratio was increasing trend except 2074/75 to 2075/76 for the study period. The highest ratio is 0.121 times in the fiscal year 2078/79 and the lowest ratio is 0.087 times in the fiscal year 2075/76. The following figure on total actual investment to total actual deposit was given below:

4.3 Operational Profit and Net Profit

Profit and loss account shows the final position of the company. The below table 4.6 shows the operational profit and net profit of LBL for the fiscal year 2074/75 to 207879.

Table 4.5*Operational Profit and Net Profit*

(Rs. in Millions)

| Fiscal Year | Operational Profit | % of change in O.P. | Net Profit | % of change in net profit |
|--------------------|---------------------------|----------------------------|-------------------|----------------------------------|
| 2074/75 | 1683.08 | - | 1181.09 | - |
| 2075/76 | 2292.33 | 0.2658 | 1590.07 | 0.2572 |
| 2076/77 | 2024.75 | -0.132 | 1411.55 | -0.126 |
| 2077/78 | 2236.09 | 0.0945 | 1575.76 | 0.1042 |
| 2078/79 | 2154.12 | -0.038 | 1513.45 | -0.041 |

Source: Annual Reports of LBL

The above table shows the operational profit and net profit of LBL. The amount of operating profit and net profit were fluctuating trend for the study period. The highest operational profit & net profit were 2292.33 million & 1590.07 million respectively in the fiscal year 2075/76. Similarly, the lowest operational profit & net profit were 1683.08 million & 1181.09 million respectively in the fiscal year 2074/75. It is shown in the following figure.

4.4 Analysis of Revenue of LBL

There are various sources of generating revenue. Interest income is the major source of revenue. In addition commission and discount, other operating income (safe deposit rent, credit card issue and renew, ATM card issue and renew, telex, service charge, renew charge and others), income on foreign exchange and non-operating incomes are also the sources of income. The following table shows the different revenue sources of LBL.

Table 4.6

Analysis of Revenue of LBL

| | (Rs. in Millions) | | | | |
|--|-------------------|-----------------|-----------------|-----------------|-----------------|
| Sources of Revenue | 2074/75 | 2075/76 | 2076/77 | 2077/78 | 2078/79 |
| a. Interest on Loans and Advances including interest on Govt. Securities | 7063.78 | 8942.67 | 10182.24 | 9377.43 | 13060.13 |
| b. Commission and Discount | 585.97 | 740.71 | 809.23 | 979.86 | 1156.58 |
| c. Net Trading Income | 288.44 | 360.98 | 332.9 | 340.54 | 270.7 |
| d. Other Operating Income | 153.98 | 112.88 | 103.18 | 500.37 | 338.5 |
| e. Non-operating Income | 5.72 | 10.62 | 15.63 | 4.45 | 10.46 |
| Total Revenue | 8097.89 | 10167.86 | 11443.18 | 11202.65 | 14836.37 |
| % Change of Total Revenue | - | 20.358 | 11.145 | -2.147 | 24.492 |

Source: Annual Reports of LBL

The above table shows the total revenue and its sources. The total income is in increasing trend except 2076/77 to 2077/78 for the study period. The highest interest income is Rs. 13060.13 million in the fiscal year 2078/79 and lowest is Rs. 7063.78 million in the fiscal year 2074/75. The highest commission and discount income is Rs. 1156.58 million in the fiscal year 2078/79 and lowest is Rs. 585.97 million in the fiscal year 2074/75. The

highest net trading income is Rs. 360.98 million in the fiscal year 2075/76 and lowest is Rs. 270.7 million in the fiscal year 2078/79. The highest other operating income is Rs. 500.37 million in the fiscal year 2077/78 and lowest is Rs. 103.18 million in the fiscal year 2076/77. The highest non-operating income is Rs. 15.63 million in the fiscal year 2076/77 and lowest is Rs. 4.45 million in the fiscal year 2077/78. The figure of total revenue is given below:

4.5 Total Expenditure of LBL

There are several headings of expenditure of LBL. Interest expenses are the major heading of expenses. In addition, employee's expenses, operating expenses, staff bonus, provision for losses and income taxes. The below table 4.8 shows the details picture of total expenditure of LBL.

Table 4.7

Total Expenditure of LBL

| | (Rs. in Millions) | | | | |
|--|-------------------|----------------|----------------|----------------|-----------------|
| Expenditure Heads | 2074/75 | 2075/76 | 2076/77 | 2077/78 | 2078/79 |
| Interest on Deposit including interest on loan | 4731.49 | 5773 | 6720.07 | 5920.59 | 9299.76 |
| Fee Commission Expenses | 60.24 | 78.43 | 101.13 | 104.3 | 199.46 |
| Impairment Charge | 314.88 | 127.52 | 475.24 | 492.21 | 554.17 |
| Operating Expenses | 1302.48 | 1885.97 | 2106.34 | 2445 | 2618.4 |
| Non-Operating Expenses | 43.8 | 61.81 | 47.94 | 11.45 | 36.9 |
| Total Expenses | 6452.89 | 7926.73 | 9450.72 | 8973.55 | 12708.69 |
| % Change of Total Expenses | - | 18.59 | 16.13 | -5.32 | 29.39 |

Source: Annual Reports of LBL

The above table shows the total expenditure. The total expenditure is in increasing trend except 2076/77 to 2077/78 for the study period. The highest interest expenses are Rs. 9299.76 million in the fiscal year 2078/79 and lowest is Rs. 4731.49 million in the fiscal year 2074/75. The highest fee commission expenses are Rs. 199.46 million in the fiscal year 2078/79 and lowest is Rs. 60.24 million in the fiscal year 2074/75. The highest net impairment charge is Rs. 554.17 million in the fiscal year 2078/79 and lowest is Rs. 60.24 million in the fiscal year 2074/75. The highest operating expenses are Rs. 2618.4 million

in the fiscal year 2078/79 and lowest is Rs. 1302.48 million in the fiscal year 2074/75. The highest non-operating expenses are Rs. 61.81 million in the fiscal year 2075/76 and lowest is Rs. 11.45 million in the fiscal year 2077/78. The figure of total expenses is given below:

4.6 Comparative Analysis of Revenue, Expenses and Net Profit

LBL's revenue, expenses and net profit is presented in the following table.

Table 4.8

Total Revenue to Total Expenses Ratio

| (Rs. in Millions) | | | |
|--------------------|----------------------|-----------------------|-------------------------|
| Fiscal Year | Total Revenue | Total Expenses | Ratio (in Times) |
| 2074/75 | 8097.89 | 6452.89 | 1.255 |
| 2075/76 | 10167.86 | 7926.73 | 1.283 |
| 2076/77 | 11443.13 | 9450.72 | 1.211 |
| 2077/78 | 11202.65 | 8973.55 | 1.248 |
| 2078/79 | 14836.37 | 12708.69 | 1.167 |

Source: Annual Reports of LBL

The above table show total revenue to total expenses ratio. The ratio of total revenue to total expenses ratio was fluctuating trend for the study period. The highest ratio is 1.283 times in the fiscal year 2075/76 and the lowest ratio is 1.167 times in the fiscal year 2078/79. The following figure on total revenue to total expenses ratio was given below:

Table 4.9

Total Revenue to Total Profit Ratio

| (Rs. in Millions) | | | |
|--------------------|----------------------|---------------------|-------------------------|
| Fiscal Year | Total Revenue | Total Profit | Ratio (in Times) |
| 2074/75 | 8097.89 | 1181.09 | 6.86 |
| 2075/76 | 10167.86 | 1590.07 | 6.39 |
| 2076/77 | 11443.13 | 1411.55 | 8.11 |
| 2077/78 | 11202.65 | 1575.76 | 7.11 |
| 2078/79 | 14836.37 | 1513.45 | 9.8 |

Source: Annual Reports of LBL

The above table show total revenue to total profit ratio. The ratio of total revenue to total profit ratio was fluctuating trend for the study period. The highest ratio is 9.8 times in the fiscal year 2078/79 and the lowest ratio is 6.39 times in the fiscal year 2075/76. The following figure on total revenue to total profit ratio was given below:

4.7 Analysis of Deposit Liabilities and Interest Expenses

LBL has been accepting mainly in current account, saving account, margin account, call account, and fixed account. The bank pays interest in saving, call deposit, fixed deposit. Interest on fixed deposit account differs according to time range.

An interest ratio of different account is different and in various within the fixed deposit too. Therefore, the analysis is made computing the simple average ratio interest dividing total deposit by interest dividing total deposit and its effect on interest expenses is also analyzed.

Table 4.10

Deposit Liabilities to Interest Expenses Ratio

| (Rs. in Millions) | | | |
|--------------------|----------------------|--------------------------|-------------------------|
| Fiscal Year | Total Deposit | Interest Expenses | Ratio (in Times) |
| 2074/75 | 65561.51 | 4731.49 | 13.86 |
| 2075/76 | 80324.63 | 5773 | 13.91 |
| 2076/77 | 98370.76 | 6720.07 | 14.64 |
| 2077/78 | 114605.49 | 5920.59 | 19.36 |
| 2078/79 | 139537.1 | 9299.76 | 15 |

Source: Annual Reports of LBL

The above table show total deposit to interest expenses ratio. The ratio of total deposit to interest expenses ratio was increasing trend except 2077/78 to 2078/79 for the study period. The highest ratio is 19.36 times in the fiscal year 2077/78 and the lowest ratio is 13.86 times in the fiscal year 2074/75. The following figure on total deposit to interest expenses ratio was given below:

4.8 Plans for Non-funded Business Activities

Apart from the activities like advancing loan, overdraft, bills discounting and investments, funds are involved for income generation. Other business activities performed by the bank which do not involved fund yet they are income generative, such transaction are called non-funded business of the bank. In such transaction, the bank has to the contingent liabilities on behalf of their customer for fee and or commission, which are the income of the bank other than the interest income.

Generally, income generating non-funded business of the bank is of following two types that are letter of credit and bank guarantee. Since, these are the contingent liabilities; it appears down the line of the balance sheet of the bank.

4.8.1 Letter of Credit

Letter of Credit is a kind facility provided by the bank to their customer by way of which the customer can import the goods from foreign buyer for which the bank undertake the guarantee for payment, provided the terms and conditions of the L/C is complied with. Following table shows the letter of credit business status of the bank as of the closing of the respective fiscal year and its growth over the period of this study.

Table 4.11

Letter of Credit

| (Rs. in Millions) | | | |
|--------------------|-------------------|----------------------------|-------------------|
| Fiscal Year | L/C Amount | Increase Amt. (Rs.) | Growth (%) |
| 2074/75 | 13384 | - | - |
| 2075/76 | 15547 | 2163 | 13.91 |
| 2076/77 | 17775 | 2228 | 12.53 |
| 2077/78 | 17893 | 118 | 0.659 |
| 2078/79 | 26607 | 8714 | 32.75 |

Source: Annual Reports of LBL

The above table shows that the letter of credit amount is in increasing trend for the study period. Where highest growth rate is 32.75% in the fiscal year 2078/79 & lowest growth rate is 0.659% in the fiscal year 2077/78.

4.8.2 Bank Guarantee

Bank issues the bank guarantee on behalf of their customer for bidding or performing any activities by the letter in favor of the employer of the activities. It is a guarantee letter issued by the bank agreeing to pay a certain sum of money in case of any default done by the part while performing the activities. It includes guarantees issued against counter guarantee of internationally rated banks, performance guarantee, advance payment guarantee and financial guarantee. Following table 4.13 shows the outstanding bank guarantee liability as of the end of fiscal of my study and the change in subsequent year.

Table 4.12

Bank Guarantee

(Rs. in Millions)

| Fiscal Year | Bank Guarantee Amount (Rs.) | Increase Amount (Rs.) | Growth (%) |
|--------------------|------------------------------------|------------------------------|-------------------|
| 2074/75 | 12189 | - | - |
| 2075/76 | 16895 | 4706 | 27.8544 |
| 2076/77 | 20182 | 3287 | 16.2868 |
| 2077/78 | 21308 | 1126 | 5.2844 |
| 2078/79 | 24072 | 2764 | 11.4822 |

Source: Annual Reports of LBL

The above table shows the bank guarantee amount is increasing trend over the study period. The highest growth rate is 27.8544% in the fiscal year 2075/76 & lowest growth rate is 5.2844% in the fiscal year 2077/78.

4.9 Profitability Analysis

Profitability is a measure of efficiency and the search for it provides an incentive to achieve efficiency. The profitability of a firm can be measured by its profitability ratio and profitability ratios are these ratios, which indicate degree of success in achieving desired profit levels.

Profit provides money for repaying the debt incurred to finance the project and resource for the internal financing expansion the profitability of a firm can be measured by its

profitability ratios can be determined based on investment. The following are the major profitability ratios used in this study.

4.9.1 Return on Total Assets Ratios

Net profit refers to the profit after deduction of interest and tax. Total asset's mean that appear in assets side of balance sheet. It measures the sufficiency of bank in utilization of the overall assets.

Table 4.13

Return on Total Assets Ratio

| (Rs. in Millions) | | | |
|-------------------|---------|--------------|------------------|
| Fiscal Year | NPAT | Total Assets | Ratio (in Times) |
| 2074/75 | 1181.09 | 80960.28 | 0.014589 |
| 2075/76 | 1590.07 | 106995.72 | 0.014861 |
| 2076/77 | 1411.55 | 128898.57 | 0.010951 |
| 2077/78 | 1575.76 | 152240.86 | 0.01035 |
| 2078/79 | 1513.45 | 173383.95 | 0.008729 |
| | Mean | | 0.011896 |
| | S.D. | | 0.0024 |
| | C.V. | | 20.17493 |

Source: Annual Reports of LBL

The table shows return on total assets ratio of bank. The ratio of return on total assets was increase first fiscal year to second fiscal year than decreasing trend for the study period. The highest ratio is 0.014861 times in the fiscal year 2075/76 and lowest ratio is 0.008729 times in the fiscal year 2078/79 with the mean ratio of 0.11896 times. The coefficient of variation is 20.17493%, it means it is constant by 79.825%.

4.9.2 Return to Total Deposit

This ratio shows the relation of net profit earned by the bank with the total deposit accumulated. Higher ratio is index of strong profitability position.

Table 4.14*Return on Total Deposit Ratio*

(Rs. in Millions)

| Fiscal Year | NPAT | Total Deposits | Ratio (in Times) |
|--------------------|-------------|-----------------------|-------------------------|
| 2074/75 | 1181.09 | 65561.51 | 0.01801 |
| 2075/76 | 1590.07 | 80324.63 | 0.0198 |
| 2076/77 | 1411.55 | 98370.76 | 0.01435 |
| 2077/78 | 1575.76 | 114605.49 | 0.01375 |
| 2078/79 | 1513.45 | 139537.1 | 0.01085 |
| | Mean | | 0.01535 |
| | S.D. | | 0.0032 |
| | C.V. | | 20.8454 |

Source: Annual Reports of LBL

The table shows return on total deposit ratio of bank. The ratio of return on total assets was increase first fiscal year to second fiscal year than decreasing trend for the study period. The highest ratio is 0.0198 times in the fiscal year 2075/76 and lowest ratio is 0.01085 times in the fiscal year 2078/79 with the mean ratio of 0.01535 times. The coefficient of variation is 20.8454%, it means it is constant by 79.1546%.

4.9.3 Total Interest Expenses to Total Interest Income

Total interest expenses consist of interest expenses incurred for deposit, borrowing and loan taken by the bank. Total interest income includes interest income received from loan and advance, cash credit, overdrafts, government securities, interbank loans and other investment. Lower ratio is favorable from profitability point of view.

Table 4.15*Total Interest Expenses to Total Interest Income Ratio*

(Rs. in Millions)

| Fiscal Year | Interest Expenses | Interest Income | Ratio (in Times) |
|--------------------|--------------------------|------------------------|-------------------------|
| 2074/75 | 4731.49 | 7063.78 | 0.66982 |
| 2075/76 | 5773 | 8942.67 | 0.64556 |
| 2076/77 | 6720.07 | 10182.24 | 0.65998 |
| 2077/78 | 5920.59 | 9377.43 | 0.63137 |
| 2078/79 | 9299.76 | 13060.13 | 0.71207 |
| | Mean | | 0.66376 |
| | S.D. | | 0.027 |
| | C.V. | | 4.06774 |

Source: Annual Reports of LBL

The table shows total interest expenses to total interest income ratio of bank. The ratio of total interest expenses to total interest income was fluctuating trend for the study period. The highest ratio is 0.71207 times in the fiscal year 2078/79 and lowest ratio is 0.63137 times in the fiscal year 2077/78 with the mean ratio of 0.66376 times. The coefficient of variation is 4.06774%, it means it is constant by 95.93%.

4.9.4 Interest Earned to Total Assets

The ratio shows the percentage of interest income as compared to the assets of the bank. High ratio indicates the proper utilization of bank assets for income generating purpose. Low ratio represents unsatisfactory performance.

Table 4.16

Interest Earned to Total Assets Ratio

| (Rs. in Millions) | | | |
|--------------------|------------------------|---------------------|-------------------------|
| Fiscal Year | Interest Income | Total Assets | Ratio (in Times) |
| 2074/75 | 7063.78 | 80960.28 | 0.08725 |
| 2075/76 | 8942.67 | 106995.72 | 0.08358 |
| 2076/77 | 10182.24 | 128898.57 | 0.07899 |
| 2077/78 | 9377.43 | 152240.86 | 0.0616 |
| 2078/79 | 13060.13 | 173383.95 | 0.07532 |
| | Mean | | 0.07735 |
| | S.D. | | 0.0088 |
| | C.V. | | 11.377 |

Source: Annual Reports of LBL

The table shows total interest income to total assets ratio of bank. The ratio of total interest income to total assets was decreasing trend for the study period except last fiscal year. The highest ratio is 0.08725 times in the fiscal year 2074/75 and lowest ratio is 0.0616 times in the fiscal year 2077/78 with the mean ratio of 0.07735 times. The coefficient of variation is 11.377%, it means it is constant by 88.623%.

4.10 Correlation Analysis

Correlation analysis is a statistical relation between two or more variables such that systematic changes in the value of one variable are accompanied by systematic changes in the other. In other words, correlation is the statistical tool that we can use to describe the degree to which one variable is linearly related to another.

Under this analysis Karl Pearson's method of coefficient of correlation is applied. The coefficient of correlation measures the degree of relation of correlation is always between +1 and – 1, when r is +1 it means there is perfect relationship between two variables and vice-versa. When r is 0, it means there is no relationship between two variables.

4.1.1 Coefficient of Correlation between Total Assets and Net Profit

The coefficient of correlation between total assets and net profit is used to calculate net profit. In a correlation analysis, total assets are the independent variable (X) and net profit is the dependent variable (Y). Determining the correlation coefficient helps to show whether net profit contributes significantly to total assets and whether these two variables are related. The relationship between total assets and net profit is shown in the following table along with the coefficient of correlation (r), or PEr and 6PEr for the relevant banks.

Table 4.17

Correlation Coefficient between Total Assets & Net Profit

| Evaluation Criteria | | | | | | |
|----------------------------|-------|----------------|---------|-----------|---------------|----------------------|
| Name | r | r ² | P.E (r) | 6 P.E (r) | Remarks | Relationship |
| LBL | 0.637 | 0.405 | 0.179 | 1.07 | Insignificant | Positive Correlation |

Source: Appendix I

The above table describes the relationship between total assets and net profit during the period of study. The coefficient of correlation (r) between total assets and net profit is 0.637. This figure shows the positive association between total assets and net profit. It means assets and net profit both move towards same direction.

The coefficient of determination (r²) is 0.405 it shows that 40.5% of the variation in the dependent variable (i.e. net profit) has been explained by the independent variable (i.e. total assets).

The value of P.E. (r) is 0.179 and 6.P.E (r) is 1.07. The value of correlation coefficient (r) is less than six times of probable error (6.P.E (r)). Therefore true value of 'r' is insignificant. It reveals that there is insignificant relationship between the total assets and net profit.

There is positive relationship between total assets and net profit. It shows that by increasing the assets, the amount of net profit can be increased. Therefore both the total assets and net profit are very much interrelated. Thus it can be concluded that if the total assets grow more, it increases the profit accordingly.

4.10.2 Coefficient of Correlation between Total Deposit and Net Profit

The coefficient of correlation between total deposit and net profit is used to calculate net profit. In a correlation analysis, total deposit is the independent variable (X) and net profit is the dependent variable (Y). Determining the correlation coefficient helps to show whether net profit contributes significantly to total deposit and whether these two variables are related. The relationship between total deposit and net profit is shown in the following table along with the coefficient of correlation (r), or PEr and 6PEr for the relevant banks.

Table 4.18

Correlation Coefficient between Total Assets & Net Profit

| Evaluation Criteria | | | | | | |
|----------------------------|------|----------------|---------|-----------|---------------|----------------------|
| Name | r | r ² | P.E (r) | 6 P.E (r) | Remarks | Relationship |
| LBL | 0.56 | 0.314 | 0.206 | 1.235 | Insignificant | Positive Correlation |

Source: Appendix II

The above table describes the relationship between total deposit and net profit during the period of study. The coefficient of correlation (r) between total deposit and net profit is 0.56. This figure shows the positive association between total deposit and net profit. It means deposit and net profit both move towards same direction. The coefficient of determination (r²) is 0.314 it shows that 31.4% of the variation in the dependent variable (i.e. net profit) has been explained by the independent variable (i.e. total deposit).

The value of P.E. (r) is 0.206 and 6.P.E (r) is 1.235. The value of correlation coefficient (r) is less than six times of probable error (6.P.E (r)). Therefore true value of 'r' is insignificant. It reveals that there is insignificant relationship between the total deposit and net profit.

There is positive relationship between total deposit and net profit. It shows that by increasing the deposit, the amount of net profit can be increased. Therefore both the total deposit and net profit are very much interrelated. Thus it can be concluded that if the total deposit is collected more, it increases the profit accordingly.

4.11 Major Findings

- The actual investments for the study period were decrease from first fiscal year to second fiscal year than increasing trend for the study period. The maximum actual investment is Rs. 16816.56 million in the fiscal year 2078/79 and minimum actual investment is Rs. 7025.46 million in the fiscal year 2075/76. The percentage of maximum actual investment on budgeted investment is 123.66% in the fiscal year 2076/77 and minimum is 66.392% in the fiscal year 2074/75.
- The actual investments for the study period were increasing trend for the study period. The maximum actual deposit is Rs. 139537.1 million in the fiscal year 2078/79 and minimum actual deposit is Rs. 65561.51 million in the fiscal year 2074/75. The percentage of maximum actual deposit on budgeted deposit is 102.06% in the fiscal year 2076/77 and minimum is 92.302% in the fiscal year 2074/75.
- The current deposit is increasing trend over the study period. The highest current deposit is Rs. 7940.3 million in the fiscal year 2078/79 and that of lowest is Rs. 3197.93 million in the fiscal year 2074/75. The other & call deposit were fluctuating trend for the study period. Saving deposit was increasing trend except last fiscal year for the study period. Fixed deposit was increasing trend for the study period.
- The ratio of total actual investment to total actual deposit ratio was increasing trend except 2074/75 to 2075/76 for the study period. The highest ratio is 0.121 times in the fiscal year 2078/79 and the lowest ratio is 0.087 times in the fiscal year 2075/76.
- The amount of operating profit and net profit were fluctuating trend for the study period. The highest operational profit & net profit were 2292.33 million & 1590.07 million respectively in the fiscal year 2075/76. Similarly, the lowest operational profit & net profit were 1683.08 million & 1181.09 million respectively in the fiscal year 2074/75.

- The total income is in increasing trend except 2076/77 to 2077/78 for the study period. The highest interest income is Rs. 13060.13 million in the fiscal year 2078/79 and lowest is Rs. 7063.78 million in the fiscal year 2074/75. The highest commission and discount income is Rs. 1156.58 million in the fiscal year 2078/79 and lowest is Rs. 585.97 million in the fiscal year 2074/75. The highest net trading income is Rs. 360.98 million in the fiscal year 2075/76 and lowest is Rs. 270.7 million in the fiscal year 2078/79. The highest other operating income is Rs. 500.37 million in the fiscal year 2077/78 and lowest is Rs. 103.18 million in the fiscal year 2076/77. The highest non-operating income is Rs. 15.63 million in the fiscal year 2076/77 and lowest is Rs. 4.45 million in the fiscal year 2077/78.
- The total expenditure is in increasing trend except 2076/77 to 2077/78 for the study period. The highest interest expenses are Rs. 9299.76 million in the fiscal year 2078/79 and lowest is Rs. 4731.49 million in the fiscal year 2074/75. The highest fee commission expenses are Rs. 199.46 million in the fiscal year 2078/79 and lowest is Rs. 60.24 million in the fiscal year 2074/75. The highest net impairment charge is Rs. 554.17 million in the fiscal year 2078/79 and lowest is Rs. 60.24 million in the fiscal year 2074/75. The highest operating expenses are Rs. 2618.4 million in the fiscal year 2078/79 and lowest is Rs. 1302.48 million in the fiscal year 2074/75. The highest non-operating expenses are Rs. 61.81 million in the fiscal year 2075/76 and lowest is Rs. 11.45 million in the fiscal year 2077/78.
- The ratio of total revenue to total expenses ratio was fluctuating trend for the study period. The highest ratio is 1.283 times in the fiscal year 2075/76 and the lowest ratio is 1.167 times in the fiscal year 2078/79.
- The ratio of total revenue to total profit ratio was fluctuating trend for the study period. The highest ratio is 9.8 times in the fiscal year 2078/79 and the lowest ratio is 6.39 times in the fiscal year 2075/76.
- The ratio of total deposit to interest expenses ratio was increasing trend except 2077/78 to 2078/79 for the study period. The highest ratio is 19.36 times in the fiscal year 2077/78 and the lowest ratio is 13.86 times in the fiscal year 2074/75.
- The letter of credit (LC) amount is in increasing trend for the study period. Where highest growth rate is 32.75% in the fiscal year 2078/79 & lowest growth rate is 0.659% in the fiscal year 2077/78.

- The bank guarantee amount is increasing trend over the study period. The highest growth rate is 27.8544% in the fiscal year 2075/76 & lowest growth rate is 5.2844% in the fiscal year 2077/78.
- The ratio of return on total assets was increase first fiscal year to second fiscal year than decreasing trend for the study period. The highest ratio is 0.014861 times in the fiscal year 2075/76 and lowest ratio is 0.008729 times in the fiscal year 2078/79 with the mean ratio of 0.11896 times. The coefficient of variation is 20.17493%, it means it is constant by 79.825%.
- The ratio of return on total assets was increase first fiscal year to second fiscal year than decreasing trend for the study period. The highest ratio is 0.0198 times in the fiscal year 2075/76 and lowest ratio is 0.01085 times in the fiscal year 2078/79 with the mean ratio of 0.1535 times. The coefficient of variation is 20.8454%, it means it is constant by 79.1546%.
- The ratio of total interest expenses to total interest income was fluctuating trend for the study period. The highest ratio is 0.71207 times in the fiscal year 2078/79 and lowest ratio is 0.63137 times in the fiscal year 2077/78 with the mean ratio of 0.66376 times. The coefficient of variation is 4.06774%, it means it is constant by 95.93%.
- The ratio of total interest income to total assets was decreasing trend for the study period except last fiscal year. The highest ratio is 0.08725 times in the fiscal year 2074/75 and lowest ratio is 0.0616 times in the fiscal year 2077/78 with the mean ratio of 0.07735 times. The coefficient of variation is 11.377%, it means it is constant by 88.623%.
- Coefficient of correlation between total assets and net profit value 'r' is positive relationship between two variables total assets and net profit. By considering the probable error, since the value of 'r' is less than six times of probable error. So, value of 'r' is insignificant.
- Coefficient of correlation between total deposit and net profit value 'r' is positive relationship between two variables total deposit and net profit. By considering the probable error, since the value of 'r' is less than six times of probable error. So, value of 'r' is insignificant.

CHAPTER – V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Every bank is set up with objective of providing banking services to the people. Planning & controlling is important to survive & lead the company successfully. Organization cannot achieve its goal without proper planning and implementation.

The prosperity of every developing country can only be ensured by its economic growth. The role of commercial banks in the economic growth of the nation can be fairly estimated to be every prominent. By mobilizing the scattered idle resources, commercial banks pool the fund in a sizable volume in order to feed to the fund requirement of productive sector of the economy. Such investments in the productive sector promote trade and industrialization in the country thereby raising the employment opportunities and earnings to the labors and materials and service providers to such industries and trades with as a chain effect, promotes saving in the banks and more saving for further investment. In this way, as the chain moves rolling on, the economy of the nation also grows. To remain as the major contributing factor to the growth of the nation's economy, the banks also have sustainable existence and growth of themselves. For the suitable existence and growth of a bank, it must ensure reasonable profitability.

As the banks are formed as joint stock companies promoted by shareholders investment, it must give reasonable return on the fund of the fund of the shareholders. Further by the profit made by the bank, it may choose to increase its capital base to make it stronger and more sustainable for facing any further threat that may come up. A profit earning organization can better feed to their employees, thereby enhancing the morale of the employees and motivate them for better performances.

Therefore, profit for commercial organizations has been defined as the life-blood for them. A commercial bank also, being a commercial institution has to plan for the reasonable profit earnings. Profit planning is the planning of activities in such way that it helps in increasing the income at a minimum possible cost or at optimum cost. PPC can be used an effective tool for the organization running at high level profit. It is a

combination of various financial and physical techniques, which not only helps on increasing profit but also reduces unnecessary cost and utilizes the expenses in the best manner. This study aims at examining the application of profit planning in a commercial bank with a specific study of LBL.

This study covered various aspects of profit planning in the banks from the fiscal year 2074/75 to the fiscal year 2078/79. In the first introductory chapter, this study reported a brief introduction of profit planning and control, brief profile of the concerned bank, statement of the problem, objective of the study, limitation of the study, significance of the study and organization of the study.

During the research works, an extensive review of various literatures, books, past theses, journals have been made and internet materials from relevant websites were also consulted. The work was complied in “Review of Literature” chapter.

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

Finally, the summary, conclusion and recommendation were made for this study. It is being presented in the fifth chapter titled “Summary, Conclusion and Recommendation.”

5.2 Conclusion

Economic development plays a significant role for a economy. In the Nepalese prospective the establishment of financial institution has played progressive role for the economic development of the country. In this context commercial banks have been proved as prime financial operator of the economical development in Nepalese scenario. But as a developing country Nepal needs to strengthen its economy to achieve rapid overall economic development. Similarly, Nepalese banks are still stuck to traditional approaches for find utilization and management. Studying the available data, it can be

concluded that major concentration of resource mobilization of the bank is deposit. Deposit of the bank is satisfactorily good but mobilization of resources is not good. Likewise, interest income is the main contributor of the income sources and interest expenses are the major portion of the expenses. Cost of deposit of the bank is found to be in increasing trend. Other expenses were in increasing trend in every fiscal year. Other income other than interest income was also in increasing trend. The net profit of the bank was in increasing trend over the study period.

- Major concentration of resources mobilization of Laxmi bank Ltd. is at deposit mobilization in this respect they are incurring higher cost toward deposit mobilizations.
- Deposit mobilized by the Bank is found to be considerably not growing every year over the period of last seven years.
- The target set for deposit mobilization by the Bank has been not very well met every year.
- It is observed that the bank is adopting a policy to keep minimum number of employees as possible but it has un-necessary long ladder at various levels without specific job description.
- The decision making process is highly centralized however top management takes the feed forwards for antae planning and strategy building through manager conferences and strategic meeting organized ones in every year at the head office
- Advanced training to the personnel is lacking.
- Bank has the policy to employ academically highly qualified (first class MBA and MBS) fresh candidates at deputy manager which may be considered as good aspect for future manpower building.
- Laxmi Bank has organized planning department to undertake innovative products research and development works.
- Controlling functions of the branches are so far being carried out directly by head office, which may be difficult in these days to come because of its wide geographical stretch.

5.3 Recommendations

After studying the financial position of the bank and analyzing the available data the followings suggestions are recommended to improve the profit planning system of the bank.

- From the study it seems that LBL has been focusing in the urban side of the country. So, it should focus on rural areas too for development of the nation.
- Corporate Social Responsibility should be maintained very seriously because it has responsibility to change the environment around it survives.
- The bank should give continuity in providing both conceptual and practical training to the staff to enhance their knowledge, skill and competency level.
- The LBL should follow the process of profit plan to increase its efficiency and to increase its profitability position. Making profit plan means making further plan for income, expenses and profit etc. This will help the bank to increase profit, income and reduce expenses.
- The bank should reduce its expenses (such as interest expenses, staff expenses, operating expenses, provision for doubtful debt). These expenses are increasing yearly which is not favorable for the bank.
- The bank should make effort to collect non-interest bearing deposit. The bank should make effort to utilize the available resources effectively and implement cost effectiveness techniques to reduce operating expenses. It must utilize effectively its human resources to reduce its staff expenses. Decrease in expenses will increase net profit of the bank.
- The bank should increase its interest income as well as non interest income. The bank should mobilize its fund properly to increase income.
- Investment is the safe sector to utilize the fund. It does not increase any losses. The bank should invest on industrial, tourism, agricultural and hydropower sector, which really helps to develop the nation.
- This study carries a lot of limitation. So, a more comprehensive study needs to be carried from the concerned authorities and the further researches to reach a more authentic conclusion depicting the picture of the banks.

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APPENDIX-I

Calculation of Correlation Coefficient between Total Assets (TA) and Net Profit (NP)

(Rs. in Millions)

| TA (X) | NP (Y) | $x=(X - \bar{X})$ | x^2 | $y=(Y - \bar{Y})$ | y^2 | xy |
|---------------------------|-------------------------|-------------------|------------------------------|-------------------|------------------------------|------------------------------|
| 80960.28 | 1181.09 | -47535.596 | 2259632887 | -273.294 | 74689.6104 | 12991193.17 |
| 106995.72 | 1590.07 | -21500.156 | 462256708 | 135.686 | 18410.6906 | -2917270.167 |
| 128898.57 | 1411.55 | 402.694 | 162162.4576 | -42.834 | 1834.75156 | -17248.9948 |
| 152240.86 | 1575.76 | 23744.984 | 563824265.2 | 121.376 | 14732.1334 | 2882071.178 |
| 173383.95 | 1513.45 | 44888.074 | 2014939187 | 59.066 | 3488.79236 | 2651358.979 |
| $\Sigma x =$ 642479.38 | $\Sigma y =$ 7271.92 | | $\Sigma x^2 =$ 5300815210 | | $\Sigma y^2 =$ 113155.978 | $\Sigma xy =$ 15590104.17 |

$$\bar{X} = \frac{\sum X}{N} = \frac{642479.38}{5} = 128495.876$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{7271.92}{5} = 1454.384$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{15590104.17}{\sqrt{(5300815210)(113155.978)}} = 0.637$$

$$PEr = 0.6745 \frac{1-r^2}{\sqrt{N}}$$

$$= 0.179$$

$$6PEr = 6 \times 0.179 = 1.07$$

APPENDIX-II

Calculation of Correlation Coefficient between Total Deposit (TD) and Net Profit (NP)

(Rs. in Millions)

| TD (X) | NP (Y) | $x=(X - \bar{X})$ | x^2 | $y=(Y - \bar{Y})$ | y^2 | xy |
|---------------------------|-------------------------|-------------------|------------------------------|-------------------|------------------------------|-----------------------------|
| 65561.51 | 1181.09 | -34118.4 | 1164064400 | -273.294 | 74689.6104 | 9324350.73 |
| 80324.63 | 1590.07 | -19355.3 | 374626399.4 | 135.686 | 18410.6906 | -2626238.894 |
| 98370.76 | 1411.55 | -1309.14 | 1713842.303 | -42.834 | 1834.75156 | 56075.61709 |
| 114605.49 | 1575.76 | 14925.59 | 222773296.6 | 121.376 | 14732.1334 | 1811608.655 |
| 139537.1 | 1513.45 | 39857.2 | 1588596551 | 59.066 | 3488.79236 | 2354205.493 |
| $\Sigma x =$ 498399.49 | $\Sigma y =$ 7271.92 | | $\Sigma x^2 =$ 3351774489 | | $\Sigma y^2 =$ 113155.978 | $\Sigma xy =$ 10920001.6 |

$$\bar{X} = \frac{\sum X}{N} = \frac{498399.49}{5} = 99679.898$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{7271.92}{5} = 1454.384$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{10920001.6}{\sqrt{(3351774489)(113155.978)}} = 0.56$$

$$PEr = 0.6745 \frac{1-r^2}{\sqrt{N}}$$

$$= 0.206$$

$$6PEr = 6 \times 0.206 = 1.235$$

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CHAPTER I INTRODUCTION 1.1 Background of the Study Nepal is a small landlocked nation with 147,181 square km. The nation has borders with China and India, the two most visited nations in the world. The 2001 census results show that the population is growing at a pace of 2.24% annually. The majority of people live below the poverty line. It is projected that per capita income will be \$210. There is also a lot of economic inequality. The agriculture industry employs more than 80% (eighty) of the population, the majority of whom reside in rural areas. 91% of the population resides in rural areas and works in agriculture, whereas 9% of people live in cities. The primary source of revenue is still agriculture, which contributes 39.22% of GDP in 2001–2002. The remaining 60.68% comes from non-agricultural sectors; in 2000–2001, contributions from the