

**A STUDY ON PROFIT PLANNING AND
CONTROL OF EVEREST BANK LIMITED**

By

DIPAK BHATTARAI

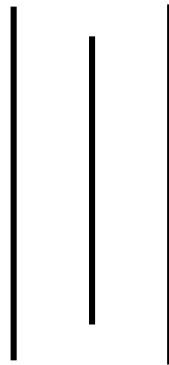
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***In partial fulfillment of the requirement for the degree of
Master of Business Studies (MBS)***

Kathmandu, Nepal

May 2011

RECOMMENDATION

This is to certify that the thesis

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**A Study on Profit Planning and Control of Everest Bank Limited**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Joginder Goet** of Shanker Dev Campus, T.U.

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ABBERRVIATIONS

ATM	Automated Teller Machine
BIS	Bank of International Settlement
CA	Current Assets
CB	Commercial Bank
CDS	Cumulative Deposit
CL	Current Liability
CR	Current Ratio
CV	Coefficient of Variance
DPS	Dividend per Share
EBL	Everest Bank Ltd.
EPS	Employee Provident Fund
FD	Fixed Deposit
JVB	Joint Venture Bank
NABIL	Nepal Arab Bank Ltd
NCC	Nepal Credit and Commerce Bank
NIB	Nepal Bank Ltd
NIC	Nepal Industrial and Commercial Bank
NRB	Nepal Rastrya Bank
NSBL	Nepal SBI Bank LTD
PNB	Panjab National Bank
PPC	Profit Planning and Control
RBB	Rastrya Banijya Bank
ROA	Returned on Assets
ROE	Returned on Equity
SCBL	Standard Chartered Bank Ltd.
SD	Standard Deviation

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

The Nepalese economy is an agro based economy. The agriculture sector provides employment to nearly about 91.1% of the total population. The output per head in the agriculture sector is very low in the comparison to that of developed countries. The balance of payments is not favorable in every year import of goods is higher than the export of goods. It has also been commonly known that the gap between expenditure and revenue that is called resource gap is increasing every year.

Profit planning and control is an important approach in profit oriented organization. Profit planning is merely a tool of management not the substitute or end of the management. It facilitates the management to accomplish managerial goals in systematic way effectively and efficiently.

Each and every organization is established to attain specific goals. The goals of the organization can be survival, growth, innovation, technology advancement, leadership, profit etc. The management is efficient if it is able to accomplish the objective of the organization. It is efficient when it achieves the objective with minimum efforts. The main goal of the most of the organization is to earn profit. Profit is necessary not only to survive but also for growth and expansion of the organization. So, in order to attain the objective, organization should plan its course of action in advance that ultimately leads the organizational effectiveness and enhances organizational efficiency. A systematic approach that facilitates effective managerial performance is profit planning and control.

Thus, profit planning and controlling is a systematic tool or approach that helps an organization to achieve its objectives effectively and efficiently by planning the activities in advance and taking the corrective the corrective measures. It is a useful

tool available for the management to lead the organization towards the path of success. Organization using profit planning and control tends to be more profitable than not using.

Comprehensive profit planning and control is a new term in the literature of business. Though, it is a new term, it is not the new concept in management. The other terms that can be used in the same context are comprehensive budgeting, management budgeting and simply budgeting.

Comprehensive profit planning and control can be defined as a process designed to the management effectively perform significant phase of the planning and control function. Profit planning is a comprehensive statement of intentions expressed in financial terms, for the operation. Profit planning and control is a tool for management control. It is the best source of communication. It is an accounting. It cannot be properly classified as an accounting technique rather it is a management technique.

In sum, profit planning and control is a comprehensive tool that is used by management in planning for the future course of actions and controlling for subsequent evaluation of performance. Comprehensive profit planning and control model can be taken as the best use of opportunities for and strengths of the firm and minimization the threats for and weakness of the firm to meet the target profit by grasping the opportunities in the environment. The generation of the reasonable profit is the main theme of profit planning and control.

Everest Bank Limited has been established with the objectives of expending professional banking services to various sections of society in the republic of Nepal and thereby contributes in the economic development of country. Everest Bank Limited was registered under the company act 1964 in 19th November, 1993 (2049/09/03) and started to commence banking transactions on 16th October, 1994 (2051/07/01). The promoter of the bank decided to join hands with an Indian Bank and entered into joint venture agreement in January, 1998 A.D. with Panjab National

Bank (PNB) which is one of the leading commercial banks of Everest Bank Limited. It is a joint venture with Panjab National Bank, one of the largest commercial banks in India having over 3700 branches and more than 300 correspondents around the globe. Panjab National Bank is providing the top management services to Everest Bank Limited, thus has advantage of banking enterprises and financial strength of its partner. Currently, with 37 branches in various parts in Nepal including main branch located in Kathmandu. Everest Bank Limited operated with the objective of providing the full range of quality banking services to both the business community and common people.

Equity holding of PNB is 20% and also has undertaken management responsibilities under a technical service agreement and the Nepali investor maintains the remaining balance. Nepalese promoter holds 50% and 30% is hold by general public.

The main purpose of Everest Bank Limited is to extend professional banking services to various sector of the society in the kingdom of Nepal and thereby contribute in the economic development of the country. It provides the following facilities and services to their customers:

-) Cumulative deposit service
-) Letter of credit
-) Telegraph transfer
-) International trade and banking guarantee
-) Remittance
-) Foreign currency deposit
-) Foreign exchange
-) Trade finance
-) Debit cards
-) ATM
-) Merchant banking
-) 365 days banking transactions

) Mobile banking service

1.3 History of the Banks

The concept of banking had developed from the very beginning of the economic activities. First of all the arrangement was made to deposit and gold and valuables and receipts were issued for such deposits. The depository would have their gold for safekeeping and in turn were given a receipt. Whenever receipt was presented the depositor would return back their gold and valuable, after receiving a small payment as fees.

The word “Bank” is orient in medieval in 1171 A.D. The Bank of Venice was the first bank, which was established in Italy. Then after in 1401 A.D bank of Barcelona was established in Spain, but the credit of the development of modern banks goes to the bank of England which was established in 1694 A.D in London.

Banking has crossed various phases to come to the modern form. Some sorts of banking activities have been carried out since the time immemorial. Traditional forms of banking were traced during the civilization of Greek, Rome and Mesopotamia. Merchants, gold smith and money lenders are said to be the ancestors of modern banking.

With the gradual development of bank, its functions are increasing it only deals with the exchanges of money in its preliminary phase, but later in accepting deposit from public against interest and providing them in the form of loan to the needy persons was the basic function defined. But now a day, bank covers wide range of activities. Banking institutions are indispensable for resource mobilization and all round development. It maintains economic confidence various segment and extends credit to the people. The main objective of the bank is collecting saving from public in the form of deposits and providing medium and short-term loans for the development of industry, trade and business to the one in need. The bank must return fund to their customers when they demands. So it always gives attention on liquidity position. This

is the reason that the commercial bank do not generally provide long-term loan. The development of country's economy is impossible without expansion of banking function in both rural and urban areas of the country, development of Trade and Industry is dependent upon the development of banking facilities, so it is said that the bank is back bone of economic development in modern society.

Generally the bank refers to commercial bank. Bank collect fund as a saving from public of country and invest in highly return yielding firm. It develops saving habits in people. Commercial bank plays vital role for development of developing countries. Bank provides the internal resources for developing country's economy. It collects diversified capital from different parts of the country through its own branches so commercial bank is the heart of the trade, industry in modern age. Commercial bank earns optimal profit by mobilizing such capital resources properly.

In the Nepalese context, like other countries, goldsmiths, merchant and money lender were the ancient bankers of Nepal. Tejarath Adda established during the prime minister of Ranodip Singh (1933B.S) was the first step towards the institutional development of banking in Nepal. Tejarath Adda did not collect deposits from the public but provided loans to employee's public against the collateral.

The history of development of modern bank started from the establishment of Nepal Bank limited in 1973 A.D (1994 B.S) with put forth effort of government and public, as a commercial bank with ten million authorized capital. Then the government felt the requirement of central bank and established "Nepal Rastra Bank" in 1965 A.D (2013B.S) as a central bank under NRB act 2012 B.S.it played leading role in development of banking in Nepal and also controlled the monetary culture in the country. Likewise, rising of banking function get popular and more complicated.

Thus NRB suggested for the establishment of another commercial bank and in 1966 A.D (2022 B.S) Rastriya Banijya Bank was established as a fully government owned commercial bank now its branches are diversified all over the country.

Apart from this, NIDC was established in 1959 A.D (2016 B.S) and Agricultural Development Bank established in 1967 A.D. (2024 B.S). Other development bank and financial institution were established and continued to establish after the economic liberalization policy adopted by the government.

Only in 1990 A.D after re- establishment of democracy, the government took the liberal policy in banking sector. As an open policy of Nepal Government's to get permission to invest in banking sector from private and foreign investor under commercial bank act 1975 A.D (2031 B.S), different private bank are getting permission to established with the joint venture of other countries. Now a day, there are 31 commercial banks operating in Nepalese financial market. Out of 31 commercial banks, 28 banks have started their fullbledscd apparition and remaining other are in process. The name of the commercial banks is as follows.

-) Nepal Bank Ltd.
-) Rastriya Banijya Bank
-) Agricultural Development Bank
-) Nabil Bank
-) Nepal investment Bank
-) Standard Chartered Bank
-) Himalayan Bank
-) Nepal SBI Bank
-) Nepal Bangladesh bank
-) Everest Bank
-) Nepal Credit and Commercial Bank
-) Lumbini Bank
-) Nepal Industrial and commercial Bank
-) Machhapuchhre Bank
-) Kumari Bank
-) Laxmi Bank
-) Siddhartha Bank

-) Bank of Kathmandu
-) Global Bank
-) Citizen Bank
-) Prime Commercial Bank
-) Bank of Asia
-) Sunrise Bank
-) DCBL Bank
-) NMB Bank
-) KIST Bank
-) Janta Bank
-) Mega bank
-) Commerce and Trust Bank
-) Civil Merchant Bank
-) Century Bank Ltd.

1.3 Present Status of Banking Industry

A sound banking system depends partly on the controlled exercised by the central bank and to a large extent on trust of its customers or clients (the customers trust that his deposit will be looked after in the best possible way and the funds will be available whenever he wishes to withdraw his money). The banks have a major responsibility to be having like good citizen in a business with profitability as a major consideration.

Now a day there are 31 commercial banks working and out of them 9 are joint ventured with foreign on the other hands a lot of financial co-operatives are also operating. Besides commercial bank, development banks are investing their performance in Nepal banking industry. There are 82 developments banks are operating their services and they also have in important role for the growth of countries economic position. Agricultural development bank and Nepal industrial development banks are government owed bank. Other development banks like Nepal utthan bank Ltd rural micro finance development centre and cottage and small

industries development bank Ltd and rural development banks are operating in Nepalese banking industries. Other 5 bank is established and has commercial and its services.

Commercial bank collects deposit from public in various forms and lends the same as investment. Moreover they also provide technical support, administrative suggestion, cheap remittance of funds, safekeeping of valuables collection of bills, cheques, overdraft facilities to industries and commerce. Whenever banks lend money they must remember that the source of their fund is customers deposits therefore it is of almost importance that the subsequent lending should be of minimal risk. Banks have often been criticized for not lending more freely. But higher risk of loss is the deterring factor on granting advances despite the availability of option of charging higher rate. With the increasing number of commercial banks competition among them have also become more complex. Doing business with tradition banks used to be so cumbersome that customers had to spend a lot of effort and time in trying to understand the functioning of the bank rather than receiving prompt service. Now the commercial banks (mainly joint venture banks) are trying to introduce and established themselves different by providing special service and attractive schemes. In 1995 A.D Himalayan Bank Ltd introduces tele-banking services. It gives the new life for banking sector by providing a niche in the competitive financial market.

Likewise most of the other JVB are providing new scheme like insurance to depositors, which is an extra bonus to encourage them to deposit their surplus in such banks. Credit card system is other attractive feature of joint venture banks i.e. NABIL credit card (Master card, dinner card) visa of NGB. Credit card of HBL introduced cumulative deposit scheme (CDS) and facilities for the Nepalese living in gulf countries for transfer of their saving arrangements with the exchange houses in UAE, Bahrain and Kuwait.

First of all standard chartered bank, NABIL and Everest bank are providing ATM (automated teller machine) facilities but now all of same are provides ATM facilities

and through this facility the customer can easily withdraw and deposit their money at any time. Some commercial bank has introduced also the mobile banking services.

1.4 Introduction of Commercial Bank

The commercial banks are those banks that pool together the saving of the community and arrange for the productive use. In the process of such intermediation, commercial bank plays fund raised from different source into different assets. With a prime objective of profit generation and administrative assistance. According to commercial Bank Act 2063 “Commercial banks are those banks which are established under this act to perform commercial function.” The commercial banks pool together the saving of the community and arrange for their productive use. They supply financial needs of modern business.

“The commercial Bank has its own role and contribution in the economic development. It is a resource for the economic development. It maintains economic confidence of various segments and extends credit to people. These banks are established to improve people’s economic welfare and facilities to provide loan to offer banking service to the people and the country. It provides internal resources for developing countries economy. It collects diversified capital from different parts of country through its own branches.

Commercial bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its other services.

1.4.1 Function of Commercial Bank

Bank can be defined according to function they perform commercial. Bank is established prime objective of profit maximization. To achieve this, Bank performs various functionally activities. Principally, commercial bank accepts, deposits, provides loan, primarily to business firms there by facilitating the transfer of funds on economy.

However in the previous years, bank were viewed as acceptor of deposits and provider of loan but modern commercial banks have to perform for overall development of trade, commerce, industry, agriculture, including priority and dependent upon banking. So, we don't have doubt to say that objective of commercial banks is to earn profit by performing various functions. Following are the main functions performed by the commercial banks.

1. Accepting Deposits

The main function of commercial bank is to accept deposits from the public in different types of deposits account. Generally a bank accepts deposit in three forms namely: saving, current and fixed deposits.

a. Current Deposits

The account in which any amount can be deposited and withdrawn at any time is known as current account. In this account banks do not give interest to the account holder. These days bank under this account as per their own rule has determined minimum limit of deposit.

b. Saving Deposits

Saving account is managed to collect small saving of people. This account can be opened with nominal amount. The main purpose of this account is to promote the saving habit of the people. Limited amount can be deposited and withdrawn from the bank in the specified time. Bank provides nominal rate of interest in this account.

c. Fixed Deposits

A fixed deposit is one where a customer is required to keep a fixed amount in the bank for a specific period of time providing higher rate of interest. Amount can't be withdrawn from bank before the expiry of time. The banker knows the time when the bank is free to make use of this money for granting loans and advance. In case of emergency, fixed deposit account holder can take loan against the security deposit of it paying 2% extra interest.

2. Advancing Loans

The second major function of commercial bank is to provide loans and advanced from the money which receives by way of deposits. Direct loans and advanced are given to all types of person against the security of moveable and immovable properties. The bank is in the following forms grant the loans.

]

a. Overdraft

An overdraft is an arrangement by which the customer is allowed to overdraw his account against some collateral security. The customer is charged is interest only on the amount by which his current account is actually overdrawn and not by the full amount of the overdraft sanctioned to him by the bank.

b. Cash Credit

Cash credit is provided against the security of goods and personal security. The amount of the loan is credited to the current account of the borrower. T6he borrower can withdraw money through the cheques according to his requirement. But he has to pays interest on the full loan amount.

c. Direct Loans

The bank against the security of movable or immovable assets provides direct loans. The borrowers are required to pay interest on the entire amount of loan sanctioned from the date of taking the loan to the data of repayment.

d. Discounting Bills of Exchange

If a creditor holding a bill of exchange wants money immediately the bank provides him money by discounting bill of exchange. It deposits amount of the bill in the current account of the bill holder after deducting its rate of interest for interest for the period of loan. The length is generally 90 days. When the bill of exchange matures, the bank gets its payment from the banker of the debtors who accepted the bill.

3. Agency Service

Bank also provides the number of services on the behalf of its customer. A bank undertakes the payment of subscription, insurance premium, rent etc and collection of cheques, bills, promissory notes, draft, salaries, pension, dividends, interest etc on behalf of the customers. It also acts as a corresponding or representative of its customers, other banks and financial corporations.

4. Credit Creation

The most important function of the commercial banks is to create credit in order to earn profits they, accept deposit and advanced loans by keeping small cash in reserve for day to day transactions. When a bank advances a loan, it opens an account to draw money by cheque according to his need. By providing the loans to different persons or business firm, the bank create credit.

5. General Utilities Services

Apart from agency services, the commercial bank also provides some other useful services, which are known as general utility services. They can be explained as follows.

a. Assist in Foreign Trade

The bank assists these traders who are engaged in foreign trade. It discounts the bill of exchange drawn by Nepalese exporter on the foreign imports and enables the exporters to receive money in the home currency. Similarly it also accepts the bills drawn by foreign exporters.

b. Safekeeping of Valuables

The banks receive valuables such as securities, jewelers, documents of title to goods etc, from its customers for safe custody. The bank acts as the custodian of the valuables belonging to the customers. It receives them and returns them back when demanded.

c. Making Venture Capital Loans

Banks have become active in financing the start-up costs of new companies particularly in high- tech industries. Because of the added risk involved in such loans, this is generally through a venture capital firm that is a subsidiary of a bank holding company and other investors are often brought into share the risk.

d. Offers Security Brokerage Service

At present financial market place importance and many banks are striving to become true “financial super market”- offering a sufficiently wide array of financial services to permit customer to meet all of their financial needs at one location. Because of this reason, bank began to market security brokerage. Services offering customers get an opportunity to buy stocks, bonds and other securities without having to go to security dealer.

e. Financial Advising

Bankers have long been asked for financial advises by their customer, mainly when it comes to the use of credit and the saving or investing of funds. Many banks offer very useful financial advisory services from helping financial to consulting to business managers and checking on the credit standing of firms.

f. Offering Investment Banking and Merchant Banking Services

Today banks are following in the foot step of leading financial institution all over the globe in offering investment banking and merchant banking services to corporations. These services including identifying possible mergers targets financing acquisition of other companies, dealing in security underwriting, providing strategic marketing,

advice and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rates.

1.5 Focus of the Study

Most of the organization either small or big, private or government, trading or manufacturing, service oriented or profit oriented should plan their future course of actions in advance to achieve the objectives effectively and efficiently with minimum efforts. The efficient utilization of tools of profit planning and control leads to the organization towards the path of success. However, in case of Nepal, the concept of profit planning and control may be new for many managers who are managing the various organization based on rule of thumb. Most of the management of Nepalese organizations are unknown about the concept of profit planning and control. Thus, the main focus of this study is to analyze the effectiveness of implementation of various tools of profit planning for enhancing the organizational performance Everest bank ltd..

In the light of the above, the present study seeks to get answer of the following questions:

-) What is the trend of revenue and expenses of EBL during the study period?
-) What are the major problems faced by EBL?
-) What are the situations of profit and loss of EBL?
-) What is the trend of selected variably of PPC on EBL?

1.6 Statement of the Problem

Without proper utilization of tools of profit planning and control, it is almost impossible to achieve the objective of the almost all organization. Most of the complex organization which are being able to stand themselves as successful organization is using the tools of profit planning and control. In case of Nepal, most of the banks and financial institutions are getting success and they are being able to earn huge amount of profit. So, banks and financial institutions are growing like

mushrooms. of profit planning and control and still having a very tough time to manage the organization effectively, which needs to be studied.

The following are the major problems of EBL:

-) Lack of awareness concerning the accounting tools and technology.
-) Lack of proper and updated accounting information.
-) Lack of trained and efficient manpower.
-) Lack of efficiency
-) High skepticism

1.7 Objective of the Study

This study has been conducted with some specific objective. The main objective of the study is to analyze the effectiveness of PPC on EBL. Others objectives are as follows:

-) To analyze the effectiveness of utilization of PPC tools.
-) To study and evaluate the existing Practice of profit planning and control system.
-) To analyze financial position.
-) To provide valuable suggestions and recommendations for improvement of the overall profitability of the bank.

1.8 Significance of the Study

Profit planning gives the most important signal to the management of any enterprise while managing their physical and financial targets. It considerably contributes to improve the profitability of an enterprise as well. For this reason, it is the heart of the management. Even though EBL being the reputed commercial banks in Nepal, EBL's overall market share is very low, as it has to operate in highly competitive market. As such the need of study as an attempt to analyze the application and contribution of PPC and to provide suggestions for promotional measures of EBL is immense. This study is important to the following individuals and groups.

-) It provides the literature to the readers who want to carry out research in this field.
-) It is useful for management , personnel and customers of EBL.

-) It examines the effectiveness of implementations of PPC by Everest Bank limited.
-) It examines and evaluates the problems and potentials of EBL.

1.9 Limitations of the Study

The main limitations of this study are as under:

-) This study covers only the five years time span.
-) The study is mainly based on secondary data provided by EBL and its board. The reliability of data depends upon their source.
-) The management reluctant to provide the data prepared for internal purpose. So, comparison of actual result with expected result is quite less in this study.

1.10 Organization of the Study

This project study has been classified into the following five broad chapters.

Chapter -I: Introduction

This chapter covers the background of the study, focus of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study.

Chapter -II: Review of Literature

This chapter includes the main aspect as Conceptual framework, Review of related studies including thesis, books, articles, reports with findings and recommendations.

Chapter- III: Research Methodology

This chapter includes research methodology to be adopted for the study consisting introduction, research design, sources of data, data collection procedures, data analysis procedures, period covered and uses of tools for analysis.

Chapter- IV: Presentation and Analysis of Data

This chapter concerns with systematic presentation of data, data analysis and interpretation of data by using various financial and statistical tools and techniques.

Chapter -V: Summary, Conclusions and Recommendations

This is final chapter and it has devoted to summarize the whole study and drawing the conclusions based on the major finding. On the basis of major findings, significant recommendations are also presented.

Besides these, bibliography and appendixes are also attached at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Review

2.1.1 Profit:-The Basic Element of the Profit Plan

“A business form is an organization designed to make profit and profits are the primary measures of its success. Social criteria of business performance usually related to quality of products, rate of progress and behavior of prices. But these are the tests of the desirability of the whole profit system. Within the system, profits are the acid test of the individual forms performance” (Dean, 1992:3).

Multiple meanings of the word profits have always been troublesome. Accountants have made an energetic effort in the recent year to discard the word for their purpose and to refer to the conventional concept as business income, a natural term that avoids any overlap with economic theory. The most important points of the difference between the economist’s and accountant’s approaches center around (1) The inclusiveness of costs i.e. what should be subtracted from revenue to get profit. (2) The meaning of depreciation (3) The treatment of capital gains and losses and perhaps most important. (4) The price level basis for valuation of assets.

There are several interpretations of the term profit. An economist assumes that profit is the reward for entrepreneurship for risk taking. A labor leader might say it is a measure of how efficiently labor has produced and that it provides a base for negotiating the wage. Investor may view it as return on his or her investment. The accountant will define as the excess a firm’s revenue over the expenses of producing in a given fiscal period. Using the accountant’s measuring stick, management thinks of profit as:-

-) A tangible expression of the goals that it has set for the firm.
-) A measure of the performance towards the achievement of its goals.

Profit planning is a means of maintaining the health, growth and continuity of the company. “It is the ultimate objective of management to maximize profits over the long term consistent with its social responsibility” (Lynch & Williamson, 1989: 99).

“Accountants measure income by finding the difference between the net assets at the beginning of the year and net assets at the end the year. Among the assets, they list cash outlays that were made for inventory, land, plant and equipment and long term investment together with cash on hand, near cash assets and claims that will soon be cash or goods and services. From the total, they deduct some future cash outlays. They also deduct the part of the amount that had been spent for long lasting plant and equipment and say that part represents the fraction of the original cost that has already been put into productions of inventory and hence into cash. The total assets minus reserve and liabilities constitute net worth the year to year change in which is annual income” (Dean, 1992:15).

There is a wide variation in the meaning of profits given by accountants and economists. Economists themselves do not agree in the single meaning of the profit. According to some theories, profits are the factors payment for taking risk, for agreeing to take what is left over after contractual outlays have been made. In the second type of theory, profits are the results of frictions and imperfections in the adjustment of the economy to change.

In the third type of profit theory, profits are viewed as a wage for the service of innovation.

A fourth type of profit theory, the profounder of dynamic theory who opined that profits arise due to dynamic change in society.

There is no risk, no uncertainty in a static society. The price of goods would be equal to the cost of production. The entrepreneur would get only wages for his labor and interest on his capital, there will not be profit. The word ‘profit’ implies a comparison of the oppression of the business between the specific dates which are usually

separated by an interval of one year. In order to optimize those corporate sources of wealth on which national prosperity depends those corporate financial objectives of a company is to maximize, within socially acceptable limits, profits from the use of the funds employed by them. The maximization of profit within socially acceptable limit implies that a proper regard to public interest has been paid. No company can survive long without profits, profit is the ultimate measure of its effectiveness and in capitalistic society there is no future for a private enterprise which always incur losses. The survival measure of the effective performance of a business is profit, which really is a measure of how well a business performs economically. Profit is a signal for the allocation of the resources and a yardstick for guiding managerial efficiency and profit is a primary objective of a business. In a view of the heavy investment which is necessary for the success of most enterprises, profit in the accounting sense tends to become a long term objective which measure not only the success of a product but also of the development of the market for it” (Kulkarni, 1987:245).

2.1.2 Planning: The Basic Foundation of Profit Management

Planning is the specific process of setting goals and developing way to reach them stated another way, planning represents the firms, efforts to predict future event and be prepared to deal with them.

Planning is a method or a course of action to achieve a desired result. And it is a method of thinking out and purpose before hand. Planning starts from forecasting and determination of future events. Planning opens the door for action. We should be clear in the concept of planning. According to Oxford Dictionary planning means:

-) (To do something) arrangement for doing or using something considered working in advance
-) Way of arrangement something to do specially when on a drawing scheme.
-) Go according to plan

Planning is a mental process requiring the use of intellectual facility, imagination, foresight, sound judgment etc. whether the manager is of top level, medium level or

lower level , he can not be separated from the planning task i.e. their commonality but planning differs as the level.

Planning is essential to accomplish goals. It reduces uncertainty and provides direction to the employees by determining the course of action in advance. Planning is the management responsibility, not an accounting function. To plan is to decide and only the manager has authority to close the direction the company is to take.

Planning is a rational way, a systematic way of perceiving how business, industrial and any organization will get where it should go by examining future alternative course of action open to any organization and choosing them. Planning is the first function of the management. It is performed consciously because of the passing of the time demands both re-planning and making new plans. The major function of the business management is planning execution and control, which constitute the key elements of the management process.

Management planning and control begins with the establishment of the fundamental objectives of the organization and continues as the process by which necessary resources are provided and employed efficiently and efficiency towards the achievement of goals. Planning is essential to accomplish goals. It reduces uncertainty and provides direction to the employees by deterring the course of action in advance.

Management planning is continuous process as opposed to a predict endeavour. Since a plan projection can never be considered as the final product, it must be revised as condition sense and new information become available. Management planning is a process that includes the following five phases:-

-) Establishing enterprise's objectives and goals
-) Developing premises about the environment of the entity
-) Making decisions about course of action
-) Imitating action to activate the plans and
-) Evaluating performances feedback for replacing. It also provides the basic for performing the four other functions, organizing staffing, leading and controlling

2.1.3 Types of Planning

The planning can be divided into long range, medium range and short range. The type of planning depends upon the time period covered by it.

a. Long Range Planning

Long range planning usually covers five to ten years. The time period depends upon the size of enterprises and nature of its objectives. Long range planning is one of the most difficult times span involved in planning as many problems in short range planning can be traced to the absence of the clear sense of direction and the practice which a comprehensive long range plan provides. Long range planning is important basically for broad and long living enterprises. Long range planning is closely concerned with the concept of the corporation as long living institution. Long range planning is the continuous process of making present decision systematically and with the best possible knowledge of their futurity. Organizing systematically the efforts needed to carry out these decisions and measuring the result of these decisions against the expectation through organized systematic feedback.

Long range planning is a decision making process which may be related about the followings:-

-) Determination of those goals, objectives and strategies
-) The level of direction of capital expenditure
-) The accession of new source of fund
-) Organization decisions and structure etc.

The objectives of long range planning are as follows:-

-) To provide a clear picture of whether the enterprises is handled
-) To keep enterprise strong
-) To focus in long range opportunities
-) To evaluate management personnel
-) To expedite financing
-) To bring attention to new technique

b. Medium Range Planning

Medium range planning usually includes a time span of two or three years. The main purpose for using medium range planning is to establish interim objectives between long range and short range planning. In these cases, target with specific result and define time schedules must be developed. Medium range planning takes the form of budgeting in which each division, departments or units is allocated certain resources during the coming years. These allocations are based in parts on forecast of demands, cost, financial position and completion with the time origin of one or two years and critical decisions on resources allocation.

c. Short Range Planning

The short range planning is synonymous with the classical budgeting period of one year. The short range planning is selected to conform to fiscal quarters or years because of the practice needed for confirming plans to accounting period and the somewhat arbitrary limitation of long range of three to five years is usually based as has been indicated on these prevailing beliefs that the degree of uncertainty over long period makes planning of questionable value.

2.1.4 Forecasting VS Planning

Planning and forecasting are often confusing of being the same but they are not same though they are related.

The notion that planning and forecasting are different functions deserves mention here. Forecasting is generally used to predict what will happen in a given a set of circumstances or assumptions. Planning on the other hand, involves the use of forecast, to help to make good decision about most attractive alternative for the organization. Thus a forecast seeks to describe what will happen whereas a plan is based on the notion that by taking certain person how the decision maker can affect subsequent events in a given situation and thus influence the final results, in the direction. Generally speaking forecasting and forecast are inputs to the planning process.

2.1.5 Profit Planning and Control

“Profit planning and control is function of management which rests upon some fundamental views that is the conviction that a management can plan and control the long-range destiny of the enterprise by making a continuing stream of well conceived decisions” (Keller, 2004:4).

The trust of the comprehensive profit planning control concept goes to the very heart of management that is the decision making process especially for long – range success. The stream of managerial decision must generate plan and action to support the planned; continuing generation of profit by managerial manipulation of the inflows and outflows provides the substance of profit planning and control.

Profit planning focus on profit and its management in aggregate. The management thinking about profit is planning itself. It can be defined as estimation and pre determination of revenue and expenses that estimate how much income will be generate and how it would be spend in order to meet investment and profit requirement. In the case of insulation operations, it presents a plan for spending income in a manner that doesn't result in loss. It represents an overall plan of operation over a definite period of time and formulates the planning decision of management. It has been said and applied by different persons and organizations. Comprehensive profit planning and control is viewed as a process designed to help management effectively program significant phases of planning and control and is not confined in the traditional view of budget but as a clerically derived set of quantitative schedule prepared by an accountant. The three relevant aspects of profit planning and control are as follows:

- Ñ Profit planning and control requires major planning decision by management.
- Ñ Profit planning and control entails pervasive management control activities.
- Ñ Profit planning and control organizes many of the critical behavioral implication throughout the organization.

Thus it can be said that comprehensive planning and control is the recent origin in the field of management but budget is the traditional view of accounting and presenting

financial statement, which cannot include all management functions: planning, organizing and reporting as the basis foundation for effective management.

A profit planning and control program helps the management perform its planning function by developing s a strategic (long-range) profit plan and a tactical (short-range) profit plan. Both of these plan include expectations i.e. goals for assets, liabilities profit and return on investment. The foundation of the strategic profit plan (usually extending three, five or ten years into the future) includes the objective, board goals, planning premises and strategies of the enterprise as develop by the top management. The tactical (short-range) profit plan can actually be viewed as the first years of the strategic profit plan. It is detailed plan for the enterprise and for each of its responsibility centers.

A profit planning and control program helps management performance its control function by providing realistic goals and standard that are implemented and are then compared with actual result to measure performance. Under profit planning and control this performance measurement extends from top to the lowest organizational level in the enterprise. Profit planning is a detailed plan of action during a period of one year or less. Profit planning helps a firm's financial manager to regulate flow of funds which is primary concerns. A profit plan or budget is the formal expression of the enterprises plan and objective stated in financial terms for a specified future period of time. It is called the profit plan because it explicitly states the goal in terms of time expectation and expected financial results for each measure segment of the entity.

Profit planning in fact is a management technique and a profit plan is such a written plan in which all aspects of business operation with respect to definite further period are included. It is a formal statement of policy, plan, objective and goal established by top management in respect of some future period. Profit planning is a predetermined detailed plan of action develops and distributed to current operations and as a detail basis for the sub-segment evaluation of performance. Thus we can say that profit

planning is a tool which may be used by the management in planning the future course of action and in controlling the actual performance.

Similarly, in USA profit planning has been defined as a predetermined detailed plan of action developed and distributed as a guide too current operation and as a partial basis for subsequent evaluation of performance. The international management institution conference on budgetary control held at Geneva in 1930 has defined profit planning as an exact and rigorous analysis of past and the probable and desired future experience with a view to substituting considered intention for opportunism in management. Nell W. Chamberlain describes in his research report that profit planning and control refers to the organizational techniques and procedure where by long and short range plans are formulated, considered, and approved, responsibility for execution is delegated flexibility to meet changing condition is provided progress in working the plan is reported, deviation in operation are analyzed and corrective action required to reach the desired objective is taken. A profit plan is an advance decision of expected achievement based on the most efficient operating standard in effect or in prospect at the time is established again which actual accomplishment is regularly compared.

2.1.6 Components of Comprehensive Profit Planning and Control Program

A comprehensive profit planning and control program encompasses the application of a number of management concepts, approaches and techniques. Basic components of comprehensive profit planning and control program are as follows:

I. Evaluation of Relevant Variables

Relevant variables should be analyzed that will have direct and significant impact on the enterprise. The variables may differ on the basis of the market scope. For a large firm with a national market, the relevant variable obviously would be broad in scope; where as a small firm would be concerned primarily with regional and local variables operating within the narrow environment of the enterprise. Analysis and evaluation of the environments variables are a matter of continual concern to the manager. An evaluation of relevant variables should involve all the members of executive management who in turn should expect various staff group to provide analytical data and recommendations.

II. Development of Broad Objectives of the Enterprise

The statement of broad objective should express the mission, vision and ethical tone of the enterprise. It tends to provide enterprise identity, continuity of purpose and definition. The purpose of the development of the broad objectives of the enterprise is as follows:

-) To define the purpose of the company.
-) To clarify the philosophy character of the company.
-) To create particular “climate” within the business.
-) To set down a guide for manager so that the decision they make will reflect the best interest of the business with fairness and justness to those concerned.

Thus, the statement of broad objective has as its primary purpose to sure as the basic foundation or building block to develop respect in and pride for the company by the management, other employees, owners, customers and other firms who have commercial contacts with it’’³⁵

III. Established Specific Goals for the Enterprise

The purpose of this step is to bring the statement of board objective into sharp focus and at the same time to move from the realm of general information to the confines of internal management. This component of comprehensive profit planning and control deals with specific short range and long range goals for the enterprise. This step provides definite and measurable goals for the whole enterprise and for each of the major sub-divisions. Executive management should exercise leadership and operation of the enterprise should be concluded for the attainment of common goal and it will be the basis for the measurement of performance. Both strategic and tactical profit plan should define operation goals for the expansion or contraction of product and service lines, growth trends, production goals, geographic areas, share of the market by major product or service lines, profit margins and return on investment.

IV Development and Evaluation of Enterprise Strategies

Development of enterprise long range and short range objective requires management to find the best available alternative for attaining the broad specific objectives already established strategies focus on the “how”, they represent the plan of action. Executive management continually must be involved in the developing of new strategies and in the adaption of t currently on going strategies in harmony with the relevant variables with which management must cope.

Although strategy formulation is of continual concern to executive management, better-managed companies have found that periodic reassessment of the strategies is essential in light of a careful analysis of all relevant variables and their future potential impacts.

V. Preparation of Planning Premises

Top management leadership is fundamental to develop and articulate this planning foundation, including the formulation of relevant strategies. At this in the planning process, the foundations have been established and communicate the broad and specific objective of the enterprises. Thus, the instructions and formal guidelines as communicated by the top management at point in the planning process have come to

be generally identified as the planning premises. It is prepared as executive management instruction and is disseminated in order to initiate a sophisticated and potent move from broad corporate planning to the development of profit plans by each major responsibility centre in the enterprise. It is simply a communication step from executive management to the lower levels of management.

VI. Preparation and Evaluation of Project Plans

The internal environment should be conducive to the submission of project proposals from any sources: with the enterprise on a continuing basis. Management should be involved, evaluate and decide upon the projects to be planned for each project in process and to select those projects to be initiated during time dimensions covered by the strategic and tactical profit plans. Preparation and evaluation of current and future project plans are the essential part of profit plans.

VII. Development and Approval of Strategic and Tactical Profit Plans

Strategic and tactical profit plans suggest that these two plans should develop concurrently, for all practical purposes and that the executives in charge of each of the responsibility centers throughout the firm should participate in their development in harmony with the planning premises. Meaningful participation in the planning process generates positive behavioral effects. Each manager in charge of major responsibility centre will immediately initiate activities within his own functional spheres to develop a strategic long range profit plan depending upon the receipt of the planning premises and procedural instructions.

VIII. Implementation of Profit Plans

Implementation of management plans that have been developed and approved in the planning process involves the management function of directing subordinates in the accomplishment of enterprises objective and goals. Especially communication is an important aspect of direction. Meaningful participation and control programs are bases for the implementation of profit plans.

IX. Using of Periodic Performance Report

Periodic performance reports are necessary for dynamic control in harmony with the assigned responsibilities. These performance reports are prepared by the accounting department on a monthly basis. These reports are useful to compare actual results with planned performance and to show difference as favorable or unfavorable performance variations. A clear distinction should be made between external and internal financial reports. Periodic performance reports focus on dynamic and continuous control tailored to the assigned responsibilities.

X. Implementation of Follow of Action

Follow of action is an important facet of effective control and preplanning. Performance reports indicate the status of performance by a responsibility which is the basis for follow of action. It is also important to distinguish cause and effect. Analysis should to determine the favorable and unfavorable performance. Identifying the unfavorable causes that oppose to the results should be corrected. Follow of procedure be designed continuously to determine the effectiveness of the prior corrective action and to provide a basis to improve future planning and control procedures.

2.1.7 The Foundation of Profit Planning and Control

The fundamentals are concerned with effective application of the theory at management process. It is based on some fundamental assumption. The fundamentals concept of profit planning and control included underlying activities task that most generally be carried out for maximum usefulness from profit planning and control. The some of the important fundamentals are as follows:

i. Managerial Involvement and Commitment

Managerial involvement and commitment involves the managerial support, confidence participation and performance orientation. All level of management especially top-level management should engage itself to comprehensive profit planning and control. The management has to consider the following points to make profit planning and control successful.

-) Understand the nature and characteristic of profit planning and control
-) Be convinced that this particular approach to managing is preferable for their situation
-) Be willing to devote the effort required to make it operative
-) Support the program in all its ramifications

ii. Organization Adaptations

A profit planning and control program must rest upon sound organizational structure for the enterprise and a clear cut designation of lines of authorities and responsibilities. The purpose of organizational structure and the assignment of authority are to establish a frame work within which enterprise objective may be attained in a coordinate and effective way on a counting basis. The scope and interrelationship of the responsibilities of each individual manager are specified.

For easy and effective control something the organizational structure are divided into different functional sub-units, and each sub unit chiefs are assigned with specific responsibility centers. Something these responsibility centers are used to be in form of a division or department or a sales district. But in most of the cases these centers are used to be a functional area like:

Cost Center

It is only responsible for controllable costs incurred in the sub-units but not responsible for profit or investment.

Profit Center

It is responsible center for cost and revenue and hence profit.

Investment Center

Investment centre is responsible for cost, revenue; profit and amount of investment invest on assets.

iii. Responsibility Accounting

Planning is done with the help of the historical data supplied by accounting section and comparing actual data with protects or planed data does control. So, for this reason accounting system of any enterprise should be build around the responsibility structure of organization or around functional sub-units. This is called responsibility accounting. For responsibility accounting system one should have to define responsible of the cost revenue and other financial data should be utilized for the preparing plan.

At its, origin cost accounting was giving emphasis only on costing of goods predicted. But nowadays situation has changed and it's is given more emphasis on cost planning then only to costing. This changed in priority is based upon the responsibility accounting and principle of product cost has been given secondary importance. At first cost data generated from historical cost accounting are used for cost planning and control purpose then the same cost data are used for costing purpose.

If the parameter of cost and revenue used for planning purpose are not used in accounting system or are not used for costing purpose, valuation of the result by comparing it with planned goal will not be effective. So, for evaluation purpose and for accounting purpose each of the responsibility centre have to prepare chart accounting parameters to be used for planning purpose and have to supply it with full instruction to respective unit then only the main objective of the responsibility accounting can be fulfilled.

iv. Full Communication

Communication can be broadly defined as an interchange of thought or information to bring about a mutual understanding between two or more parties. It may be accomplished by a combination of words, symbols, messages and subtitle of understanding that come from working together day in any day out by two o more individuals.

Communication is needed for the both feed forward and feed backward process which is most important for operation of any organization. Role of communication can be justified in all aspect of management. It is need either for decision making or for supervision or for evaluation. Flows of information must be adequate in all side.

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

v. Realistic Expectation

Profit planning and control must be based upon realistic approach or estimation. Management must use realistic assumption and most not take either irrational optimism or unnecessary conservatism. Perfection on setting goals or objectives of the future sales, production level, costs and capital expenditures, cash flow and so on determines the success of profit planning and control purpose. Realistic approach graded with the dimension and external \internal environment that will prevail during the time span should be considered. This is called realistic expectation.

vi. Time Less

Whether an individual or any entity remains ideal or busy, time passes at the same rate. The problem of the manager in one hand is to accomplish the planned activities in a given time and on the other hand is to prepare the plan itself. For effective implementation of planning, management of the enterprises must establish of definite time dimension for certain types of activities. In other words for each activities related with planning would be given definite time for implementation, followed by other activities. This is called planning activities. In the view point of time dimension a manager should maintain clear-cut distinction between historical consideration and futuristic consideration. Timing of planning activities suggests that there should be

definite management schedule established for initiating and completing certain phases of planning process. Planning horizon is the time for which the planning is done or we can call it life span of the plan. For every enterprise there used to be many planning horizon to maintain the continuity of planning activities.

In conclusion we can say that for comprehensive profit planning and control purpose planning activities and implementation must be carefully handled to accomplish the activities in time.

vii. Flexible Application

Rigidity of any comprehensive profit and control plan is strictly undesirable because of the managerial use of different implications. Unless budget which imposes rigidity on any activity and puts constraint on the premises freedom to all manager. This is possible in profit planning because in the course of preparation profit planning and control all level of managers are involve and hence the top management will have privilege to make necessary decision and delegate more responsibilities to the managers, this position gives more power to unit managers, the power of making favorable decision. In such a situation the profit plan place managements in the position of being able to assess, on more objectives basis, the soundness of contemplated decision.

To cost control also the, principle of flexibility is especially important. Expenses and cost budget must not be rigid on nature. Budget should not prevent any of the units to make rational decision and to take opportunity benefits merely on the ground that such expenses are not anticipated. Finally it can be said that for profit planning and control purposed budget should not be regarded as straight jacket and management purpose the profit planning and control approach should not be regarded as the constraint for the management to seize the opportunities, which is going to be most beneficial for enterprises in long run.

viii. Behavioral view Point

Behavioral aspect of human being is the field of study of the psychologist educator and businessman and finding was that there can be so many unknown misconceptions and speculation which have to be considered for efficient management. A goal and dynamic leadership can resolve this problem by integrating all the group efforts for betterment of the organization. These facts also have been well considered under comprehensive profit planning and control approach and focuses has been given to resolve the behavioral problems.

Goal orientation is the characteristics of ambitious and competent individuals who are normally involved in management process. Goal, which has been identified for an individual can enhance such persons to intensity their performance. To motivate men there should be a good harmony between their personal interest and organizational interest and goal have to be identified accordingly. More than monetary benefits personal satisfactions from the works count a lot for the competent people. So, it will be much more fruitful for an enterprise to pursue all the people to formulate the plan and to set gold sans policies before asking them to implement it. Finding of relevant study conducted by industrial psychological has described about the effects of pressure on human behavioral. Pressure onto moderate limit is needed to pursue the working staff to work but the excess pressures will have negative effect. The comprehensive profit planning and control approach has been developed on this principle. Another aspect of behavioral recognition is that the individual recognition of the work should be carefully done. The system of recognition the efficient work should be done and efficient one should be rewarded. Due to lack of understanding between the working group of the program and its operation, effects of program on them, and expectation of over pressure and disagreement with planning and control approach are the causes of management failure. But a certain management has to tackle this problem very carefully and have to direct the attention of the workers in positive way.

ix. Follow up

A comprehensive profit planning and control is a systematic and formalized approach for stating and communicating the firm's expectation and accomplishing management in such a way as to maximize the use of the profit plan is to achieve the maximum benefit from the resources available to an organization over a particular span of time. It serves basically as a tool for management control. The main objective of profit planning and control is to assist in systematic planning and in control the operation of the enterprises. In fact it is best source of communication and an important tool in the hands of management.

2.1.8 Purpose of Profit Planning and Control

The purpose of budgeting or profit planning and control may be summarized as follows:

-) To state the firm's expectation (goals) in clearly formal terms to avoid confusion and facilitates their attainability.
-) To communicate expectation to all concerned with the management of the firm so that they are understood supported and implemented.
-) To provide a detailed plan of action for reducing uncertainty and for the proper decision of individual and group effort to achieve goals.
-) To coordinate the activities and effort in such a way that the use of resources is maximized.
-) To provide a means of measuring and controlling the performance of individual and units and to supply information based on which the corrective action can be taken.

2.1.9 Advantages of Profit Planning and Control

Profit planning means the development and acceptance of objectives, goals to run an organization effectively to achieve the objectives and goals by substantive and financial plan technique. Profit planning is very important to emphasis on developing positive reinforcement, improving motivation of goals, copying with effect of budgetary pressure solving budget, adding problem and using budget for control. A

profit plan is a financial and narrative expression of the expected result from the planning decision. It is called for profit planning because it explicitly states the goals in terms of time expectations and expected financial results for each major segment of the entity.

-) It forces early consideration of the basic policy.
-) It requires adequate and sound organization structure i.e. there must be the definite assignment of the responsibility for each function of the enterprises.
-) It compels all members of management ; from top to down for to participate in the establishment of goals and plans.
-) It pinpoints the efficiency and inefficiency.
-) It frees executives from many day to day internal problems through predetermined policy and clear cut authority responsibility relationship. It thereby provides more executive time for planning and creative thinking.
-) It tends to remove the uncertainty that exist in many organization, especially among lower level management relative to basic policy and enterprises objectives.
-) It compels departmental managers to make plan in harmony with the plans of other departments and of the entire enterprise.
-) It requires an adequate and appropriate historical accounting data.
-) It requires that management put down in figure what is necessary for satisfactory performance.
-) It compels management to plan for the most economical use for labour, material and capital.
-) It installs at all level of management the habits of time, careful and adequate consideration of the relevant factors before reaching important decisions.
-) It reduces the cost of supervision by increasing the span of control because fewer supervisors are needed.
-) It forces management to consider expected future trends and conditions.
-) It checks progress towards the objectives of the enterprises.
-) It rewards high performance and seeks correct unfavorable performance.

-) It aids in obtaining bank credit, bank commonly requires a project of future operations and cash flows to support large loans.
-) It forces a periodic self analysis of the company.
-) It promotes understating among members of management of their coworker's problems.
-) It forces recognition and corrective actions.
-) It forces management to give adequate attention to the effect of general business conditions.

2.1.10 Limitations of Profit Planning and Control

Profit plan and control is an important tool for management. But each tool suffers from some limitations and its use is fruitful within these limits. Profit plan and control is also not limitless too. So it is essential that the users of profit plan and control must be having a full knowledge of its limitations. The major limitation of profit plan and control are as under.

i. Danger of Rigidity

Profit plan and control is an estimation and quantitative expression all relevant data. So, there can be tendency to attach some sort of rigidity or finality to them. But rigidness makes profit plan and control useless. For usefulness, the profit plan and control must be flexible. Various techniques must be tried, improved or discarded and related. In other words, a profit plan and control program must be dynamic in every sense of the word.

ii. Profit Planning and Control is Application for Long Period

The installation of a complete profit plan and control is not possible in short period. It should be continuously used in the business and should be revised and modified with the changed situations in the business.

iii. Execution of Profit Plan will not Occur Automatically

A skillfully prepared profit plan and control will not itself improve the management of an enterprise unless it is understood by the entire related person inside the enterprises. It is very much required that each executive must feel the responsibility and should make efforts to attain the budgeted goals. Departmental heads should seriously think that it is their individual responsibility to fulfill the target set up in their departmental budgets. The success of a budgeting system totally depends upon the efficient management and administration.

iv. Based on Estimate

Profit plan is not an exact science. Its sources depend upon the precision of estimates. The success of ppc depends to large degree on the accuracy with which the basic estimate will be made. Therefore, estimate should be made on the basis of all the facts available. Using correct and modified statistical technique management can make accurate estimate.

v. The Profit Plan will not a Substitute for Management

Profit plan and control is a management tool. It is not substitute for the management. It is totally wrong to think that the introduction of profit plan and control is sufficient to ensure success and to guarantee future profits. It is only for achieving the end.

vi. Costly Affairs

The installation of profit plan and control system is elaborate process involving to much time and costs. Normally it is so costly that small concern cannot afford to it. Even for a large concern, it is suggested that there should be some correlation between the cost of operating a budgeting system and benefits desired from it. The system should be adopted only when benefit exceed the cost.

vii. Proper Evaluation

For finding out the inefficiencies, proper evaluation should be made. On the absence of proper evaluation, budgeting will hide inefficiencies. So there should be continuous evaluation of the actual performances. Standards also should be reexamined regularly.

2.1.11 Budgeting as a tool for Profit Planning

“Budgeting has long been recognized as the accepted procedure for the profit planning and many of the most successful companies have applied it to good effect over a period of year.”

Budget is an expression of a firm's plan in financial form for the period of time in future. It is an estimate of future needs calculated for the defined period. Its income for a given period and cost as well as expenses of obtaining of income is set on limited within the ideas of earning a desired profit and controlling losses. A business budget is a plan covering in all phases of operation for a defined period in future. It is a formal expression of policies, planned objectives and goals laid down in advance by top management for undertaking as a whole and every of sub division thereof.

A budget is a quantitative expression of plan of action and aid to coordination and implementation. Budget may be formulated for the organization as a whole or for any sub unit. Budgeting includes sales, production, distribution and financial aspects of an organization. Budget programs are designed to carry out a variety of functions planning evaluating the performance, coordinating the activities, implementing the plans, communicating, motivating and authorizing actions.

Budget is a tool of plan and control is a closely related to the broader system of planning and control of an organization. Planning involves the specification of the basic objectives that will guide it. In operational, it involves the steps of setting objectives, specifying goals, formulating strategies and expressing budget. A budget comprehensive and coordinated plan expressed in financial terms for the operation and resources of enterprises for some specified period in future.

2.1.12 Budgeting and Forecasting

Budget and forecast are quite distinguishing terms. Forecasts are the statement of expected future condition. These expectations depend upon the assumption made. A forecast is the likelihood of events or happenings of past data and expected change. A budget is an expression of management intension of achieving forecast through positive and conscious actions and influencing the events.

A forecast is a prediction of future events, conditions or situations. A forecast is not a plan rather than a statement of or a qualified assessment of future condition about a particular subject based on one or more explicated assumptions. A forecast should always state the assumptions. A forecast should view as only one input into the development of sales plan. The management may accept or reject the forecast, other input and management judgment about such related items as sales volume, price efforts, production and financing. It is important to make distinction between the sales forecast and sales plan primary because the internal technical staff should not be expected or permitted to make the fundamental management decision and judgment implicit in every sales plan.

2.1.13 Budgetary Control

Budgetary control is a system of controlling cost which includes the participation of budget, coordinating the departments, establishing the responsibilities, comparing the actual performance with that budgeted and acting upon the results to achieve the maximum profitability. Thus, the budget is concerned with policy making while budgetary control results fro the implementation of the policy. The common objectives established after the consideration of the possible course of action in the future and to provide means for the constant comparison of the actual progress towards this goals against the preconceived results. Budget s not only compare the actual results with those of budgeted but also provide a standard to the performance. Company controls operations through its budgeting and responsibility reporting system. Top executives are able to control every area of organization through a system of budgetary and control reporting of responsibility area.

2.1.13.1 Objectives of Budget and Budgetary Control

The main objectives of budget and budgetary control are as follows:

-) To smooth out seasonal variations in production by developing new files products and there by accomplishing one phase of economic planning. To conform to good business practice by planning for the future.
-) To coordinate the various division of a business namely production, marketing, financial and administrative divisions by consultation among the divisional beads and manual agreement on company policies.
-) To operate most efficiently the division department and cost centers of a plant.
-) To forecast operating activities and financial position
-) To establish divisional and departmental responsibilities
-) To provide a method of measurement of operating activities and financial position both where standard are and are not lisped
-) To prevent waste to reduce expenses and to obtain the income desired
-) To provide more definite assurance of earning the proper return on capital investment
-) To aid in obtaining better inventory control and turnover
-) To centralize management control
-) To aid in controlling cash
-) To obtain a more economical use of capital
-) To show management where action is needed to remedy a situation
-) To ensure the adequate working capital is available for the efficient operation of the business

2.1.13.2 Advantages of Budget and Budgetary Control

There are prime advantages of the budget and budgetary control which are as follows:

-) The reduction is seasonable variation in production brought about by budgets decreases the cost of production by the increasing volume
-) Advanced planning inherent in the budgets in looked upon with favor of credit agencies as indicative of sound management

-) The coordination of the main divisions of a concern makes smoother operation and less internal friction which results in the achievement budget goal
-) The efficient operation of the entire unit depends upon all employees working towards a common goal that is ensured by the budget
-) The forecast of operation and financial conditions sets a goal to shoot for and becomes a basis for dynamic action rather than historical cost system's postmortems
-) The establishment of divisional and departmental responsibilities prevents buck passing when the budget figures are not achieved
-) The desire earning on a given investment of capital sets up a profit pint objective which is logical basis to be used in working out the estimated sales volume
-) The purchase of stores is based upon predetermined requirements for raw materials and this helps to prevent stock shortages as well as excessive purchases. Work in process inventories are kept at minimum because of predetermined production requirement. Finished goods inventories are maintained at a level necessary to meet the predetermined schedule of sales
-) The use of budget figures as measurements of operating performance and financial position makes possible the adoption of standard cost principle in divisions other than the production division
-) The budgets serve as stimuli to meet the predetermined goals for both income and expenses thereby achieving desired profits or reducing existing losses

2.1.13.3 Requirements for the Effective Budgeting

The followings are the main requirements of the effective budgeting:

i. Support of top Management

The budget program can only be successful when top management offers the wholehearted support and all managers are motivated about the implementation of budget program.

ii. Clearly Defined Organization

Business organization should be defined so as to provide maximum benefits. There should be sound plan with well-defined and adequately maintained responsibilities. Records should be clear, consistently departmentalized and established in such a manner as well indicated defined responsibility on each unit or section of the business.

iii. Unambiguous Policy

A budget program is always based on certain fundamentals, the collection of which is called the policy of the business. Naturally, therefore no program can be prepared without the knowledge of the business policy to be adopted during the period covered by two budgets.

iv. Preparation by Responsible Executives

Formulation of budget in the participation of executives who are entrusted with the performance and implementation in one of the essential of effective budgeting.

iv. Accurate Accounting System

Accounting system should be developed so for to hold each part of the organization to its responsibilities. The budget fosters coordinated action and whenever this is broken down oriented with the responsible factor should be unmistakably revealed.

v. Logical sequence in the Budget Preparation

It is essential that proper procedures should be involved for the preparation, submission, examination and review of budget figures in logical sequence.

vi. Degree of Flexibility

Flexibility of both possible and unforeseen circumstances requires essentially in budgeting.

2.1.14 Classification of Budget

The budget can be classified according to various points of view. The commonly bases are:

-) Classification according to time factor

-) Functional classification
-) Classification according to flexibility

a) Classification According to time Factor

In term of time factor budgets are classified into following three types:

i. Long Term Budget

These budgets are concerned with planning the operation of a firm over a prospective period of 5 to 10 years. They are usually in form of physical quantities.

ii. Short Term Budget

These budgets are concerned with planning for a period of 1 or 2 years and are in the form of production plan in monetary terms.

iii. Current Budget

These budgets cover a month or so and are the short term budgets adjusted to current conditions or prevailing circumstances.

b) Functional Classification

One the basis of classification budgets correspond and are co- terminus, with a particular function and are integrated with the master budget of the business. The number and type of functional budgets depends on the size and nature of the business. The usual functional budgets are as follows:

i. Sales budget

Sales budget is a forecast of the total sales classified according to groups of the products, salesman and geographical location.

ii. Selling and Distribution Cost Budget

These budgets are concerned with an estimate of the cost of selling and distribution of goods.

iii. Production Cost Budget

This is the cost of production including direct material cost, direct labor cost and direct manufacturing expenses fixed variable and semi variable.

iv. Production Budget

This is forecast based on sales, productive capacity and requirements of inventories etc.

v. Purchase Budget

It correlates with sales forecast and production planning. It deals with purchases that are required for planned production. Purchases would include both direct and indirect materials and goods.

vi. Personnel Budget

This has reference to the initialization of men and would include labor employed in the productive activity. This would be split up between direct and labor.

vii. Research and Development Budget

It relates to improvement in the qualities of the products or research for new products.

viii. Cash Budget

It is a sum total of the requirement of cash in respect of various functional budgets as well as anticipated cash receipts.

ix. Plant utilization Budget

This is intended to cover the plant and machinery requirements to meet the budgeted production during the period. Schedules will be produced showing the available load in each department expressed in standards or unit.

x. Office and Administration Budget

This budget represents cost of all administrative expenses such as managing

director's salary, staff salary and expense of office management like lighting and cleaning.

xi. Capital Budget

It is a forecast of outlay on fixed assets as also of the sources of capital required. The budget period in the case of capital budget may differ from that of other budgets as such expenditure is frequently planned for a number of years in advance.

xii. Master Budget

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

c) Classification according to Flexibility

On the basis of flexibility the budgets can be categorized as fixed and flexible budget.

i. Fixed Budget

It is a budget in which targets are rigidly fixed. Such budgets are usually prepared form one to there months in advance of the fiscal year to which they are applicable.

ii. Flexible Budget

The figure used in this from of cost and expenses budgets are made acceptable to any given set of operating conditions within any month of the fiscal year. Budget designed for different level of activity is known as flexible budget.

2.1.15 Development of Profit Plan and Control in Bank

Development of profit plan In development and commercial bank begins with the preparation of various functional budgets. These functional budgets are in fact the picture of the activities of the bank to be performed during a particular period of time. Therefore the functional budgets of a bank are activities such as budget for deposit, budget for collection, budget for lending and investments, budget for non fund based business, budget for expenditures and revenues.

The development of profit plans process that involves managerial and ideally high level of management participation. The following are the budget, which are developed in a bank while making a profit plan.

2.1.15.1 Resources Mobilization Plan or Budget

The planning for resources mobilization is the foundation for planning in a bank. The all other planning is based on it. The major and sustainable resources of a bank are the customer's deposit. Therefore the plan for resources mobilization has a primary focus on the customers deposit mobilized by the banks so the deposit mobilization or collection plan is the starting point in the preparing the other different plan.

Deposit mobilization is the primary function of a bank, which has major contribution in the total resources of the bank. In terms of cost for the bank, customer's deposits are of two kinds. They are:

-) Interest free deposits i.e. current deposit, margin deposit etc
-) Interest bearing deposit i.e. saving deposits, fixed deposits of various tenure, call deposit etc. the interest free deposits are cost free but are generally volatile in nature those can be withdrawn without restriction from bank thus cannot be invested in to higher income yielding assets.

Further, interest bearing involves cost of deposit but their retention ratios with the bank are much better so they can be put to high income yielding assets having longer tenure.

Therefore, a proper mix of cost free and costly deposits corresponding to short terms and longer terms deposits are to be maintained by the bank in its deposit mix in to minimize its average cost of deposit, at the same time having comfortable mix income yielding assets. The cost of deposit of banks also affected by the prevailing deposits rate of other banks in the market.

Budgeting for the mobilization of deposits during a particular year is set in advance with the view of optimizing the cost of deposit and the some are allocated to the different branches of the banks. Such allocation may be regarded as the plan for deposit mobilization of the banks.

Banks resources other than customer's deposit are the borrowing from other bank and the capital fund. Generally, banks borrow from other banks to meet temporary requirement of liquidity. Which may occur sometimes during the course of banking operation caused due to unexpected withdrawal of deposit or deferment in loan repayment by the borrower by some reason or other? Such activities are managed from the head office with the least possible cost.

Among the capital fund the equity capital is formed generally one time during opening of the bank. The central bank (NRB) may from time to time instruct the bank to enhance the paid up capital to improve the capital adequacy of the bank.

2.1.15.2 Resources Deployment Plan or Budget

The planning for deployment of resources starts from assessment of nature of resources to be mobilized. That is assets are allocated on the basis of the nature is called asset allocation approach as M.C. Vanish writes in his book money banking trade and public finance. "The fundamental criterion is which must be followed in allocating fund for acquiring different types of assets. That is turnover rate of different sources of supply of fund; determine the appropriate maturity of the assets acquired through fund utilization. For instance while relatively stable fund like saving deposits, securities, demand deposits which are more volatile, could be used to acquire

relatively liquid assets like cash or money at call and short notice in which little or no return is made by the bank.

Therefore, the budgeted deposit of mix is the major determining factor of planning of assets portfolio.

A bank should make the planning for deployment of its resources in such a way that it ensures required liquidity as well optimize the yield on fund of bank. Therefore, banks resources deployment process involves following.

-) Deployment in liquid assets.
-) Deployment in lower income yielding assets.
-) Deployment in higher income yielding assets.

Fund kept as cash in vault and as balance with NRB and other banks in current account are the most liquid assets of he normally banks have to maintain certain fixed percentage of their deposit liability in this from as directed by the central bank from time to time. Therefore, there is no yield in the fund deployed as liquid assets.

Deployment for lower income yielding assets are generally planning the funds in short term securities like treasury bill etc. which provides reasonable liquidity to make as well as yield some return although they are at very low rate.

Major portion the income of the bank comes as interest income from the resources deployed to loan advances and bills discounting (LABD). Banks make its lending budgets in advance as per their lending policies. A lending targets is fixed at various sector of economy for various kinds of trades and commercial activities and to various borrowers ensuring well diversification of the assets. The targets are allocated to the branches, which are generally operated as separate profit centers.

2.1.15.3 Planning for Non Funded Business Activities

The other activities of banks where it does not have to involve its fund, yet it can generate other income are called non funded business activities of the bank. They are

usually letter of credit, bank guarantee issuance business of the bank where the bank undertakes the payment liabilities which are contingent in nature and the banks charges certain percentages of commission on such transaction to their client who are availing these facilities from the bank.

2.1.15.4 Expenditure Planning

The expenses planning and controlling are very necessary for supporting the objectives and planned programs of the firm. An expenses is related with profit it is real fact, that the minimization of cost is maximization of profit. So the expenses must be planned carefully for developing a profit plan. In a bank there are generally following types of expenses.

-) Interest expenses
-) Personnel expenses
-) Office operating expenses
-) Expense meeting the loss in exchange rate fluctuation while dealing with foreign currency.
-) Non operating expenses.
-) Expenses for provision for loan loss.
-) Expenses for provision for staff bonus.
-) Expenses for provision of income tax.

The interest expenses are incurred while paying for the deposits mobilized by the bank and include the expense incurred for payment in all kinds of interest bearing deposit as per the agreed rate between the bank and the borrower. In the total expense of a bank, the portion of interest expenses is quite higher.

Interest expenses in a bank depend on the average cost of deposit mobilized by the bank. Lower the cost lower the interest expenses and thus higher the profitability. Therefore, from profitability point of view, banks plan their cost at lowest possible level. The nature of interest expenses is that it is a variable expense. The net earning from interest income of a bank deducting the interest expenses for the deposit

mobilized is called spread which is similar to the contribution margin in sales or commodities by a manufacturing unit.

Other expenses are administrative expenses and are generally incurred by the bank during the course of its operation. Higher the volume of business transactions of a bank, higher will be the amount of its other expenses. Therefore, the expenses should be related with the business activities, which ultimately should yield income for the bank. Such other expenses form a burden to the profitability as they consume the spread earned. Therefore, budgets are prepared with an aim of reducing the burden as far as possible. The expenses budget is formulated in correlation with the activities of the bank and the targets are allocated to different branches.

2.1.15.5 Revenue Planning

Revenue of a bank is generated from the income yielding activities of the bank. Therefore, while preparing the resources deployment plan and non funded business activities plan, the banks make the estimation of the revenue in advance during the period for which the plan is developed.

Revenue of a bank are generated in the following forms:

-) Interest income.
-) Commission and Discount.
-) Dividend
-) Other income
-) Foreign exchange income.
-) Non operating income

Generally, the interest income of a bank holds a major portion in total revenue. It provides major sources of earning of a bank. Therefore total income of a bank is categorized in two type viz. interest income and other income. The later inducing other income item as listed above the income comprises excepting the interest income.

The interest income is earned by charging interest on the fund deployed in interest earning assets such as loan and advances, overdrafts, investments in government securities etc. for this study the income from bills discounting together as a singled assets portfolio as LDO, higher will be the income.

As the average rate of interest on LDO are comparatively higher than other income yielding assets, from the profitability point of view, higher assets allocating in to LDO, higher will be the income.

The other income is generated from the income of the bank such as issuance of L/C, bank guarantees, remittance, charges, cheque collection, fee. Locker charges, services charges, commitment charges, trading gain on foreign exchange, revolution gain on foreign exchange as reserves etc. the amount of other income in a bank greatly contributes in lowering the burden on and better will be the profitability of the bank.

Income of a bank is essentially activity based i.e. the volume of business. Higher the income generating activities of a bank; higher will be the amount of its revenue. Therefore, the bank develop its plans various activities in such a way that optimizes its revenue.

Generally, the development of an annual plan ends with the planned income statement, the planned balance sheet and the planned statement of cash flows. These three statements summarize and integrates the detailed plans developed by management for the planning period. They also report the primary impact of the detailed plans on the financial characters of the company.

2.16 Performance Report

Management has to devote the valuable time and effort for the achievement of the planned profit. So, the evaluation of effectiveness and efficiency of plans operations and performance are the essential fields of managerial activities. Controls are the process of getting conformity of actual performance with planned courses of action. Planning is incomplete if no system for control is developed.

Evaluation of performance and reporting plans are the necessary aspects of comprehensive planning and control programmed. Performance reporting for internal management use is an important part of comprehensive profit planning and control system. Performance reports are usually prepared on monthly basis. It facilitates internal control by the compared with goals and budget plans. Such reports are designed to pin point both efficient and inefficient performance.

Performance reports play as an important tool to provide necessary information as it reports the performance of every responsibility center to the management. The efficiency of the management depends upon the achievement of desired result. The main objectives of the performance reports are the communication of performance measurements, actual results and the related variances.

The performance report is the management report that reflects the operating manager's effort to live and beat his budget allowances. Performance reports should distinguish between controllable and non-controllable items. The actual results should be compared with plans, objectives and standard and the management should analyze the differences. Careful attention should be given while designing the performance reports' format. Titles and heading should be descriptive, column heading and side captions should clearly identify the data and technical jargon should be avoided. It should not be long and complex tabulation and nonessential data should be avoided. Reports should be relevant.

Another important aspect of performance report is to minimize the time gap between the decision and report. Unfavorable situation should not be continued for a long time before making correction: otherwise the business enterprises should have to bear greater financial loss. Another important part is to follow up management procedures.

When reports give the favorable and unfavorable variances between actual performance and planned performance on monthly basis such variance requires immediate concern as well as continuous follow up by management for the betterment of the enterprises. Follow up procedures should analyze both unsatisfactory conditions and correct decision should be made. The main purpose of performance reports is to show variances between planned and actual. Such variances should be expressed in amounts as well as, percentage of the planned and budget amount. Statistical control units should also be implemented to determine the significance of variances. Monthly performance reports should generally show variances for the period being reported and cumulative variances to date, such reports are usually prepared for each responsibility centers.

2.1.16.1 Essential Features of Performance Reports

The performance reports should be prepared in such a way that it will fulfill the following criteria:

-) Tailored to the organizational structure and locus of controllability(i.e. by responsibility centers)
-) Designed to implement the management by exception principle
-) Repetitive and related to short time periods.
-) Adapted to the requirements of the primary users
-) Simple, understandable and report only essential information
-) Accurate and designed to pin point significant distinction
-) Prepared and presented promptly
-) Constructive in tone

The extent to which the various managers use their performance reports depends on many factors, some behavioral and some technical. One important factor is the extent to which the performance reports serve the measurement and decision-making needs of the users. Communication is a subtle management problem, and it is facilitated by performance reports. If the different needs and experience of the users are taken into account, a department supervisor responds, differently than a vice-president.

Top management personnel needs reports that give a complete and readily comprehensible summary of the overall aspects of operations and an identification of major events. The summaries must be supported in sufficient detail to facilitate tracing deviations to their source.

Middle management is usually defined as those members of management in charge of the major subdivision of the business, such as sales, production and finance, Middle management is responsible for carrying out the responsibility assigned to the subdivision with in the broad policies and objectives established by top management. Middle management is closer to and more concerned with operation than top management although is also has important planning functions. Performance reports for middle management although including summary data are also characterized by detailed data on day to day operations.

Lower-level management (department supervisors) is principally concerned with coordination and control of day to day operations. There, control reports should be detailed, simple, understandable and limited to items that are directly related to the supervisor's operational responsibility.

2.1.16.2 Other Aspects of Performance Reports

In the design and preparation of performance reports, it should be kept into mind that the user generally is not an accountant and that the report is to serve as user other than the report maker. Careful attention to form is important. Title and heading should be descriptive, column headings and side captions should clearly identify the data and technical jargon should be avoided. Performance reports should not be too long. Complex tabulations should be avoided.

Reports should be carefully screened to eliminate all non-essential information. It should be standardized and must be relevant. Consistent with the cost of detailed record keeping and reporting, performance reports should be available on the timely basis. To achieve a realistic balance between immediate reporting and the cost of detailed reporting monthly performance reports are widely used by industry.

2.1.16.3 Management Follow-Up Procedures

Well-managed companies use monthly performance reports covering all aspects of operations. These reports give favorable and unfavorable variances between actual performance and planned performance for the month just ended and cumulatively forth year to date. Managers should analyze these monthly reports carefully to be fully knowledgeable about both high and low performance should be given immediate priority to determine the causes. However the process should not stop at this point. Follow-up is a key phase of effective control. Some companies require written explanations of significant variances. The follow up procedures preferred by other companies involve conferences to discuss the causes and corrective actions to be taken. Follow up procedures should begin at top management level to discuss and analyze both unsatisfactory and satisfactory conditions. Decisions should be made

about the ways and means to correct unsatisfactory conditions. Favorable variances should be analyzed 1) to determine whether the goals were realistic 2) to commend those responsible for high performance and 3) to transfer some “know-how” to other responsibility centers”. Embody constructive action to correct unfavorable conditions rather than punitive action for failure, the result of which obviously can not be erased. Another important aspect is that follow up action is strictly a line is responsibility. The budget director, controller or other staff officer should not undertake or be assigned the responsibility for enforcing the budget.

2.1.16.4 Performance Evaluation

To indicate the extensive reporting requirements, a business must fulfill and to focus on performance reporting, the following classification of reports is presented and explained.

a. External Reporting

These are reports to government agencies regulation commission creditor's investigative agencies and other groups external to the active management. Frequently, these reports are quite extensive and compromise a significant portion of the overall reporting activities of the business.

b. Reports to Owners

These are the traditional annual reports to the owners and other special reports prepared of the owners concerning special problems or items of interest. These by and large, are based upon "Generally Accepted Principles", and generally report that have been subjected to audit by an independent C.PA.

c. Internal Reports

These are reports prepared within the company for internal use only. They may be considered confidential reports. They do not have to meet the needs of external groups nor the text of external groups nor the text of "Generally Accepted Accounting", but rather the text of internal management needs.

All companies, regardless of size have reporting requirements for all the categories listed above. In the smaller company most of the basic reporting needs may be accomplished with a single general-purpose report. However, as the size and complexity of the company increases, there is greater need for regimentation of the reporting as suggested above.

2.1.16.5 Analysis of Budget Variances

Comparison of actual results with planned or budget goals has been emphasized as an integral part of the control process. A basic feature of performance report is the reporting of variances between actual results and planned goals. If variance is significant a careful management study should be made to determine the underlying causes. The underlying causes, rather than the actual results, should lead to remedies through appropriate corrective action by management. There are numerous ways to study variances to determine the underlying causes. Some of the primary approaches are as follows:

-) Congruence with responsibility center managers and supervisors and other employees in the particular responsibility center involved.
-) Analysis of the work situation including the flow of work. Co-ordination of activities, effectiveness of supervision, and other prevailing circumstances.
-) Direct observation
-) Investigation by line manager on the spot
-) Internal audit
-) Special studies
-) Investigation by staff groups
-) Variance analysis

Variance is the deviation between actual and budgeted results. Following are the basic steps in analyzing variances:

-) Setting standards
-) Measurement of performance
-) Analyzing variances
-) Taking corrective action

Variance should be broadly grouped under two categories favorable and unfavorable. Unfavorable variances classified as controllable and non controllable. If unfavorable

variances are arising due to the controllable causes, then the concerned managers should make responsible for it.

2.2 Review of Previous Studies

2.2.1 Review of Reporting

Under this topic the annual reports of concerned bank are reviewed in order to highlight the brief profile of the bank separately.

2.2.2 Review of Relevant Acts

Commercial Bank Act 2031 was formulated to facilitate the smooth run of commercial banks. All the commercial banks are functioning under this act. This act defines the banks as “A commercial bank is one which exchanges money. Deposit money accepts deposit. Grants loan and perform commercial banking function and which is not a bank meant for co-operative agriculture industry or for specific purpose.”

Commercial Bank Act 2031 also pointed the functions of commercial banks. “Commercial banks provide short term debts necessary of trade and commerce. They take deposits from the public and grant loan in different forms they purchase and discount bills for exchange promissory note and exchange foreign currency. They discharge various functions on behalf of their customers provided that they are paid for their service.”

As mentioned in this act, commercial banks will help the banking business by opening its branches in the different parts of the country under the direction of NRB the main function of commercial banks established.

Under this act will be exchange of money to accept deposits and provide loans to commercial and business activities to mobilize banks deposits in different sectors of the different part of the nation to prevent them from the financial problems.

The preamble of Nepal Bank Act 1994 clearly states the need for commercial bank in the country. “The absence of any banks in Nepal the economic progress of the country was being hampered and causing inconvenience to the people and therefore with the objective of fulfilling that need by providing services to the people and for the betterment of the country. This law is hereby promulgated for the establishment of the bank and its operation.

2.2.3 Review of Articles

An article written by **Radhakrishna Paudel** on the Banking Challenge ahead focuses in the potential areas where banks should invest to fight the prevailing economic recession. Current growth in the profitability of bank has been mainly due to external factors such as the foreign exchanges rate but not to growth in the real sector of the economy. Therefore to sustain the current financial position in the long run, banks should enter new areas by marketing their credit in important sub-sectors such as hydro electricity, tourism, irrigation etc.

Paudel further writes that “Saving collection is another factor which is necessary for banks to balance their operations and generations of sufficient surplus in their cash-flows. In recent years, growth rate of bank deposits has declined to about 16 percent compared against 23 percent of the past. Mobilization of internal resources in the country demands that banks attract more financial resources from the public.”

Another useful contribution is made by **Narayan Prasad Paudel** in his article called “*Financial Statement Analysis*” published in Nepal Rastra Bank Samachar on 2053”. According to Paudel, balance sheet, profit and loss A/C and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank’s balance sheet and profit and loss A/C. The banks balance sheet is composed of financial claims as liabilities in the form of deposit and as assets in the form of loans. Fixed assets account forms a small portion of the total assets. Financial innovations which are generally contingent in nature, are considered as off-balance sheet items.

Interest received on loans and advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges.

The users of the financial statement of a bank need relevant, reliable and comparable information which assists them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of bank's financial statement has been expressively laid down in the concerned act. Commercial banking act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

The principle objectives of analyzing financial statement are to identify:

-) Financial adaptability (Liquidity)
-) Financial performance (Profitability) and
-) Financial Position of Bank (Solvency)

Most of the users of the financial statements are interested in assessing the bank's overall performance i.e. profitability which is affected by the following factors:

-) The structure of balance sheet and profit and loss account
-) Operating efficiency and internal management system
-) Managerial decisions taken by top management regarding interest rate, exchange rate, lending policies etc.
-) Environmental changes (technology, government competition, economy)

According to Paudel, the other factors, to be considered in analyzing financial statements of bank is to assess the capital adequacy ratio and liquidity position. In the line of the norms set by Bank for International Settlement (BIS) capital adequacy of a bank is assessed on the basis of risk weighted assets. It indicates a bank's financial strength and solvency. Presently the capital fund of a bank should not be less than 8 % (at least 4% should be in the form of tier – 1 capital or core capital) of its risk weighted assets as capital fund. Banks facing with capital adequacy problem may

increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base.

Liquidity is measured by the speed with which banks' assets can be converted into cash to meet deposit withdrawals and other current obligations. It is also important in view of survival and growth of a bank.

Monohar Krishna Shrestha, in his work '*Commercial Bank's* comparative performance evaluation stresses on a proper risk management. He believes in the appropriate classification of loans under performing and non performing category. In this context he writes "Adequate provisioning is the surest way to get the relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest expenses account and it as advisable that all interest unpaid for more than six month need to be treated as unearned income".

Regarding the risk management of the bank, Shrestha's other suggestions include:

-) Any customer having overdue loan of two years or more in his account should not be given other loan facilities.
-) Strong provisioning or reservations are required in restricting portfolio relating to overdue loans.
-) All credits including overdrafts should e given a maturity date categorized as good substandard or doubtful loans.sss
-) Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

The above journals focus in the various aspects of the bank's economic environment. NRB press communiqué shows the current domestic market scenic. Article by Rada Krishna Paudel concentrates in the challenges of the banking sector. Narayan Prasad Paudel's work stress in the effective way of evaluating the financial performance and Shrestha's suggestions are focused towards proper risk management. Whatever aspects of the bank the above journals target, they all have to be combining assessed

and kept in strict consideration for effective and efficient financial performance of the banks in the Nepalese economy.

2.2.4 Review of Previous Research Work

Research is an on-going process. The main purpose of the literature review is to find out what works have been done in the field of research study being undertaken and what remains to be done. A review of some of the thesis submitted master level has been presented below.

Rajan Subedi (2009) has submitted his research report on the topic of “*Profit Planning in commercial Bank- A case study of standard Chartered Bank ltd. Nepal.*” A thesis submitted to Nepal Commerce Campus, TU (December, 2009).

His major objectives are:

-) To analyze the financial position of Standard Chartered Bank.
-) To analyze the effectiveness of utilization of PPC tools.
-) To provide the valuable suggestions to the Standard Chartered Bank Limited.

His major findings are:

-) SC bank is adopting a policy to keep minimum number of employees as possible.
-) The top level executives are only involved in decision making and lower level participation is not encouraged but top management takes the feedbacks. For annual planning and strategies making through conferences and strategic meeting organized twice in a year at the head office from manager level employees.
-) Bank has policy to recruit the highly qualified fresh candidates.
-) Lack of advance training to the personnel.
-) Absence of skilled and partly academic manpower in budgeting section of the authority.
-) The authority is suffering from high fixed costs.

Binod Kumar Sharma (2009) has studied the “*Profit Planning in Commercial Bank with case Study of Nepal Bangladesh Bank.*” A thesis submitted to Tribhuvan University in September, 2009.

His main objectives:

-) To examine the profit planning strategy of NBBL.
-) To excess the financial performance analysis of NBBL.
-) To examine the variance between target and actual performance of NBBL.

His major findings:

-) It is observed that the bank is adopting a policy to keep minimum number of the employees as possible. But it has unnecessary long ladder a various lever without specific job description.
-) Bank has the policy to employees academically highly qualified (first class MBA) fresh candidate at management trainee which may be considered as good aspect for future manpower planning.
-) Nepal Bangladesh bank is currently operating with its 15 branch offices making its presence at almost all of the cities of the country. It is one of the bank’s having highest branch network among the joint venture private banks in Nepal.
-) Objective of the bank on expressed in the literary from, and not specified clear, therefore there is a danger of it being misinterpreted in the ways of one’s therefore there is a danger of it being misinterpreted in the ways of one’s benefit by the concerned.
-) Manor concentration of resource mobilization of Nepal Bangladesh bank is at deposit mobilization. In this respect they are incurring cost toward deposit mobilizations.

His major recommendations:

-) Bank management should adopt the policy of appropriate authority delegation at all of management. N order to save the valued of the chief executive officer for other productive use.

-) It suggest to the bank to from a specific planning and research department which shall be responsible for developing new innovative products, further development and up gradation of existing product, which is turn ensure better profitable business for the bank
-) Branch monitoring and controlling mechanism should be made at the regional level also in order to ensure the better functioning of the branch offices located as such locations, which are far from the head office.
-) Objective of the bank should be clearly defined in order to avoid the risk of it being misinterpreted.
-) The average cost of deposit to the bank is high. Therefore, bank should try to lover by mobilizing more and more low cot free deposits. Thereby. Reducing the interest cost because due to the high cost of deposit, bank is forced to invest its fund more on highly yielding assets, which are generally not liquid and obviously risk for the bank.
-) The Nepal Rastra Bnak has put the restriction on the difference of an average rate of interest income and average rate of interest expenses of the bank (i.e. rate of interest income should not exceed 5%) therefore the bank has put more focus on the other kind of non funded activities by which it shall increase income from other sources than interest to increase its profitability.

Prakash Sharma (2010) has submitted his research report on topic of “*Profit Planning and Control of Nepal Bangladesh Bank*” to Shankar dev campus.

His major objectives are:

-) To study and evaluate the existing practice of profit planning and control in NBBL
-) To analyze financial position.
-) To provide the valuable suggestions and recommendations to improve the overall profitability of the bank.

His major findings are:

-) Major concentration of resource mobilization of Nepal Bangladesh bank is at deposit mobilization. In this respect they are incurring cost toward deposit mobilizations.
-) The average cost of deposit to the bank is high. Therefore, bank should try to lower by mobilizing more and more low cost free deposits, thereby reducing the interest cost because due to the high cost of deposit, bank is forced to invest its fund more on highly yielding assets, which are generally not liquid and obviously risk for the bank.
-) Interest expense amount is the highest among total expenses item of the bank every year.
-) It is observed that the bank is adopting a policy to keep minimum number of the employees as possible. But it has unnecessary long ladder a various lever without specific job description.
-) Bank has the policy to employees academically highly qualified (first class MBA) fresh candidate at management trainee which may be considered as good aspect for future manpower planning
-) Bank's resources development for non- yielding liquid assets (cash and bank balance) is increasing every year. Which is determinate to profitability objectives, but it is supportive to meeting liquidity requirement of the bank.
-) Objective of the bank is expressed in the literary form, and not specified clear. Therefore there is a danger of it being misinterpreted in the ways of one's benefit by the concerned.

Sunita Dangol (2010) submitted her thesis on topic "*Study of Profit Planning and Control of Standard Chartered Bank Nepal ltd.*" Her research was mainly based on secondary data. So, the reliability of the result shown by her thesis largely depends on the proper and correct information provided by the bank. However, she had tried to collect primary data too through various ways.

Her major objectives are:

-) Bank has policy to recruit the highly qualified fresh candidates

-) Lack of advanced training to the personnel.
-) SC bank is adopting a policy to keep minimum number of employees as possible. IV. There is lack of proper coordination among the various responsible departments.

Her major findings are:

-) Deposit mobilization by the bank is found to considerably growing every year with an average growth over the period of study
-) The total deposit of the bank is found increasing each year corresponding to the increase in interest expenses. The total deposit is perfectly and positively correlated with total interest expenses.
-) Interest income amount of the bank is the highest among other income among other income item of the total revenue.
-) The current ratio, debt equity ratio, debt to assets ratio, profitability ratio and cost volume profit analysis of the SC bank is positive and correlated.
-) The top level executives are only involved in decision making and lower level participation is not encouraged but top management takes the feedback.

Sanjib Subedi has submitted his research report on the topic of “*A Comparative Study on Commercial Banks with Special Reference to Nepal Bank Limited and Nabil Bank Limited.*”

His major objectives are:

-) To study and analyze the sector wise landing of NBL and NABIL.
-) To analyze the proportion of good and bad loan.
-) To examine the credit risk of NBL and NABIL.

His major findings are:

-) During the five year study period, NBL seems weaker mobilization, its collected deposit in each year due to low ration range between 25% and 32% and it has more ideal deposit in each year.

-) NBL and NABIL banks have strong lending in production sector than consumers, agricultural wholesaler and retailer sector wise indicate that is has good lending for the development of economic and generate the employment.
-) NBL has highest bad loan in the initial year but in the year 2008/09, the bad loan is to low the initial study period due to the effective loan management i.e. 13.11% which is higher than the international standard whereas NABIL has low bad loan in the initial period of study i.e. 3.35% which is lower than the international standard.

2.3 Research Gap

Most of the past research studies about profit planning systems are basically related to the profit planning system of manufacturing organization or production oriented activities. Very few studies have been made related to profit planning system of service sectors including commercial banks and those few studies which were earlier are also mainly concerned with Rastriya Banijya bank, Standard Chartered Bank, Himalayan Bank and Nepal Bangladesh bank mostly. All the dissertations have pointed out that there is no proper profit planning system and recommended for the effective implementation of profit planning in the commercial banks.

This study shall be a new one in this field as no study has been made so far in the profit planning system particularly in Everest bank ltd. Nepal. This has tried to indicate the role the budgets for the effective formulation and implementation fo profit planning system as well as to se how for the bank is practicing. This study has analyzed the financial position of Everest bank by providing the tool of ratio analysis and other mathematical and statistical tools. Finally, it concludes the various finding of research and recommend for immediate and long term improvements and corrections.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

This study has intense relation with the application of profit planning in bank with a specific reference to Everest bank limited regarding the objectives to analyze, examine and interpret the application of profit planning in bank. The research methodology includes research design, data collection procedures and research variable and tools used.

3.3 Research Design

As per kerklinger (1986) Research design is the plan, structure and strategy of investigation conceived so as to obtain to research questions and control variance. This study is an examination and evaluation of procession profit planning program of Everest bank limited. Various functional budgets and other related accounting information's and statement of the bank are the materials to analyze and evaluate the profit planning systems oh the bank. A descriptive as well as analytical research design has been adopted in this research. This is a case study Research.

3.3 Sources of Data Collection

This study is mostly based on secondary data. However, primary data/information has been obtained through informal discussions with the executives and other staff of the Bank. Secondary data have been collected from the annual published accounting and financial statement of EBL. Similarly, necessary data have collected from thesis and dissertation related to this field, publication of the Nepal Rastra Bank, Central Bureaus of Statistics and Related Publication etc.

3.4 Time Period of Profit Plan

As per NRB, directives all the banks have identically to follow the accounting year of twelve months of beginning from first Shrawan to end of Ashadh. It covers the last five years from fiscal year 2005/06 to 2009/2010 which includes the business budget expenditure and profit plan the year.

3.5 Tools and Technique of Analysis

This study is confined to examine the profit the profit planning of EBL. Therefore, the data have been collected, managed, analyzed and presented in suitable tables, formats, diagrams graphs and charts. Such presentations have been interpreted and explained whatever necessary. Financial, Mathematical and Statistical tools are used to analyze. The first important tool is a financial tool, which includes ratio analysis, cash flow statement, and different functional budget and other aspects of PPC. The other significant tool is statistical tool, includes standard deviation, co-efficient of determination, probable errors and regression analysis. The details are as follows:

3.5.1 Financial Tools

3.5.1.1 Ratio Analysis

Financial strength and weakness of a firm as well as historical and present financial position of the bank can be examined by the systematic use of ratios. The following ratios are tested under the PPC of EBL:

I. Liquidity Analysis

The liquidity ratio is used to measure the ability of a firm to meet its short-term obligation and reflects the short-term financial strength.

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

$$\text{Cash and Bank Balance to Current Assets Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

Loans, Advanced Bills Purchased to current Assets Ratio

$$= \frac{\text{Loans, Advance and bills purchase}}{\text{Current Assets}}$$

II. Turnover Ratios

The turnover ratios are concerned with measuring the efficiency in its assets management. Higher the turnover ratios better the profitability reflecting effectiveness in using its resources at disposal. The turnover ratios are as follows:

$$\text{Total Assets Turnover Ratios} = \frac{\text{Sales / Revenue}}{\text{Total Assets}}$$

$$\text{Fixed Assets Turnover Ratios} = \frac{\text{Sales / Revenue}}{\text{Fixed Assets}}$$

$$\text{Current Assets Turnover Ratios} = \frac{\text{Sales / Revenue}}{\text{Current Assets}}$$

III. Profitability Ratio

The profitability ratio is calculated to know the ultimate result of business activities of EBL. The ratios are as follows:

$$\text{Net profit Margin} = \frac{\text{Net Profit}}{\text{Sales / Revenue}}$$

$$\text{Return on total assets} = \frac{\text{Net Profit after Tax}}{\text{Total Assets}}$$

$$\text{Return on share holders' Fund} = \frac{\text{Net Profit after Tax}}{\text{Total Shareholders' Fund}}$$

$$\text{Earning per share} = \frac{\text{Net Profit after Tax}}{\text{No. of Equity shares}}$$

$$\text{Dividend per share} = \frac{\text{Dividend Paid to Equity Shareholders}}{\text{No. of Equity shares}}$$

3.5.1.2 Cash Flow Planning

This cash flow statement shows how his activities of the firm have been financed and how the financial resources have been used during a specific period. Here it provides information about the inflow and outflow of cash of the EBL. The three types of cash flow are as follows:

-) Cash Flow from Operating Activities
-) Cash Flow from Financing Activities
-) Cash Flow from Investing Activities

3.5.1.3 Differential Functional Budget

There are different types of budgets; they are designed for allocation of resources and coordination between functional works of the bank.

I. Sales Budget

The sales planning is the foundation budget for planning in a business organization. All other planning is based on it. Each and every activity of a business depends upon the sales are the main sources of cash. So the sales planning is the beginning point of preparing the other different planning. The sales planning can be prepared for a definite future time period by showing volume and units of sales.

II. Human Resource Planning Budget

Human resource planning is the process by which the organization's management determines how organizations move from its current manpower position to desired manpower position. It refers to the broad area of determining the level of (1) Personnel needs (2) Recruitment (3) Training (4) Job descriptions and evaluations (5) Performance evaluations (6) Union negotiations and (7) Wages and salary administrations.

Human resource costs include expenditure for employee: top executive, middle management personnel, staff officers, supervisors and skilled and unskilled employees. To plan and control human resources costs effectively, the different types of human costs must be separately considered.

III. Administrative Expenses Budget

Administrative expenses include those expenses other than manufacturing and distribution. They are incurred in the responsibility centers that provide supervision of and service to all functions of enterprise rather than in the performance of any functions. Each administrative expense should be directly identified with a responsibility for planning and controlling the expenses including director of profit planning. The head of each of these departments submit an expenses budget for consideration and approval by the financial vice president.

3.5.1.4 Others Aspects of Profit Planning and Control

I. Profit and Loss Account

Profit is the major component of each and every business organization for survival. Profit and loss accounts are prepared to report the financial results of various functional sub plans and commitments. After preparing all functional budget, planned profit and loss accounts is a tool in accounting system, which comprehensively represent the operating efficiency of the organization in the relevant period.

II. Balance Sheet

A balance sheet is always prepared at certain or at a certain date point of time as considering changes in all items of balance sheet like fixed assets (plant and machinery, furniture and fixtures), debtors, share capital, debenture and creditors etc. It is not prepared for a period lie profit and loss account, which is prepared and reported quarterly, half yearly or yearly.

The two side of balance sheet are balanced and the balancing figure presents closing balance of cash. It may be balanced with bank or an overdraft according to the nature of balance being debit or credit.

Statistical Tools

The standard deviation is used to measure the risk. It shows the deviations are calculated with the following formula:

$$\text{Standard Deviation} = \frac{x}{n}$$

Where,

X = Variables

n = Numbers of years

3.5.2.1 Coefficient of Correlation (r) Analysis

Under this chapter Karl Pearson's coefficient is used to find out the relationship between deposit and loan & advances, deposit and total investment and deposit and net profit.

$$r = \frac{N \sum dx * dy - \sum dx \sum dy}{\sqrt{N \sum dx^2 - (\sum dx)^2} \sqrt{N \sum dy^2 - (\sum dy)^2}}$$

) Coefficient of Correlated between and loan and advances

) Coefficient of Correlated between deposit and total investment.

) Coefficient of Correlated between Deposit and Net Profit.

3.5.2.2 Co-efficient of Determination (r²)

Co-efficient of determination is the square of co-efficient of correlation, which is very convenient and useful way of interpreting the value of co-efficient of correlation between variables.

Co-efficient of determination (r²) is a measurement of the degree of correlation between two variables, one of which happens to be independent and another happens to be dependent variable.

3.5.2.3 Probable Error (PEr)

The reliable of co-efficient of correlation helps in interpretation its value with the help of (PEr). It is possible to determine the reliability of the value of co-efficient.

$$(\text{PEr}) = 0.6745 \times 1 - \frac{1}{N} \sum Zr^2$$

Where,

r² = Square of Correlation of Co-efficient

N = No. of pair of Observation

If the value of r is less than PEr, value of r is not significant, and if the value of r is more than PEr, value of r is significant.

3.5.2.4 Trend Analysis

The measurement used in financial management analysis may be classified into two groups those who measure the relation among the items. Insight set of statement, and those who measure the analysis in items in successive statement. The first is a static analysis measuring position at a point of time or for period and the second is a dynamic analysis measuring changes of position. Both types of analysis are necessary for a comprehensive interpretation, since it is important to know not only the proportion as on a certain date but also the trends of the enterprise.

The trend analysis can be calculated as follows:

Straight line trend of total deposit

$$Y_c = a + bx$$

-) Trend analysis of Total Deposit
-) Trend analysis of Net Profit
-) Trend analysis of Loan and advances
-) Trend analysis of Earning Per Share

3.5.2.5 Graphic Presentation

Presenting the information through the graphs makes very easy to understand. The variables used in this study have been presented in the different types of graphs and diagrams.

CHAPTER -IV

DATA PRESENTATION AND ANALYSIS

The whole research is based on the analysis and interpretations of collected data. Without presentations, analysis, interpretations of the primary and secondary data the thesis don't give any meaning.

This chapter presents the calculations, interpretations and presentations of the data related to EBL. Some of the secondary data are calculated on the basis of financial programmes and statistical tools. The calculations of ratios have been done through statistical of the computer.

4.1. Analysis of Financial Ratios

The study tries to analyze profit planning of EBL through the liquidity ratios, turnover ratios, profitability ratios, and leverage ratios.

4.1.1 Liquidity Ratio

Liquidity ratios measure the ability of the firm to meet its current obligations. A need of community. Liquidity provides honor, strength, health and prosperity to an organization. It is extremely essential for an organization to meet its obligation as they become due. A firm should ensure that it has not lack of liquidity and also that it is not too much highly liquid. The following ratios are evaluated and interpreted under liquidity ratios.

1. Current Ratio

Current ratio indicates whether the concern has instant ability to payout the current liabilities as they mature. This ratio is the yardstick to judge the soundness of the short-term financial position of the business unit or industry. Standard of current ratio is 2:1 but this standard may not be used or applied to the service oriented companies because there is no need to maintain the inventory. In the banking sector, industry

ratio does not exist for the comparison purpose. So the average ratio of this company is taken into consideration in order to compare with calculated ratio. The average is only approximate that is used in the absence of predetermined standard. This ratio expressed by using following formula.

$$\text{Current ratio} \times \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The current ratio of EBL for the last five years is shown below:

Table: 4.1
Current Ratios (in times)

(Rs. In millions)

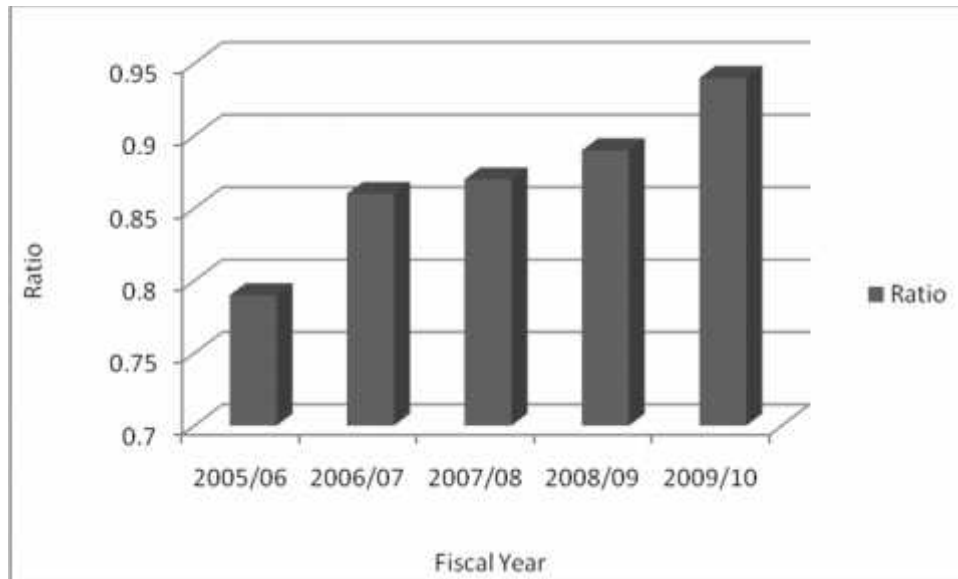
Fiscal Year	Current Assets	Current Liabilities	Ratio
2005/06	11599.20	14696.50	0.79
2006/07	16277.30.	18931.10	0.86
2007/08	21729.29	24928.10	0.87
2008/09	30541.22	34413.25	0.89
2009/10	35911.46	38323.62	0.94
Average Ratio			0.87

Source: Annual Reports of EBL (Appendix I)

The above table shows the increasing trend of current ratio over the years. As the current ratio is below the normal standard, however we cannot conclude the liquidity position is poor as it is only quantitative measures not qualitative and the situation of the bank is quite different than that of general business enterprise. The average current ratio is 0.87 times during the five years study period. The liquidity position of EBL is improving slowly. So the higher current ratio means better liquidity position

Graph: 4.1

Graphical Presentation of Current Ratios



2. Cash and Bank Balance of Current Assets Ratio

Cash and bank balance to current assets ratio reveals the position of cash and bank in to total current assets. Cash and bank balance are highly liquid assets than other current assets. So this ratio scans higher liquidity position than current ratio.

Table: 4.2

Cash and Bank Balance to Current Assets Ratios (in times)

(Rs. In millions)

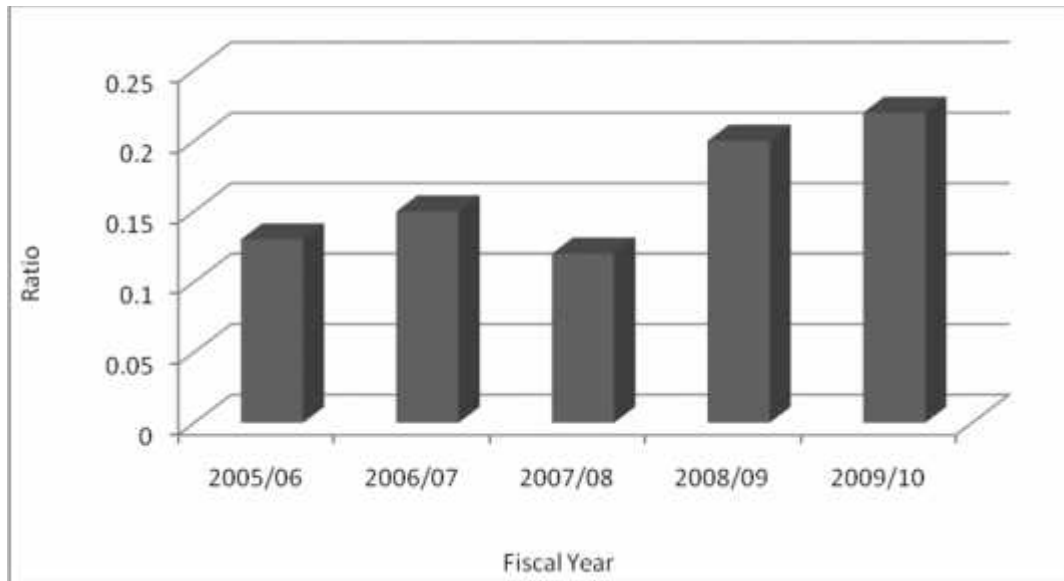
Fiscal Year	Cash and Bank Balance	Current Assets	Ratio
2005/06	1052.96	11599.20	0.13
2006/07	2390.52	16277.30	0.15
2007/08	2667.97	21729.29	0.12
2008/09	6164.37	30541.22	0.20
2009/10	7818.81	35911.46	0.22
Average Ratio			0.16

Source: Annual Reports of EBL (Appendix I)

The table depicts that cash and bank balance to current assets ratio is better as it shows the ability to manage the deposit when withdrawn from the customers.

Graph: 4.2

Graphical Presentation of Cash and Bank Balance to Current Assets Ratio



3. Loan, Advances and Bills Purchased to Current Assets Ratio

Loan and advances to current assets ratio reflects the capability of the bank discounting and purchasing the bills, loans and overdraft facilities to the customer to make a high profit. For mobilizing its fund in the best way a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan advances to the customers.

Table: 4.3
Loan, Advances and Bills Purchased to Current Assets Ratio (in times)

(Rs. In Millions)

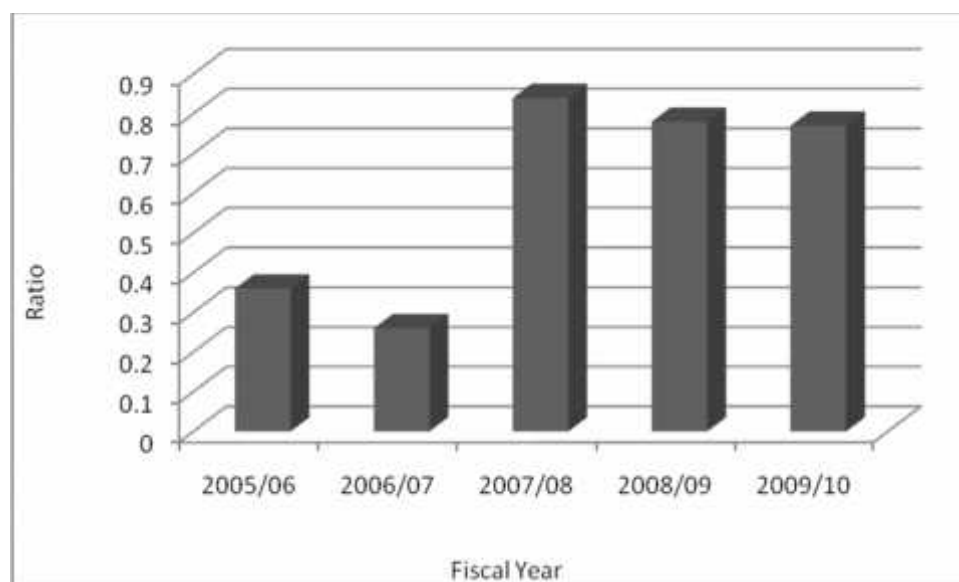
Fiscal Year	Loan, Advances and Bill Purchased	Current Assets	Ratio
2005/06	4244.18	11599.20	0.36
2006/07	4243.49	16277.30	0.26
2007/08	18399.08	21729.29	0.84
2008/09	23884.67	30541.22	0.78
2009/10	27566.36	35911.46	0.77
Average Ratio			0.60

Source: Annual Report of EBL (Appendix 1)

The above table that the loan and advances to current assets ratio has followed the fluctuating trend in positive manner through out the study periods. The above discussion helps to conclude that the bank is successful to mobilizing its current deposit on loan and advances.

Graph: 4.3

Graphical Presentation of Loans, Advances and Bill Purchased to Current Assets Ratio (in times)



4.1.2 Activity Ratio

Activity or turnover ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. These ratios are employed to evaluate the

efficiency with which the firm manage and utilize its assets. A commercial bank must manage its assets properly to earn high profit. Under this group following ratios are studied.

1. Total Assets Turnover Ratio

The total assets turnover ratio is used to measure the effectiveness in the use of total assets. The relationship between total assets and revenue is known as total assets turnover ratio. The PPC of EBL is analyzed with the help of this ratio by considering the data of Fiscal year of 2005/06 to 2009/2010 which is shown below.

Table: 4.4

Total Assets Turnover Ratio (in times)

(Rs. In Millions)

Fiscal Year	Revenue	Total Assets	Ratio
2005/06	1063.54	15959.28	0.07
2006/07	1358.50	21432.57	0.06
2007/08	1842.51	27149.34	0.07
2008/09	2557.83	36916.85	0.07
2009/10	3500.76	41382.76	0.08
Average Ratio			0.07

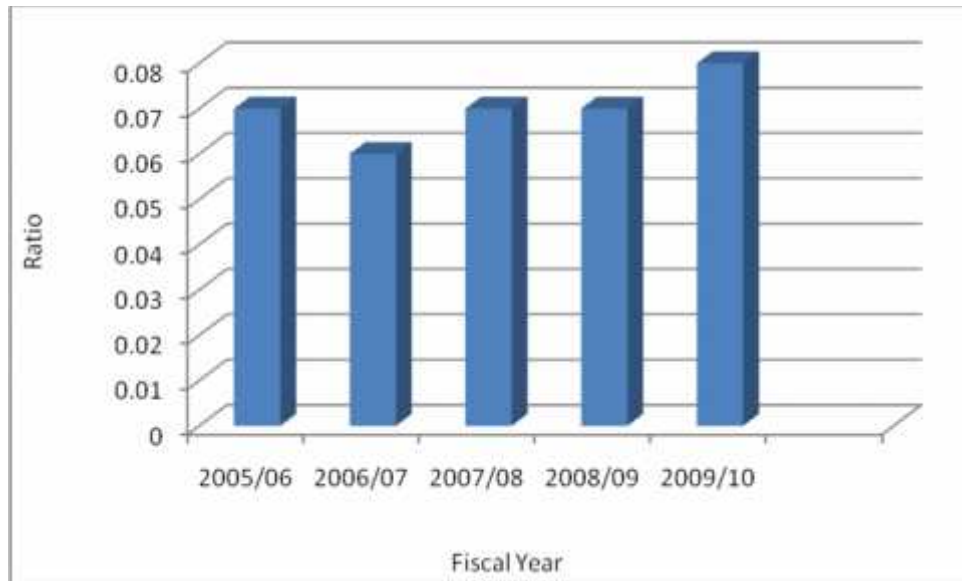
Source: Annual Report of EBL (Appendix II)

The above table shows that the total assets turnover ratio. Ratio starts from 0.07 times in F.Y. 2005/06 to 0.08 times in F.Y. 2009/2010. The average ratio is 0.07 times during the five years study period. In fiscal year 2006/07 ratio couldn't meet the average ratio but in other four years are in satisfactory level.

From the above analysis, it reveals that the bank's total assets turnover ratio decreased from first year to second year and increased in third year then remained constant in third and fourth year after that it increased in fifth year. Total revenue as well as total assets also is in increasing trend.

Graph: 4.4

Graphical Presentation of Total Assets Turnover Ratio



2. Fixed Assets Turnover Ratio

Fixed asset turnover ratio is analyzed to measure how efficiently the capital employed in fixed assets has been utilized to generate revenue. The relationship between fixed assets and revenue earned is called fixed assets turnover ratio. The higher ratio shows favorable condition and well planning of profit and vice versa. Fixed assets turnover ratio is analyzed considering relevant data of five years of study period from F.Y. 2005/06 to 2009/2010 as follows:

Table: 4.5
Fixed Assets Turnover Ratio (in times)

(Rs. In Millions)

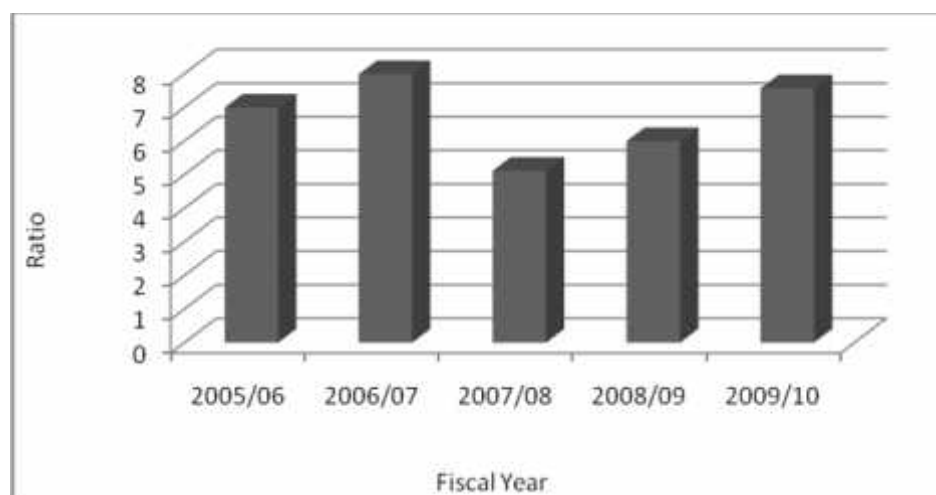
Fiscal Year	Revenue	Fixed Assets	Ratio
2005/06	1063.54	152.09	6.99
2006/07	1358.50	170.10	7.98
2007/08	1842.51	360.51	5.11
2008/09	2557.83	427.16	5.99
2009/10	3500.76	463.09	7.56
Average Ratio			6.73

Source: Annual Reports of EBL (Appendix II & III)

The above table shows that the fixed assets in F.Y. 2005/06 were Rs 152.09 million and Rs. 463.09 million in F.Y. 2009/2010. The revenue is Rs. 1063.54 million and 3500.76 million in F.Y. 2005/06 and 2009/2010 respectively. The trend of revenue is continuously growing till F.Y. 2007/2008. The average ratio is 6.73 times, which indicates that the every one rupee invested in fixed asset is able to earn Rs. 6.73 as revenue. This is a very good scenario of Revenue. The fixed assets and the fixed assets turnover ratio are fluctuating in fiscal years under study.

Graph: 4.5

Graphical Presentation of Fixed Assets Turnover Ratio



3. Current Assets Turnover Ratio

The relationship between current assets and revenue is known as current assets turnover ratio. It is analyzed to measure how efficiently the capital employed in

current assets has been utilized to generate revenue. Generally the higher ratio indicates the favorable position and lower ratio indicates unfavorable condition. Revenue is directly associated with the bank's profitability. So that PPC is examined with the help of current assets turnover ratio by taking relevant data of five years during the study period, which is as follows.

Table: 4.6
Current Assets Turnover Ratio (in times)

(Rs. In Millions)

Fiscal Year	Revenue	Current Assets	Ratio
2005/06	1063.54	11599.20	0.09
2006/07	1358.50	16277.30	0.08
2007/08	1842.51	21729.29	0.08
2008/09	2557.83	30541.22	0.08
2009/10	3500.76	35911.46	0.10
Average Ratio			0.08

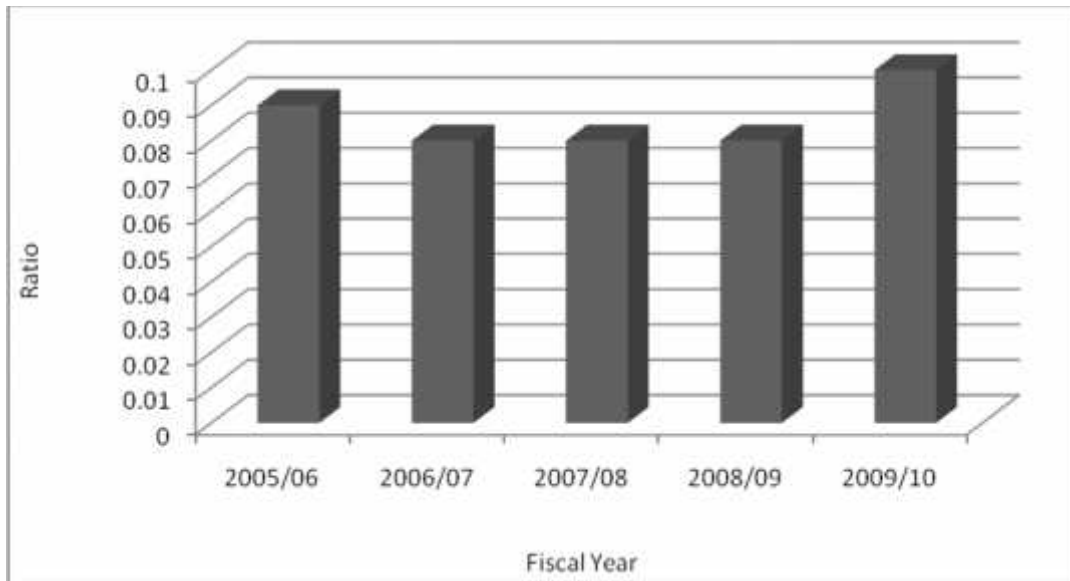
Source: Annual Report of EBL (Appendix I and II)

The above table shows that the current assets turnover ratio of EBL is decreased from first year to second year and remained contained from two year to fourth year after that it increased in fifth year.

The average current assets turnover ratio of five years during study period is 0.086 times. It indicates every one rupee capital investment in current assets generates Rs. 0.086 as revenue. In the absence of common standard, we assume the average ratio as a standard to analyze PPC of the bank.

Graph: 4.6

Graphical Presentation of Current Assets Turnover Ratio



4.1.3 Profitability Ratio

Profitability ratios indicate degree of success in achieving desired profit level. Profitability ratios, which measure management’s overall effectiveness, are shown by the returns generated on sales and investment. A bank should be able to earn profit to survive and grow over a long period of time. Profit is the indicator efficient operation of a bank. The banks acquire profit by providing different services to its customers or by making investment of different kinds. Profitability ratios measure the efficiency of the bank. The following profitability ratios are related to study in this heading.

1. Net Profit Margin

The relationship between net profit and total income is shown by net profit margin ratio. It is a percentage of net income on total revenue. Net profit margin is analyzed considering relevant data of five years of study period from F.Y. 2005/06 to 2009/10 is follow.

Table: 4.7
Net profit Margin (in percentage)

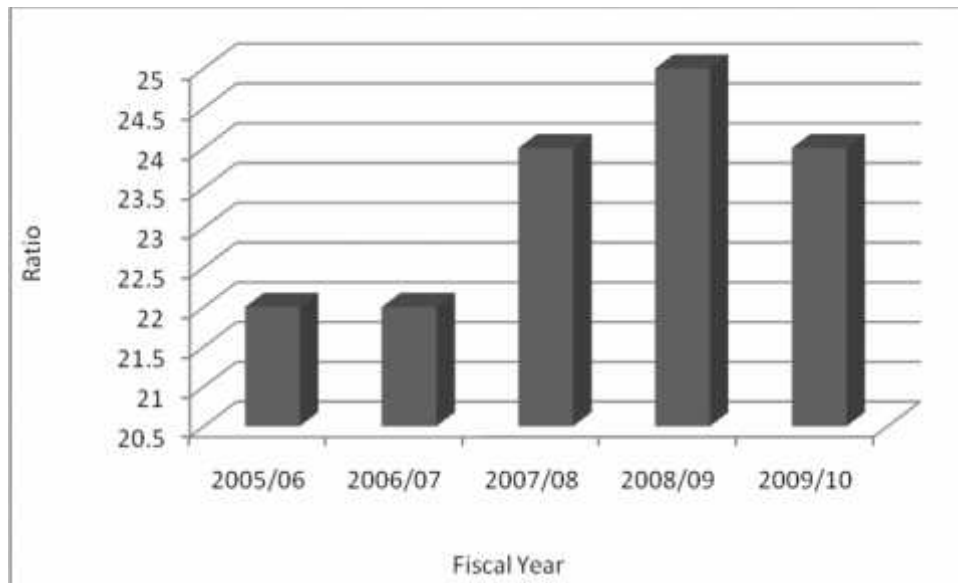
(Rs. In Millions)

Fiscal Year	Net Profit	Revenue	Net Profit Margin
2005/06	237.29	1063.54	22
2006/07	296.41	1358.50	22
2007/08	251.22	1842.51	24
2008/09	638.73	2557.83	25
2009/10	831.77	3500.76	24
Average Ratio			23.4

Source: Annual Reports (Appendix II)

The data presented on the above table shows that the net profit of the bank and its margin are fluctuated during the study period. The average net profit margin is 23.4% and is an approximately that is used for comparative study in absence of standard. Margin in first and second fiscal year are not in satisfactory level. The net profit margin is in increasing which are the symptoms of the good performance of the bank, but at the last of study period the net profit margin has been decreased at indicates that the performance of net profit at last is not satisfactory level.

Graph: 4.7
Graphical Presentation of Net Profit Margin



2. Return on total Assets

The return on total assets measures the profitability of the total funds invested in fixed assets as well as current assets of the bank. The higher ratios indicate the satisfactory utilization of assets and vice versa. The ROA is measured as below of 5 years of the study period.

Table: 4.8
Return on Total Assets (in percentage)

(Rs. In Millions)

Fiscal Year	Net Profit	Total Assets	Return on Total Assets
2005/06	237.29	15959.28	1.48
2006/07	296.41	21432.57	1.38
2007/08	251.22	27149.34	1.66
2008/09	638.73	36916.85	1.73
2009/10	831.77	41382.76	2.00
Average Ratio			1.65

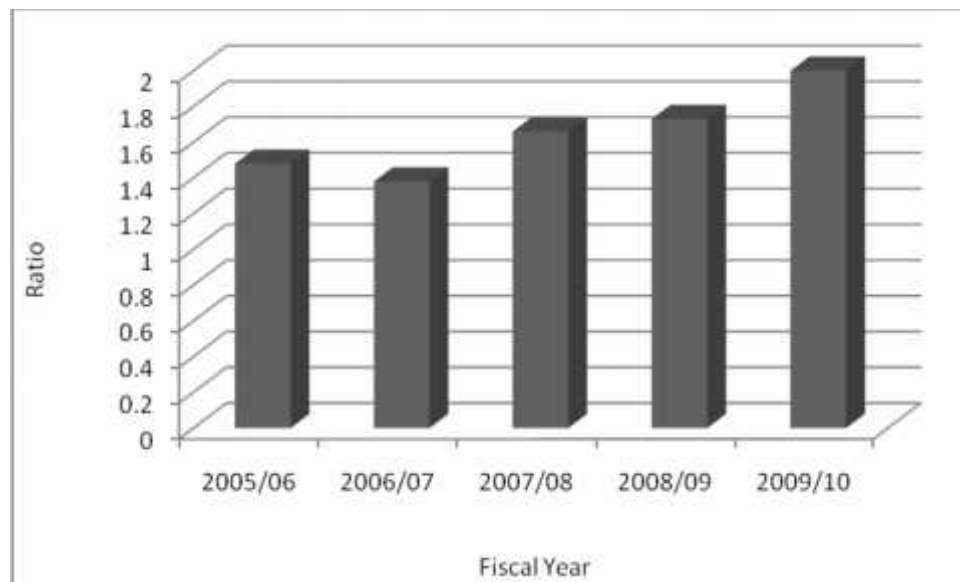
Source: Annual Reports (Appendix II & III)

The above table study that the total assets of the bank are increasing and the ROA are fluctuated in the study period. The average ROA is 1.65%. It can be concluded that

the profitability with respect to total assets of the bank is not satisfactory, but from the three years it is in increasing trend.

Graph: 4.8

Graphical Presentation of Return on Total Assets



3. Return on Shareholder's Fund

Return on shareholder's fund is tested to measure how well the company has used the resources of owners. Five years study period's return on net worth has been tabulated as below.

Table: 4.9
Return on Shareholder's Fund (in percentage)

(Rs. In Millions)

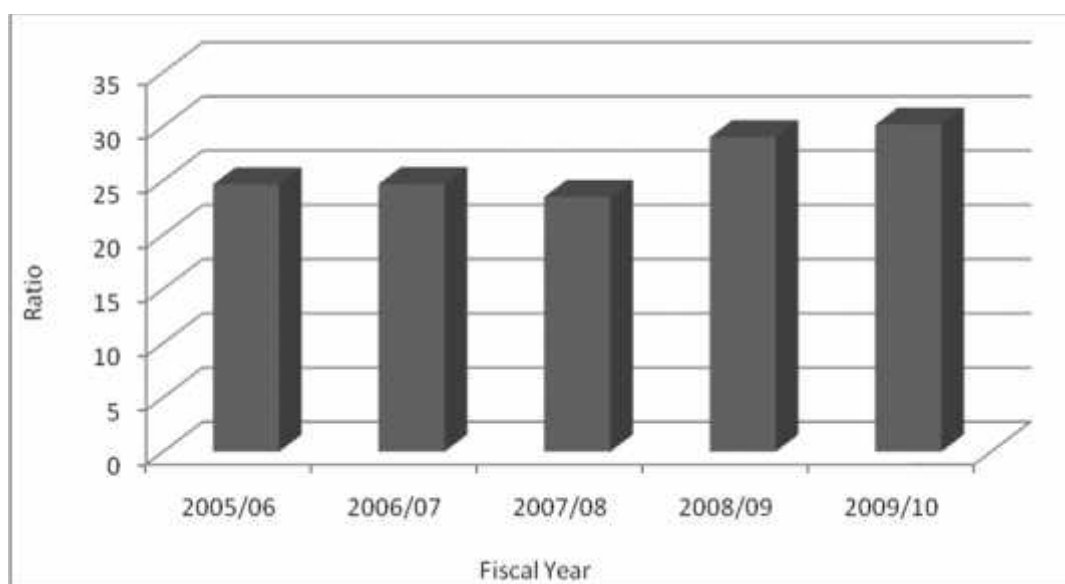
Fiscal Year	Net Profit	Shareholder's Fund	Return on Shareholder's Fund
2005/06	237.29	962.81	24.64
2006/07	296.41	1201.51	24.67
2007/08	251.22	1921.24	23.48
2008/09	638.73	2203.63	28.99
2009/10	831.77	2759.13	30.15
Average Ratio			26.38

Source: Annual Reports (Appendix II & III)

Above table source that the net profit and shareholder's fund are in increasing trend but the return on shareholder's fund is little bit in fluctuating in the study period.

Graph: 4.9

Graphical Presentation of Return on Shareholder's Fund



4. Earning Per Share (EPS)

Earning per share (EPS) is one of the vital measurements of company's profit planning function. EPS is found by dividing net profit by the number of existing equity share in the absence of preference shares dividend. The single EPS tells

nothing. In the absence of industry indicators for EPS comparison, help of average EPS of five years study period is taken. That is presented as below.

Table: 4.10
Earning Per Share (in Rs)

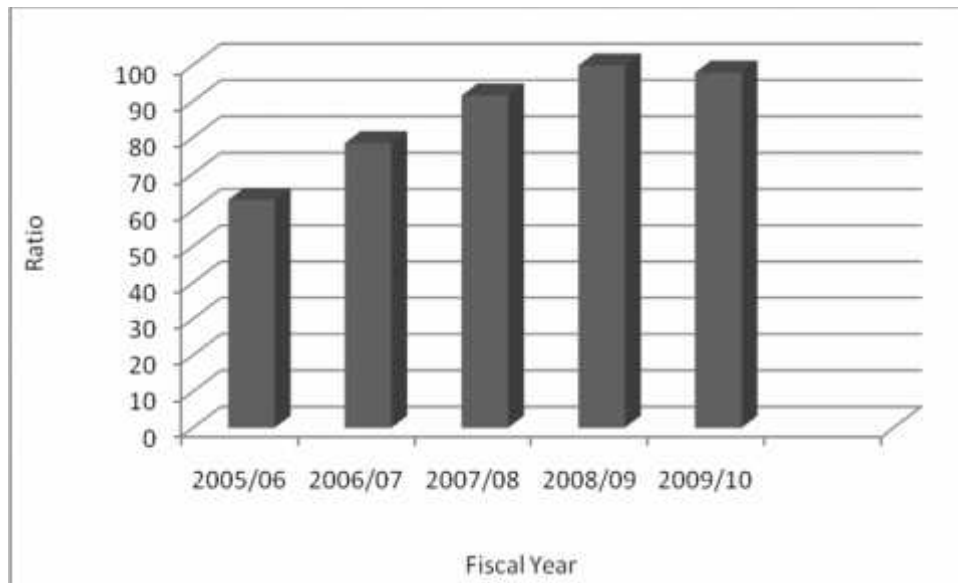
(Rs in Millions)

Fiscal Year	Net Profit	No. of Equity Share	Earning Per Share
2005/06	237.29	3.78	62.77
2006/07	296.41	3.78	78.41
2007/08	251.22	4.93	91.53
2008/09	638.73	6.40	99.80
2009/10	831.77	8.50	97.86
Average Ratio			86.07

Source: Annual Reports (Appendix II & III)

The above table of EPS is highest in F.Y. 2008/09 and lowest in F.Y. 2005/06. The EPS is in increasing trend, but in F.Y. 2009/10. It is decreased at means EPS is not also in satisfactory level. Its credit directly goes to management. The average EPS is Rs. 86.07 under the study period. The average EPS is more than respective EPS for the fiscal years 2005/06 and 2006/07.

Graph: 4.10
Graphical Presentation of Earning Per Share



5. Dividend per Share (DPS)

Dividend per share (DPS) is the amount provided to the existing shareholder out of net profit earned by the bank. It is directly related to net profit. The higher DPS shows sound financial position of company.

Table: 4.11

Dividend Per Share (in Rs)

(Rs. In Millions)

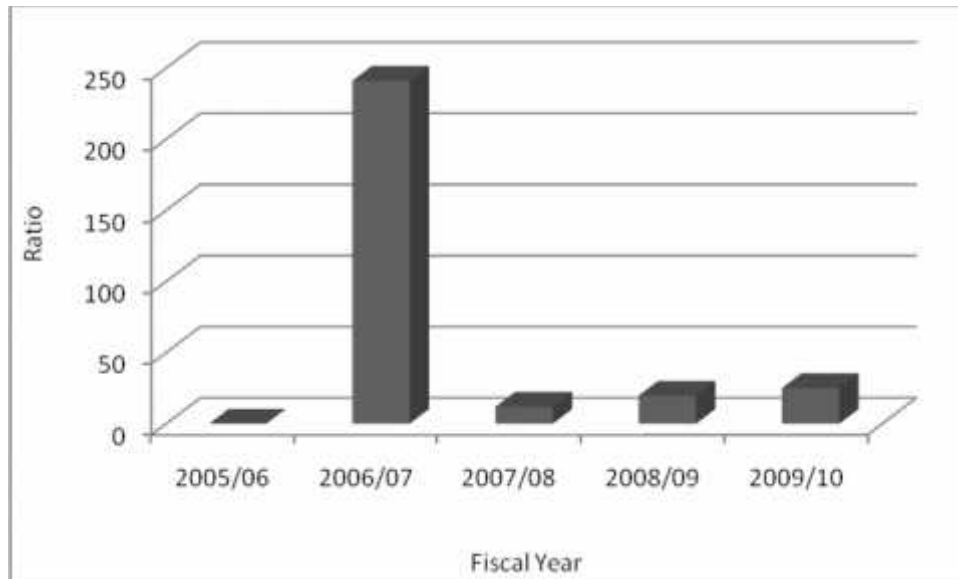
Fiscal Year	Dividend Paid	No. of Equity Share	Dividend Per Share
2005/06	0	3.78	0
2006/07	911.51	3.78	241.14
2007/08	58.85	4.93	11.94
2008/09	126.61	6.40	19.78
2009/10	212.81	8.50	25.05
Average Ratio			59.58

Source: Annual Reports of EBL.

The table shows that dividend was given in fiscal year 2005/06, and the highest DPS is Rs. 241.14 F.Y. 2006/07. The average DPS is Rs. 59.58.

Graph: 4.11

Graphical Presentation of Dividend Per Share



4.1.4 Cash Flow Planning

Cash budgeting is an effective way to plan and control the cash flows, assess cash need and make effective use of excess cash. A primary objective is to plan the liquidity position of the bank as a basis for determining future borrowing and future investments. The planning and control of the cash inflows, the cash outflows and the related financing is more important to all enterprises. The cash flow analysis shows the planned cash inflows, outflows for a specific time span.

Planning cash flow of EBL, gives the planned beginning and ending cash position for the study period. Cash shortage will disturb the enterprises in its smooth operation while excess cash will simply remain idle, without contributing anything towards company's profitability. Thus the major function of financial manager is to maintain a sound cash position. Cash flow planning is analyzed considering relevant data of five years of study period from F.Y. 2005/06 to 2009/10 as follow.

Table: 4.12
Cash Flow Statement

(Rs in millions)

Particulars	2005/06	2006/07	2007/08	2008/09	2009/10
1. Cash Receipt	1119.89	1372.77	1764.96	2440.22	3433.96
Interest income	900.91	1157.39	1480.96	2071.39	3024.66
Commission and discount	88.16	117.72	150.26	202.09	208.12
Exchange gain	19.77	27.13	50.81	55.86	55.36
Recovery loan written off	-	-	-	-	-
Other income	51.04	70.53	82.91	110.88	145.82
2. Cash Paid	(704.26)	(892.08)	(1154.93)	(1744.32)	(2476.05)
Interest expenses	(378.60)	(492.28)	(612.86)	(1002.38)	(1532.61)
Employee expenses	(68.38)	(78.12)	(127.97)	(163.03)	(212.26)
Office expenses	(115.06)	(146.56)	(177.58)	(215.58)	(263.36)
Income tax paid	(144.09)	(140.56)	(191.50)	(297.47)	(378.68)
Other expenses	(28.08)	(34.56)	(45.47)	(65.87)	(89.13)
Cash Flow before change in working capital	415.63	480.69	610.03	695.50	957.92
(Increase)/Decrease in Current Assets					
(Increase)/Decrease in money at call & short notice	508.04	66.96	(346.00)	346.00	-
(Increase)/Decrease in short term investment	(2072.29)	80.12	498.76	(697.05)	774.63
(Increase)/Decrease in loan & borrowings	(2236.16)	(3947.22)	(4772.74)	(5638.67)	(3748.04)
(Increase)/Decrease in other assets	(39.03)	(72.38)	(134.86)	(67.62)	(63.12)
(Increase)/Decrease in Current Liabilities					
Increase/(Decrease) in deposits	3704.75	4383.81	5790.04	9346.65	3609.36
Increase/(Decrease) in certificate of deposit	-	-	-	-	-
Increase/(Decrease) in short term loan	-	-	-	-	-
Increase/(Decrease) in others liabilities	285.82	(56.20)	(26.38)	(289.67)	124.50
CFOA (A)	561.76	935.78	1618.86	3695.55	1655.25
Cash Flow from Investing Activities					

Purchase of share and debenture	(0.05)	-	(94.68)	(0.88)	-
Proceeds from sale of share & debenture	-	-	13.41	-	-
Purchase of fixed assets	(47.37)	(49.93)	(248.46)	(144.26)	(130.96)
Proceeds from sale of fixed assets	0.87	0.50	1.84	2.02	8.38
(Increase)/Decrease of Govt.	0.41	(863.92)	(493.53)	(190.99)	165.54
Securities					
Proceeds from sale of non-banking assets	1.65	11.58	0.04	2.03	26.51
Interest income from LTI	12.26	12.28	58.44	91.37	97.68
Dividend received	0.16	0.25	0.75	0.15	1.51
CFIA (B)	32.50	(888.79)	(761.83)	(240.57)	168.67
Cash Flow from Financing Activities					
Increase/(Decrease) in LTB	-	-	-	312.00	(312.00)
Increase/(Decrease) in share capital	-	-	-	-	-
Share application money received	-	-	(511.51)	(140.00)	-
Dividend paid	-	911.51	(58.85)	(126.62)	(212.89)
Interest in borrowings paid	(15.96)	(104.22)	(23.75)	(10.63)	(41.71)
Increase/(Decrease) in facilities received of Govt.	(13.62)	(17.10)	-	-	404.60
CFFA (C)	(29.58)	790.19	(594.11)	34.76	(162.00)
Gain/(Loss) in exchange in cash/bank bal. (D)	3.30	1.27	13.64	6.66	(7.48)
Total Cash Flow (A+B+C+D)	502.98	838.45	276.55	3496.40	1654.44
Add: opening cash balance	1049.91	1552.97	2391.42	2667.97	464.37
Closing cash balance	1552.97	2391.42	2667.97	6164.37	7818.81

Source: Annual Reports (Appendix IV)

Above table highlights the sources and utilization of cash. Cash flow statement used here to check the liquidity of the bank accurately. The closing balance is highest in F.Y. 2009/10 and lowest in F.Y. 2005/06, which are Rs. 7818.81 and Rs. 1552.97 million respectively. Here is reflected the flow of cash as operating, investing and

financing activities. The closing balance is in increasing trend in the latest year, which is progress of the bank.

4.1.5 Differential Functional Budget

1. Sales (Revenue) Budget

EBL generates its revenue from its income earning activities and such activities are mostly fund based, that is generated out of the deployment of fund, and some position from non-fund based business activities. The bank generates its income mainly from interest income earned from the loan, advance and overdraft provided to the borrowers, investment in the bonds etc., commission and discount, exchange fluctuation and from other operating activities. Interest income holds major share in total income portfolio of the bank.

Operating Income or Total Revenue or Sales includes:

-) Interest income
-) Commission and Discount
-) Exchange Fluctuation Income
-) Other Operating Income

EBL has prepared five years revenue plan. According to planning officer past experience is considered in preparing revenue budget. Revenue budget is prepared considering relevant data of five years of study period from F.Y. 2003/04 to 2007/08 as follows:

Table: 4.13
Sales Budget

(Rs in Millions)

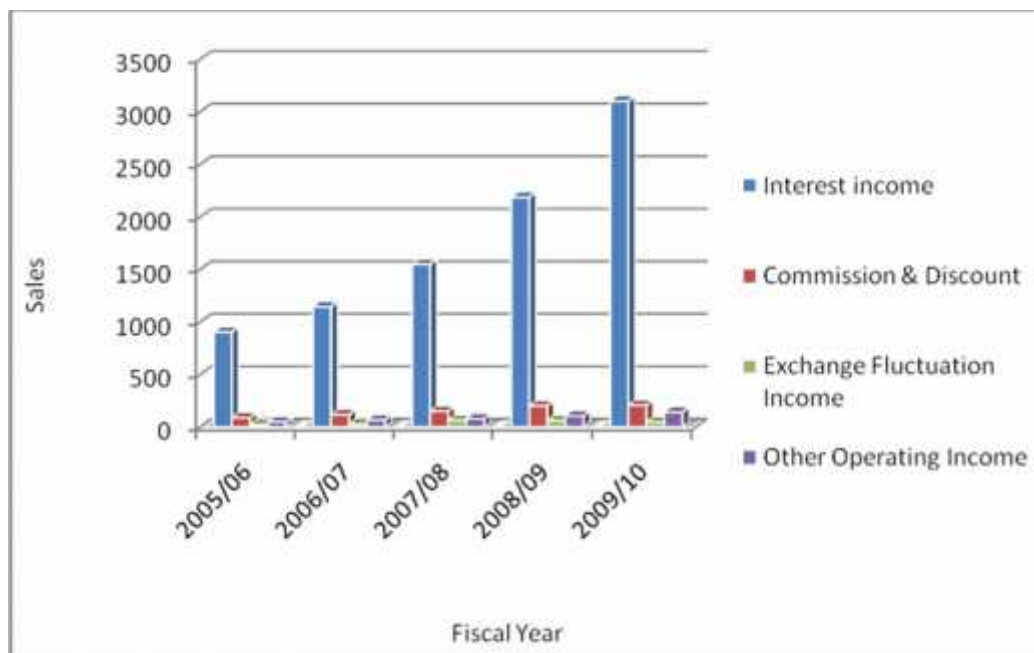
Particulars	2005/06	2006/07	2007/08	2008/09	2009/10
Interest income	903.41	1144.41	1548.67	2186.81	3102.54
Commission & Discount	88.16	117.72	150.26	202.09	208.12
Exchange Fluctuation Income	23.07	28.40	64.45	62.53	47.88
Other Operating Income	48.90	67.97	79.13	106.40	142.31
Total	1063.54	1358.50	1842.51	2557.83	3500.76

Source: Annual Reports (Appendix II)

Above table shows in spite of different problems the actual revenue is in increasing trend. Its credit directly goes to management committee.

Graph: 4.12

Graphical Presentation of Sales Items



2. Human Resource Budget

Starting with about little number of staffs, the bank today has 568 staffs of all levels due to its expansion of operations, size and broad responsibilities of providing maximum services. Most of the employees are salary based and permanent. The bank recruits the new employees from the free competition by taking different selection process.

To bring out effective implementation of its programmes at all the operational levels the bank has been arranging to strengthen its manpower development programmes by imparting training both at its training institutions in Nepal and aboard but it is not sufficient.

Table: 4.14

Human Resource Budget

Year	2005/06	2006/07	2007/08	2008/09	2009/10
No. of Staff	306	393	449	534	568

Source: Annual Reports of EBL

The above actual achievement table shows the total no of employees. The numbers of working employees are continuously increasing; it is caused by opening of new branches in different sectors.

3. Administrative Expenses Budget

There are different administrative expenses included in the operation of the bank. Expenses other than manufacturing and distribution expenses i.e. employee and office expense is treated into administrative expenses. Employee expenses like salaries, allowance, gratuity and pension, provident fund, training, medical expenses etc, which are for employee are employee expenses. Likewise house rent, stationery, transportation, meeting expenses, insurance, repair and maintenance etc. are also office expenses.

The overall managerial expenses budget includes several departmental budgets. It is briefly presented as below.

Table 4.15
Administrative Expenses Budget

(Rs. In Millions)

Fiscal Year	Amount
2005/06	214.48
2006/07	263.65
2007/08	391.73
2008/09	478.93
2009/10	578.87

Source: Annual Reports of EBL

The above actual achievement table shows that the administrative expense of EBL for the five years study period from the F.Y. 2005/06 to F.Y. 2009/10. The highest administrative expense is Rs. 578.87 and lowest is Rs. 214.48 million for F.Y. 2009/10 and 2005/06 respectively.

4.1.6 Other Aspects of PPC

1. Profit and Loss Account

Profit and loss account is such a tool in accounting system, which comprehensively presents the operating efficiency of the organization in the relevant period. After preparing all functional budgets, budgeted profit and loss account is prepared. P/L account is developed to report financial results of the various functional sub plans and commitments.

At the end of each financial year EBL prepares profit and loss account in order to know the profit and loss situation of the bank. The actual profit and loss account of the bank for the F.Y. 2005/06 to 2009/10 is as follows.

Table: 4.16
Profit and Loss Account

(Rs. In millions)

Particulars	2005/06	2006/07	2007/08	2008/09	2009/10
Income:					
Interest Income	903.41	1144.41	1548.67	2186.81	3102.45
Commission income and discount	88.16	117.72	150.26	202.09	208.12
Other operation income	48.90	67.97	79.13	106.40	142.31
Exchange income	23.07	28.40	64.45	62.53	47.88
Non-operating income	2.96	1.32	4.52	5.00	12.34
Other income	-	11.67	20.20	8.04	83.55
Total Income	1066.10	1371.49	1867.23	2570.87	3596.65
Expenses:					
Interest expenses	401.40	517.17	632.61	1012.87	1572.79
Staff expenses	70.92	86.12	157.96	186.92	226.36
Other operating expenses	143.56	177.54	233.77	292.01	352.51
Provision on loan loss	70.46	89.69	99.34	93.08	77.01
Provision for staff bonus	-	45.47	65.87	89.13	118.80
Other expenses	34.56	0.79	18.10	5.55	61.19
Provision for income tax: last year	1.76	13.93	-	-	-
This year	106.75	144.37	207.47	252.58	356.23
Profit and Loss	237.29	296.41	451.22	638.73	831.77
Total Expenses	1066.10	1371.49	1867.23	2570.87	3596.65

Source: Annual Reports of EBL

The above table shows that in fiscal year second and third loss is arising, which indicates that the bank did not provide proper attention to profit planning. In year second, loss is so large due to the writing the loan loss provision and other provision as the name of expenses with the objective to make the clean of bank financial statement. The maximum profit is in fiscal year 2063/64 which is Rs. 1058.44 million in the last two years. The profit is in the increasing rate, which are the good symptoms for bank.

2. Balance Sheet

The development of an annual plan ends with the planned income statement, planned balance sheet and planned cash flow statement summarizing different functional

budgets. The balance sheet shows the overall financial condition of a firm. It shows the effect of operations on the assets, liabilities and capital of the company.

The EBL prepares its balance sheet at the end of each financial year to show the financial condition of the bank. The balance sheet of EBL is shown in the table given below.

Table: 4.17
Balance Sheet

(Rs. In Millions)

Particulars	2005/06	2006/07	2007/08	2008/09	2009/10
Capital and Liabilities					
Share capital	518	518	831.40	1279.60	1030.47
Reserve capital	444.81	683.51	1089.84	1479.53	1173.16
Debenture and bond	300	300	300	300	300
Loans and borrowings	-	-	-	404.06	312.00
Deposit liabilities	13802.44	18186.25	23976.30	36932.31	33322.95
Bills payable	15.80	26.78	49.43	145.51	148.66
Proposed and unpaid dividend	114.67	68.15	140.79	276.25	218.08
Income tax liabilities	-	15.28	41.14	(1.14)	20.52
Other liabilities (CL)	763.56	634.60	720.44	566.08	391.02
Total	15959.28	21432.57	27149.34	41382.75	36916.85
Assets					
Cash in hand	259.35	534.10	822.98	1091.50	944.70
Cash in NRB	1139.51	1178.20	1080.91	5625.11	4787.16
Cash at bank of finance	154.10	678.22	764.07	1102.20	432.51
Money at call and short notice	66.96	-	346.00	-	-
Investment	4200.51	4984.31	5059.56	5008.30	5948.48
Loan, advance, bills purchased	9801.31	13664.08	18339.08	27556.36	23884.67
Fixed assets	152.09	170.10	360.51	463.09	427.16
Non banking assets	7.44	-	-		-
Other assets (CA)	178.01	222.66	376.21	536.19	492.17
Total	15959.28	21432.57	27149.34	41383.75	36916.85

Source: Annual Reports of EBL

The EBL balance sheet is showing the picture of various assets, liabilities and capital at the end of each of five years study period, which shows the financial condition of the company. Total assets and total liabilities are increasing trend but except fourth to fifth year.

Based on the above, the overall financial performance of the bank can be summarized as:

Table: 4.18
Overall Financial Performance Reports of Five Years
Five Years Principal Indicators

	Particulars	Indicators	2005/06	2006/07	2007/08	2008/09	2009/10
1	Percent of Net Profit/Gross Income Percent	Percent	22.20	21.60	24.17	24.92	16.49
2	Earning per Share	Rs.	62.80	78.40	91.82	99.99	100.16
3	Market Value per Share	Rs.	1379	2430	31.32	2455	1630
4	Price Earning Ratio	Percent	22.00	31.00	34.10	24.55	16.27
5	Dividend (Including bonus) On share capital	Percent	-	30.00	30.00	30.00	30.00
6	Cash Dividend on share capital	Percent	25.00	10.00	20.00	30.00	30.00
7	Interest Income / Loan and Advance	Percent	7.60	6.90	7.10	7.57	9.95
8	Staff Expenses / Total operating Expenses	Percent	11.50	11.00	15.40	12.53	10.52
9	Interest on Expenses on total Deposit and Borrowings	Percent	2.80	2.70	2.60	2.98	4.18
10	Exchange Gain / Total Income	Percent	2.20	2.10	3.50	2.44	1.37
11	Staff Bonus / total Staff expenses	Percent	48.70	52.80	41.70	47.68	52.48
12	Net Profit / Loan and Advance	Percent	2.30	2.10	2.40	2.61	2.95
13	Net Profit / Total Assets	Percent	1.50	1.40	1.70	1.73	2.09
14	Total Credit / Deposit	Percent	73.40	77.40	78.60	73.43	76.24
15	Total operating Expenses / Total Assets	Percent	3.90	3.60	3.70	4.04	5.20
16	Adequacy of Capital Fund on Risk Weighted Assets	Percent					
17	a. Core Capital	Percent	8.20	7.80	9.04	7.73	8.39
18	b. Supplementary capital	Percent	4.10	3.40	2.40	2.82	2.38
19	c. Total capital	Percent	12.30	11.20	11.44	10.55	10.77
20	Liquidity (CBR)	Percent	1.90	2.90	3.40	14.26	15.53
21	Non performing credit / Total credit	Percent	1.30	0.80	0.68	0.48	0.16
22	Weighted Average interest Rate Spread Percent	Percent	4.00	3.90	4.30	4.40	4.78
23	Book net worth	Rs. In lakh	8228	11066	15812	20036	27571
24	Total Shares	No.	3780000	3780000	4914000	6388210	8304673
25	Total Staffs	No.	306	393	449	534	568
26	Others						
	Per Employee Business	Rs in Lakh	782.30	821.10	953.50	1082	1146
	Employee Expenses / Total Income	Percent	6.70	6.30	8.50	7.29	4.50

Source: Annual Reports of EBL

4.2 Analysis Based on Statistical Tools

Under this heading some statistical tools such as coefficient of correlation analysis between different variables, trend analysis of deposit, loan and advances net profit and EPS are used to achieve the objectives of the study.

4.2.1 Coefficient of Correlation Analysis

Karl Pearson's coefficient is used to find out the relationship between deposit and loan & advances, deposit and total investment and the outside assets and net profit.

1) Coefficient of Correlation Between Deposit and Loan & Advances

Deposits have played a very important role in the performance of a commercial bank and similarly loan and advances are important to mobilize the collected deposits. Coefficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables.

In this analysis, deposit is independent variable (X) and loan and advances is dependent variable (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used on loan and advances in a proper way or not. The following table shows the value of 'r', 'r²' probable error (P.Er) and 6 P.Er between deposit and loan and advances for the study period 2005/06 to 2009/10.

Table: 4.19

Curriculum between Deposit and Loan & Advances

	Evaluation Criteria	
r	r ²	6.P.E(r)
0.9983	0.9966	0.00617

Source: Appendix V

The above table no. 4.19 shows that coefficient of correlation between deposit and loan and advances are 0.9983m which shows higher positive correlation between these two variables. Similarly the value of coefficient of determination (r²) is to be found

0.9966, which shows that 99.66% in the dependent variable has been explained by the independent variable. More over loans and advances is significant. In other words EBL is successful in mobilizing its fund in a proper way in loan and advances. Similarly, considering the value of (r) is 0.9983 and comparing it with 6.P.E(r) is 0.00167, we can say that the value of r is more than 6.P.E(r), which reveals that there is significant relationship between deposit and loan and advances.

II. Coefficient of Correlation Between Deposit and total Investment

Coefficient of correlation between deposit and total investment measures the degree of relation between these two variables. Here deposit is independent variable (x) and total investment is dependent variable (y). The purpose of computing co-efficient of correlation between deposit and total investment is to find whether deposit of significant used as investment or not.

The following table shows the variable of r, r², P.E. (r) between deposit and total investment for the study period 2005/06 to 2009/10 as follows.

Table: 4.20

Correlation between Deposit and Total Investment

	Evaluation Criteria	
r	r ²	6.P.E(r)
0.4423	0.1956	0.2426

Source : Appendix VI

From the above table no. 4.20 we find that coefficient of correlation between deposit (independent) and total investment (dependent) value of r is 0.4423. It shows positive relationship between two variables. However by application of coefficient of determination the value of r² is 0.1956, which indicates that the 19.56% of the variation of the dependent variable (total investment) has been explained by the independent variable (deposits) moreover by considering the probable error (since the value of r is 0.4423 is more than two times of P.E.(r) i.e. 0.9288. So we can say that there is significant relationship between total deposit and total investment.

Lastly it can be said that the bank has followed the policy of maximizing the investment of their deposits.

III. Coefficient of Correlation between Deposit and Net Profit

Coefficient of correlation 'r' between deposit and net profit measure the degree of relationship between these two variables. Here deposit is independent variable (x) and net profit is dependent variable (y). The purpose of computing coefficient of correlation between deposit and net profit is to find out whether the net profit is significant correlated with respective deposit.

The following table shows the value of r, r², P.E. (r) and P.E. (r) between deposit and net profit for the study period 2003/04 to 2007/08 as follows.

Table: 4.21
Correlation between Deposit and Net Profit

	Evaluation Criteria	
r	r ²	6.P.E(r)
0.8449	0.7131	0.5192

Source : Appendix VII

From the above table no. 4.21 it has been found that the coefficient of correlation between total deposit (independent) and net profit (dependent) 0.8449, which indicates positive correlation between these, two variables. Considering the value of coefficient of determination is r² i.e. 0.7131 indicates that 71.31% of the variation in the dependent variables (net profit) has been explained by the independent variable (deposit). Moreover, by considering the probable error we can further say that there is significant relationship between deposit and net profit because the value of r i.e. 0.8449 more than six times of P.E. (r) 0.5192 It indicates that EBL is capable of earning net profit by mobilizing its deposit.

4.2.2 Trend Analysis and Projection for next five Years

Here, in this study the trend analysis of the financial condition are presented which is objected to provide the insight of the bank position.

In this study, the method of least square is used for the analysis of the bank's total deposit trend, net profit trend, loan and advances and EPS trend.

The projections are based on the following assumptions.

-) Other things beings will remain unchanged.
-) The bank will run in the present position.
-) The economy will remain in the present stag.
-) The forest will be true only when the limitation of least square method is carried out.
-) Nepal Rastra Bank will not change its guidelines to commercial banks.

I) Trend Analysis of Total Deposit

Under this topic, an effort has been made to calculate the trend value of deposit for five years from 2005/06 to 2009/10 and forecast for next four year till next 2014/2015.

The following table shows the trend value of 10 years from 2005/06 to 2014/15.

Table: 4.22
Trend Line of Total Deposit

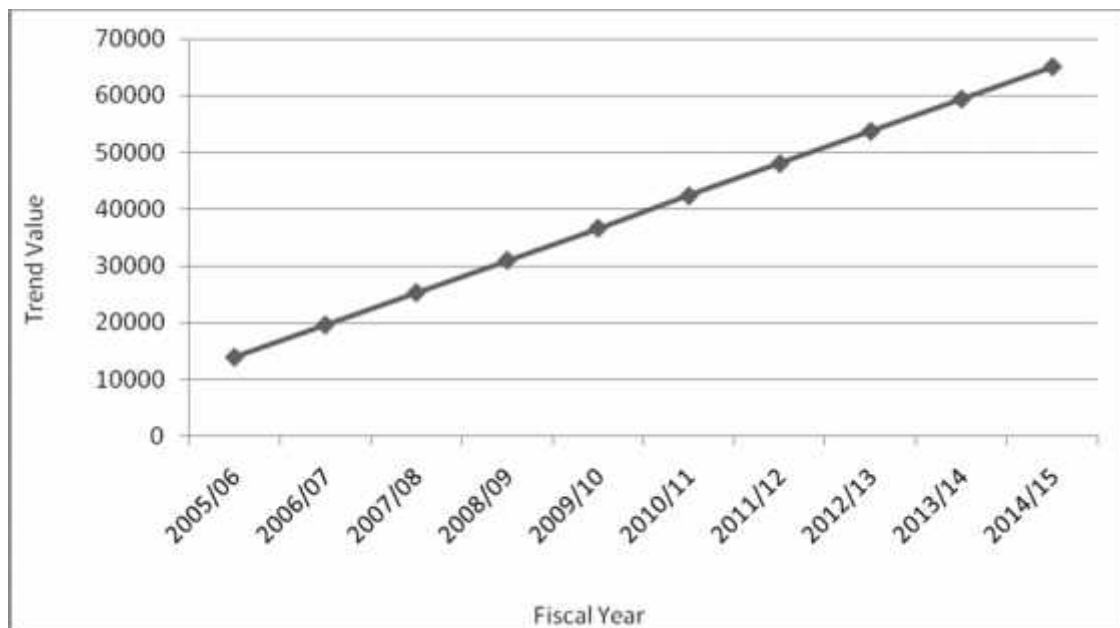
(Rs in Millions)

Fiscal Year	Trend Value
2005/06	13841.22
2006/07	19542.04
2007/08	25244.06
2008/09	30945.48
2009/10	36646.90
2010/11	42348.32
2011/12	48049.74
2012/13	53751.16
2013/14	59452.58
2014/15	65154.00

Source: Appendix VIII

Graph: 4.13

Graphical Presentation of Trend Value of Total Deposit



II) Trend Analysis of Net Profit

Under this topic the trend values of net profit have been calculated for five years from 2005/06 to 2009/2010 and forecast for next five years up to 2014/15.

Table 4.23

Trend Line of Net Profit

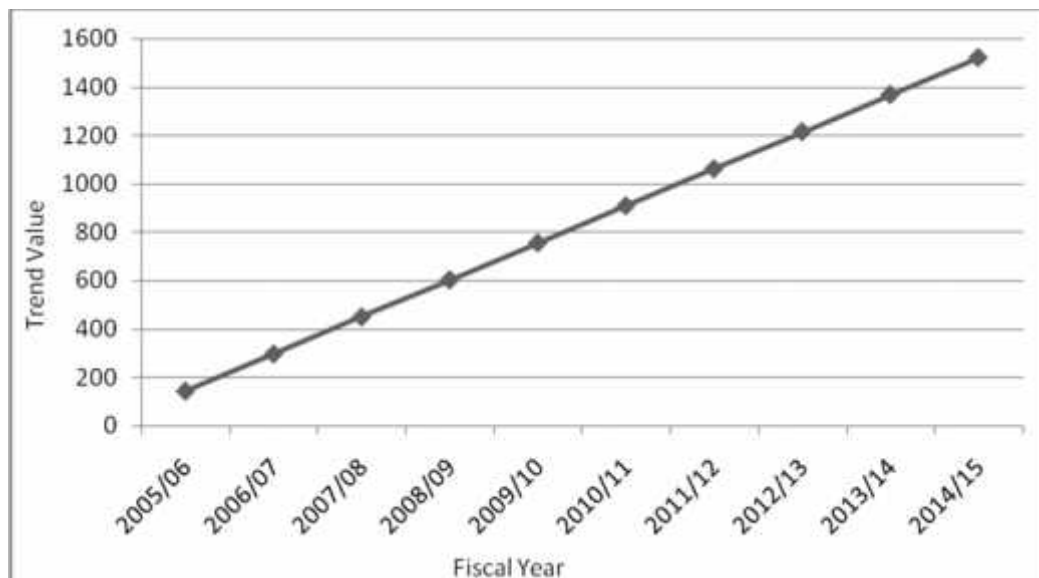
(Rs in Millions)

Fiscal Year	Trend Value
2005/06	144.82
2006/07	297.95
2007/08	451.08
2008/09	604.21
2009/10	757.34
2010/11	910.47
2011/12	1063.60
2012/13	1216.73
2013/14	1369.86
2014/15	1523.00

Source: Appendix IX

Graph: 4.14

Graphical Presentation of Trend Value of Net Profit



III) Trend Analysis of Loan and Advances

Under this topic the trend values of loan and advances have been calculated for five years from F.Y. 2005/06 to 2009/10 and the forecast for next years up to 2014/15.

Table 4.24

Trend Line of Loan and Advances

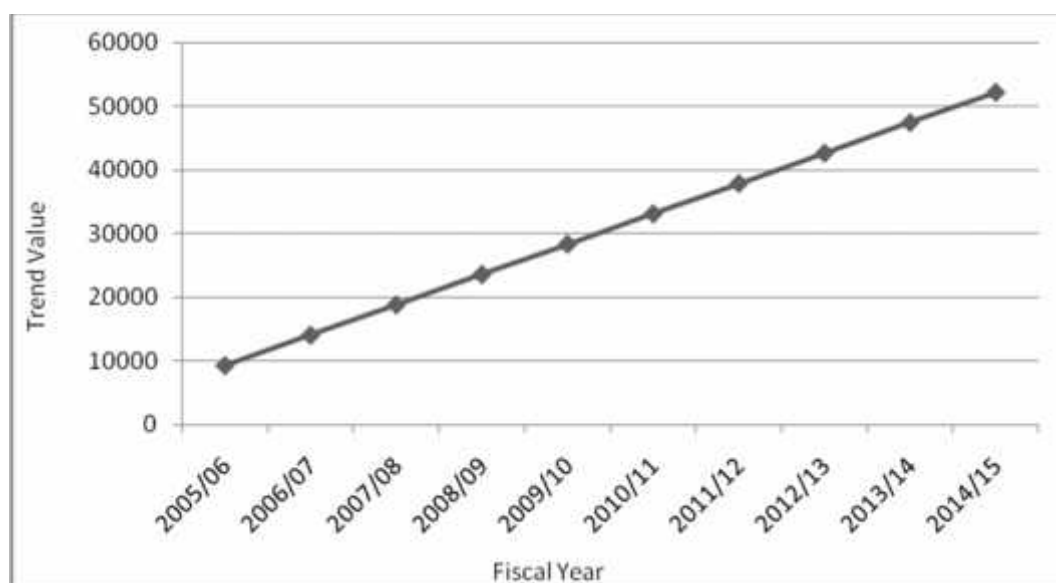
(Rs in Millions)

Fiscal Year	Trend Value
2005/06	9364.72
2006/07	14122.36
2007/08	18880.00
2008/09	23637.64
2009/10	28395.28
2010/11	33152.92
2011/12	37910.56
2012/13	42668.20
2013/14	47452.84
2014/15	52183.48

Source: Appendix X

Graph 4.15

Graphical Presentation of Trend Value of Loan and Advances



IV) Trend Analysis of Earning Per Share

Under this topic the trend values of EPS have been calculated for five years from 2005/06 to 2009/10 and the forecast for next five years up to 2014/15.

The following table shows the trend values of EPS.

Table 4.25

Trend Line of Earning Per Share

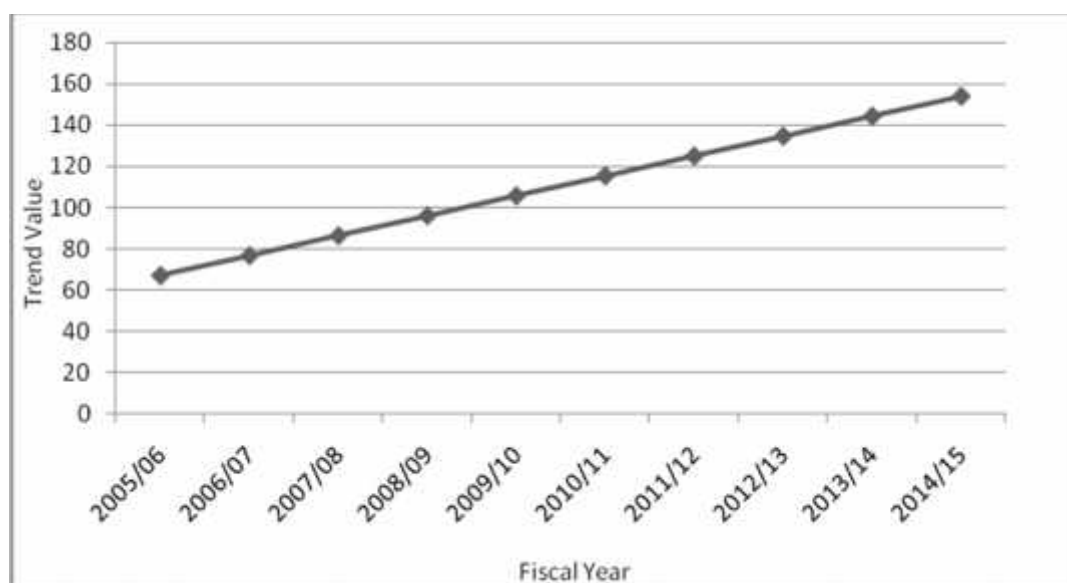
(Rs in millions)

Fiscal Year	Trend Value
2005/06	67.27
2006/07	76.92
2007/08	86.57
2008/09	96.22
2009/10	105.87
2010/11	115.57
2011/12	125.17
2012/13	134.82
2013/14	144.47
2014/15	154.12

Source: Appendix XI)

Graph 4.16

Graphical Presentation of Trend Value of Earning Per Share



4.3 Major Findings

Based on the analysis of data, the main findings are given below:

- Ñ From the analysis of liquidity ratio, it is found that the bank is able to maintain its liquidity position to meet the daily cash requirement. It has made enough investment on government securities. But it has maintained moderate investment policy on loan and advance. Overall it has indicated the unstable liquidity position as the data shows lower consistency.

From the analysis of various activity ratios, the following findings are categorized.

- Ñ Bank has strong position regarding the mobilizing of total deposit as loans and advances.
- Ñ Bank has also being able to mobilize its deposits in investment moderately.
- Ñ The Bank has average position towards the utilization of working on loan and advances.

From the analysis of various Profitability ratios, the following findings can be categorized.

- Ñ Return on equity is not so satisfactory as it has not efficiently utilized its equity capital
- Ñ The ratio of total interest paid to assets employed is satisfactory position as it seems to be successful to collect its working fund from less expensive sources.
- Ñ The ratio of interest earned to operating income shows the magnitude of interest income is high as the bank seems to be successful, to mobilize of interest bearing assets such as loan, advances and investment.

Form the analysis of return on total assets employed ratio, it is found that the profitability with respect to financial resources investment of the bank assets is unsatisfactory as well as unstable. From the analysis of return on loan and advances ratio, it is found that the bank is not able earn satisfactory income on loan and advances

- Ñ Coefficient of correlation analysis between different variables reveal that:
- Ñ Coefficient of correlation between deposit and loan and advances indicates satisfactory position in mobilizing of deposits as loan and advances.
- Ñ Coefficient of correlation between deposit and total investment indicates satisfactory position of mobilization deposits as an investment but it needs to be increased in coming days.

- Ñ Coefficient of correlation between deposit and net profit indicates that the bank is moderately successful in mobilized fund.
- Ñ The marketing aspect of EBL seems to be paralyzed. The marketing department should perform its operation properly.
- Ñ The service provided by the EBL to the customers is not so satisfactory since customers have to wait long time in queue to get the service.
- Ñ The staffing part of EBL is not well. In some branches there is overstaffing and in some branches there is the lack of staffs.
- Ñ Training provided to the staffs is not satisfactory.
- Ñ The bank has not given proper attention to minimize its operating cost.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary

Today, joint venture banks have played significant role in the economic development of the country. They have introduced new technology in the banking system, mobilized the saving of community .They have focused their services on commerce, trade and industry along with general public. But the intense competition and lack of sufficient investment opportunities have created threats to the banks .Therefore, the study has been conducted for profit planning and control of Everest Bank Ltd. In order to find out its strength and weakness.

The research is related to the profit planning aspects, the financial strength and weakness of EBL has been measured on the basis of balance sheet, income and expenditure account and profit and loss account .In that course different tools have been studied for removing the chance of duplication .The various textbooks and the published journals have also been reviewed.

In each and every corner of the main city we can see the hoarding board with loan facilities and new scheme of each bank mainly to attract the customer .In today's competitive days, each and every bank is in competition with one another by introducing similar product of different than other product in the market specially focusing the demands of the customer for loan facilities with low interest rates and service rates.

It is true that marketing department of each bank is playing a vital role in analyzing the market trend and customer needs and desire. Any product, service, idea, firm or organization needs exposure. These days bank are aggressively introducing new product in the market.

Each and every bank in Nepal is offering competitive schemes to its customers. Every possible facility is being offered to the market. In market customer loan services has really become competitive. There are many banks with different facilities and services to the customers. It is no doubt that customer has many options to choose. They can move anywhere they like. To become successful in such market situation, each and every marketer is trying to provide as much facilities as it can be offered.

5.2 Conclusion

Today's important facility being provided by bank to the customer is consumer loan facilities. Bank don't want to freeze their bulk of amount in only one product so they introduces different product with different facilities with low interest rate, low service charge and moreover to make ease for customer they accept monthly installment. Knowing these requirement banks is offering scheme to customer and is trying to diminish the interest rates and down payment. Customer is motivated by offering of necessary product to them. Banks marketing department attract customers. Only bank provides consumer loan as and when required fulfilling their demands and desires.

-) The effectiveness of consumer loan is increasing day by day. In today's context banks are unable to invest their budget in tourism sector so they even find more beneficiaries to invest in these products. It is advantageous to both the parties'. These day's bank secure investment is in consumer loan schemes.
-) Bank has always brought effective and appropriate scheme to the customers. In the view point of security, a bank should always know that why a customer is in need have loan. If borrowers misuses the loan granted by the bank, he can never repay therefore in order to avoid this situation each and every bank demand all the essential detailed information about the scheme of the project or activities. Bank should be very careful not to grant loan in only one sector. To minimize risk, a bank must diversify its investment on different areas; if a security to a company is deprived of there may be an appreciation in the securities of other companies in this way loss can be covered.
-) Loan and advanced are the main sources of income for a bank. Bank deposits can cross beyond a desired level but the level of loans, advances and overdraft will

never cross it .The facilities of granting loans and advances are the main service in which customers of the bank can enjoy.

- J Funds borrowed from banks are much cheaper than those borrowed from unorganized money lenders. The demands for loan have excessively increased due to cheaper interest rate. Furthermore an increase in an economic and business activity always increases the demand of funds. Due to limited resources and increasing loans, there is some fear that demand of funds .Due to limited resources and increasing loans, there is some fear that commercial banks and other financial institutions too may take more preferential collateral while granting loans causing unnecessary botheration to the general customers. Such loan from these institutions would be available on special request only and there is a chance of utilization of resources in economically less productive fields. There lies the undesirable effect, of low interest rate.
- J In addition to this, some portion of loan and advances includes that amount which is given to staff of the bank for house loan, vehicle loan, personal loan and others, in mobilizing of commercial banks fund, loan and advances have occupied a large portion.
- J Liberal economic policy of the government has encouraged the establishment and growth of commercial banks in the country within short span of time. In Nepal there are many registered commercial banks and branches all over the country but now some branches are reduced and merged with other branches due to lack of proper security .
- J The commercial banks in Nepal are doing well but they are not giving satisfactory results due to some internal and external factors. The deposits and its reinvestment in productive sectors by commercial banks are not stale. They are not earning more profit for commercial banks. The increasing deposits are idle in the banks and in turn they are investing these funds in other sectors as government's securities at maximum of 4 % interest rate while the cost of fund they are bearing 6%, but it is better than nothing for the commercial banks. A decline in overall business market, sluggish performance of industry and

slowdown in tourism sector accounted for such a declaration in the commercial bank activities.

- J The commercial banks in Nepal are facing the problem in investing in loan and advance .Due to various internal and external factors the banks are not making open investments. Deposits are being excess and idle in these banks.
- J Therefore, this bank should formulate new investment strategies .They should launch the intensive programs to encourage. The commercial banks should talk to NRB to make clear and new policies keeping in view the problem these banks are facing .These banks should take this problem seriously.
- J There is no significance difference between deposit and loan and advances and between deposit and investment of both the banks. The commercial banks in Nepal are facing the problem in investing in loan and advances. Due to various internal and external factors the banks are not making open investment. Deposits are being excess and idle in these banks.
- J Strengthening and the institutionalization of the commercial banks are very important to have a meaningful relationship between commercial banks and national development through shift of credit to the productive industrial sectors. At the same time the series of reforms such as consolidation of commercial banks, directing attention to venture capital financing, appropriate risk return trade of by linking credit to timely repayment schedules, avoiding imperfection, allowing flexibility in lending, one window service from NEB, need of strong supervision and monitoring from NRB, diversify scope of activities for commercial banks, professional culture within commercial banks, etc. All these are necessary to ensure better future performance of commercial banks that have already been established and growing in Nepal.
- J The commercial banks in Nepal must work hard to prove that they are really efficient and viable agencies for mobilization of saving and its canalization into productive sectors are professionally managed and competent enough to ensure adequate rate of return on investment and are strategically well planned to be competitive.

5.3. Recommendations

On the basis of analysis, finding issues and gaps of the study, following study, following suggestions or recommendations can be advanced to overcome weakness, inefficiency and to improve present fund mobilization and investment policy of bank. Here are some recommendation points, which are found to be considered to increase the marketing performance of bank goals for betterment of future.

-) The bank is suggested to maintain its liquidity position in normal standard i.e. 2:1 as their liquidity position is below the normal standard and also recommended to follow consistent liquidity policy.
-) As a joint venture commercial bank in private sector, EBL cannot keep its eyes off from the profit motive .Its should be always careful in increasing profit
-) To get success in competitive banking environment, depositors, money must be utilized as loan and advances. If it is neglected, then it could be the main cause of liquidity crisis in that bank and one of the main reasons for a banks failure .It has been found from the study of EBL loan and advances to total deposits ratio is higher than that of the other. To overcome this situation EBL is strongly recommended to follow liberal lending policy and invest more and more percentage of total deposit in loan and advances and similarly, maintain more stability on the investment policy.
-) It will be more informative if bank provide all the detail information in the website. So that if anybody needs information they can visit in the website.
-) At the time of collecting data's it has been very difficult to get yearly data, because it will be helpful to marketing department of banks.
-) To make very clear to customer bank should make transparent in service charge and interest rate.
-) The promotional scheme should be brought according to the changing needs and desires of the customers.
-) Marketing department must be well trained about the competition.
-) Interest rate and service charge should be minimum to be acceptable to the customers.
-) For the benefits of the bank, they have to offer new scheme in the market.

- J It should keep update information of the competitors and their products.
- J For smooth operation of the bank there must be proportional increase or decrease on credit according to deposit, this can be achieved either by discouraging certain deposit or aggressively marketing, t its loan able funds to existing or potential customers.
- J To get success in competition banking environment deposited money must be utilized as loan and advances .The largest side of the bank in assets side is loan and advances. In case of, negligence in administrating this asset could be the main cause of liquidity crisis in the bank and one of the main reasons of bank's failure.
- J Though loan and advances to total deposit of EBL is better but it seems that is necessary to make more improvement in coming days. Sound and liberal lending policy would help in this regard.
- J Profitability position of EBL is much weaker. Therefore, EBL is suggested to improve overall efficiency by investment in appropriate areas after the proper risk analysis for optimum use of shareholders' fund.
- J Activity ratio of the fund raised from the outsiders appears less satisfactory in EBL .So, EBL has a challenge to allocate the deposit in income generating sectors. It will be better for EBL to open the branches in other cities and rural areas in order to find the profitable investment opportunities.
- J Capital adequacy position revealed weaker in EBL, Therefore, it is suggested to improve its capital adequacy by investing the assets and deposits in highly returnable sector.
- J More specially, EBL is suggested to review its overall capital structure and investment portfolio to make better mix in capital structure as well as investment portfolio.
- J The bank should encourage small, medium and higher level of customers for enjoying deposits, borrowing and other service.
- J Looking at current trend of banking business, a bank must be careful while formulating marketing strategies to serve customers. The marketing strategies should be innovative so that it would attract and retain the customers. It is

recommended that EBL should develop innovative approach in marketing for its well being and sustainability in the market upgrade the banking facilities as per the changing need of the customers.

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Website:

www.eblbank.com

www.nrbgov.com

APPENDICES

Appendix -1

Total Current Assets and Current Liabilities of EBL

For the Fiscal Year -2005/06 to 2009/10

(RS. in Millions)

Particulars	2005/06	2006/07	2007/08	2008/09	2009/10
Current Assets					
Cash in hand	259.35	534.10	822.98	944.70	1091.50
Cash at NRB	1139.51	1178.20	1080.91	4787.16	5625.11
Cash at Bank & Finance	154.10	678.22	764.07	432.51	1102.2
Money at call in short notice	66.96		346.00		
Other CA	178.01	222.66	376.21	492.16	536.18
Loan , advance, bills purchased	9801.31	13664.08	18339.08	23884.67	27556.3
Total Current Assets	11599.2	16277.3	21729.25	3054.20	35911.30
Current Liabilities					
Deposit liabilities	13802.44	18186.25	23976.30	33322.95	36932.31
Bills Payable	15.80	26.78	49.43	148.66	145.51
Unpaid dividend	114.67	68.15	140.79	230.52	276.25
Provision for taxation		15.28	41.14	20.52	1.14
Other CL	763.56	634.60	720.44	378.57	566.08
Total Current Liabilities	14696.5	18931.1	24928.1	34101.22	37919481

Source: Annual Reports of Study Period.

Appendix- II
Profit and Loss Account
For the Fiscal year 2005/06 to 2009/10

(Rs. In millions)

Particulars	2005/06	2006/07	2007/08	2008/09	2009/10
Income:					
Interest Income	903.41	1144.41	1548.67	2186.81	3102.45
Commission income and discount	88.16	117.72	150.26	202.09	208.12
Other operation income	48.90	67.97	79.13	106.40	142.31
Exchange income	23.07	28.40	64.45	62.53	47.88
Non-operating income	2.96	1.32	4.52	5.00	12.34
Other income	-	11.67	20.20	8.04	83.55
Total Income	1066.10	1371.49	1867.23	2570.87	3596.65
Expenses:					
Interest expenses	401.40	517.17	632.61	1012.87	1572.79
Staff expenses	70.92	86.12	157.96	186.92	226.36
Other operating expenses	143.56	177.54	233.77	292.01	352.51
Provision on loan loss	70.46	89.69	99.34	93.08	77.01
Provision for staff bonus	-	45.47	65.87	89.13	118.80
Other expenses	34.56	0.79	18.10	5.55	61.19
Provision for income tax: last year	1.76	13.93	-	-	-
This year	106.75	144.37	207.47	252.58	356.23
Profit and Loss	237.29	296.41	451.22	638.73	831.77
Total expenses	1066.10	1371.49	1867.23	2570.87	3596.65

Source: Annual Reports of EBL

Appendix - III
Balance Sheet
For the Fiscal Year 2005/06 to 2009/10

(Rs. In Millions)

Particulars	2005/06	2006/07	2007/08	2008/09	2009/10
Capital and Liabilities					
Share capital	518	518	831.40	1279.60	1030.47
Reserve capital	444.81	683.51	1089.84	1479.53	1173.16
Debenture and bond	300	300	300	300	300
Loans and borrowings	-	-	-	404.06	312.00
Deposit liabilities	13802.44	18186.25	23976.30	36932.31	33322.95
Bills payable	15.80	26.78	49.43	145.51	148.66
Proposed and unpaid dividend	114.67	68.15	140.79	276.25	218.08
Income tax liabilities	-	15.28	41.14	(1.14)	20.52
Other liabilities (CL)	763.56	634.60	720.44	566.08	391.02
Total	15959.28	21432.57	27149.34	41382.75	36916.85
Assets					
Cash in hand	259.35	534.10	822.98	1091.50	944.70
Cash in NRB	1139.51	1178.20	1080.91	5625.11	4787.16
Cash at bank of finance	154.10	678.22	764.07	1102.20	432.51
Money at call and short notice	66.96	-	346.00	-	-
Investment	4200.51	4984.31	5059.56	5008.30	5948.48
Loan, advance, bills purchased	9801.31	13664.08	18339.08	27556.36	23884.67
Fixed assets	152.09	170.10	360.51	463.09	427.16
Non banking assets	7.44	-	-		-
Other assets (CA)	178.01	222.66	376.21	536.19	492.17
Total	15959.28	21432.57	27149.34	41383.75	36916.85

Source: Annual Reports of EBL

Appendix - IV
Cash Flow Statement
For the Fiscal Year 2005/06 to 2009/10

(Rs in millions)

Particulars	2005/06	2006/07	2007/08	2008/09	2009/10
1. Cash Receipt	1119.89	1372.77	1764.96	2440.22	3433.96
Interest income	900.91	1157.39	1480.96	2071.39	3024.66
Commission and discount	88.16	117.72	150.26	202.09	208.12
Exchange gain	19.77	27.13	50.81	55.86	55.36
Recovery loan written off	-	-	-	-	-
Other income	51.04	70.53	82.91	110.88	145.82
2. Cash Paid	(704.26)	(892.08)	(1154.93)	(1744.32)	(2476.05)
Interest expenses	(378.60)	(492.28)	(612.86)	(1002.38)	(1532.61)
Employee expenses	(68.38)	(78.12)	(127.97)	(163.03)	(212.26)
Office expenses	(115.06)	(146.56)	(177.58)	(215.58)	(263.36)
Income tax paid	(144.09)	(140.56)	(191.50)	(297.47)	(378.68)
Other expenses	(28.08)	(34.56)	(45.47)	(65.87)	(89.13)
Cash Flow before change in working capital	415.63	480.69	610.03	695.50	957.92
(Increase)/Decrease in Current Assets					
(Increase)/Decrease in money at call & short notice	508.04	66.96	(346.00)	346.00	-
(Increase)/Decrease in short term investment	(2072.29)	80.12	498.76	(697.05)	774.63
(Increase)/Decrease in loan & borrowings	(2236.16)	(3947.22)	(4772.74)	(5638.67)	(3748.04)
(Increase)/Decrease in other assets	(39.03)	(72.38)	(134.86)	(67.62)	(63.12)
(Increase)/Decrease in Current Liabilities					
Increase/(Decrease) in deposits	3704.75	4383.81	5790.04	9346.65	3609.36
Increase/(Decrease) in certificate of deposit	-	-	-	-	-
Increase/(Decrease) in short term loan	-	-	-	-	-
Increase/(Decrease) in others liabilities	285.82	(56.20)	(26.38)	(289.67)	124.50
CFOA (A)	561.76	935.78	1618.86	3695.55	1655.25
Cash Flow from Investing Activities					
Purchase of share and debenture	(0.05)	-	(94.68)	(0.88)	-
Proceeds from sale of share & debenture	-	-	13.41	-	-
Purchase of fixed assets	(47.37)	(49.93)	(248.46)	(144.26)	(130.96)
Proceeds from sale of fixed assets	0.87	0.50	1.84	2.02	8.38

(Increase)/Decrease of Govt.	0.41	(863.92)	(493.53)	(190.99)	165.54
Securities					
Proceeds from sale of non-banking assets	1.65	11.58	0.04	2.03	26.51
Interest income from LTI	12.26	12.28	58.44	91.37	97.68
Dividend received	0.16	0.25	0.75	0.15	1.51
CFIA (B)	32.50	(888.79)	(761.83)	(240.57)	168.67
Cash Flow from Financing Activities					
Increase/(Decrease) in LTB	-	-	-	312.00	(312.00)
Increase/(Decrease) in share capital	-	-	-	-	-
Share application money received	-	-	(511.51)	(140.00)	-
Dividend paid	-	911.51	(58.85)	(126.62)	(212.89)
Interest in borrowings paid	(15.96)	(104.22)	(23.75)	(10.63)	(41.71)
Increase/(Decrease) in facilities received of Govt.	(13.62)	(17.10)	-	-	404.60
CFFA (C)	(29.58)	790.19	(594.11)	34.76	(162.00)
Gain/(Loss) in exchange in cash/bank bal. (D)	3.30	1.27	13.64	6.66	(7.48)
Total Cash Flow (A+B+C+D)	502.98	838.45	276.55	3496.40	1654.44
Add: opening cash balance	1049.91	1552.97	2391.42	2667.97	464.37
Closing cash balance	1552.97	2391.42	2667.97	6164.37	7818.81

Source: Annual Reports (Appendix IV)

Appendix –V Calculation of Correlation between Deposit and Loans Advance

(Rs in Millions)

Fiscal Year	Deposit (x)	dx = x-25.244	dx ²	Loans & Advances (y)	dy = y-18880	dy ²	dx = dy
2005/06	13802.44	-11,441.56	130909295	9770.92	-9109.08	82975538	104222085
2006/07	18186.25	-7057.57	49811835	13664.08	-5215.92	27205821	36812659
2007/06	23976.30	-1267.70	160763	18339.08	-540.92	292594	685724
2008/09	33322.90	8078.90	65258685	24469.56	55895.5688	31243181	45157496
2009/10	36932.30	11688.30	136616357	28156.40	9276.40	8605,597	108425346
	x = 26,220.28	dx = 0	dx ² = 381498634	y =94400.04	dy = 0	dy ² = 227768531	dx*dy =295303310

\bar{X} Mean = 25244 \bar{Y} mean= 18,880

Now we have,

N= 5 dx² =384198634 dx-dy= 295303310

dx =0 dy² =227768531

dy =0

Correlation coefficient can be calculated by following formula

$$r = \frac{\sum dx * dy}{\sqrt{[\sum dx^2][\sum dy^2]}}$$

$$= \frac{5 | 295 | 03310}{\sqrt{[5 | 384198634][5 | 227768531]}}$$

$$= \frac{1456516550}{1479090586}$$

$$r = 0.9983$$

$$r^2 = 0.9966$$

$$P.E (r) = 0.6745 | \frac{1 - r^2}{\sqrt{N}}$$

$$= 0.6745 - | \frac{1 - 0.9966}{\sqrt{5}}$$

$$= 0.0012028$$

$$6 | P: E (r) = 6 | 0.001028$$

$$= 0.06168$$

Appendix - VI Correlation of Creation Between Deposit and Total Investment

(Rs in Millions)

Fiscal Year	Deposit	dx = x - 25244.06	dx ²	Total Investment	dy = y - 5040.24	dy ²	dx * dy
2005/06	13802.44	-11441.62	130910668.2	42.00.49	-839.49	704743.46	9605125.57
2006/07	18186.25	-7057.81	49812682	4984.34	-55.90	3124.81	394531.58
2007/08	239766.30	-1267.76	1607215.42	5059.56	19.32	373.26	-24493.12
2008/09	33322.99	8078.93	65268625	5948.48	908.24	824900	733760.38
2009/10	36932.30	11688.24	136614954.3	5008.30	-31.94	1020.16	-373322.39
	x = 126220.28	dx = 0	dx ² = 384198634	y = 25201.19	dy = 0	dy ² = 1534161.69	dx * dy = 1693449

$$\bar{X} = 25244.06$$

$$\bar{Y} = 5040.24$$

Now, we have

$$N = 5$$

$$\sum dx = 0$$

$$\sum dx^2 = 384198634$$

$$dy = 6 \quad dy^2 = 1534161.69 \quad dx*dy = 16939449$$

Correlation of coefficient can be calculated by following formula

$$r = \frac{N \sum dx \cdot dy - \sum dx \sum dy}{\sqrt{[N \sum dx^2 - (\sum dx)^2][N \sum dy^2 - (\sum dy)^2]}}$$

$$= \frac{5 \cdot 16939449 - 25244.06 \cdot 30}{\sqrt{[5 \cdot 384198634 - (25244.06)^2][5 \cdot 1534161.69 - (30)^2]}}$$

$$= \frac{84697245}{121390158.7}$$

$$r = 0.6977$$

$$r^2 = (0.6977)^2$$

$$r^2 = 0.4867$$

$$P.E. (r) = 0.6745 \cdot \frac{1 - r^2}{\sqrt{N}}$$

$$= 0.6745 \cdot \frac{1 - 0.4867}{\sqrt{5}}$$

$$= 0.1548$$

$$= 6 \cdot PE (r) = 6 \cdot 1548$$

$$= 0.9288$$

Appendix - VII

Calculation of Correlation between Deposit and Net profit

(Rs in Millions)

Fiscal Year	Deposit(x) Rs	dx-x- 25244.06	dx ²	Net profit (y) (Rs)	dy =y- 494.67	dy ²	dx dy
2005/06	13802.44	-11441.56	130909295	237.29	-253.79	64409.36	2903753
2006/07	18186.25	-7057.75	49811835.06	296.41	-194.67	37896.41	1373932.19
2007/08	23976.30	-1267.7	1607063	451.22	-39.86	1588.82	50530.52
2008/09	33322.9	8075.93	65258685	638.73	147.65	21800.52	1192716
2009/10	36932.3	11688.3	136616357	8.3177	340.69	116069.36	39819871
	x =126220.38	dx=0	dx ² =3841863 4	y=2455.4	dy=0	dy ² =241737.7 9	dx dy =15243047

$$\bar{X} = 25244.06$$

$$\bar{Y} = 491.08$$

Now we have

$$N = 5$$

$$dx = 0$$

$$dx^2 = 384198634$$

$$dy = 0$$

$$dy^2 = 241737.79$$

$$dx \cdot dy = 15243047$$

Correlation of coefficient can be calculated by following formula:

$$\begin{aligned}
 r &= \frac{N \sum dx \mid dy}{\sqrt{[N \sum dx^2 - (\sum dx)^2][N \sum dy^2 - (\sum dy)^2]}} \\
 &= \frac{5 \mid 8142723.43 \mid 0}{\sqrt{(5 \mid 384198634 - Z(0)^2)[5 \mid 241737.79 - Z(0)^2]}} \\
 &= \frac{40713617}{48185923.44} \\
 r &= 0.8449 \\
 r^2 &= (0.8449)^2 \\
 r^2 &= 0.7131 \\
 P. E. (r) &= 0.6745 \mid \frac{1 \mid Z r^2}{\sqrt{N}} \\
 &= 0.6745 \mid \frac{1 \mid Z 0.7131}{\sqrt{5}} \\
 &= 0.0865 \\
 6 \mid PE (r) &= 6 \mid 0.0865 \\
 &= 0.5192
 \end{aligned}$$

Appendix - VIII

The Trend Value of Total Deposit

(Rs in millions)

Fiscal Year	Deposit (y) Rs	X=(T-2007/08)	X ²	Xy	Yc= a+ bx
2005/6	13802.44	-2	4	-13802.44	13841.22
2006/07	18186.25	-1	1	-36372	19542.04
2007/08	23976.30	0	0	0	25244.06
2008/09	33322.9	1	1	33322.9	30945.48
2009/10	36932.2	2	4	73865.8	36646.9
	y =126220.28	x= 0	x ² =10	x ² =57014.26	

$$a = \frac{y}{N} - X \frac{\sum yx}{\sum x^2} = \frac{126220.28}{5} - X \frac{25244.06}{10}$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{57014.26}{10} = 5701.42$$

Now,

Straight line trend of total deposit

$$Y_c = a + bx \quad 25244.06 + 5701.42$$

Year (t)	X = (t-2007/2008)	Yc = a + bx
2010/011	3	42348.32
2011/012	4	48049.74
2012/013	5	53751.16
2013/014	6	59452.58
2014/015	7	65154

Appendix - IX
The Trend Value of Net Profit

(Rs. In Millions)

Fiscal Year	Net Profit (y) (Rs)	X = (T- 2007/08	X ²	XY	Yc = a+bx
2005/06	237.29	-2	4	-474.58	144.82
2006/07	296.41	-1	1	-296.41	297.95
2007/08	451.22	0	0	0	451.08
2008/09	638.73	1	1	638.73	604.21
2009/10	831.33	2	4	1663.54	757.34
	y = 2255.42	x = 0	x ² =10	xy=1531.28	

$$a = \frac{y}{N} \times \frac{2255.42}{5} = 451.08$$

$$b = \frac{xy}{x^2} \times \frac{1531.28}{10} = 153.13$$

Now,

Straight line trend of Net Profit

$$Y_c = a + bx = 451.08 + 153.13x$$

Year (t)	X= (t- 2007 / 2008)	Yc = a+ bx
2010/11	3	910.47
2011/12	4	1063.60
2012/13	5	1216.73
2013/14	6	1369.86
2014/15	7	1523

Appendix- X
The Trend value of Loan and Advances

(Rs . In Millions)

Fiscal Year	Loan & Advances (Y) (Rs)	X = (T- 2007/08)	X ²	XY	Yc = a +bx
2005/6	9770.92	-2	4	-19541.84	9364.72
2006/7	13664.08	-1	1	-13664.08	1412.36
2007/8	18339.08	0	0	0	18880
2008/9	24469.56	1	1	24469.56	23637.64
2009/10	28156.40	2	4	56312.8	28395.28
	y = 94400	x ² = 0	x ² = 10	xy = 47576.44	

$$a = \frac{y}{N} = \frac{94400}{5} = 18880$$

$$b = \frac{xy}{x^2} = \frac{47576.44}{10} = 4757.64$$

Now,

Straight line trend of Loan and Advances

$$Yc = a + bx = 18880 + 4757.64$$

Year (t)	X = (t – 2007-2008)	Yc = a+ bx
2010/11	3	33152.92
2011/12	4	37910.56
2012/13	5	42668.10
2013/14	6	47425.84
2014/15	7	52183.48

Appendix - XI
The Trend Value of Earning Per Share

Fiscal Year	Earning	X=(T-2007/08)	X²	XY	Yc = a + bx
2005/06	62.77	-2	4	-125.45	67.27
2006/07	78.41	-1	1	-78.41	76.92
2007/08	91.53	0	0	0	86.57
2008/09	99.99	1	1	99.99	96.22
2009/10	100.16	2	4	200.32	105.87
	y = 432.86	x = 0	x ² = 10	xy = 96.45	

Now,

Straight line trend of Earning Per Share

$$Y_c = a + bx = 86.57 + 9.657$$

Year (t)	X = (t – 2007/2008)	Yc = a+bx
2010/11	3	115.52
2011/12	4	125.17
2012/13	5	134.82
2013/14	6	144.47
2014/15	7	154.12