

REVENUE ORIENTED ACTIVITIES OF AGRICULTURAL DEVELOPMENT BANK LIMITED, NEPAL

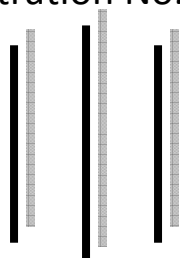
By

Hira Bahadur Aale

Mahendra Multiple Campus

Nepalgunj, Nepal

T.U. registration No. 14605/89



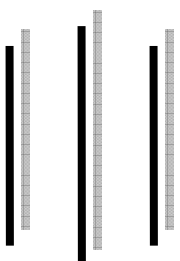
A Thesis

Submitted to

Office of the Dean

Faculty of Management

Tribhuvan University Kirtipur



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

Nepalgunj, Nepal

November, 2011

☎ 977-81-520278

Fax No.: 977-81-525578

**TRIBHUVAN UNIVERSITY****FACULTY OF MANAGEMENT****Mahendra Multiple Campus****Nepalgunj**

Ref.....

RECOMMENDATION

This is to certify that the thesis

Submitted by

*Hira Bahadur Aale**Entitled***REVENUE ORIENTED ACTIVITIES OF****AGRICULTURAL DEVELOPMENT BANK LIMITED, NEPAL**

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

.....

Mr. Mukesh Kumar Gupta**(Thesis Supervisor)**

.....

Mr. Chakra Bahadur Bam**(Head of Research Committee)**

.....

Mr. Laxman Pokhrel**Assistant Campus Chief****Date: Nov. 2nd, 2011**

☎ 977-81-520278

Fax No.: 977-81-525578



TRIBHUVAN UNIVERSITY

FACULTY OF MANAGEMENT

Mahendra Multiple Campus

Nepalgunj

Ref.....

Date:.....

VIVA -VOCE SHEET

*We have conducted the viva-voce examination of the
thesis submitted by*

Hira Bahadur Aale

Entitled

REVENUE ORIENTED ACTIVITIES OF

AGRICULTURAL DEVELOPMENT BANK LIMITED, NEPAL

*and found the thesis to be the original work of the student
written according to the prescribed format. We recommend this thesis
to be accepted as partial fulfillment of the requirements for
Master of Business Studies (M.B.S.)*

Viva-voce Committee

Chairperson, Research Committee:

Member (Thesis Supervisor):

Member (External Expert):

Member (External Expert):

Date:

DECLARATION

I hereby declare that the work reported in this thesis entitled **REVENUE ORIENTED ACTIVITIES OF AGRICULTURAL DEVELOPMENT BANK LIMITED, NEPAL** 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 Master's Degree in Business Studies (MBS) under the supervision of Mr. Mukesh Kumar Gupta (Lecturer) of Manendra Multiple Campus, Nepalgunj. I am solely responsible for everything regarding this thesis project.

.....

Hira Bahadur Ale

T.U. Registration No. 14605-89

Mahendra Multiple Campus Nepalgunj

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"Revenue Oriented Activities of Agricultural Development Bank Limited, Nepal", is the output of my sincere efforts for the partial fulfillment for the requirement of Master of Business Studies (MBS). Through this piece of work, I have strived to present clear picture, result and position of Agricultural Development Bank Ltd. and hereby would like to assure that the study is perfectly satisfactory and complete despite the some limitations and shortcomings. Those shortcomings and limitations may be because of limited time frame and resources. I am solely responsible for everything errors, omissions, good work and findings.

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Hira Bahadur Aale
Mahendra Multiple Campus
Nepalgunj

TABLE OF CONTENTS

RECOMMENDATIONS	I
VIVA-VOCE SHEET	II
DECLARATION	III
ACKNOWLEDGEMENTS	IV
TABLE OF CONTENTS	V
LIST OF TABLES	VIII
LIST OF FIGURES	IX
ABBREVIATION	X
1 INTRODUCTION	1
1.1 General Background	1
1.2 Development of Banking System.....	3
1.2.1 The Merchants.....	3
1.2.2 The Money Lenders	3
1.2.3 The Goldsmiths	3
1.3 Origin and Growth of Banks in Nepal	4
1.3.1 The First Phase of Banking Development	5
1.3.2 The Second Phase of Banking Development	5
1.3.3 The Third Phase of Banking Development.....	6
1.3.4 The Fourth Phase of Banking Development	13
1.3.5 The Fifth Phase of Banking Development.....	13
1.4 Introduction of Agricultural Development Bank Limited	19
1.4.1 Vision, Mission and Objective of ADBL.....	21
1.4.2 Corporate Conduct	21
1.4.3 Main Functions of the ADBL	22
1.4.4 Organization and Management of the ADBL.....	23
1.4.5 Current Official Network.....	23
1.4.6 Services Provided by ADBL.....	23
1.5 Focus of the Study	25
1.6 Statement of the Problem	25

1.7	Objectives of the Study.....	26
1.8	Significance of the Study.....	26
1.9	Limitations of the Study.....	27
1.10	Organization of the Study.....	28
2	REVIEW OF LITERATURE	30
2.1	Introduction	30
2.2	Conceptual Framework.....	30
2.2.1	Revenue and Profit Planning and Control	30
2.2.2	Types of Planning.....	32
2.2.3	Planning and budgetary Control.....	33
2.2.4	Revenue	34
2.3	Tools used For Revenue and Profit Planning	38
2.3.1	CVP Analysis.....	39
2.3.2	Regression Trend Analysis	47
2.3.3	Student t-test.....	49
2.3.4	Coefficient of correlation.....	50
2.4	Review of Related Studies	51
2.5	Research Gap	55
3	RESEARCH METHODOLOGY	57
3.1	Research Design.....	57
3.2	Coverage of Period and Data	57
3.3	Nature and Sources of Data.....	58
3.4	Research Variables.....	58
3.5	Tools and Techniques Employed	58
3.6	Research Procedure.....	58
4	PRESENTATION AND ANALYSIS OF DATA.....	60
4.1	Introduction	60
4.2	Investment Structure of ADBL	61
4.3	Loan and Advances	65
4.4	Interest Income.....	68
4.5	Commission and Discount Income	70

4.6	Sundry Income of ADBL	72
4.7	Total Revenue (Sales Revenue) of ADBL.....	74
4.8	Revenue Budget of ADBL.....	76
4.8.1	Budgeting of Disbursement.....	77
4.8.2	Budgeting of Principal Recovery	81
4.8.3	Budgeting of Interest Collection	86
4.9	Financial Analysis.....	91
4.9.1	Contribution Margin	92
4.9.2	Computation of Deposit	96
4.10	Trend Analysis of Net Profit.....	98
4.11	Relationship between Total Revenue and Profit.....	101
4.12	Major Findings	107
5	SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	110
5.1	Summary.....	110
5.2	Conclusion.....	111
5.3	Recommendations.....	112
6	BIBLIOGRAPHY.....	114
7	APPENDICES	119

LIST OF TABLES

Table 1.1: List of Commercial Banks	14
Table 4.2: Investment Description.....	63
Table 4.3: Classification of Outstanding Loan and Bills Purchase	67
Table 4.4: Interest Income	69
Table 4.5: Commission and Discount income.....	71
Table 4.6: Sundry Income of ADBL	73
Table 4.7: Total Revenue (Sales Revenue) of ADBL.....	75
Table 4.8: Comparison between Budgeted and Actual Disbursement.....	78
Table 4.9: Comparison between Budgeted and Actual Principal Recovery	82
Table 4.10: Comparison of Budgeted and Actual Interest Collection	87
Table 4.11: Calculation of Contribution Margin	92
Table 4.12: Calculation of Contribution Margin, PV Ratio and BE Sales.....	94
Table 4.13: Computation of Lending Capital and Deposit.....	96
Table 4.14: Verification of Break Even Point	97
Table 4.15: Fitting Straight Line Trend by Least Square	98
Table 4.16: Calculation of Forecasted Net Income.....	100
Table 4.17: Total Revenue and Profit & Loss Trend of ADBL.....	102
Table 4.18: Correlation Coefficient between Sales Revenue and Profit & Loss	105
Table 4.19: Summary of Statistical Tools.....	107

LIST OF FIGURES

Figure 4-1: Total Income.....	76
Figure 4-2: Comparative Diagram of Budgeted and Actual Disbursement	79
Figure 4-3 Comparative Diagram of Budgeted and Actual Principal Recovery	83
Figure 4-4 Comparative Diagram of Budgeted and Actual Interest Collection	88
Figure 4-5 Trend Line of Net Income	101
Figure 4-6 Sales Revenue and Net Profit Trend of ADBL.....	103

ABBREVIATION

&	- And
AD	- Anno Domini
ADBL	-Agricultural Development Bank Limited
ADBN	- Agricultural Development Bank, Nepal
A/C	- Account
A/R	- Account Receivable
ACP	- Average Collection Period
BAFIA	-Bank and Financial Institution Act
BAFIO	-Bank and Financial Institution Ordinance
BoD	-Board of Directors
BS	- Bikram Sambat
BEP	- Break Even Point
CBS	-Central Bureau of Statistics / Core Banking System
CD Ratio	-Credit Deposit Ratio
CFS	- Cash Flow Statement
CM	-Contribution Margin
CMPU	-Contribution Margin Per Unit
CPN	-Communist Party of Nepal
Cov(X,Y)	- Covariance between X and Y
CV	- Coefficient of Variation
CVP	- Cost-Volume-Profit
FY	- Fiscal Year
FC	- Fixed Cost
FIS	-Financial Information System
FOREX	-Foreign Exchange
GDP	- Gross Domestic Product
GDP	- Gross Domestic Product
i.e.	- That is
Ltd.	- Limited
MBS	-Master of Business Studies
MMC	-Mahendra Multiple Campus
MOF/NG	- Ministry of finance, Nepal Government
MoU	-Memorandum of Understanding
No.	- Number
NRB	-Nepal Rastra Bank

PEs	- Public Enterprises
PLL	-Possible Loan Loss Provision
PPC	- Profit Planning and Control
P/V ratio	-Profit Volume ratio
ROI	- Return on Investment
SD	- Standard Deviation
TU	- Tribhuvan University
U.S.A	- United States of America
USSR	- Union of Soviet Socialist Republic
UVC	- Unit Variable Cost
WWW	-World Wide Web

CHAPTER I

1 INTRODUCTION

1.1 General Background

Nepal is a country of Asia, lying along the southern slopes of the Himalayan mountain ranges. It is a landlocked country located between India to the east, south, and west and the Tibet Autonomous Region of China to the north. Its territory extends roughly 500 miles (800 kilometers) from east to west and 90 to 150 miles from north to south. The capital is Kathmandu. It covers an area of 1,47,181 square kilometer and has 2,31,51,423 population according to the census of 2001. The total number of households is 42,53,220. The male and female compositions of population of the country are 1,15,63,921 and 1,15,87,502. The population growth rate is 2.25 percent per annum. (CBS, 2002)

Under the long rule of hereditary prime ministers favoring a policy of isolation, remained closed to the outside world until a palace revolt in 1950 restored the crown's authority in 1951; the country gained admission to the United Nations in 1955. In 1991 the kingdom established a multiparty parliamentary system. In 2008, however, after a decade-long period of violence and turbulent negotiation with a strong Maoist insurgency, the monarchy was dissolved, and Nepal was declared a democratic republic.

Nepal contains some of the most rugged and difficult mountain terrain in the world. Roughly 75 percent of the country is covered by mountains. From the south to the north, Nepal can be divided into four main physical belts, each of which extends east to west across the country. These are, first, the Terai, a low, flat fertile land adjacent to the border of India; second, the forested Chure foothills and the Inner Terai zone, rising from the Terai plain to the rugged Mahabharat Range; third, the mid-mountain region between the Mahabharat Range and the Great Himalayas; and, fourth, the Great Himalaya Range, rising to more than 29,000 feet (some 8,848 meters).

Himalayan region covers 15 percent area with 7.3 percent population; Hilly region covers 68 percent area with 44.3 percent population and Terai part covers 17 percent area with 48.4 percent population. Population of Himalayan and Hilly regions is in decreasing trend and population in Terai is in increasing trend due to internal conflict and security, lack of physical infrastructure, education, transportation, market, health as well as scarcity of agricultural land.

Landlocked, lacking substantial resources for economic development, and hampered by an inadequate transportation network, Nepal is one of the least developed nation in the world. The economy is heavily dependent on imports of basic materials and on foreign markets for its forest and agricultural products. Nepal imports essential commodities such as fuel, construction materials, fertilizers, metals and most consumer goods etc. It exports such products as rice, jute, timber, and textiles.

The political and administrative system of Nepal has not made those changes in trade, investment, and related economic policies that would expedite economic development and attract foreign capital. The government's development programs, which are funded by foreign aid, also have failed to respond directly to the needs of rural people.

The economic status of Nepalese people is very poor. Agriculture is the main profession of Nepal. Agriculture, primarily the cultivation of rice, corn (maize), and wheat—engages most of Nepal's population and accounts for well over half of the country's export earnings. Yet agricultural productivity is very low. The low yields result from shortages of fertilizers and improved seed and from the use of inefficient techniques. Because only a tiny percentage of Nepal's cultivated land area is under irrigation, output depends upon the vagaries of the weather. About 31 percent of Nepalese people are below the poverty line.

The economic growth rate of Nepal was 6.1 and 4.4 percent on 2008 and 2009 respectively. It remains 4.6 on 2010. The economic growth rate is less likely to be encouraging in FY 2010/11 with GDP growth estimated at 3.5 percent against the target of 4.5 percent. According to revised estimate, GDP in producers' price in the previous fiscal year grew by 4.5 percent. Such decline in GDP as against the target is due to the slow economic activities in the non-agriculture sector. Labor problems, inadequate electricity supply, less expansion of bank loans, sluggish remittance flow, and delayed government budget had adverse impact on the expansion of economic activities of non-agriculture sector (International Monetary Fund: World Economic Outlook, 2010).

For the sound economic development of the country, only development in agriculture sector couldn't fulfill the country needs. So it is necessary to develop in banking sector too. Banking sector has been playing a vital role for the economic development. In modern economic system, banking is regarded as the backbone of economy.

The word 'Bank' has been derived from Italian word 'Banco' which means bench for keeping, lending and exchanging money or coins in the market place by money lenders and money exchangers.

To know about the meaning of bank, some definitions are given below:

According to Walter Leaf, "A bank is that institution or individual who is always ready to receive money on deposits to be returned against the cheque of their deposits."

According to World Bank, "Banks are financial institutions that accept funds in the form of deposits repayable on demand or at short notice.

So a bank is the financial institution which accepts deposit, payment of cheque, granting loan, remittance, bank guarantee and miscellaneous services to people. Banks provide loan not only from deposited amount but also creates money for loan. There is also saying in relation to bank, "Banker's brain and other peoples' money."

1.2 Development of Banking System

Certainly, no comparison can be made between ancient and modern banks, yet it is necessary to know how the present banking system gradually developed. In ancient time, goldsmiths, businessman and moneylenders used to perform the work of banking in every country. Hence, Crowther has described the following persons are the ancestors of modern banks: (Bhandari, 2003: 4-6)

- The Merchants
- The Money Lenders
- The Goldsmiths

1.2.1 The Merchants

The oldest ancestors of the modern banks were the merchants. The merchants used to exchange the gold, silver coins and deposit the valuable ornaments or goods made of gold, silver and gems. The receipt (written document as a proof) given by them was considered equivalent to money. They had played vital role to develop the banking transaction.

1.2.2 The Money Lenders

The money lenders were second ancestors of the modern banks. Lending and borrowing are almost as old as money itself and the village moneylender are found even in quite primitive communities. They are not usually regarded as a very lovely object. Usurper is one of the oldest terms of abuse. But the services they performed are unquestionably useful and necessary, even though the reward they extract in return may usually be rapacious.

1.2.3 The Goldsmiths

The goldsmiths were the third ancestors of the modern banks. Noted economist's Hartley Withers has taken the ancient goldsmiths as the father of the modern banks. The goldsmiths used to give receipts, which were known as Goldsmith's Note. It was made payable to bearer and on demand which transformed the said receipt into the position of a bank note. It gained circulation and currency in due course of time. These notes with the passage of time became payable to bearer on demand and enjoyed circulation. Thus, we can say that the goldsmiths became the precursor and the forerunners for the modern banking institutions. Hence, the banks started to carry out the works of creating the credit, issuing the notes, depositing, lending, transacting the bills of exchange and promissory note etc.

The history of banking development, we can't forget the bank of Casa de San Giorgio in Genoa, was established in 1148; Bank of Venice was established in 1157. In 1401, the Bank of Barcelona was established in Barcelona. In fact, modern bank started to take rapid speed in forming and functioning from seventeenth century. In 1609 the Bank of Amsterdam was established in Holland, like wise in 1610, bank of Hamburg was established in Germany. In the context of Nepal, for the first time, the Nepal Bank Limited was established in 1994 BS and the Central Bank of Nepal (Nepal Rastra Bank) was established in 2013 BS.

In conclusion, we can say that banking is not static but a dynamic concept. It is a product of centuries and the development which has taken place is the product of a method of trial and error and experiences which were made and the results that followed relating to the acceptance of money and valuables as deposits, keeping them as such, lending them, whether to provide individuals, to state or other bodies and for controlling the multifarious and multi-dimensional activities which, in the beginning were only trivial and could be ignored but with the growth of time, become international in character and multi-dimensional in nature calling actions on the part of the states as the actions on the part of the individuals failed and state control became eminent.

Thus, one cannot understand the development of banking by looking at a particular period of time and one has to consider the development by taking into account the progress it has taken during the centuries and by understanding the movement from one stage to the other.

From the above given facts, it is clear that present banking system has come to this position passing the vicissitude from the past.

1.3 Origin and Growth of Banks in Nepal

The growth of banking in Nepal is not so long. In comparison with other developing or developed country, the institutional development in banking system of Nepal is far behind. Nepal had to wait for a long time to come to this present banking position. The origin of bank in Nepal and its beginning of growth is controversial. However, stage wise development of banking can be narrated as follows:

1.3.1 The First Phase of Banking Development

The first phase covers the period before 1994 BS, in the period when there was no any modern banking system. However, there is sufficient evidence that some banking activities like lending and borrowing of money were carried out in early period. Mainly such activities were started with the introduction of money in Nepal by Mandev which was regarded as 'Manangka'. It is also regarded as the first money in Nepal. In the beginning of eighth century, King Guna Kama Dev renovated the Kathmandu city by taking loan and at the end of the same century; a merchant named Shankhadhar Shankwa had started the 'New Year' Nepal Sambat after freeing all people of Kathmandu from the debt. In fourteenth century, King Jayasthiti Malla had classified the people into 64 classes on the basis of their occupation. Among these classes, a class called 'Tankadhari' was the owner of the monetary transaction. In 1933 BS, Rana Prime Minister Ranodeep Singh established 'Tejarath Adda' to provide loan to the government employees without any security and to the ordinary people with the security of gold or silver. So this office was the first established monetary organization by the government which had substantial contribution to relieve the people from the high rate of interest of Tankadhari since it provided the loan at 5% interest rate.

1.3.2 The Second Phase of Banking Development

1. Nepal Bank Limited

Nepal Bank Limited was established on Kartik 30, 1994 BS (1938 AD) as a first modern bank of Nepal. It has many important functions. The Nepal Bank Limited is the oldest bank of Nepal. Its initial authorized capital was 10 million rupees and issued capital was 25 lakh, paid up capital was 8 lakh 42 thousand but now it has increased its capital. Since, Ashwin 1st 2002 BS, the notes of 5, 10 and 100 were brought into use from Sadar Muluki Khana of His Majesty's Government. The economic and industrial development was stopped in Nepal from the Second World War. After 2007 BS, the banking activities of Nepal were not satisfactory due to political instability. At first, though this bank was given the authority and responsibility of central Bank, but with the change of time, it was necessary to establish a Central Bank.

2. Nepal Rastra Bank (Central Bank)

Under the Nepal Rastra Bank Act 2012 (1956), Nepal Rastra Bank was established in 2013 (1957), Baishakh 14th in Nepal. But this act has been repealed and the Nepal Rastra Bank Act 2058 (2002) has been enacted by the parliament. After its establishment, it issued the Nepali notes on 7th falgun 2016 for the first time. It was established with many objectives but mainly, the use of Nepalese currency in place of Indian currency. In addition to this, its functions were to increase usages of Nepalese notes, to stop dual monetary system, to apply monetarism in all part of the kingdom of Nepal, to provide for issuance of notes, to bring Nepalese currency in use to manage the monetary system well, to keep stability of the exchange rate of Nepalese currency, to encourage national industry by mobilizing the capital for development and to develop the banking system in Nepal. This is the government bank. This is the bank of banks. After the establishment of the Nepal Rastra Bank, the first five year plan was introduced in the country. To fulfill the necessity of the financial institutions to achieve the fixed goal of the project, Nepal Industrial Development Corporation, 2016, Agricultural Development Bank, 2024 (1968), the National Insurance Corporation were established under the special consideration of this bank.

3. Rastriya Banijya Bank

Rastriya Banijya Bank was established in government sector in 2022 BS (1966), Magh 10th under the Banijya Bank Act 2021 (1965) according to the recommendation of the Nepal Rastra Bank. In fact, Commercial Banks are notable banks in the eye of people. Therefore, there is no doubt and dispute about the significant role and the functions of this bank. Its function is to accept the deposits, to provide loan, to carry out works relating to agencies. It has rendered a great contribution to the development of the country.

4. Agricultural Development Bank

Under the Agricultural Development Bank Act 2024, the Agricultural Development Bank was established in Magh 7th, 2024 BS. It has its own type of contribution in the banking development. Nepal is an agricultural country. This bank was established with the objective of increasing the life standard of the people who are involved in agriculture. It provides loan to the people according to the need of them and gives the technological advice to the farmers. But the Agricultural Development Bank has been converted into a limited company since 2062 Ashad 31 and has received a license from the Nepal Rastra Bank as 'A' class bank since Chaitra 3, 2062 BS.

1.3.3 The Third Phase of Banking Development

The process of the development of banking system in Nepal was not satisfactory up to 2040 BS (1983). No commercial bank was opened from during this period except extending the branches and sub branches of the banks, which were established in this period. After declaring free economy and privatization policy, the government of Nepal encouraged the foreign banks for joint venture in Nepal. After that following banks are established.

1.3.3.1 Nabil Bank Limited

Nepal Arab Bank Limited is the first bank established in joint investment in Nepal. This bank was established in 2041 (1985) under the Commercial Bank Act 2031 (1974) and the Companies Act 2021 (1965). It was established with the permission of the central bank (Nepal Rastra Bank). Nepalese and foreign promoters were involved in it. This bank, by making a good profit, has provided the employment to many persons. It has opened many branch offices. It has been giving banking services by using extra modern technologies.

1.3.3.2 Nepal Investment Bank Limited

The second bank established in joint investment was the Nepal Indosuez Bank Limited. It was established in 2042 BS (1985). But now its name is Nepal Investment Bank Limited. It has played a great role in the development of banking system. At present, there is no foreign investment in it. All shares are owned by, the Nepalese shareholders.

1.3.3.3 Standard Chartered Bank Nepal Limited

This is a bank established in joint investment. It was registered in 2043 BS (1986) under the Commercial Bank Act 2031 (1974) and the Companies Act 2021 (1965). It has earned a lot of popularity in the banking field. By opening many branch offices, it has managed its functions well. The Grindlays Bank Limited has been replaced by, the Standard Chartered Bank Nepal Limited.

1.3.3.4 Himalayan Bank Limited

This bank was established in 2049 (1992). This bank was established in joint participation of the Habib Bank Pakistan. From the establishing period, it has been working smoothly. It has earned a lot of profit. In reality, it has been working systematically till date. There are some branch offices of this bank.

1.3.3.5 Nepal SBI Bank Limited

This bank was established in 2050 BS (1993). This bank was established with the joint investment of the State Bank of India and Nepal. It has also opened its branch offices. After the establishment of this bank, generally the monetary transactions between Nepal and India have been carried out through this bank. This is doing its work satisfactorily.

1.3.3.6 Nepal Bangladesh Bank Limited

This bank was established in 2051 BS (1994). This bank was formed in joint investment of the International Finance Investment and Commerce, Bangladesh. This bank also has opened its branches. It has been playing important role for the purpose of providing banking services to the customers.

1.3.3.7 Everest Bank Limited

This bank was established in 2051 BS (1994) under the joint investment of the Punjab National Bank of India. It has its own branch offices. This bank is functioning very well. It has also played vital role to develop the banking system in Nepal.

1.3.3.8 Bank of Kathmandu Limited

This bank was established in Nepal in 2051 BS (1994) under the joint investment of the Siam Commercial Bank, Thailand. It has branch offices. This bank is getting good profit and it has given employment to the Nepalese people.

1.3.3.9 Nepal Credit and Commerce Bank Limited

Nepal Credit & Commerce Bank Ltd. (NCC Bank) formally registered as Nepal - Bank of Ceylon Ltd. (NBOC), commenced its operation on 14th October, 1996 as a Joint Venture with Bank of Ceylon, Sri Lanka. It was the first private sector Bank with the largest authorized capital of NRS. 1,000 million. The Head Office of the Bank is located at Siddhartha Nagar, Rupandehi, the birthplace of LORD BUDDHA, while its Corporate Office is placed at Bagbazar, Kathmandu.

The name of the Bank was changed to Nepal Credit & Commerce Bank Ltd., (NCC Bank) on 10th September, 2002, due to transfer of shares and management of the Bank from Bank of Ceylon, an undertaking of Government of Sri Lanka to Nepalese Promoters.

At present, NCC Bank provides banking facilities and services to rural and urban areas of the country through its 17 branches. The Bank has developed corresponding agency relationship with more than 150 International Banks having worldwide network.

1.3.3.10 Lumbini Bank Limited

Lumbini Bank Limited is offering a wide range of banking solutions and services meticulously customized to the needs of the customers. It is established in 1998, which started its operation from Narayangarh spreading its wings to further fourteen more places at Hetauda, Butwal, Naxal, Biratnagar, Parsa Bazaar, Indrachowk, Baneshwor, Bardhghat, Parasi, Suryabinayak, Gwarko, Damauli, Mangal Bazaar and Lanku of Chitwan District. Bank has restructured various products, as a part of an ongoing process, to cater to the retail segment. The newly structured products in retail segment cover Personal Loan, Home Loan, Auto Loan, Mortgage Loan, Educational Loan, Time Loan, and Loan against Shares. By focusing on sustainability and corporate social responsibility, it aspires to be a role model institution in responsible Banking.

1.3.3.11 Nepal Industrial & Commercial Bank Limited

Nepal Industrial & Commercial Bank Limited (NIC Bank) commenced its operation on 21 July 1998 from Biratnagar. The Bank was promoted by some of the prominent business houses of the country. The current shareholding pattern of the Bank constitutes of promoters holding 51% of the shares while 49% is held by the general public. NIC Bank has over 34,000 shareholders. The shares of the Bank are actively traded in Nepal Stock Exchange with current market capitalization of about NPR 10,493 million. The Bank has grown rapidly with 34 branches throughout the country while several branches are planned to be opened this year. All branches are inter-connected through optical fiber as well as V-Sat and are capable of providing real time on-line transactions.

NIC Bank was the first commercial bank in Nepal to have ISO 9001:2000 certification for its Quality Management System standard in 2006. The Bank has recently been certified under the upgraded ISO 9001:2008 standards for the Bank's Quality System on Commercial Banking Activities in Nepal.

1.3.3.12 Machhapuchchhre Bank Limited

Machhapuchchhre Bank Limited was registered in 1998 AD as a regional commercial bank to start banking business from the western region of Nepal with its head office in Pokhara. Today, with a paid up capital of above 1627 million rupees, it is one of the full fledged commercial bank operating in Nepal; and it ranks in the topmost among the private commercial banks. It is striving to facilitate its customer needs by delivering the best of services in combination with the state of the art technologies and best international practices. This bank is the pioneer in introducing the latest technology in the banking industry in the country. It is the first bank in Nepal to introduce centralized banking software

named GLOBUS BANKING SYSTEM developed by Temenos NV, Switzerland. Currently it is using the latest version of GLOBUS, referred as T-24 Banking System. The bank provides modern banking facilities such as Any Branch Banking, Internet Banking and Mobile Banking to its valued customers.

1.3.3.13 Kumari Bank Limited Kumari Bank Limited

Kumari Bank Limited Kumari Bank Limited came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. The bank has paid up capital of Rs. 1,485,000,000 of which 70% is contributed from promoters and remaining from public.

It has been providing wide - range of modern banking services through 28 points of representations located in various urban and semi urban part of the country, 19 outside and 9 inside the valley. The bank is providing some of the latest / lucrative banking services like E-Banking and SMS Banking services in Nepal. The adoption of modern Globus Software, developed by Temenos NV, Switzerland and arrangement of centralized data base system enables customer to make highly secured transactions in any branch regardless of having account with particular branch. Similarly the bank has been providing 365 days banking facilities, extended banking hours till 7 PM in the evening, Utility Bill Payment Services, Inward and Outward Remittance services, Online remit Services and various other banking services.

1.3.3.14 Laxmi Bank Ltd

Laxmi Bank was incorporated in April 2002 as the 16th commercial bank in Nepal. In 2004 Laxmi Bank merged with HISEF Finance Limited, a first generation financial company which was the first and ever merger in the Nepali corporate history. It is a Category 'A' Financial Institution and re-registered in 2006 under the "Banks and Financial Institutions Act" of Nepal. The Bank's shares are listed and actively traded in the Nepal Stock Exchange (NEPSE). It is technologically driven progressive Bank with strong risk and corporate governance foundations.

1.3.3.15 Siddhartha Bank Limited

Siddhartha Bank Limited (SBL) commenced operations in 2002. The Bank is promoted by a group of highly reputed Nepalese dignitaries having wide commercial experience. It provides a full range of commercial banking services through our 39 branches across Nepal. The Vision statement of the Bank describes the core values and purposes that guide the Bank as

well as an envisioned future. Fundamentally, in all dealings SBL earnestly believes in transparency, financial soundness, efficiency and better technology.

1.3.3.16 *Global Bank Limited*

Global Bank Limited is a national level commercial bank established in 2063 B.S. The bank is committed to offer a wide range of banking products and services tailored with the state-of-the-art technology to meet the unique requirements of all the customer/clients and thereby delight them by exceeding their expectations.

1.3.3.17 *Citizens Bank International Ltd*

Citizens Bank International Ltd is established in 2064 B.S. with 2 Billion authorized capital and paid-up capital. It is located at Sharada Sadan, Kamaladi, Kathmandu, the heart of financial sector of the country. It is promoted by eminent personalities/business and industrial houses and reputed individuals having high social standing.

1.3.3.18 *Prime Commercial Bank*

Prime Commercial Bank has been established by prominent business personnel and professionals from diversified areas with a prime objective of providing 'Banking Services to Everyone' in 2064 B.S.

1.3.3.19 *Bank of Asia Nepal Limited*

Bank of Asia Nepal Limited is the 22nd commercial bank of Nepal. It is incorporated under the companies Act 2063 as 'A' Class financial institution. It started its full-fledged commercial operations from 12th October 2007 from its registered office at Tripureshwor, Kathmandu.

1.3.3.20 *DCBL Bank Limited*

DCBL Bank Limited came into operation in 2001 as development bank backed by the expertise of the professional bankers, prominent industrialists, entrepreneurs, bureaucrats and career diplomats. The Bank has been providing diversified services to its clientele by offering its products in the form of Loans, Guarantees and Venture Capital etc. The bank has started its operation in the capacity of 'A' class commercial bank since May 2008. At present, It has total 21 branches including the Head Office at Kamaladi.

1.3.3.21 *Kist Bank Ltd.*

With its vision of becoming the best bank on operational excellence and superior financial performance, Kist Bank was initially incorporated as a 'C' class financial institution in 2003 for undertaking limited banking activities. The Bank started commercial banking activities from May 7, 2009 after complying with all the conditions of Nepal Rastra Bank (Central Bank of Nepal) for becoming an 'A' class Commercial Bank. Till the end of fiscal year 2066/67 (2009/10) the bank has 51 branches across the country.

1.3.3.22 *Janata Bank Ltd*

Janata Bank Ltd is established in 2066 B.S. with the main motto of the bank is to provide reliable and quality banking services to the public through healthy competition in the banking industry, as mentioned in the preamble of the Bank & Financial Act, 2063. The bank has the objectives to carry out banking business as permitted under the Act and guidelines of Nepal Rastra Bank.

1.3.3.23 *Commerz and Trust Bank Nepal Ltd*

Commerz and Trust Bank Nepal Ltd is a category "A" class commercial bank licensed by Nepal Rastra Bank, established with an objective to provide full fledged banking services. It is established in 2067 B.S. with issued capital of Rs. 2 Billion, the Bank is in position to become effective client focused financial service provider from the day of its inception. At Commerz & Trust all services are customer driven and their satisfaction being our highest priority.

1.3.3.24 *Civil Bank Limited*

Civil Bank Limited (CiBL) has established in 2067 B.S. itself as the 30th commercial bank of Nepal. It is founded by promoters with strong background in real estate, financial institutions, business, trade and industry. The Bank envisions in becoming a dominant player in the Nepalese banking industry. The Bank has been registered with an issued capital of NRs. 2000 million and paid up capital of NRs. 1200 million. The Bank firmly believes in contributing to the nation's economic growth by rendering services and empowerment to all classes and sectors of the society.

1.3.3.25 *Century Commercial Bank Limited*

Century Commercial Bank Limited (CCBL), established under Company Laws of Nepal, is a national level commercial bank having its head office at Putalisadak, Kathmandu, Nepal. It has obtained license from Nepal Rastra bank, the Central Bank of Nepal, on 23rd January 2011 to conduct business as a national level commercial bank as per Bank & Financial

Institution Act, 2063. To become one of the most preferred banks by providing latest, effective and innovative financial services.

1.3.4 The Fourth Phase of Banking Development

After the restoration of democracy in Nepal, there is tremendous development in banking sector. Rural Development Banks are also formed in Nepal. It is the matter of pleasure to open such banks. Five rural development banks are in operation in Nepal. They are as follows:

- Eastern Rural Development Bank Ltd. in Biratnagar
- Far Western Rural Development Bank Ltd. in Dhangadhi
- Western Rural Development Bank Ltd. in Butwal
- Mid Western Rural Development Bank Ltd. in Nepalganj
- Middle Rural Development Bank Ltd. in Janakpur.

The main objective of these banks is to uplift the living standard of the people by providing them the necessary training and banking services and providing loan without security in group basis as well as personal basis to operate an income generating business. These banks are established according to the rural bank financial system pursued by the Government of Bangladesh with the objective of providing loan to the poor people who are deprived of the institutional loan facility due to lack of reasonable security and guarantee. The rural development banks have their own fundamental concepts. Every man has his own characteristics and skills. The rural development banks have a concept that can bring the poor class people in the level of respectable living standard. Really, it is a praiseworthy task. Such task makes possible to the development of the nation. There is no doubt that it can give a great contribution to the banking development in Nepal. But in the later stage, the economic condition of these banks, are deteriorating. It is very necessary to take step in this respect by the concerned authority in time.

1.3.5 The Fifth Phase of Banking Development

Banking development in this phase is satisfactory. Before the Nepal Development Bank Act 2052 (1995), was enacted; only the Nepal Industrial Development Corporation and the Agricultural Development Bank were established. But after the introduction of the Development Bank Act, 2052 (1995), many development banks have been opened in different places of Nepal. They are performing their functions according to their objectives, these banks have given benefits to their owners and they are helping, the people and the

nation for the economic development directly or indirectly. Now 58 development banks are in operation in Nepal.

By the end of Aswin 2068 BS, there are 31 commercial banks, 57 development banks, 79 finance companies, 21 micro credit development banks (including rural development banks), 16 Saving and Credit Co-operatives (Limited Banking), 38 Non-Government Organizations (NGOs) licensed by central bank (NRB). (www.nrb.org.np)

It is clear that the growth of banks in Nepal is satisfactory. Certainly, it is not enough satisfaction in comparison to other countries. First of all, the banks are not enough. Secondly, the competition is not found in banking functions. Thirdly, the banks are increased in number in urban area. Modern and joint investment banks are not established in rural area. Hence the rural people are not getting good banking services. Let us hope the village and backward people will also get enough facility of the banks in future. (Bhandari, 2003: 13)

The number of commercial banks is given in the following table:

Table 1.1: List of Commercial Banks

S.N.	Name of the Banks	Operation Date (BS)	Operation Date (AD)
1	Nepal Bank Limited	1994-7-30	November 15, 1937
2	Rastriya Banijya Bank	2022-10-10	January 23, 1966
3	Agricultural Development Bank Ltd.	2024-10-7	January 2, 1969
4	Nabil Bank Ltd.	2041-3-29	July 16, 1984
5	Nepal Investment Bank Ltd.	2042-11-26	February 27, 1986
6	Standard Chartered Bank Nepal Ltd.	2043-10-16	January 30, 1987
7	Himalayan Bank Ltd.	2049-10-5	January 18, 1993
8	Nepal SBI Bank Ltd.	2050-3-23	July 7, 1993
9	Nepal Bangladesh Bank Ltd.	2050-2-23	June 5, 1994
10	Everest Bank Ltd.	2051-7-1	October 18, 1994
11	Bank of Kathmandu Ltd.	2051-11-28	March 12, 1995

12	Nepal Credit & Commerce Bank Ltd.	2053-6-28	October 14, 1996
13	Nepal Industrial & Commercial Bank Ltd.	2055-4-5	July 17, 1998
14	Lumbini Bank Ltd.	2055-4-1	July 21, 1998
15	Machhapuchhre Bank Ltd.	2057-6-17	October 3, 2000
16	Kumari Bank Ltd.	2057-12-21	April 3, 2001
17	Laxmi Bank Ltd.	2058-12-21	April 3, 2002
18	Siddhartha Bank Ltd.	2059-9-9	December 24, 2002
19	Global Bank Ltd.	2063-9-18	January 2, 2007
20	Citizens Bank International Ltd.	2064-1-7	June 21, 2007
21	Prime Commercial Bank Ltd.	2064-6-7	September 24, 2007
22	Sunrise Bank Ltd.	2064-6-25	October 12, 2007
23	Bank of Asia Nepal Ltd.	2064-6-25	October 12, 2007
24	DCBL Bank Ltd.	2065-2-12	May 25, 2008
25	NMB Bank Ltd..	2065-2-20	June 5, 2008
26	Kist Bank Ltd.	2066-1-24	May 7, 2009
27	Janata Bank Nepal Ltd.	2066-12-23	April 5, 2010
28	Mega Bank Nepal Ltd.	2066-4-7	July 23, 2010
29	Commerz & Trust Bank Nepal Ltd.	2067-6-4	September 20, 2010
30	Civil Bank Ltd.	2067-8-10	November 26, 2010
31	Century Commercial Bank Ltd.	2067-11-26	March 10, 2011

Source: www.nrb.org.np

On the eve of 19th century industrial revolution took place in Great Britain. Industrial revolution brought changes in different aspects of human life such as socio-economic, demographic and political and the revolution spread all over the Europe. Due to the revolution many small scale industries converted into the large scale industries and started

their mass production. Large scale- industries are incorporated in the form of limited company.

People of Europe grabbed the revolution and marched into the large scale industries from agriculture and small scale sole trading concern. Due to the certain limitation of sole trading concern, many business organizations established in the form of partnership and partnership also couldn't fulfill all the requirement of the business organization because of its drawback such as lack of capital, unlimited liability and lack of effective management. Then the concept of the limited company emerged to fulfill the entire requirement for successful operation of the business organization.

At a short glance on historical perspective of economic development, different economic concept and system practiced in various time spans. Different economists suggested different economic concept for the efficient operation of the economy. The classical economist postulated "laissez faire doctrine" in 19th century against the control of the government in the economy. Under the laissez faire doctrine the role of government started to decrease. Another strong economic concept and system as called socialist economy came into its existence along with the establishment of former USSR in 1917 and challenged the free market economic system. Under the socialist economic system, there was a totalitarian authority which controlled the entire economy of the country. In such nation, government imposed centrally controlled economic policy and system. After the great economic depression in 1930, another popular concept of mixed economic system emerged by allowing co-existence of both private and public sector. Under this economic system, government plays vital role for the efficient operation of the economy. Government plays promotional role by investing for infrastructure development where the huge amount of capital needed. In this era, most of the countries around the world are operating their economy under the mixed economic system.

Due to the wave of industrial revolution, many large scale business organizations established. But when the business organizations were on their expansion and enlargement, unfortunately the World War I broken out and suffered not only political sector but also business and economic sector of the world. As a result of World War I, business and economic sector lost its spirit and rhythm. That was the bitter experience which had been born by human being during the period of First World War. After the world war, business and economic sector re-organized and they resumed their operation, but the environment was not clean. It was totally influenced by political instability of the world. Every nation of Europe America and Asia concentrated to expand their military power being influenced by militarism.

As a result of militarism another devastating war broke out and devastated all over the world. The war attacked on the destiny of human being. Millions of people lost their life and home. Almost all the business organization forced into shut down. World War II suffered the economy of entire world. After the termination of World War II, scenario of the whole world totally changed. The world politically divided into two polar. Almost all the countries of the world polarized in two parts according to their political system and philosophy. A polar led by Moscow (former USSR) following communism by centralizing all power and state's activities. In the communist countries business and economic sector was controlled by the nation. In the other hand, another polar led by Washington (USA) following free market economy. The polar led by USA, western European and some Asian and American countries were involved. Under capitalism, the concept of decentralization had been used and states power didn't concentrate its mind to control activities conducted by their people.

After the termination of World War II, business and economic sector reconstructed and reorganized by spending millions of dollar. Then clean environment created for expansion and development of business organization and they took their way by performing different kinds of business activities. Scientific and technological achievement also eased the way of business & commerce. Every nation around the world concentrated their efforts for their economic development. Every government participated directly in the process of economic development by investing and operating many public enterprises. After the termination of cold war, another concept of globalization and liberalization introduced its own existence and under this concept many multinational company established and started to provide their production and service all over the world. In this way, passing different ups and downs, business and commercial sector became successful to come in this present stage and now resuming its operation on the early 21st century.

In the context of Nepal, business and commercial sector is just creeping now. It is obvious that, Nepal is a developing country. The majority of the people are engaged in agriculture. Hence, the commercial sector is very backwards so far than other developed countries. In the period of Panchayat regime, many manufacturing & service oriented public enterprises were established to play the vital role for economic development of the nation. Government spent huge amount in public utility sector such as water, telecommunication and electricity. But their performance was not satisfactory. After the restoration of democracy, private sector started to play crucial role for the development of the country. After the political change, public enterprises started to privatize due to their poor performance. So, the business and commercial sector in Nepal is taking its way to the expansion and development. Once again, the Maoist insurgency hit all over the country almost 12 years and created many difficulties for business and commercial sector. Now, the situation has totally

been changed because the CPN-Maoist came to the negotiating table and entered into the peace process. Through the recently held constitutional assembly election, CPN-Maoist emerged as a largest political party. Thus, the ray of hope and clean environment for the expansion and development of business and commerce has been emerged.

"Every enterprise has its own goals and objectives. The management of the organization is responsible for the decision making, planning, formulating strategies and their implementation. The management is efficient if it is able to accomplish the objectives of the enterprise. It is effective, when it accomplishes the objectives with minimum effort and cost. In order to attain long-range efficiency and effectiveness, management must chart out its course of action in advance. A systematic approach that facilitates effective management performance is profit planning and control or budgeting. Budgeting is therefore an integral part of management. In a way, a budgetary control system has been described as a historical combination of a goal- setting machine for increasing and enterprises profit and goal achieving machine for facilitating organizational coordination and planning while achieving the budgeted targets" (Goet, Bhattarai, Gautam: 2063;1.1). Moreover, a profit plan or budget is the formal expression of the organizations plans and objectives stated in financial terms for a specified future period of time.

"Revenue is the aggregate exchange value of goods and services provided to the customers. In other words, revenue is any form of income earned by the organization in an accounting period. Revenue results from the sale of goods and rendering of services and measured by the charge made to customers, client or tenants for. It also includes gains from the sale or exchange of assets other than stock in trade, interest and dividends earned on investments and other increases in the owner's equity except those arising from capital contributions and capital adjustments. Revenue from ordinary sales or from other transaction in the ordinary course of business is sometimes described as operating revenue" (Bhattacharya & Dearden, 1980:137)

"Defined in its simplest terms planning is the determination of anything in advance of action, it is essentially a decision making process that provides a basis for economical and effective action in the future. Effective planning sets the stage for integrated action to take places, reduces the number of unforeseeable crises, promotes the use of more efficient methods and provides the basis for the managerial function of control. Thereby assuring focus on organizational objectives" (Edwin, 1969:49)

Revenue planning is the future estimation of revenue which displays the projected sales, income and future cash inflow. The revenue planning estimates are only a guide to the level of future revenues, not a guarantee. If the economy remains strong, the planning estimates

are likely to underestimate future revenues. But, if the economy fails to perform at the high level anticipated in the control, the planning estimates will overstate future revenues. The revenue planning process is a necessary part of overall profit planning and control (PPC) because (a) it provides for the basic management decision about marketing (b) based on those decisions, it is an organized approach for developing a comprehensive sales plan. If the revenue plan is not realistic, most, if not all of the other parts of the overall profit plan also are not realistic. Therefore, if the management believes that a realistic revenue plan cannot be developed; there is little justification for PPC.

Analysis of revenue planning is a crucial part of overall profit planning of business enterprises. Poor system of planning adversely affects profit planning. Thus, periodical analysis and review of revenue planning is necessary in order to ensure smooth functioning of enterprises.

Budgeting is the key to financial planning and control. Though profit planning is the essence of management and revenue planning is the starting point of overall planning process. Therefore, every business and non business organization should prepare revenue plan which is prepared on the basis of sales forecast. Systematically and properly prepared revenue planning only plays vital role for effective utilization of resources and control system.

1.4 Introduction of Agricultural Development Bank Limited

With the main objective of providing institutional credit for enhancing the production and productivity of the agricultural sector in the country, the Agricultural Development Bank, Nepal was established in Magh 7th of 2024 B.S. (Jan 21, 1969) under the ADBN Act 1968, as successor to the cooperative Bank. The Land Reform Savings Corporation was merged with ADBN in 1973. Subsequent amendments in act empowered the bank to extend credit to small farmers under group liability and to expand the scope of financing for the promotion of small and cottage industries. The amendments also permitted the bank to engage in commercial banking activities for the mobilization of domestic resources.

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

The enactment of Bank and Financial Institution Ordinance (BAFIO) in February 2004 abolished all Acts related to financial institutions including the ADBN Act, 1967. In line with the BAFIO, ADBL has been incorporated as a public limited company on 31st Ashad 2062 B.S. (July 14, 2005). Thus, ADBL has obtained 'A' category operating license as a commercial bank from the Nepal Rastra Bank on 3rd Chaitra, 2062 (Feb.16, 2006) under the legal framework of BAFIO.

This new identity provides the bank ample opportunities to reach under coverage areas with more potentiality for full banking activities. Furthermore, the bank has broadened its range of credit services and provided all facilities to meet the entire banking need of the enterprises and the households purely based on the feasibility of the ventures and the repayment capability of the borrowers.

Despite the enactment of BFIA, the role of ADBL in the rural finance is still crucial because of its substantial outreach and expertise in the rural areas. As a result, the tenth plan places a heavy responsibility on ADBL to meet the credit needs of the agricultural and rural sectors. Of the total projected credit demand of Rs. 100.75 billion for the plan period, ADBL is expected to deliver 52.7 percent. In that perspective, ADBL has made its identity as a pioneer rural-financing institution covering around 67 percent of the total formal credit. In the mean time, looking within the domestic arena, especially in the financial sector, ADBL maintains its articulate position on the way of providing better services to its clients. However, in a changed financial environment and increased cut-throat competition, ADBL needs to be competent to cope with the challenges for providing better services to the clients more effectively and efficiently to sustain in the long run.

Prior to the establishment of ADBL in 2024 BS, Co-operative Bank established in 2020 was considered as the prime institution providing agricultural credit. Land Reform Savings Corporation (LRSC) established in 2024 was also active to handle the compulsory savings collected under the land reform program. But, later on, these institutions couldn't mark their identity up to the expectation due to limited agricultural financing scopes. Consequently, the Cooperative Bank was converted into Agricultural Development Bank with broader scope of extending credit to cooperatives, individuals & corporate bodies engaged in agricultural activities and agro- based enterprises. Later in 2030, the LRSC was also merged with the ADBL. (ADBL, 2008: 1)

The Bank was established with authorized capital of Rs. 50 million. Now the bank has authorized capital of 13 billion.

1.4.1 Vision, Mission and Objective of ADBL

The vision, mission and objective of ADBL are as follows: (ADBL, 2008: 2)

- Vision
To be the pre-eminent bank, providing services throughout Nepal.
- Mission
To deliver comprehensive banking and financial services, capitalizing its extensive network in rural areas.
- Objective
Under the compliance of NRB Act, 2058, existing Bank and Financial Act, Company Act and other prevailing laws, the objectives of ADBL are:
 - To provide quality and reliable banking and financial intermediaries services to clients for agriculture, industry, trade, service business for the economic prosperity of the nation.
 - To deliver sustain and competitive return on investment to shareholders and to protect the right of depositor by adopting market driven strategy.

1.4.2 Corporate Conduct

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

- comply with all relevant legislation, codes of conduct and standards of good corporate citizenship in Nepal while maintaining full autonomy in the management of its operations;
- conduct its operations in an open and transparent manner;
- put local resources to work for local development, serving the rural community and its aspirations;
- provide a full and balanced range of financial products and services that satisfies the needs of the rural population of Nepal, on a profitable and sustainable basis;
- strive consistently to provide improved products and services to its clients at reasonable cost, using modern banking, information and communication technology in the most appropriate form to its clients needs;
- be vigorous in building reputation for professionalism, competitive pricing, reliability and quality of service and innovation;
- operate in accordance with best banking practice, acting with financial prudence and keeping in mind the need to balance profitability with asset preservation and liquidity and to safeguard depositor's funds;

- work together with its employees to develop their capabilities to contribute to achievement of the bank's objectives, promoting excellence, rewarding achievement and providing them the opportunity to share in the bank's success;
- develop mutually acceptable relationship with government in the pursuit of improvement in living standards in rural areas, while respecting best financial practices;
- ensure that its activities contribute to the environmental stability and overall improvement of living standards in Nepal; and
- judge the bank's success against the measures that include profitability, portfolio quality in terms of minimal arrears and non-performing loans, portfolio worth, total deposits, geographic outreach and public image.

1.4.3 Main Functions of the ADBL

The major functions of ADBL are to: (ADBL, 2008: 2)

- provide a full and balanced range of financial products and services that satisfies the needs of the customers on a profitable and sustainable basis
- strive consistently to provide improved products and services to its clients at reasonable cost using modern unified banking, communication and information technology
- execute full phase commercial banking functions using the concept of unified banking operation
- provide short, medium and long term agricultural credit to individual farmers, small farmer groups and co-operative societies,
- provide project financing for industries, alternative energy sectors based on feasibility study
- develop mutually acceptable relationship with government in the pursuit of improvement in living standards in rural areas while respecting best financial practices
- provide credit to support the poverty alleviation program of Government of Nepal
- develop competent and professional human resources

On the way of executing its main function in the financial market, the bank gives its priority on building reputation for professionalism, competitive pricing, reliability and quality service and innovation. In addition, the bank fosters its operation in accordance with the best banking practice, acting with financial prudence and keeping in mind the need to balance profitability with asset preservation and liquidity and to safeguard depositor's funds.

1.4.4 Organization and Management of the ADBL

The Board of Directors (BoD) is the apex body of the bank. The major functions of BoD are to formulate policies, strategies, rules and regulation of the institution. The Chief Executive Officer is the top manager of the Bank. He executes day-to-day operation of the bank. Deputy General Managers, Division Chiefs, Directors and Board Secretary closely assist the Chief Executive Officer. Policy decisions made by the board are put into operation by the field offices under the supervision of Regional Offices. At present, the Board consists of eight members including Chairperson of the ADBL. Other members include a representative each from the Ministry of Finance, Ministry of Land Reform and Management, the expert of banking sector from the list of NRB, four members as per MoU (Memorandum of Understanding) of the bank and Chief Executive Officer ADBL.

1.4.5 Current Official Network

ADBL is the largest commercial bank from the view point of official network as well as capital. The head office of the ADBL is situated at Ramshahpath of Kathmandu. It has 10 regional offices in different parts of the nation. It has 6 fully equipped training centers in five region of the nation including Central Training Institute in Bode, Bhaktapur. Currently the bank is rendering its all kinds of banking services via 243 branches to the valued customers across the country.

1.4.6 Services Provided by ADBL

The banking services provided to the individual and business customer are highly diversified. They are highly dependent upon a particular bank and particular practices of the banking services. Some of the services provided by ADBL to the personal and business customer are as follows:

1.4.6.1 Accepting Deposit

Accepting deposit is a primary function of bank. In one way it bridges the gap between saver and user of money by accepting deposit and, in another way, they provide security to the people's property. The bank collects public deposit through current account, special current account, saving account, fixed account.

1.4.6.2 Lending Loan

The money collected by the bank in the form of deposits is mainly utilized by lending to the user of money. Such lending may be guaranteed both to individual and business. For such

purpose the bank generally demands to pledge movable and immovable property as security. The bank is providing different types of loan to the public. They are as follows:

- Consumer, foreign employment and overdraft loan
- Education and service loan
- Industry and business loan
- House purchase and house construction loan
- Business complex and apartment construction loan
- Land development, hire purchase and demand loan
- Agricultural loan (cereal crops, agricultural tools, irrigation, livestock, poultry, fishery, apiculture, tea farming, coffee farming etc.)
- Energy development (bio-gas, solar and micro-hydro etc) and cold storage

1.4.6.3 Bank Guarantee

It is a kind of assurance by the bank for the customer to pay a specific amount if the customer fails to pay the amount or meet his liability. ADBL provides such types of guarantees which are as follows:

- Bid bond
- Performance bond
- Miscellaneous guarantee

1.4.6.4 Remittance Service

- National remittance
- International Remittance
- Functions related to cheque collection and bill collection of different banks of native country and foreign countries

1.4.6.5 Safe Deposit Locker

Safe deposit locker is a cabinet consisting of a number of shelves which are provided for the purpose to keep valuables like ornaments, jewelry, certificates etc. It is specially constructed to prevent from fire, water, theft etc. For the opening of locker the customer has to make special agreement with the banker. The agreement consist the provision like rent, lost of keys, operating procedures etc. Each locker consists of two separate keys, one possessed with the banker called master key which is used to open all the lockers. The second is the holder's key which has no duplicate. To use the locker, the holder has to attend himself and

sign in the locker operating register in front of the office and the signature should tally with his specimen.

1.4.6.6 Other Service

ADBL provides credit information of different individuals, firms and institutions to the concerns.

1.5 Focus of the Study

The study focuses the revenue and profit planning of ADBL. Revenue and profit planning is an important discipline applied mainly in profit oriented enterprises. It facilitates the management to accomplish the managerial goals and corporate objectives in systematic manner. Therefore sometimes it is said as goal achieving machine. It provides substantive base for planning, organizing, leading, monitoring and controlling activities in the enterprises. Management must chart out its course of action in advance in order to attain long-range efficiency and effectiveness.

1.6 Statement of the Problem

The development of a nation depends upon the proper utilization of the resources available in the country. In Nepal, there are various public utility enterprises established in many sector to utilize the resources for the overall development of the country with effective goal and objectives. But majority of the public enterprises have not been able to operate their activities without loan grant and donation from the foreign government and donor agencies because of their poor financial performance. Many public enterprises have been found preparing long term and short term plans on the Ad-hoc basis. The main causes of the failure of such public enterprises are the lack of integration of activities, less utilization of capacity, ineffective and inappropriate action plan, strategies and control mechanism.

Agricultural Development Bank Limited is one of the largest and leading banking industries in the country with its leading capital investment. It is a successful public company functioning in the public utility sector. There is high market competition for the company due to the establishment of other private and joint venture banks. The bank will also face furthermore cut-throat competition when the foreign bank will launch in global environment. However the demand of banking and financial service is dramatically increasing day by day. It should earn good net profit, which may support to exist the bank and contribute for the development of the nation. Although its primary objective is to provide banking and financial intermediaries services to the people, it must generate appropriate profit to satisfy its

stakeholders. As mentioned in the corporate objectives it should deliver the sustained and competitive return to its investors. The success and failure of any enterprises is measured on the basis of profitability or surplus. The profit depends on the systematic planning (budgeting) and its proper implementation.

Revenue planning and cash management has been the most intricate and challenging area of modern corporate finance as much as the management always face a trade-off between the liquidity and profitability of the firm. Though most of the enterprises in Nepal have been well recognized the importance of proper cash, they are still facing the problem of cash management (Bajracharya, 1990:23).

Most of the Nepalese public enterprises never thought of the revenue and profit planning in Nepal. This study therefore, attempts to have an insight over the problem of revenue and profit planning of Agricultural Development Bank Limited. Basically the research intends to explore the following problems.

1. What are the sources of income and headings of cost of ADBL?
2. What about the effectiveness of revenue planning in ADBL?
3. Role of budget for control mechanism is in proper way or not?
4. What about the consistency of budgeted and actual revenue in ADBL?
5. ADBL's production (supply) is based on sales (demand) or not?
6. What is the profitability position of ADBL?

1.7 Objectives of the Study

The main objective of this study is to identify and evaluate the current practice of Budgeting especially in the field of revenue and profit planning of ADBL. The specific objectives of the study are:

1. To identify the sources of income and headings of cost of ADBL.
2. To examine the pattern of revenue generation of ADBL.
3. To analyze the gap between budgeted and actual revenue.
4. To analyze the profitability position of ADBL using appropriate ratios.
5. To make recommendation for revenue planning and cash management of ADBL.

1.8 Significance of the Study

Analysis of revenue planning and cash management is a crucial part of overall profit planning of business enterprises. The main importance of the study lies on the role of revenue planning and cash management that considerably contributes to improve profitability and

financial performance of ADBL. The main purpose of the study is to forecast the future events and to overcome or reduce risk by identifying the strength and weakness of the enterprise. This study will be useful to provide information and to draw attention of ADBL management regarding what can be done for future planning and management of revenue.

This study is focused on sales revenue and how to improve its financial situation in various environments such as the competition in a wide, growing and challenging market. Revenue and profit planning contributes to improve the profitability as well as the overall financial performance of an organization to help the best utilization of resources. Accomplishment of objectives in every organization depends upon the application of resources. Profit is the most important indicator for judging managerial efficiency. For this, every organization has to manage its profit. The need of this study is to examine and check whether the ADBL is practicing appropriate budgeting system or not. What is the implementation Patterns. And, the study also shows whether there is consistency between planned sales and actual sales.

This study will be concise, brief, practical data based, usable and valuable to the major parties interested in maximization through revenue and profit planning. This will also serve as a reference for the further study and data collection.

It provides useful feedback to the policy makers of the commercial banks. The study will be equally useful and beneficial to ADBL itself, Nepal Government, Board of Directors of ADBL, Nepal Rastra Bank, employees, existing and potential shareholders, investors, creditors, donors of ADBL, and other stakeholders. Lastly it will provide relevant and pertinent literature for upcoming researcher in the ground of revenue and profit planning. It will also be beneficial to the student, teacher, management consultant as well as them who are interested to know the ADBL earning position. Thus, the study entitled "Revenue and profit planning of ADBL" is rewarding.

1.9 Limitations of the Study

The study is confined only about revenue and profit planning of ADBL. The following factors have limited the scope of this study.

1. The study is based on secondary data of ADBL record.
2. The study is only concentrated in the revenue and profit planning of ADBL. It does not cover other areas.
3. The accuracy of this study depends upon true response and the data available from management of ADBL and various published documents of the organization.

4. The study covers the analysis of only 5 fiscal years from F/Y 2062/063 to F/Y 2066/067.
5. This study may not complete in sense because it does not cover the whole financial area of ADBL.
6. Purposefully, this study does not conduct extensive interview with all financial officer and Head of Division of ADBL.
7. Due to limited time and resource constraint, the study couldn't be conducted in detail.

1.10 Organization of the Study

The study has been segregated into the five chapters, each defining to some aspect of the revenue planning and cash management. The titles of each of this chapter are as follows:-

1. Chapter I: Introduction

It includes general background of the study, introduction of the organization, statement of the problem, objective of the study, need/significance of the study, limitations of the study and organization of the study.

2. Chapter II: Review of Literature

This chapter embark conceptual framework like revenue planning and controlling, cash and cash management, cash management models, cash conversion cycle, credit management policy, cash flow statement etc. besides this it includes a theoretical outline and a short review of previous research done in revenue planning and cash management.

3. Chapter III: Research Methodology

This chapter deals with research methodology adopted for the study to satisfy the objectives of the study. It consists of introduction, research design, coverage of period and data, nature and sources of data, research variables, tools and techniques employed, research procedure.

4. Chapter IV: Data Presentation and Analysis

This chapter is most important and plays vital role in this study. This chapter deals with presentation, analysis and interpretation of data as required by the objectives stated in this study. These collected data have been analyzed and interpreted by the help of various statistical and accounting tools and techniques.

5. Chapter V: Summary, Conclusion and Recommendation

This chapter contains summary, conclusion and recommendation. This chapter is the sum of the results obtained through the analysis and recommends some suggestions.

CHAPTER II

2 REVIEW OF LITERATURE

2.1 Introduction

Review of literature is a compilation of theoretical review and the review of the thesis/dissertation carried out in the similar field. Review of the literature is supported to revise the eminent literatures relating to the study. This chapter aims to give a conceptual framework and makes a review of the relevant studies that have already been done in this research topic so that some new contributions could be given to the established body of knowledge. This chapter has been divided into three main sections. First section encompasses the conceptual framework. The second section presents the review of previous research works on the topic. The final section explains the research gap.

2.2 Conceptual Framework

2.2.1 Revenue and Profit Planning and Control

Planning is the basic foundation of profit and control.

According to "Oxford Dictionary" planning means;

(To do something) arrangement for doing or using something, considered or worked out in advance.

"Way of arrangement something especially when shown on a drawing scheme."

The planning means thinking and deciding in advance what is to be done in future. It is a method of thinking out acts and purposes before and planning starts with forecast and complete with determination of future events. It is the first essence of management and all other functions performed within framework of planning.

"Planning is the process of developing enterprise objectives and selecting a future course of action to accomplish them. It includes (a) establishing enterprise objectives, (b) developing premises about the environment in which they are to be accomplished, (c) selecting a course of action for accomplishing the objectives, (d) initiating activities necessary to translate plans into action and (e) current re-planning to correct deficiencies". (Welsch, Hilton and Gordon, 2000:3)

It is sometimes said that planning is the primary managerial function which logically precedes all other functions, since without planning manager would not have activities to organize, would not require a staff, would have no one to direct and would have no need to control. However, the managerial job is actually one in which all the managerial functions take place simultaneously rather than serially.

Planning is a hard task for it involves the ability to think to periodic, to analyze and to come to decide, to control the actions of its personnel and to cope with a complex dynamic fluid environment. They bridge the gap between, which they are and where they want to go (Memoria, 1990). This statement obviously shows planning is a complex and hard job. Planning is a tool of developing and getting organizational objectives.

Planning consists of the following steps:

- Recognizing and making a tentative statement of the problem.
- Collecting and classifying relevant facts.
- Setting forth alternative course of action.
- Evaluating the pros and cons associated with these course and
- Selecting the course of action (the plan).

Planning means setting goals for the firm, considering various ways of meeting those goals, and picking out what appears to be the best way to meet the goals (Lynch and Williamson, 1984). In planning the management is concerned with laying own objectivities and determining the courses of actions to be followed out of the several alternatives available to meet those objectives.

Planning is fundamentally choosing and a planning problem arises when an alternative course of action is discovered (Gotz, 1949). If there were no alternatives in objectives policy, program or procedure, planning would be so inflexible as hardly to exist. However, in practice, there are probably few, if any, business problems for which some kind of alternative does not exist.

The planning process of an enterprise would generally involve four fundamental steps

- Establishing the objectives
- Determining the short range objectives or goals
- Developing strategies and
- Formulating profit plan or budgets

Planning is the basis of controlling and it itself is framed on forecasting in the sense of taking a careful look what is likely to happen. It is of course impossible to forecast the future with complete accuracy. But the business planner identifies range of possibilities as to the future course of events and prepares to meet them. Planning is not however; merely an inevitable fate planning is also aimed at growing shape to the future.

Planning is essential to accomplish goals. It reduces uncertainty and provides directions to the employees by determining the course of action in advance. Formal planning indicates the responsibility of management and provides an alternative of grouping without direction. Planning on the other hand, involves the determination of what should be done, how the goal may be reached and what individuals or units are to assume responsibility and be held accountable.

Thus, planning stands for future activity and formulates to meet the objectives of the management and it can be pointed out the nature of planning as:

- Planning is an intellectual process.
- Planning is a goal-oriented task.
- Planning is a primary function of management.
- Planning pervades all managerial activities.
- Planning is directed towards efficiency.

2.2.2 Types of Planning

Generally there are two types planning: Short Term Planning an Long Term Planning

2.2.2.1 Short Term or Tactical Planning

Tactical plans have shorter time frames and narrower scopes than strategic plans. Tactical planning provides the specific ideas for implementing the strategic plan. It is the process of making detailed decisions about what to do, who will do it, and how to do it. Tactical plans translate broad strategic goals and plans into specific goals and plans. These plans focus on functional areas of the organization. Because strategic plans are fairly broad, these have to be translated into specific plans. Each strategic plan is generally implemented through several tactical plans. Middle managers who are responsible for major divisions or branches in an organization develop tactical plans. The key task for them is to determine the specific details of targets, resource utilization and time frames. Tactical plans focus on the major actions that a unit must take to fulfill its parts of the strategic plan.

The short range planning is prepared for week, month, quarter, half year and year.

2.2.2.2 Long Term or Strategic Planning

The strategic plans are also known as "grand plans". They have a strong external orientation and cover the total organization. A strategic plan is the actions taken to achieve strategic goals. Such plans are developed at the corporate level. Senior executives are responsible for the development of these plans. These plans involve making decisions about the organization's long-term goals and strategies. The top managers scan the external environment for opportunities and threats to the organization.

Long term planning is used to determine the overall direction of organization. Successful enterprises have always done some long range planning. It is more important for broad and long living enterprises.

Long range planning five to ten years varying with the enterprise, sometimes extended to ten years. 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 a clear sense of direction and the practices which a comprehensive long range plan provides (Chorafas, 1990:325).

Thus, planning process, both short and long term, is the most crucial component of the whole system. It is both the foundation and the bond for the other elements because it is through the planning process that we determine what we are going to do, how we are going to do and who is going to do it. It operates as the brain center of an organization and like the brain, it both reasons and communicates.

2.2.3 Planning and budgetary Control

Planning is the process of establishing future objectives and formulating means of meeting those objectives. Control on the other hand, is the means by which management ascertains that the various parts of the business perform efficiently and progress toward the predetermined plans. Budgetary control is the process by which management keeps efficiencies of each part of the company's operation. Determining in advance the expected sales volume, the expected cost of merchandise to be purchased or produced, the number of employees needed, and the expenses to be incurred affects planning. Control is exercised through budget performance reports prepared for each subdivision of the company reflecting the budget, the actual results of operation, and any differences.

2.2.4 Revenue

Revenue is the aggregate exchange value of goods and services provided to the customers. In other words, revenue is any form of income earned by the organization in an accounting period. According to "Oxford Business Dictionary" revenue means;

"Any form of income earned by the organization in an accounting period."

"Cost and income items that are either charged or credited to the profit and loss account for an accounting period."

"Revenue results from the sale of good and rendering of services and is measured by the charge made to customers, client or tenants for goods and services furnished to them. It also gains from the sale or exchange of assets other than stock in trade, interest and dividends earned on investments and other increases in the owner's equity except those arising from capital contributions and capital adjustment. Revenue from ordinary sales or from other transaction in the ordinary course of business are sometimes described as operating revenue" (Bhattacharya & Dearden; 1980:137).

2.2.4.1 Revenue Planning:

Revenue planning is the future estimation of revenue which displays the projected sales, income and future cash inflow. In other word, revenue planning is the projection of future income in advance for a specific period. Revenue plan provides the basis for management decision about marketing and other activities. It can be said that it is an organized approach for developing a comprehensive sales plan.

The revenue planning is only a guide to the level of future revenues, not a guarantee. If the economy remains strong, the planning estimates are likely to underestimate future revenues. But, if the economy fails to perform at the high level anticipated in the control, the planning estimates will overstate future revenues.

"The revenue planning process is a necessary part of PPC because (a) it provides for the basic management decisions about marketing, and (b) based on those decisions, it is an organized approach for developing a comprehensive sales plan. If the revenue plan is not realistic, most if not all of the other parts of the overall profit plan also are not realistic. Therefore, if the management believes that a realistic revenue plan cannot be developed; there is little justification for PPC. Despite the views of a particular management, such a conclusion may be an implicit admission of incompetence. Simply, if it is really impossible to assess the future revenue potential of a business, there would be little incentive for investment in the

business initially or for continuation of it except for purely speculation ventures that most managers and investors prefer to avoid". (Welsch, Hilton, Gordon, 2000:171).

"The company earns profit only when it is able to sell its product and not when it produces them. It is no use of producing goods that are not likely to be sold and for which there is a limited demand. In some business, it is necessary to establish that the product will sell even before it is produced. In normal times of keen competition, the sales forecast must be realistic. It is undoubtedly true that past can provide experience and information which will be an assistance in estimating present and future revenue but care must be taken in presenting past facts to management so that incorrect conclusions may not be drawn there from" (Mohan, Goyal, 1992:10).

"The revenue plan should be designed to coordinate the efforts of the sales department, production department and all other departments. Many factors must be considered when sales budget is established, including sales trends, limitations on the supply of merchandise or the company's market, competing products, the expected amount of advertising, and general level of the economy. Since most of these unknown companies frequently maintain a specially trained staff to increase them" (Seiler & Robert, 1964:659-660).

"The logical starting point in developing the revenue planning is the estimates of sales. It does not follow, however, that the revenue estimation can be considered in isolation or that once the revenue estimates has been computed, the other elements of revenue and expenses will fall into place. There is circular relationship between sales and some expenses. In fact, the level or amount of certain expenses may have a considerable influence on the revenue. For example: the relationship between advertising and sales" (Finney, Miller, & Herbert 1963:389).

In summary, profit planning and control means the development and acceptance of objectives and goals and moving an organization efficiently to achieve the objectives and goals. Hence, profit planning and control represents an overall plan of operations, providing guidelines to management and acting as single light for the management. It enables the management to correct its policy. Profit planning and control covers a definite period of time and formulates the planning decision of management.

2.2.4.2 Factor Influencing Revenue Planning

The factors influencing the level of revenues may be classified as internal and external as follows:

- Internal Factors

These include promotional aids, such as advertising, incentives to sales man, ability of the organization to satisfy demand, quantity of the finished product, changes in price etc.

- External Factors

These include the fluctuations in the size of population, the general level of prosperity, the extent and severity of competition in the market, government policy and regulation. Changes in fashion and tastes, degree of competition expected from new product etc. Elasticity of demand for the product is of obvious importance if prices are expected to undergo a change (Varma & Agrawal, 1996:329-330).

2.2.4.3 Preparation of Revenue Planning

A planner should complete the following steps for planning the revenue. They are listed below:

- Step1: Development of Management Guidelines for Sales Planning:

All the management particularly in the sales planning process should be provided with specific management guidelines to be followed in revenue planning. Fundamentally, these guidelines should specify revenue-planning responsibilities. The purpose of these guidelines is to attain coordination and uniformity in the revenues planning process. The guidelines should emphasize enterprise objective, goals, and sales strategies. The guideline also should direct attention to such areas as product emphasis, general pricing policies, major marketing strategies, and competitive position.

- Step2: Prepare Sales Forecast:

One or more sales forecasts should be prepared. Each separate forecast should use different assumption, which should be clearly explained in the forecast. The management guidelines should provide the broad assumptions. Forecasting methods are broadly classified as a) quantitative b) technological c) judgmental. These forecasting methods include time-series smoothing, decomposition for time series, advanced time series, simple & multiple regression, and modeling. The forecasts should include strategic and tactical forecasts that are consistent with the time dimension.

- Step3: Assemble Other Relevant Data:

In addition to step1 and step2, all other information relevant to developing a realistic revenue plan should be collected and evaluated. This information should relate to both constraints and opportunities. The primary constraints that should evaluate are: a)

manufacturing capacity b) sources of raw materials and supplies, or goods for resale, c) availability of key people and a labor force, d) capital availability and e) availability of alternative distribution channels. These five factors require evaluation and coordination among the heads of the various functional areas in developing a realistic revenue plan.

- Step4: Develop the Strategic and Tactical Sales:

Using the information provided in step 1, 2&3, the management develops a comprehensive revenue plan to do this, and the planning process must be structured to maximize:

a) motivation of the sales force

b) realism in the revenue plan.

This process should recognize the importance of management goals both strategic and tactical. The process of developing a realistic revenue plan should be unique to each company because of the company's-its products, its distribution channels, and the competence of its marketing group. Four different participative approach widely used are characterized as follows; a) sales force composite b) sales division manager's composite c) executive decision and d) statistical approaches.

- Step5: Securing Managerial Commitment to Attain the Goals in the Comprehensive Revenue Plans:

Top management must be fully committed to attaining the sales goals that are specified in the approve revenue plan. This commitment requires full communication to the sales manager of the goals: approve marketing plan and strategies by sales responsibilities. The commitment must be strong and ever present in day-to-day operations (Welsch, Hilton, & Gordon, 1999:176-182).

Planning is a cornerstone of effective management. It begins from the fixation of objectives and ends with preparation of budget. Profit does not been created itself. Profit has to be earned the use tools of the management. That is, management plans and manages its profits. The quality and ability of the management are often judged by the size of the profit figures at the end of the accounting period. So, profit planning is a part of overall planning process of an organization. When management plans about profit, it is termed as profit planning. It is a comprehensive plan expressed in financial terms by which an operating program is effective for a given period of time. The purposes of profit planning are: (Munankarni, 2003: 6.01)

- To provide a realistic estimate of incomes and expenses for a period.

- To provide a coordinated plan of action which is designed to achieve the estimates reflected in the budget.
- To provide a comparison of actual results with budgeted figures and analysis and interpretation of deviation for improvement in future plans.

The term comprehensive profit planning and control may be broadly defined as a systematic and formalized approach for accomplishing the planning, coordination, and control responsibilities of management. (Welsch, 1984: 3)

Comprehensive profit planning and control is viewed as a process designed to help management effectively perform significant phases of the planning and control functions. The PPC model involves (Welsch, Hilton and Gordon, 1992: 30)

- Development and application of broad and long-range objectives of the enterprise;
- Specification of enterprise goals;
- Development of a strategic long-range profit plan in broad terms;
- Specification of a tactical short-range profit plan detailed by assigned responsibilities (divisions, departments, projects);
- Establishment of a system of periodic performance reports detailed by assigned responsibilities; and
- Development of follow-up procedures.

2.3 Tools used For Revenue and Profit Planning

There are so many tools to prepare revenue and profit planning. Following tools are used to analyze and prepare planning and control of revenue among them, so that precise study could be possible. These are :

- CVP Analysis
- Regression trend analysis
- Student t-test
- Correlation of Coefficient

Above tools are briefly explain in this review of literature.

2.3.1 CVP Analysis

2.3.1.1 Concept

Cost-volume-profit analysis is an important tool for profit planning. It is the process of examining the relationships among revenues, costs and profits for a relevant range of activity and for a particular time frame. It is one of the most important and powerful tools that managers have at their command in short-term planning. It helps managers understand the interrelationship between cost, volume and profit in an organization by focusing on interaction between the following five elements: (Munankarmi, 2003: 4.01)

- Price of products
- Volume or level of activity
- Per unit variable costs
- Total fixed costs
- Mixed products sold.

This technique summarizes the effects of changes in the organization's volume of activity on its costs, revenue and profit. That is, the technique explores the relationship which exists between costs, revenue, output level and resulting profit. Cost-volume-profit analysis can be extended to cover the effects on profits of changes in:

Selling prices/services fees

Cost

Income tax rate

Product mix

CVP analysis seeks to estimate the profit or loss at different activity level. The aim of cost-volume-profit analysis is to have a fair estimate of:

Total cost

Total revenue, and

Profit at various sales volume

It provides only an overview of the profit planning process. Cost-volume-profit analysis technique summarizes the effects of changes in an organization's volume of activity on its costs, revenue and profit.

CVP analysis provides management with a comprehensive overview of the effects on revenue and costs of all kinds of short-run financial changes. It is related to profit, sales volume and cost. The analysis of these elements is known as CVP.

The CVP analysis is of immense utility to management as it provides an insight into the effects and inter-relationship of the factors which influence the profits of the firm. It is with the help of the CVP analysis that the accountant is enabled to present facts and figures in accurate reports and intelligible charts to management for action. (Pandey, 1986: 190)

2.3.1.2 Use of CVP Analysis in Profit Planning

Planning, controlling and decision making are the essential managerial functions. Cost-volume-profit analysis helps managers to plan for profit, to control cost and make decision. It helps: (Munankarmi, 2003: 4.01-4.02)

- To determine the break-even-point in terms of sales value
- To ascertain the margin of safety
- To estimate profits or losses at various level of output
- To assess the likely effect of management decisions such as an increase or a decrease in selling price, adoption of new method of production to reduce direct labour and increase in output
- To help management to find the most profitable combination of costs and volume.
- To determine the optimum selling price
- To determine the sales volume at which the profit goal of the firm will be achieved
- To determine the maximum sales volume to avoid losses
- To determine most profitable and least profitable product
- To determine new break-even point for changes in fixed or variable cost

CVP analysis provides information regarding: (Munankarmi, 2003: 4.02)

- Minimum level of sales to avoid losses
- Sales level to earn target profit
- Effects of changes in prices, costs and volume on profits
- Effect of changes in sales mix on profit
- New break-even point for changes
- Impact of expansion plan on CVP relationship
- Products that are most profitable least profitable
- Whether to continue or discontinue the sales of product or operation of plan
- Whether to close or not the firm for a short-term

- Effect on operating profit with the increase in fixed cost

2.3.1.3 Assumption of CVP Analysis

CVP analysis is a vital technique that provides supplementary information for profit planning. Every business starts with the target of break even and then it aims to earn profit over its life. But the business firm passes through many ups and downs. CVP analysis helps to plan for every set of goals in short run. But the CVP analysis encompasses the following assumptions. (Bajracharya, Ojha, Goet and Sharma, 2004: 258-260)

1. Classification of all costs as variable and fixed

While developing and applying CVP analysis including BEP analysis, it has been assumed that all cost can be classified into fixed and variable cost. In fact, it is extremely difficult to identify each and every cost element as fixed and variable one. Cost is recording as traditional types in developing country like Nepal has made it very hard to segregate costs as fixed and variable. Moreover flexible policy of company also makes it more difficult to exactly identify the cost as fixed and variable, the application of CVP analysis become almost impossible.

2. Linear behavior costs within the relevant range

CVP analysis assumes that the total fixed cost do not change in short run within relevant range. Total variable costs are exactly proportionate to sales volume. But in reality cost behavior may not remain constant with the change in the volume of output we need to change production set up with more or less purchase material cost per unit change due to quantity discount. Costs change over time owing to inflation. BEP units or any other variable of profit functions do not remain constant over time. And it is useless to compute the BEP and other variable at every moment for the changed situation.

3. Treatment of step fixed cost

The relevant range for many costs is very short. In that case it becomes very difficult to compute the required volume because we cannot say which the relevant range for our needed volume is.

4. Constant selling price for any volume in the short run

The selling price per unit remain constant, it does not change with volume or because of other factor. Indeed, most often they offer a quantity discount for different lots of production. This makes it difficult to determine the CM_{PU} and CM ratio.

5. No effects of the size of inventory on net income

The application of CVP analysis is possible only under the situation of either following variable costing for inventorial product cost or all production volume be sold within same period. CVP analysis does not work under full costing method where inventory change.

6. Single product or constant sales mix

CVP analysis assumes that either a single product is sold or if more products are sold, the ratio of each product on total sales will be in accordance with a predetermined sales mix. But in real situation sales mix does not remain constant. This makes the application of CVP analysis impossible in case of multiproduct company.

7. Short term time horizon

CVP analysis is a short term planning tool because nothing remains stable in the long term. In the condition of changing variable all equation of CVP analysis become impossible.

It is essential that anyone preparing or interpreting CVP information should be aware of the underlying assumptions or which the information has been prepared. If there assumptions are not recognized, serious error may result and incorrect conclusions may be drawn from the analysis.

2.3.1.4 Terms Used in CVP Analysis

The terms usually used in CVP analysis are as follows:

1. Fixed Cost

Fixed costs remain constant in total amount despite the changes in level of activity. That is, the fixed costs remain unchanged in total as the activity level varies. But the fixed cost per unit does change as activity varies. Fixed cost on per unit basis decreases as the level of activity increases and vice versa. (Munankarmi, 2003: 2.21)

2. Variable Cost

A cost that varies in total in direct proportion to changes in activity is a variable cost. It must be a constant amount per unit. In other words, variable costs are those costs which vary in total with a variation in production volume without affecting the cost per unit. These costs are directly proportionate to the volume of output. Variable costs are controllable ones. (Munankarmi, 2003: 2.18)

3. Mixed Cost (Semi Variable Cost)

Costs that are not strictly variable or fixed are termed as mixed costs. A mixed cost has both a variable and a fixed component. On a per unit basis, a mixed cost does not fluctuate in direct proportion with change in activity nor does it remain constant with changes in activity. (Munankarmi, 2003: 2.18)

4. Step Fixed Cost (Jumping cost)

Some costs remain fixed over a wide range of activity, but jump to a different amount for activity levels outside that range. Such costs are called step fixed costs. (Munankarmi, 2003: 2.22)

2.3.1.5 Break-Even-Point — BE Analysis

Determination of Break-Even-Point and Margin of safety is incidental to CVP analysis. A widely used technique for the study of CVP relationship is BEP. BEP analysis is most widely known form of CVP analysis. However, some people state that up to the point of activity where total revenue equates to total expenses the study can be called as BE analysis and beyond that point, it is the application of CVP relationship.

BEP is a point at which neither profit nor loss is made. It is concerned with the study of revenues and costs in relation to sales volume and determination of that volume of sales at which the firm's revenues and total costs will exactly be equal.

At BEP, the sales volume at which total sales revenues equates the total costs.

At BEP, the profit will be zero, so it is called no profit no loss point.

So BEP may be defined as a point at which the firm's total revenues are exactly equal to total costs, yielding zero income. The no profit no loss point is a break-even point or a point at which losses ceases and profit begins.

The break-even point may be defined as that point of sales volume at which total revenue is equal to total costs. It is a no-profit, no loss point. (Pandey, 1986: 191)

A narrow interpretation of break-even analysis refers to a system of determining that level of activity where total revenue is equal to total cost. The boarder interpretation denotes a system of analysis that can be used to determine the probable profit at any level of activity. (Munankarmi, 2003: 4.03)

2.3.1.5.1 Assumptions of Break-Even Point

The assumptions underlying the construction of a break-even chart are as follows: (Dangol and Dangol, 2061: 168)

All costs can be classified into fixed and variable cost. There is no other cost other than fixed and variable.

Fixed cost will remain constant and variable cost varies proportionately with activity.

Selling price per unit remains constant. It is not affected by sales volume.

That either the firm produces only one product or the product mix is constant at all levels of output.

That the levels of production and sales remain unchanged during the period.

2.3.1.5.2 Limitations of BE Analysis

The BE analysis is based on some unrealistic assumptions. Their main limitations are as follows: (Dangol and Dangol, 2061: 168)

According to the assumption of BEP, total cost can be divided into fixed and variable cost only which is not practicable in real life. There are some costs, which are neither fixed nor variable. Those costs are described as semi-fixed or semi-variable cost.

The assumption that fixed cost always remains constant is not true. Sometimes it can be increased, especially in that situation when production or operation technique is changed.

The assumption that variable cost per unit always remains constant cannot be entirely true.

Constant selling price is also not true. In case of increase in sales volume, some modification can be made in selling price by considering the nature of demand for the goods.

The assumption that either the firm produced only a single product or product mix ratio remains constant is also obviously quite unrealistic. And industry producing several types of goods has to bring about modification in the product-mix ratio from time to time.

The assumption that the production level and sales level should be equal is another drawback of BEP. Such a condition is hardly found in practice.

The capital invested in business is also a significant element of profit planning and control. However, the place is not given to it in BEP.

2.3.1.5.3 Computation of BEP Using Contribution Margin Approach

Contribution margin is the difference between the sales revenues and variable cost of production. Contribution margin consists of the fixed cost and profit.

Each unit sold provides a certain amount of contribution margin that goes toward covering the fixed costs. Unit selling price minus unit variable expenses will be unit contribution margin. It is defined as selling price minus per unit variable production, selling and administrative costs. To find out how many units must be sold to break-even one must divide the total fixed costs by the contribution margin. It reflects revenue remaining after covering all variable costs. It is this amount that contributes to the coverage of all fixed costs and to the generation of profit. (Munankarmi, 2003: 4.03)

(i) Contribution margin = Sales – Variable cost

$$C = S - V$$

(ii) Contribution margin = Fixed cost + Profit

$$C = F + P$$

(iii) Sales = Variable cost + Contribution margin

$$S = V + C$$

(iv) Sales = Variable cost + Fixed cost + Profit

$$S = V + F + P$$

So, formulae for BEP are:

BEP (Value/Rs)

$$= \frac{\text{Fixed cost}}{\text{Contribution margin ratio (P/V ratio)}} = \text{Rs.....}$$

Or

$$= \frac{\text{Fixed cost}}{\text{Fixed cost} + \text{Profit}} \times \text{Sales} = \text{Rs.....}$$

2.3.1.6 Profit/Volume Ratio

Profit-volume ratio expresses the relationship of contribution to sales. It is also termed as contribution-sales ratio or variable-profit ratio. If the contribution margin is divided by sales revenue, the result is profit-volume ratio. Symbolically, it is: (Dangol and Dangol, 2061: 163)

$$P/V \text{ ratio} = \frac{C}{S}$$

Where, C = Contribution

S = Sales

$$\text{Or, } P/V \text{ ratio} = \frac{FC + \text{Profit}}{\text{Sales}} \text{ or } \frac{FC + P}{S}$$

$$\text{Or, } P/V \text{ ratio} = \frac{\text{Sales} - \text{Variable}}{\text{Sales}} \text{ or } \frac{S - V}{S}$$

$$\text{Or, } P/V \text{ ratio} = \frac{S}{S} - \frac{V}{S}$$

$$= 1 - \frac{V}{S}$$

$$= 1 - \text{Variable cost ratio}$$

A business enterprise can improve its profit by improving a profit-volume ratio. The management can eliminate the unprofitable lines which are having either a lower profit volume ratio or low volume. A lower ratio means less profitability and vice versa. The profit volume ratio can then be increased by:

- Increasing sales price per unit
- Decreasing variable costs
- Increasing the production of products which are having a high P/V ratio and vice versa

2.3.1.7 Use of Profit/Volume Ratio

Profit/Volume ratio can be taken as a significant evaluation tool on earning capacity of a business enterprise. The earning capacity of an enterprise can be measured by the profit-volume ratio. The higher profit-volume ratio reflects the firm's ability for increasing profitability.

The P/V ratio is used to determine the following facts:

- (a) For the analysis of break-even point.
- (b) For an ascertaining of profit at a budgeted sales volume.
- (c) For calculation of sales amount required to earn a target profit.
- (d) For ascertaining sales amount needed to keep up with previous profit while decreasing selling price.
- (e) For ascertaining profit on margin of safety.

2.3.1.8 Computation of BEP Using Equation Approach

The level at which sales volume covers the fixed costs of committed resources is called the break-even point. The formula approach uses an algebraic equation to calculate the BEP.

This is the most general form of analysis which can be applied to any CVP situation. This approach of finding out the BEP is based on the profit equation. Income/profit is equal to sales revenues minus expenses. If expenses are separated into variable and fixed expenses, the essence of the income statement is captured by the following equation. (Munankarmi, 2003: 4.08)

$$\text{Sales revenue} - \text{Variable expenses} - \text{Fixed expenses} = \text{Profit}$$

Or

$$\text{Sales revenue} = \text{Fixed cost} + \text{Variable cost} + \text{Profit}$$

2.3.2 Regression Trend Analysis

Today, trend analysis often refers to the science of studying changes in social patterns, including fashion, technology and the consumer behavior. The term "trend analysis" refers to the concept of collecting information and attempting to spot a pattern, or trend, in the information. Trend analysis is a mathematical technique that uses historical results to predict future outcome. In another words, an aspect of technical analysis that tries to predict the future movement of a stock based on past data. Trend analysis is based on the idea that what has happened in the past gives traders an idea of what will happen in the future. Ratio analysis is not able to show the fluctuation of the financial position of the companies with time. The financial position is improving or deteriorating over the years show by the use of trend analysis. The significance of a trend analysis or ratios lies in the fact

that the analysis can know the direction of movement, i.e. whether the movement is favorable or unfavorable. For example, the ratio may be low as compared to the norms and standard but the trend may be upward. On the other hand, though the present level may be satisfactory, the trend may be a declining one. Thus, trend analysis is of great significance to the study. Trend analysis tries to predict a trend like a bull market run and ride that trend until data suggests a trend reversal (e.g. bull to bear market). Trend analysis is helpful because moving with trends, and not against them, will lead to profit for an investor. In this study efforts will go for trend of EPS and Net Income with the help of past five years records of EPS and Net Income.

A straight line trend by the method of least squares will show the relationship between net income and years (time). For the least square method, it is assumed that the sales are consistently changed (increased or decreased) with the change in time. To fit the straight line trend, time factor is considered as independent variable(X) and net profit (Y) is assumed as dependent upon time (years).

Now the straight line trend by least square method for actual sales upon time is expressed by

$$Y_c = a + bx$$

Where,

Y= Net Income

x=Deviation taken in time

a=Fixed value

b=Regression Coefficient that measures the change in the net income.

$$b = \frac{\sum xY}{\sum x^2}$$

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

$$a = \frac{\sum Y}{n}$$

2.3.3 Student t-test

2.3.3.1 Testing of Hypothesis

Hypothesis testing is a well defined and a clear cut decision making procedure. Hypothesis testing begins with an assumption or supposition, called a hypothesis population parameter.

In hypothesis testing, the first thing is to set up a hypothesis about a population parameter. Then sample data are collected, produced sample statistics and used this information to decide how likely it is to hypothesized population parameter.

For this procedure a certain value for a population mean is assumed. To test the validity of the assumption, the sample data are gathered and determined the difference between the hypothesized value and the actual value of the sample mean. Then judge be done whether the difference is significant. The smaller the difference, the greater the likelihood to hypothesized value for the mean is correct. The larger the difference is considered the smaller the likelihood.

The statistical hypothesis may be divided into two types: Null hypothesis (H0) and alternative hypothesis (H1). The null hypothesis in testing the significance states that there is no real difference in the sample mean and the population mean and is denoted by (H0). Any hypothesis which is complementary to the null hypothesis is called on alternative hypothesis and is denoted by H1.

In a hypothesis testing the level of significance is set up. It is denoted by ' α ' {alpha}. We generally use 5 %.{ 0.05} level of significance unless otherwise stated. For a hypothesis testing student's t-distribution or 't' test is adopted here which was developed by W.S. Gosset. The t- distribution {t-test} is used when the sample is 30 or less than 30(≤ 30).

2.3.3.2 Formulation of Hypothesis

Null Hypothesis, H0: $\bar{X} = \bar{Y}$, there is no significantly difference between budgeted and actual disbursement of Bank.

Alternative Hypothesis, H1: $\bar{X} \neq \bar{Y}$, there is significantly difference between budgeted and actual disbursement of Bank.

Before applying t-test formula, the indicators are considered as independent to each other, therefore the test statistic for two independent means, under H0 is:

$$t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

(Source: Chaudhary, A. K and Sharma, P. K. (Reprint 2007). *Statistical Methods*)

where,

$$\bar{X} = \frac{\sum X}{n}$$

$$\bar{Y} = \frac{\sum Y}{n}$$

$$S^2 = \frac{1}{n_1 + n_2 - 2} [\sum (X - \bar{X})^2 + \sum (Y - \bar{Y})^2]$$

2.3.4 Coefficient of correlation

Correlation analysis is the statistical tool which is used to describe the degree of relationship between two or more than two variables. Correlation is a statistical technique that can show whether and how strongly pairs of variables are related. For example, height and weight are related; taller people tend to be heavier than shorter people. Two or more variables are said to be correlated if change in the value of one variable appears to be related or linked with the change in the other variables. Correlation says just degree of relationship between two or more than two variables. It does not tell us anything about cause and effect of relationship. In correlation analysis, only one variable is treated as dependent and one or more variables are treated as independent.

The main result of a correlation is called the correlation coefficient (or "r"). It ranges from -1.0 to +1.0. The closer r is to +1 or -1, the more closely the two variables are related. If r is close to 0, it means there is no relationship between the variables. If r is positive, it means that as one variable gets larger the other gets larger. If r is negative it means that as one gets larger, the other

get smaller (often called an "inverse" correlation). In case of simple correlation, it studies the degree of relationship between two variables: independent and dependent variables.

The most widely used in practice for calculating correlation coefficient between two variables is "Karl Pearson's Correlation Coefficient". The correlation coefficient between two variables X and Y, usually denoted by r(X,Y) or r_{XY} or simply r.

r is defined as:

$$r = \frac{\text{Cov}(X,Y)}{\sigma_x \cdot \sigma_y}$$

where, $\text{Cov}(X,Y)$ = Covariance between X and Y

$$\begin{aligned} &= \frac{1}{n} \sum (X - \bar{X}) (Y - \bar{Y}) \\ &= \frac{1}{n} \sum xy \end{aligned}$$

where, $x = (X - \bar{X})$

$y = (Y - \bar{Y})$

$$\bar{X} = \frac{\sum X}{n}$$

$$\bar{Y} = \frac{\sum Y}{n}$$

$$\sigma_x = \text{Standard Deviation of X} = \sqrt{\text{Var}(X)} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

$$\sigma_y = \text{Standard Deviation of Y} = \sqrt{\text{Var}(Y)} = \sqrt{\frac{\sum (Y - \bar{Y})^2}{n}}$$

n= no. of pairs of observation

2.4 Review of Related Studies

In the context of Nepal, history of industrial sector is very short. Research on business has been conducted very few. Business firm has not applied the Profit Planning and Control systematically. Some applied but they are not using all tools of PPC. Many studies have been conducted in the profit planning in the business firm. But in most, CVP analysis has given less priority than others or it can be said that only few studies are mainly focused on CVP analysis. But they are not in depth. Mostly, CVP analysis has done only under the heading of profit planning and control of manufacturing firm. But this study has focused the CVP analysis of ADBL. Some research has been reviewed which are as follows:

Mr. Namdak (2005) has submitted a thesis on the topic "CVP analysis of Dairy Development Corporation". The main objective of this thesis is to determine the relationship between cost, volume and profit and profitability of the DDC. His sub objectives to achieve the main objectives are as follows:

- To study the relationship between cost, volume and profit as a tool of budgeting
- To evaluate the profitability and sensitivity of DDC in relation to sales
- To analyze the productivity of the labor by using different productivity ratios
- To analyze the CVP of the corporation and its impact on its profit planning
- To provide necessary suggestions and recommendations, whatever necessary based on findings

This study covered the time period of five year from 2055/56 to 2059/60. Research methodology was through primary as well as secondary sources. His major findings are as follows:

- DDC has been planning only on short-term basis.
- The practice of CVP analysis has not been used yet.
- There is no practice of segregating cost into fixed and variables.
- Over utilization of capacity resulting in increasing operation and maintenance cost every year.
- DDC has low contribution margin with high variable cost.
- DDC has also high fixed cost with low contribution margin, resulting in high BEP sales.
- The profitability of the DDC is also very poor.
- All levels of management are not involved in profit planning and decision making of the corporation.

Mr. Rijal (2005) has conducted a research entitled "Cost Volume Profit Analysis as a tool to Measure Effectiveness of Profit Planning and Control: A Case Study of NEBICO Pvt. Ltd." He collected data based on primary as well as secondary data. He analyzed CVP of NEBICO only five years' data FY 2056/57 to FY 2060/61. The main objective of this study is to examine CVP analysis as a tool to measure effectiveness of PPC of NEBICO Pvt. Ltd. To achieve main objectives he set following sub-objectives:

- To study relationship of cost, volume and profit as an applicable tools of budgeting
- To evaluate the profitability, financial position and sensitivity of NEBICO's activity
- To analyze the CVP of the company and its impact in profit planning

The major findings observed in his study are given in next page:

- The company has no detailed and systematic expenses plan. The fixed, variable and mixed expenses plan is the necessary elements for PPC.
- The goal and objectives of the company are not clearly communicated to operating level of management.
- The company does not apply any appropriate and effective sales forecasting techniques.
- There is not proper coordination among production, administration, distribution, inventory and sales department.
- The profit volume ratio has not constant and sufficient profit too.
- Variable cost has more portions as compared to fixed costs.
- There is no separate costing system for each product.
- Margin of safety is in fluctuating trend.
- BEP of the company has been in increasing trend, there is a little gap between actual sales and BE sales.

Mr. Aryal (2006) has conducted a study entitled "CVP Analysis as a tool to Measure Effectiveness of PPC (A case Study of Herbs Production and Processing Co. Ltd., HPPCL)." He has conducted the research to acquire following objectives:

- To analyze the variance between target and actual sales of HPPCL.
- To evaluate the profitability, financial position of HPPCL.
- To analyze the cost-volume-profit of HPPCL.
- To provide suitable suggestions and recommendations based on the analysis for improving of HPPCL's condition etc.

Mr. Aryal used primary and secondary sources to collect data and used seven years data from F.Y. 2054/55 to F.Y. 2060/61 for analysis. Major findings of the studies are as follows:

- Budgets were prepared on traditional method.
- HPPCL has high burden of management and distribution expenses and interest on loan which is directly influencing the profitability.
- HPPCL adopted traditional pricing method to determine price which may not be appropriate in today's competitive market.
- There was not practice of separating cost into fixed and variable. The costs are roughly classified and that classification is not scientific and appropriate. Thus, it is difficult to use financial tools like as flexible budget, CVP, cost of goods sold and degree of operating leverage and profit margin ratio.

- HPPCL is suffering from huge losses. So in every year has negative net profit margin ratio.
- Profit volume ratio of the company is in fluctuated trend which affects on BEP of the company.
- Margin of safety of the company is in negative trend. So company could not sold properly and suffering from losses.
- BEP of the company is always higher than actual sales. So the company should not maintain its expenses.

Mr. Bhusal (2006) had conducted a study entitled "Use of Cost Volume Profit Analysis to Plan the Profit in Nepalese Manufacturing Companies (A Case Study of Bottlers Nepal Limited)." The main objective of his study is to examine the use of CVP analysis to plan the profit in Bottlers Nepal Limited. The other specific objectives of this study are:

- To study the present application of CVP analysis in Bottlers Nepal Limited
- To study the profitability and financial position of Bottlers Nepal Limited
- To analyze the CVP and its impact in profitability of Bottlers Nepal Limited.

Study was based on the secondary data. Study has following major findings:

- The company has not maintained the broad and long-range objectives and periodic report and objectives are limited to the high--ranking official only.
- Sales and production target are not achieving because there is not an effective forecasting system.
- There is no any effective plan for cost reduction and control. And lack of effective cost control programmed.
- The profit trend of the company is not satisfactory.
- The company has no details and systematic expenses plan. The fixed, variable and mixed expenses plan is the necessary elements for profit planning and control.
- BNL has not proper practice of segregating the costs into fixed and variable or controllable and non-controllable.

Mr. Tiwary (2006) has presented a dissertation on the topic "A Case of Credit Management of HBL". The main objective of this research is to examine the practice of disbursing loans and recovery of HBL. His study period covers only the date of financial years from FY 2000 to FY 2004. His research was based on primary and secondary data. Though, the main source of data was collected from secondary sources. The specific sub-objectives are:

- To examine the impact of deposit in liquidity

- To analyze the portfolio behavior of lending and measuring the ratio of loans and advanced made in different sector
- To examine the assets management efficiency and profitability ratio
- To analyze the lending efficiency of the bank

The major findings observed in his study are as follows:

- It has been found that liquidity position is satisfactory.
- The cash and bank balance has not mobilized in the more profitable assets.
- Bank has not mobilized fund in Government Sector and has not followed the NRB directives. And bank disbursed credit on the private sector is higher.
- Assets management position of the bank shows better performance in the latest year.

In the aspect of profitability position, interest expenses ratio shows the more profitable salivation. Also total income to total expenses ratio shows the overall predominant of the bank is satisfactory. Operating income, return as loan and advances and working fund are also showing more profitable position of bank.

After analyzing the lending efficiency of the bank, the loan loss provision to loan and advances eradicates the decrease in non-performing loan. Other loan and advance indicator shows the better performance in the latest year. The interest expenses to Total Deposit working funds ratio show the improving efficiency of the bank.

2.5 Research Gap

Almost of the previous researches was done on PPC mainly of manufacturing company. The research have recommended for effective implementation of PPC. Some research was done on CVP analysis as an important tool of PPC. And the study has recommended CVP analysis will be used necessarily. But all the study was undertaken at manufacturing sector.

Some dissertation focused profit planning is also important for the service sector business like commercial banking business. Those studies can't show the significance of budgeting to the actual achievement of service based business. Nowadays, bank have emphasized for application of CVP analysis as an important tools of PPC to improve competitiveness and performance in the time of globalization.

This study has tried to indicate the revenue oriented activities of ADBL. It covers the budgeting, source of income, appropriate level of deposit to stay in BEP, trend of net profit

etc. So, this study has played important role to fulfill the gap between previous study had done and research need to be done on the revenue oriented activities of bank.

CHAPTER III

3 RESEARCH METHODOLOGY

This chapter "Research Methodology" is of extremely important. This chapter consists of Research design, Coverage of period and data, Nature and sources of data, Research variables, tools and techniques of data analysis and Research procedure.

3.1 Research Design

In order to make any type of research it is necessary to set research design which fulfills the objectives of the study. In general word, research design means well-defined procedure and techniques which guide to study and profound ways for research variability. It is the planned structure and strategy of investigation conceived so as to obtain answers to research questions. It is a plan for the collection and analysis of data. A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economic in procedure. Generally a common research design comprises the five basic elements:

- Selection of problem
- Methodology
- Data gathering
- Data analysis
- Report writing

The research study attempts to analyze the revenue oriented activities of ADBL. Hence, descriptive as well as analytical research design has been employed. Descriptive research is essentially a fact finding approach and abstracting generalization by the cross-sectional study of the current situation. Analytical approach is followed to parametric and non-parametric test of data. It is the process of microanalysis and appraisal of the data.

3.2 Coverage of Period and Data

The study covers two time dimension, long range and short range. The time period of five years for the purpose of trend analysis for long range planning and the time period of one year for the purpose of short rang planning. Data are collected from fiscal year 2062/063 to 2066/067 for long range planning and for short range planning data are collected from the year 2066/067.

3.3 Nature and Sources of Data

This study is mostly based on secondary data. However, primary data and information have been obtained through informal discussions with executives and other related staffs of the ADBL. Secondary data have been collected from ADBL's publication (ADBL Annual Report, Banco News, Planning Book, Monthly FIS Report, Quarterly Financial Report published in national daily newspaper, The Organization published by Employee Association of ADBL, previous thesis and other relevant published and unpublished documents and other related publications. The required data were also collected from the website of Agricultural Development Bank Ltd (i.e. www.adbl.gov.np).

3.4 Research Variables

Sales revenue, Net Profit, Disbursement, Principal Recovery, Interest Collection, Different Expenses headings of ADBL are the research variables of this study.

3.5 Tools and Techniques Employed

This research is confined to examine the revenue oriented activities of ADBL. Therefore, the collected data have been presented and demonstrated in suitable tables, formats, diagrams, graph and charts. Such presentations have been interpreted and explained whenever necessary. To analyze the secondary data collected from various sources different financial, statistical and mathematical tools are used. Cost Volume Profit Analysis is used as financial tools.

The statistical and mathematical tools used are - average, standard deviation, coefficient of variation, correlation coefficient, regression analysis, percentage and mean, t-test etc. All the data and information are collected from secondary sources which have been properly synthesized, arranged, tabulated and calculated to serve the objectives of the study.

3.6 Research Procedure

The research procedure includes the following steps for the present study:

- Collection of various books and other publications relevant for the study.
- Assimilation of useful secondary data.
- Description and analysis of collected data in light of theoretical basis.
- Tabulation and presentation of data through the tables, charts, graphs etc.
- Analysis of data by using approved financial, statistical and mathematical tools.
- Extraction of valuable conclusions and recommendations.

CHAPTER IV

4 PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

The presentation and analysis of data part is the most important section of a thesis. The collected data after manipulation have been presented in easy and attractive form related to the thesis in various tables, diagrams etc. To make the research analytical, the presented data are analyzed, using different appropriate tools and the findings are tried to synthesize to the objectives of the study. It is the systematic disclosure of the data related to the study and analysis of the data in a corrective way drawing the conclusion of analysis and finally matching it with the statement of problems of the research study.

The main purpose of this research study is to identify and analyze the revenue oriented activities of ADBL. For the fulfillment of this objective, this study is concentrated to examine the pattern of revenue as well as to analyze the variation between budgeted and actual output of revenue. Beside this it focuses the study of significance between budgeted and actual activity of disbursement, principal amount recovery and interest collection. Regarding this it will be tested that either there is significantly difference between budgeted and actual performance or not of the disbursement, principal recovery and interest collection activities of the ADBL during the examined period of five years.

Most of the organizations begin their revenue oriented activities through planning. So revenue and profit planning is the basic activities of an organization. Plan should achieve the goals of the organization. It embarks on forecasting the environment in which objectives must be achieved.

Revenue is an inherent part of the management process. Revenue planning helps the organization for the development and acceptance of objectives and goals and moving an organization efficiently to achieve the objectives and goals. Revenue and profit planning is an important technique of management system, which can be used in private public as well as government organization. Each and every public enterprises or firm or government corporation is established with an objective of public service.

Hence, protection of genuine interest becomes the vital factor in revenue planning and control system. To evaluate the performance of public enterprises, profit as well as social well is considered as crucial factor in Nepalese public enterprises. In case of fulfilling the social obligation: in this case, the company should earn certain profit also.

Although, the PEs in Nepal have achieved the objectives of creating opportunities to some extent, increasing production in the country and providing basic service, they are not functioning in an efficient manner. Despite the long-term protection given to these public enterprises, they have not been able to achieve financial capability and work efficiency and are still dependent upon governmental grants & assistance. Almost all PES are suffering from high loss and their financial condition is in very poor shape.

Bank earns profit from the difference between interest received from debtors and interest given to deposit holders. Bank can reduce its cost by paying lower interest rate to deposit holder but it can create negative impact for itself. It can't sustain in high competitive market. Bank can make high profit by determining high interest rate in providing loan. But no one invest huge amount in their business by taking loan from bank when interest rate is high. Bank has calculated right interest rate for survival and capital utilization.

ADBL is partially government owned public sector entity, administrated by a government appointed Board of Directors (however in the provision of BAFIA, the BOD is formed by Annual General Meeting of shareholders, the rule is not followed till the date). However, more autonomy has been offered to the entity from 31st Asar 2062 BS by the government as a part of deregulation and liberalization policy. Now, Nepal Telecom has functioning under the company act, 2063 and BAFIA, 2063 utilizing its full autonomy. It is regulated by Nepal Rastra Bank.

Revenue planning in ADBL is most important for the best utilization of resources, capacity and effective accomplishment of the goals and objectives in sales planning, production planning, overhead expenses, capital budgeting, cash flow and manpower planning. Thus, in this part, effort has been made to analyze how far the target and objective has been achieved. Various functional budget, cash flow, statistical procedures are analyzed and examined in regularly in ADBL. Annual budget seminar is conducted every year for discussing the coming year plan. Several targets are fixed in each and every activity of the bank after wide reviewing and discussing.

To accomplish the above mentioned objectives of the study, this chapter will analyze the various aspects of revenue oriented activities. The study also presents and analyzes the overall financial trend and estimate the future possible trend of bank.

4.2 Investment Structure of ADBL

Main function of ADBL is to collect deposit from client and borrow loan from other banks, government and NRB. This collected money is reinvested as a loan to the clients and

invested at Nepal Government's Treasury bill, Nepal Government's saving bonds and other securities, NRB Bonds, Foreign Securities, Local Licensed Institutions, Foreign Banks and Organized Institutions' Shares etc. Bank creates profit from the difference of interest rate between borrowing money and lending money. Investment specially refers to the purchase of securities. ADBL itself purchase the Government Securities. It diversifies investment in Treasury Bills, NRB Bond, and Share and Bond of local and foreign company. The following table extracts the position of investment of ADBL during the examined five years.

Table 4.1: Investment Description

From FY 2062/063 to FY 2066/067

(Rs. in '000)

Particular	2062/063		2063/064		2064/065		2065/066		2066/067	
	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
Nepal Govt. Treasury Bill	24.46	397011	53.54	1759615	56.89	2706309	68.91	3373789	60.05	2726422
NGvt. Saving Bonds	0.00		0.00		0.00		2.04	100000	15.42	700000
Ngovt. Other Securities	0.00		0.00		0.00		0.00		0.00	
NRB Bonds	0.00		0.00		0.00		0.00		0.00	
Foreign Securities	0.00		0.00		0.00		0.00		0.00	
Investment on Domestic Institutions	6.75	109570	3.34	109790	2.30	109570	26.78	1310955	22.18	1006892
Foreign Banks	0.00		0.00		0.00		0.00		0.00	
Organized Institutions' Shares	2.33	37802	1.10	36132	0.73	34961	1.80	88008	1.84	83758
Organized Institutions' Bonds and Debentures	0.00		0.00		0.00		0.00		0.00	
Other Investment	66.46	1078619	42.02	1380756	40.07	1906257	0.48	23310	0.51	23012
Total Investment	100.00	1623002	100	3286293	100.00	4757097	100.00	4896062	100.00	4540084
Provision		111672		108832		0		0		0
Net Investment	100.00	1511330	100	3177461	100.00	4757097	100.00	4896062	100.00	4540084

Source: Annual Report of ADBL (Refer to Anusuchi 12 of Annual Report Book)

Table 4.1 shows that total investment trend of the bank is in gradually increasing trend from FY 2062/063 to 2066/067. In FY 2066/067 investment is decreased than FY 2065/066.

The investment in Nepal Government Treasury Bill is not straightly increasing for the sample year. It is fluctuating. It is found declining position in FY 2063/064 and 2066/067 than its corresponding previous FY. However it is increased by 2329411 thousand during the examined five years period. In percentage the investment in Nepal Government Treasury Bill based on total investment are 24.46 % in FY 2062/063 and 53.54 % in FY 2063/064, 56.89 % in FY 2064/065, 68.91 % in FY 2065/066 and 60.05 % in FY 2066/067. It is declining rate up to FY 2061/062 than previous years and increasing rate from FY 2062/063 to FY 2063/064.

The investment percentage in Domestic Licensed Institutions on total investment are 6.75% in FY 2062/063, 3.34% in FY 2063/064, 2.30% in FY 2064/065, 26.78% in FY 2065/066 and 22.18% in FY 2066/067.

The Investment percentage in share of organized institutions on total investment are 2.33% in FY 2062/063, 1.10% in FY 2063/064, 0.73% in FY 2064/065, 1.80% in FY 2065/066 and 1.84% in FY 2066/067.

The investment percentage in other investment on total investment are 66.46 % in FY 2062/063, 42.02 % in FY 2063/064, 40.07% in FY 2064/065, 0.48% in FY 2065/066 and 0.51% in FY 2066/067.

Investment in Nepal Government Treasury Bill is riskless investment. The above mentioned data reveals that the ADBL has changed its policy of investment from risky assets to riskless assets. However the riskless assets do not product sufficient revenue. The investment in Nepal Government Treasury Bill is found 24.46% out of total investment in the beginning year and it remains to 60.05% in final year of examine.

4.3 Loan and Advances

Interest income is the primary source of revenue of a Bank. It is earned through investment at Government Treasury Bill, share of Local Licensed Institutions and Organized Institutions. Likewise mainly interest income is generated from loan provided to the private sector as well as mass people. The main portion of interest income is covered from loan outstanding providing to the private sector as well as mass people. It is riskier than other investment for bank. However effective and efficient management of credit helps to reduce the risk. Loan consists of active loan and passive loan. Active loan means that type of loan which is regular in recovery without overdue whereas passive loan means that type of loan which is irregular and overdue. After adjusting loan loss provision at total loan, the net loan is achieved. On the basis of due

period the loan and advance is classified into active and passive. The following table shows the position of loan and advance:

Table 4.2: Classification of Outstanding Loan and Bills Purchase

From FY 2062/063 to FY 2066/067

Rs. in '000

Particular	Ref.	2062/063		2063/064		2064/065		2065/066		2066/067	
		%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
Active Loan		79.41	26451752	82.04	28255074	88.31	32324208	90.29	34580329	91.64	36273500
Passive Loan		20.59	6858994	17.96	6185295	11.69	4280510	9.71	3720774	8.36	3309372
Total Outstanding Loan	A	100	33310746	100	34440369	100	36604718	100	38301103	100	39582872
Provision	B		8409833		7188036		6015290		5698007		5705915
Net Outstanding Loan	C=A-B	100	24900913	100	27252333	100	30589428	100	32603096	100	33876957

Source: Annual Report of ADBL

Table 4.2 shows classification of the loan and bills purchase description of ADBL. The net loan is 24900913 in FY 2062/063. It is increased by 2351420 in FY 2063/64 and remained to 27252333. The growth rate is 9.44 % in this year. By increasing by 3337095 (12.25%) it has reached to 30589428. in FY 2064/065. Furthermore it has increased by 2013668 (6.58%) as compared to previous year and reached to 32603096 in FY 2065/066. Finally the indicator has reached to 33876957 in FY 2066/067 which is marked as 6.33% in growth. In this the net loan is increased in every year.

The table 4.2 also indicates the loan composition of ADBL. There is higher proportion of passive loan in FY 2062/063. It is 20.59%, which is the worst indication of business. But in FY 2063/064 it is decreased by 2.63% and remained to 17.96%. In FY 2064/065 it is 11.69%. In FY 2065/066 it decreases to 9.11%. In final year of examination (FY 1066/067) the proportion of passive loan has remained in only 8.36%. The trend proportion of passive loan is gradually decreasing every year which is the green signal of prosperity. It should be maintained within 5% as prescribed by NRB Directives.

4.3 Source of Revenue: The term “Revenue” and “Income” are used interchangeably. The bank does not sell the physical goods like other manufacturing industries. It earns the money by providing service to the customers. It generates revenue by lending the loan to its clients and investing in the assets of trustable institutions. It collects the interest income from lending and investment. Apart from interest income it adds the revenue through non-funding business like Bills Collection, Remittance, Letter of Credit (LC), Guarantee, Locker and Financial Consultancy etc. Those incomes from non-funding business are known as commission, service charges, commitment charges etc. Thus, in this context the total revenue (income) is sometimes termed as 'Sales' or 'Sales Revenue' in banking industries.

4.4 Interest Income

Interest income is the main source of income of commercial bank. It has come from financing to Government Treasury Bill, providing loan to customer, investing at various manufacturing, non-manufacturing industries. Interest income is classified according to source. Sources of interest are loan and overdraft, investment, agency balance, money at call and short notice and others. Interest incomes of the bank are as follows:

Table 4.3: Interest Income

From FY 2062/063 to FY 2066/067

Rs. in '000

Particular	2062/063		2063/064		2064/065		2065/066		2066/067	
	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
1. Loan & Advance	97.21	3921137	98.38	4548409	95.40	3778889	95.31	4032744	77.27	4987829
2. Investment	1.94	78091	0.42	19628	2.85	112846	2.46	104249	3.42	221021
3. Agency Balance	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0
4. Money at Call & Short Notice	0.00	0	0.00	0	0.14	5443	1.32	55817	2.14	138099
5. Others	0.85	34316	1.19	55059	1.61	63953	0.91	38333	17.16	1107908
Total	100	4033544	100	4623096	100	3961131	100	4231143	100	6454857

Source: Annual Report of ADBL

Table 4.3 shows that interest income of the bank is 4033544 in FY 2062/063. In FY 2063/064 it has reached to 4623096, which is measured the growth of 14.62%. But in FY 2064/065 it declines by 661964(14.32%) and remains to 3961131 only. In FY 2065/066 and FY 2066/067 the interest incomes have been increased by 6.82% and 52.56% respectively. It is seemed that a dramatically increment in interest income in FY 2066/67 and reached to 6452857. In this year the bank has earned interest by 138099 thousand from treasury business under title of money at call and short notice. The performance of the bank is positive in this year.

Interest income from loan and overdraft covered out of total interest income are 97.21%, 98.38%, 95.40%, 95.31% and 77.27% in FY 2062/063, FY 2063/064, FY 2064/065, FY 2065/066 FY 2066/067 respectively.

ADBL has started trade finance from FY 2064/065 by incorporating the autonomous Treasury Division. Interest income from money at call and short notice are 5443, 55817 and 138099 in FY 2064/065, FY 2065/066 FY 2066/067 respectively. The income structure is capturing by this business to the final years.

4.5 Commission and Discount Income

ADBL has fully converted into 'A' class commercial bank from a development bank. That is why the function of ADBL is also wide spread. It has functioned of non-fund business like remittance, bank guarantee, LC, FOREX, safe deposit locker etc. ADBL earns commission, discount and service charge by these businesses. Commission and discount receipt is another main source of income of ADBL. It includes bills purchase and discount, commission and others. Discount income is received from bills purchase. Commission is received from guarantee, remittance fee, exchange fee etc. Commission and discount incomes are presented as follows:

Table 4.4: Commission and Discount income

From FY 2059/060 to FY 2063/064

Rs.'000

Particular	2062/063		2063/064		2064/065		2065/066		2066/067	
	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
1. Bills Purchase & Discount	16.56	6997	3.49	1739	1.29	921	0.19	174	0.09	94
2. Commission										
2.1 Guarantees	37.10	15678	48.19	24010	51.73	36800	42.43	38209	46.74	47545
2.2 Remittance Fees	40.36	17057	41.20	20525	2.45	1743	2.89	2600	2.45	2496
2.3 Exchange Fees	2.16	911	0.11	53	29.40	20916	22.21	19996	5.97	6074
3. Other	3.83	1619	7.01	3492	15.12	10759	32.28	29066	44.75	45518
Total	100.00	42262	100.00	49819	100.00	71139	100.00	90045	100.00	101727

Source: Annual Report of ADBL

Table 4.4 shows that income from commission and discount of ADBL is in increasing trend. It is 42262 in FY 2062/063. Then it reached to 49819 in FY 2063/064 by increasing 7557 (17.88%). Again this income reached to 71139 in FY 2064/065 by increasing 21320 (42.79%). After that it reached to 90045 in FY 2065/066 increasing 18906 (26.58%). Finally, it reached to 101727 in FY 2066/067 increasing 11682 (12.97%). There is no fluctuation of receiving commission and discount. It is seemed that the trend is increasing from beginning to end. The commission from Guarantee secures the reliable source of income of ADBL. It holds almost good proportion in total commission and discount during five years. Remittance fee was high proportion in beginning two years but from FY 2064/065 it decrease to only around 2.5%.

4.6 Sundry Income of ADBL

Bank also receives income from various sources except interest income and commission and discount income. Although the amount of sundry income is tiny, it helps to increase the bank's revenue. Sometimes this type of income is known as non-operating income.

Sundry income consists;

Exchange Gain: Income derived from the variation of exchange rate of foreign currency.

Non-operating incomes are:

- Income generated from selling of investment, assets, securities etc,
- Income from tender
- Sale of scrapped physical assets
- Dividend received in investment
- Subsidies received from Nepal Rastra Bank, Nepal Government and other donor agencies
- Other retail income i.e. rent of safe deposit locker, issuance and renewal of ATM card
- Write back from possible loan loss provision

Sundry incomes of ADBL are presented in the following table:

Table 4.5: Sundry Income of ADBL

From FY 2062/063 to FY 2066/067

Rs. in '000

Fiscal Year	Other Operating Income	Exchange Gain (Loss)	Non-operating Income	Write Back from PLLP	Gain/(Loss) from extra ordinary activities	Total
2062/063	164861	2834	117765	549333	(355266)	479527
2063/064	232033	(14061)	7419	1803214	(1883003)	145602
2064/065	350676	11955	18557	4064478	(1212162)	3233504
2065/066	382246	22096	634989	1381932	1106749	3528012
2066/067	318804	(5576)	19474	2469671	667293	3469666

Source: Annual Report of ADBL

Table 4.5 shows that the total sundry incomes are fluctuating year to year. In FY 2062/063 it is 479527. In FY 2063/064 it decreases to 145602. In FY 2064/065 it shows the miracle increment. It reaches to 3233504 in this year. The main reason of this increment is the write back of loan loss provision. The amount of write back of PLLP is 4064478. Bank has able to down the non-performance (passive) loan in this year. The consequence of downsizing non-performance loan ultimately affects to decrease the possible loan loss provision. Due to the decreasing of possible loan loss provision, the amount assigned to provision can be written back to the income. In FY 2065/066 the sundry income again increases to 3528012. In this year the amount from extra ordinary activities is positive, which is the gain of ADBL. It was loss in previous three years. Gain (Loss) from extra ordinary activities consist the recovery of write off loan (bad debts), write off of doubtful debt and expenses in voluntarily retirement scheme (VRS) of employees . In FY 2066/067 the sundry income again increases and reached to 3469666. The major portion of this amount is held by write back from Possible Loan Loss Provision (PLLP) by the figure of 2469671.

4.7 Total Revenue (Sales Revenue) of ADBL

In summarize form Total Revenue of the ADBL includes Interest Income, Commission & Discount Received and Sundry Income.

In Equation form,

Total Revenue = Interest Income +Commission & Discount Received + Sundry Income

Table 4.6: Total Revenue (Sales Revenue) of ADBL

From FY 2062/063 to FY 2066/067

Rs. in '000

Fiscal Year	Interest Income	Commission and Discount Received	Sundry Income	Total Income
2062/063	4033544	42262	479527	4555333
2063/064	4623096	49819	145602	4818517
2064/065	3961131	71139	3233504	7265774
2065/066	4231143	90045	3528012	7849200
2066/067	6454857	101727	3469666	10026250
Total Income	23303771	354992	10856311	34515074

Source: Annual Report of ADBL

Table 4.6 shows that total income of the bank are 4555333, 4818517, 7265774, 7849200, 10026250 in FY 2062/063, FY 2063/064, 2064/065, FY 2065/066, and FY 2066/067, respectively. It is in increasing trend in every year.

It can be shown in the bar diagram as follows:

Figure 4-1: Total Income

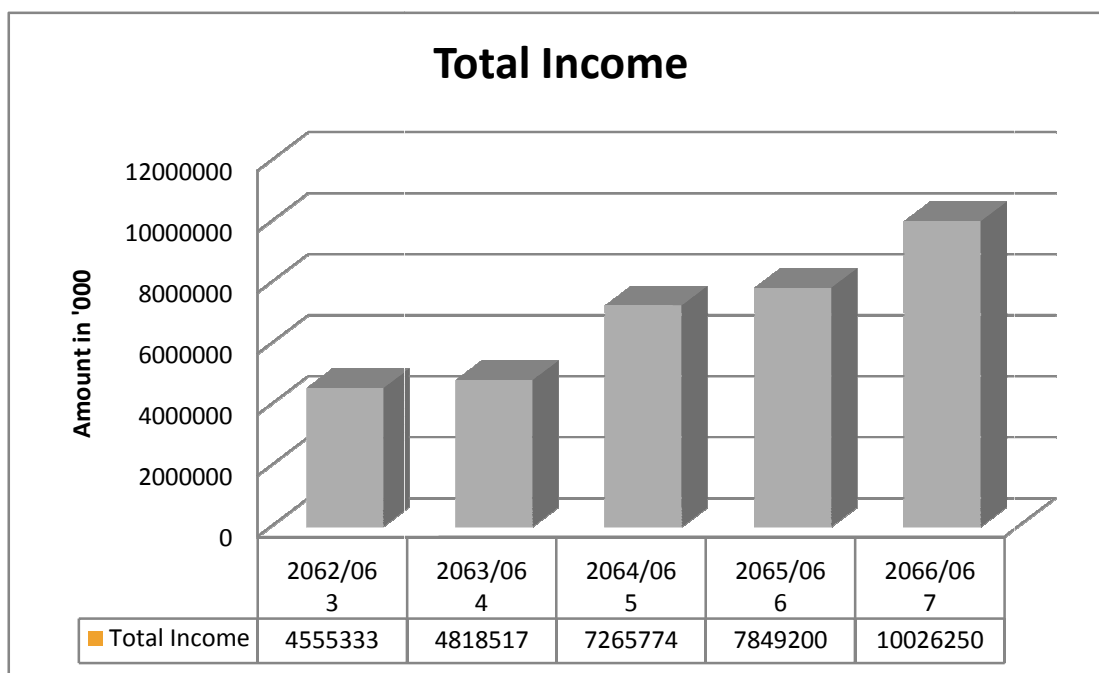


Figure 4.1 also shows that the total income of the bank is in increasing level in every year of ADBL.

4.8 Revenue Budget of ADBL

Revenue plan is prepared on the basis of revenue forecast. Revenue plan formulation is the primary step in developing the overall plan procedure. Revenue is the primary source of cash and all other functional plans are prepared on the basis of revenue budget.

Revenue budget is the primary and important steps as well as the primary source of information which can be used in preparing functional budget. The lending and investment activity, additional capital requirement, human resource management, material and physical facilities management, liquidity maintenance and appropriate cash management are based on the sales revenue budget. The sales plan is the basic steps which opens the door of financial plan. Efficiency of planner or planning expert can be evaluated from the comparison between budgeted and actual activities.

The sales revenue determines the volume of loan and advance as well as investment decision. The capacity of operating non-funding business is also directed by the sales revenue. Staffs, office and administrative and casual expenses budgets are prepared on the basis of activity of bank. So, it can be said that the sales plan is the backbone of the profit plan.

The revenue budget should be as realistic as much as possible. If the revenue plans are unrealistic then all other elements of profit plans go to ruin either being wastage or shortage.

In the context of ADBL revenue plan will be prepared on the basis of revenue forecast. Revenue plan preparation involves the following four interrelated steps:

- Budgeting of Disbursement
- Budgeting of Principal recovery
- Budgeting of Interest Collection
- Budgeting of Total Revenue (Sales)
- Budgeting of Expenditure

The overall responsibility of preparing sales budget lies in Planning Division of ADBL although Chief Executive Officer and other functional managers should also be involved in such activities.

ADBL has practice of preparing budgeting for five years and sometimes ten years. It is known as strategic plan. However ADBL prepares budget for every fiscal year to boost the strategic plan. ADBL has no any problem in disbursement and investment.

4.8.1 Budgeting of Disbursement

The amount of principal, which is lent by the bank to the customer in the pre-condition of refund with interest, is known as loan. The bank provides the principal fund to customers to establish and promote the any kind of business against their collateral given to bank is called loan. The procedure of lending loan is known as disbursement in banking business term.

There are various types of loan having different interest rate. Normally on the basis of time, there is three terms of loan is existing:

- a) Short-term loan (Below 0.5 to 1.5 years)
- b) Medium-term loan (1.5 to 7 years)
- c) Long-term loan (7-20 years)

ADBL prepares the disbursement budget for upcoming fiscal year annually. It fixes the disbursement ceiling and assigns to the functional branches with the coordination of branches on the basis of historical data analysis and potentiality of the business environment. Disbursement budget is the check list of actual disbursement activities. It controls and monitors the lending activities.

Table 4.7: Comparison between Budgeted and Actual Disbursement

From FY 2062/063 to FY 2066/067

Rs in '00000

Fiscal Year	Budgeted	Actual	Achievement %
2062/063	169704	303139	178.63 %
2063/064	294420	292855	99.47 %
2064/065	317701	362512	114.1 %
2065/066	343257	420554	122.52 %
2066/067	398500	426958	107.14 %

Source: program and Budget Book of ADBL and Annual Report of ADBL

Table 4.6 shows that there is higher achievement in FY 2062/063 to budgeted figure. It can't be said reality planning. Remaining four years have consistency budgeting figures.

There is gradually increment in the disbursement in budgeted and actual figure in research period which is the positive signal for institution.

Above figure can be shown in bar diagram as follows:

Figure 4-2: Comparative Diagram of Budgeted and Actual Disbursement

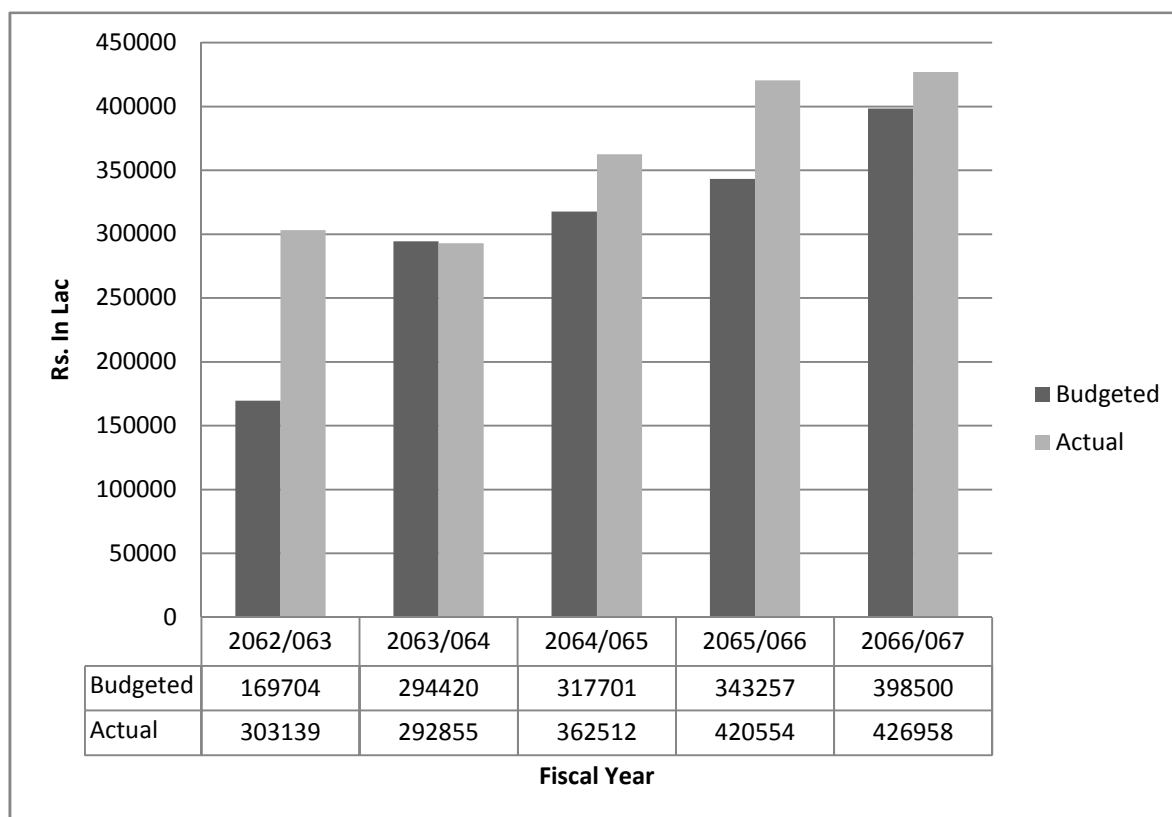


Figure 4.2 shows that the achievement of disbursement is always higher than the budgeted. The figure clearly depicts the highly satisfactory achievement of ADBL.

Formulation of Hypothesis

Null Hypothesis, $H_0: \bar{X} = \bar{Y}$, there is no significant difference between budgeted and actual disbursement of Bank.

Alternative Hypothesis, $H_1: \bar{X} \neq \bar{Y}$, there is significant difference between budgeted and actual disbursement of Bank.

Before applying t-test formula, the indicators are considered as independent to each other, therefore the test statistic for two independent means, under H_0 is:

$$t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_1} \right)}}$$

where,

$$\bar{X} = \frac{\sum X}{n}$$

$$\bar{Y} = \frac{\sum Y}{n}$$

$$S^2 = \frac{1}{n_1+n_2-2} [\sum(X - \bar{X})^2 + \sum(Y - \bar{Y})^2]$$

Rs in '00000

Fiscal Year	Budgeted	Actual	X- \bar{X}	(X- \bar{X}) ²	Y- \bar{Y}	(Y- \bar{Y}) ²
	X	Y	(X- 304716.40)		(Y- 361203.60)	
2062/063	169704	303139	-135012.40	18228348153.76	-58064.60	3371497773.16
2063/064	294420	292855	-10296.40	106015852.96	-68348.60	4671531121.96
2064/065	317701	362512	12984.60	168599837.16	1308.40	1711910.56
2065/066	343257	420554	38540.60	1485377848.36	59350.40	3522469980.16
2066/067	398500	426958	93783.60	8795363628.96	65754.40	4323641119.36
	$\sum X =$ 1523582	$\sum Y =$ 1806018		$\sum(X-\bar{X})^2 =$ 28783705321.20		$\sum(Y-\bar{Y})^2 =$ 15890851905.20

$$n = 5$$

$$\bar{X} = \frac{\sum X}{n} = \frac{1523582}{5} = 304716.40$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{1806018}{5} = 361203.60$$

$$S^2 = \frac{1}{n_1+n_2-2} [\sum(X - \bar{X})^2 + \sum(Y - \bar{Y})^2]$$

$$S^2 = \frac{1}{5+5-2} [28783705321.20 + 15890851905.20]$$

$$S^2 = 0.125 \times 44674557226.40 = 5584319653.30$$

$$t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_1} \right)}}$$

$$t = \frac{304716.40 - 361203.60}{\sqrt{5584319653.30 \times \left(\frac{1}{5} + \frac{1}{5}\right)}}$$

$$t = \frac{-56487.2}{\sqrt{5584319653.30 \times 0.4}} = \frac{-56487.2}{\sqrt{2233727861.32}} = \frac{-56487.2}{47262.33}$$

$$t = -1.195184404$$

$$|t| = 1.195184404$$

The degree of freedom = $n_1 + n_2 - 2 = 5 + 5 - 2 = 8$

The tabulated value of t for 8 d.f. at 5% level of significance for two tailed test is 2.306.

i.e. $t_{0.05}(8) = 2.306$.

Decision:

Since the calculated value of t is less than the tabulated value at 5% level of significance. i.e. $1.195184404 < 2.306$, Alternative hypothesis H₁ is rejected and Null hypothesis H₀ is accepted. Therefore conclusion is that there is no significant difference between budgeted and actual disbursement. Achievements have been acquired as expected by the management.

4.8.2 Budgeting of Principal Recovery

The activity of refunding of disbursed amount from the customer is known as principal recovery. Simply it is also called principal collection. A bank or any financial institution can be described necessary amount to their borrowers and collect the entire disburse amount in time if there is a good loan management system.

Designation of repayment of the loan is also an art to the bankers. The appropriate selection of the repayment method according to the nature of loan is also a challenging part of loan administrator. Loan is defined as the amount expected to be repaid with interest. In each loan, modalities for repayments is mentioned which is affected by the nature of debt. In case of long-term loan, payment is received in the form of installments (principal + Interest) as per pre-fixed schedule. So in the case of hire purchase loan while in case of overdraft, interest is paid at the given frequency (monthly/ quarterly/ bi-annually) while principal is paid at any time before expiry of the facility. In case of part payment, interest is paid first and remaining

amount is utilized to reduce principal outstanding. There are loans in which interest and full debt is paid in lump sum. In some cases, interest is paid periodically and full debt at maturity.

In the context of ADBL, it does not capitalize interest while making installment. It divides the principal amount into different installments and assigns recovery deadline date. Generally, it determines single installment for short term loan however sometimes it creates up to three installments for 1.5 years loan. In mid term loan, it determines various numbers of installments and targeted to collect quarterly, semi-annually and annually as the nature of loan heading and income generation period. In long term loan, it initially provides the gestation period for project and determines the installment thereafter. Loan provided for horticulture, fixed capital to factory may be the small example of long term debt. Such type of loan may require the gestation period for making income. That is why bank does not fix the installment of principal amount during this gestation. It targets only interest in this period. After gestation period it determines the installment of principal recovery monthly, quarterly and semi-annually as per income generation nature. However the loan provided to fruit like mango, apple, orange etc make income annually and thus principal collection installment also assigned annually.

ADBL forecasts the principal recovery ceiling for upcoming fiscal year every quarter end of prior fiscal year. The planning division prepares principal recovery budget with the coordination of functional branches. The budgeted loan heading wise targets become basic guideline for achievement.

Table 4.8: Comparison between Budgeted and Actual Principal Recovery

From FY 2062/063 to FY 2066/067 (Rs in
'00,000)

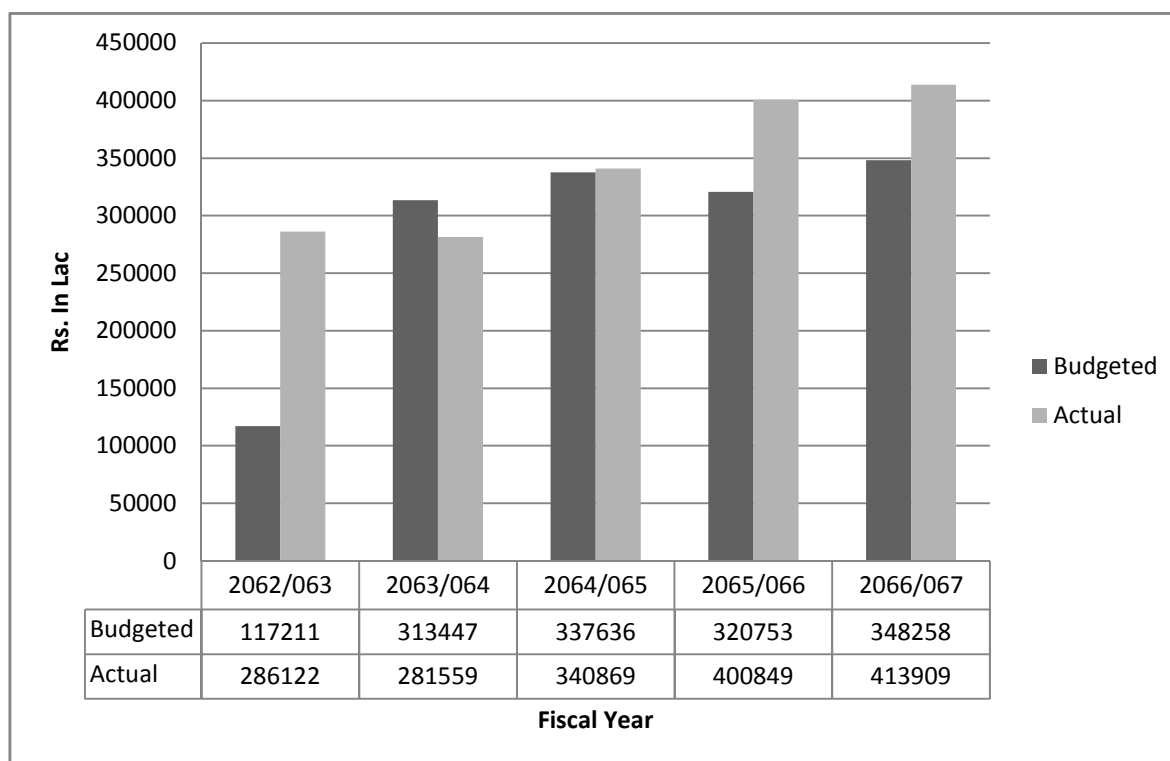
Fiscal Year	Budgeted	Actual	Achievement %
2062/063	117211	286122	244.11 %
2063/064	313447	281559	89.83 %
2064/065	337636	340869	100.96 %
2065/066	320753	400849	124.97 %
2066/067	348258	413909	118.85 %

Source: program and Budget Book of ADBL and Annual Report

The analysis of above table 4.7 shows the highly satisfactory result of ADBL in Principal Collection except in F/Y 2063/064. On the basis of trend moving of five years, it can be assumed that the budget fixing for F/Y 2062/063 was wrong. Because it is so low in figure as compared to other F/Y's budget figure. The actual principal recovery is 244.11% higher than the budgeted figure, which is so fantastic. In F/Y the actual achievement is found lower than the budgeted. As compared to previous year it is not ill satisfaction. It is decreased only 1.59% based on previous year's performance. The reason of decreasing may be the expectation of loan subsidy of loanee (loan customer) from the changing situation of political environment in the nation. Remained coming F/Ys have green indicator of the bank. Both percentage and figure are increasing.

The Principal Recovery achievement with respect to budgeted figure of ADBL also can be presented with the help of following bar diagram.

Figure 4-3 Comparative Diagram of Budgeted and Actual Principal Recovery



The above diagram 4.3 shows the achievement of principal recovery of ADBL from F/Y 2062/063 to 2066/067 which explains that actual principal recovery is almost higher than the budgeted figure. In F/Y 2063/064 the actual achievement could not exceed the budgeted figure. The maximum matching condition of budget and actual performance is seen in F/Y

2064/065. The diagram clearly depicts the higher satisfactory result in principal recovery of ADBL.

Formulation of hypothesis

Null Hypothesis, $H_0: \bar{X} = \bar{Y}$, there is no significant difference between budgeted and actual principal collection of Bank.

Alternative Hypothesis, $H_1: \bar{X} \neq \bar{Y}$, there is significant difference between budgeted and actual principal collection of Bank.

Before applying t-test formula, the indicators are considered as independent to each other, therefore the test statistic for two independent means, under H_0 is:

$$t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_1} \right)}}$$

(Rs in
'00,000)

Year	Budgeted	Actual	$X-\bar{X}$	$(X-\bar{X})^2$	$Y-\bar{Y}$	$(Y-\bar{Y})^2$
	X	Y	X- 04716.40		Y- 361203.60	
2062/063	117211	286122	-170250	28985062500	-58540	3426884768
2063/064	313447	281559	25986	675272196	-63103	3981938127
2064/065	337636	340869	50175	2517530625	-3793	14383814.76
2065/066	320753	400849	33292	1108357264	56187	3157023919
2066/067	348258	413909	60797	3696275209	69247	4795202407
	$\Sigma X =$ 1437305	$\Sigma Y =$ 1723308		$\Sigma (X-\bar{X})^2 =$ 36982497794		$\Sigma (Y-\bar{Y})^2 =$ 15375433035

n = 5

$$\bar{X} = \frac{\Sigma X}{n} = \frac{1437305}{5} = 287461$$

$$\bar{Y} = \frac{\Sigma Y}{n} = \frac{1723308}{5} = 344661.6$$

$$S^2 = \frac{1}{n_1+n_2-2} [\Sigma (X - \bar{X})^2 + \Sigma (Y - \bar{Y})^2]$$

$$S^2 = \frac{1}{5+5-2} [36982497794 + 15375433035]$$

$$S^2 = 0.125 \times 52357930829 = 6544741354$$

$$t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_1} \right)}}$$

$$t = \frac{287461 - 344661.6}{\sqrt{6544741354 \times \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$t = \frac{-57200.6}{\sqrt{6544741354 \times 0.4}} = \frac{-57200.6}{\sqrt{2617896541}} = \frac{-57200.6}{51165.38421}$$

$$t = -1.11795506$$

$$|t| = 1.11795506$$

$$\text{The degree of freedom} = n_1 + n_2 - 2 = 5+5-2 = 8$$

The tabulated value of t for 8 d.f. at 5% level of significance for two tailed test is 2.306.

$$\text{i.e. } t_{0.05}(8) = 2.306.$$

Decision:

Since the calculated value of t is less than the tabulated value at 5% level of significance. i.e. $1.11795506 < 2.306$, Alternative hypothesis H1 is rejected and Null hypothesis H0 is accepted. Therefore this study can conclude that there is no significant difference between budgeted and actual principal recovery. The principal recovery achievements have been acquired as expected by the management in every year.

4.8.3 Budgeting of Interest Collection

In the previous chapter it is known that interest is the backbone of the any bank or loan provider. It is principal source of income of banking industries. Loan customer (Loanee) has to pay the additional amount of money except from principal for the use of borrowed money; that is interest. It is income for bank and expenses for customer. In the context of interest collection of bank, it always refers to income of bank.

The bank has followed discriminatory interest rate policy depending upon the borrowers and the purpose of loans. Loans for co-operative are cheaper as against loans for individual borrowers. Similarly, loans for irrigation, bio-gas, horticulture, tea and coffee, land development and housing, go-down and cold storage etc are cheaper as compared to other loans provided by the banks. All types of commercial loan i.e. trading loan, overdraft, working capital etc have higher interest rate among the other loan heading.

ADBL sets the annual interest collection program and forecasts the collection target every year. Mainly, this task is done by the planning division incorporated with functional branches and top management. The setting of interest collection target is based on volume of outstanding loan and money liquidity position of the market. ADBL always want to keep zero interest due but sometimes it is not possible.

Table 4.9: Comparison of Budgeted and Actual Interest Collection

From FY 2062/063 to FY 2066/067

(Rs 00,000)

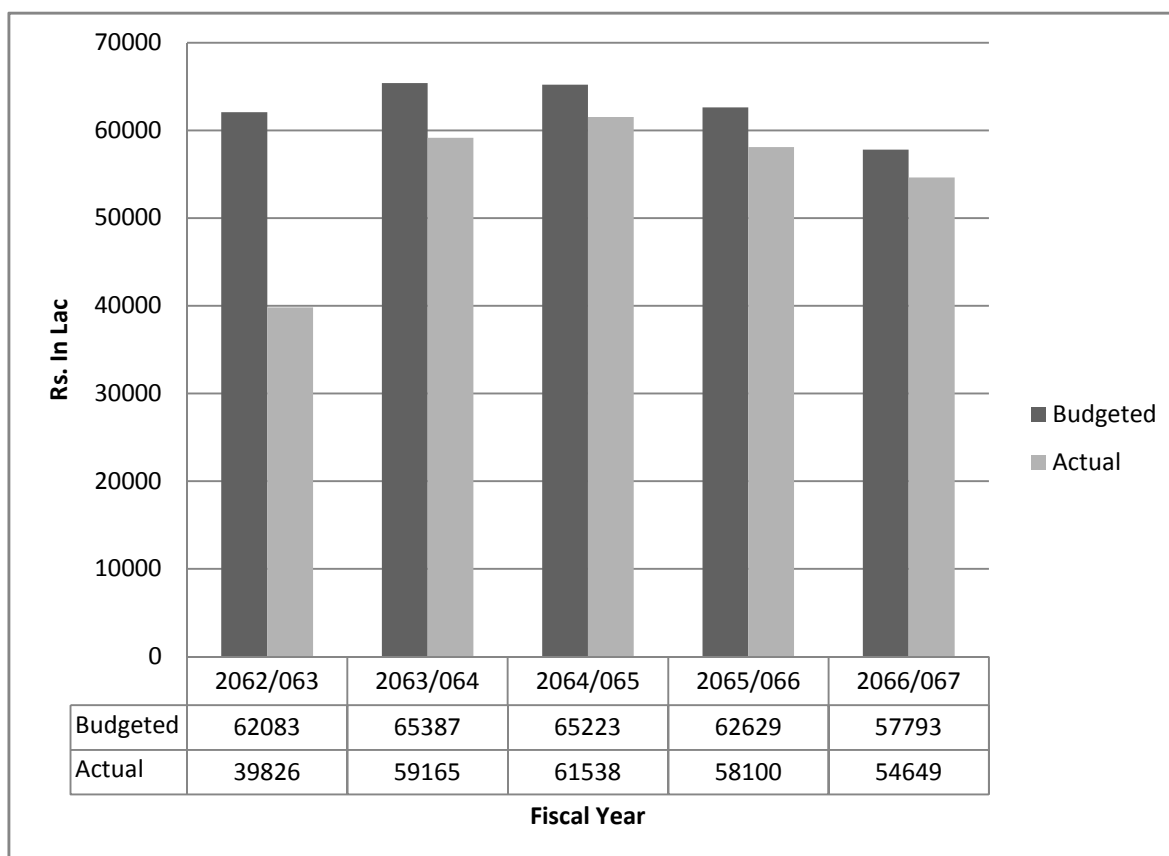
Fiscal Year	Budgeted	Actual	Achievement %
2062/063	62083	39826	64.15 %
2063/064	65387	59165	90.48 %
2064/065	65223	61538	94.35 %
2065/066	62629	58100	92.77 %
2066/067	57793	54649	94.56 %

Source: program and Budget Book of ADBL and Annual Report

The table 4.8 shows the moderate satisfactory result of ADBL in Interest Collection. The targets of five years are almost identical in figures. The lowest target is felt in F/Y 2066/067 and the highest target is in F/Y 2063/064. The figures lie between the range of 57793 and 65387. However the minimum figure is 39826 in F/Y 2062/063 and maximum is 61538 in F/Y 2064/065. The achievement is also very sound in this year. It is 94.35% which is very good performance for interest collection target from the view point of management. The performance is shown very poor in F/Y2062/063. It is only 64.15%. The critical reason may be the historical public movement fallen in the nation in this year.

The Interest Collection achievement with respect to budgeted figure of ADBL also can be shown efficiently with the help of following diagram.

Figure 4-4 Comparative Diagram of Budgeted and Actual Interest Collection



The above Figure 4.3 shows the achievement of interest collection of ADBL from F/Y 2062/063 to 2066/067 which explains that actual interest collection is always lower than the budgeted interest collection. In F/Y 2062/063 the budgeted interest collection is too much higher than actual interest collection. The maximum matching condition of budget and actual performance is seen in F/Y 2064/065. The diagram clearly depicts the lower satisfactory in interest collection target of ADBL.

Formulation of hypothesis

Null Hypothesis, $H_0: \bar{X} = \bar{Y}$, there is no significant difference between budgeted and actual interest collection of Bank.

Alternative Hypothesis, $H_1: \bar{X} \neq \bar{Y}$, there is significant difference between budgeted and actual interest collection of Bank.

Before applying t-test formula, the indicators are considered as independent to each other, therefore the test statistic for two independent means, under H_0 is:

$$t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_1} \right)}}$$

(Rs 00,000)

Year	Budgeted	Actual	$X - \bar{X}$	$(X - \bar{X})^2$	$Y - \bar{Y}$	$(Y - \bar{Y})^2$
	X	Y	X- 62623		Y- 54655.6	
2062/063	62083	39826	-540	291600	-14830	219917036.2
2063/064	65387	59165	2764	7639696	4509	20334688.36
2064/065	65223	61538	2600	6760000	6882	47367429.76
2065/066	62629	58100	6	36	3444	11863891.36
2066/067	57793	54649	-4830	23328900	-7	43.56
	$\Sigma X =$ 313115	$\Sigma Y =$ 273278		$\Sigma (X - \bar{X})^2 =$ 38020232		$\Sigma (Y - \bar{Y})^2 =$ 299483089.2

$$n = 5$$

$$\bar{X} = \frac{\Sigma X}{n} = \frac{313115}{5} = 62623$$

$$\bar{Y} = \frac{\Sigma Y}{n} = \frac{273278}{5} = 54655.6$$

$$S^2 = \frac{1}{n_1 + n_2 - 2} [\Sigma (X - \bar{X})^2 + \Sigma (Y - \bar{Y})^2]$$

$$S^2 = \frac{1}{5 + 5 - 2} [38020232 + 299483089.2]$$

$$S^2 = 0.125 \times 337503321.2 = 42187915.15$$

$$t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_1} \right)}}$$

$$t = \frac{62623 - 54655.6}{\sqrt{42187915.15 \times \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$t = \frac{-7967.4}{\sqrt{42187915.15 \times 0.4}} = \frac{-7967.4}{\sqrt{16875166.06}} = \frac{-57200.6}{4107.939393}$$

$$t = -1.939512548$$

$$|t| = 1.939512548$$

$$\text{The degree of freedom} = n_1 + n_2 - 2 = 5+5-2 = 8$$

The tabulated value of t for 8 d.f. at 5% level of significance for two tailed test is 2.306.

$$\text{i.e. } t_{0.05}(8) = 2.306.$$

Decision:

Since the calculated value of t is less than the tabulated value at 5% level of significance. i.e. $1.939512548 < 2.306$, Alternative hypothesis H1 is rejected and Null hypothesis H0 is accepted. Therefore study concludes that there is no significant difference between budgeted and actual interest collection. The collection achievements have been acquired as expected by the management in every year.

4.9 Financial Analysis

The organized summary of detailed information about financial position and performance of a concern is known as the financial statement. The financial statement is prepared at the end of accounting period. The purpose of preparing financial statement is for periodic review of performance of the organization. It shows financial position and direction of the entity whether it is smoothly running or not. Following statements are included in financial statement:

- Income Statement or Statement of Profit and Loss Account
- Statement of Position or Balance Sheet
- Cash Flow Statement

As per the prudential norm of the NRB, every bank and financial institution must have to publish the financial statement in a national daily news paper quarterly.

Here, in this analysis, only Income Statement of ADBL is taken for analysis of revenue oriented activities. Due to making concise study, other statements are excluded. This study focuses only revenue and profit concerned activities.

4.9.1 Contribution Margin

Table 4.10: Calculation of Contribution Margin

Rs. in '000

Fiscal year	Sales	Variable Cost	Contribution Margin
Ref.	1	2	3=1-2
2062/063	4406050	1528043	2878007
2063/064	4480734	1703563	2777171
2064/065	3990677	1147439	2843238
2065/066	5664511	1272880	4391631
2066/067	6454016	1628561	4825455

Source Appendix IV

Contribution Margin = Sales- Variable Cost

$$\text{PV Ratio} = \frac{\text{Contribution Margin}}{\text{Sales}}$$

$$\text{BE Sales} = \frac{\text{Fixed Cost}}{\text{PV Ratio}}$$

Break Even Point

Break even analysis has become powerful instrument in the hands of policy makers to maximize profit. The break even analysis is the term used to study the interrelationship between cost, volume and profit. BE analysis makes a relation between the profits and cost with respect to volume. It indicates the level of sales in which cost and revenue are in equilibrium. The equilibrium point is called BEP. If the bank has lower variable cost, BEP also becomes in lower limit and vice versa. If the fixed cost is higher, BEP also reaches to higher limit. So in cost combination lower fixed cost is less risky than higher fixed cost. It can be computed by using the following formulae.

$$BEP(Rs.) = \frac{Fixed\ Cost}{PV\ Ratio}$$

Where,

$$PV\ Ratio = \frac{Contribution\ Margin}{Sales}$$

$$= \frac{Sales - Variable\ Cost}{Sales}$$

$$= \frac{Sales}{Sales} - \frac{Variable\ Cost}{Sales}$$

$$= 1 - \frac{Variable\ Cost}{Sales}$$

So that, alternatively

$$BEP(Rs.) = \frac{Fixed\ Cost}{1 - \frac{Variable\ Cost}{Sales}}$$

For Fiscal year 2062/063

$$BEP(Rs.) = \frac{1942027}{1 - \frac{1528043}{4406050}}$$

$$= \frac{1942027}{0.6532}$$

$$= 2973123$$

This calculation can be shown in chart in the following way:

Table 4.11: Calculation of Contribution Margin, PV Ratio and BE Sales

Rs. in '000

Fiscal year	Sales	Variable Cost	Contribution Margin	Fixed Cost	PV Ratio	BE Sales
Ref.	1	2	3=1-2	4	5=3/1	6=4/5
2062/063	4406050	1528043	2878007	1942027	0.653194	2973123
2063/064	4480734	1703563	2777171	1486655	0.619803	2398594
2064/065	3990677	1147439	2843238	2033521	0.71247	2854184
2065/066	5664511	1272880	4391631	2631597	0.775289	3394345
2066/067	6454016	1628561	4825455	2889320	0.747667	3864447

Source: Appendix IV

Note: Considering only Interest Expenses as Variable Cost

In this section, the unit variable cost is taken only interest expenses.

$$BE (Q) = \frac{\text{Fixed Cost}}{SP - UVC}$$

where,

Q: Volume of lending Capital

SP: Selling Price; Lending Interest Rate

UVC: Unit Variable Cost; Deposit Interest Rate

Assumptions

With accordance to the Integrated Directives issued by Nepal Rastra Bank, the Credit Deposit Ratio must be maintained within 0.8:1, which implies that if deposit is collected Re. 1, the bank has to be allowed to disburse only Re. 0.80. Hundred percentage of collected deposit can't be used in lending.

The current financial market indicators show that the average interest rates of lending and deposit fall at 14% and 6% respectively. So in this study the selling price of capital is considered as 14 and the unit variable cost is considered as 6.

Due to the maintaining 80% Credit Deposit Ratio the unit variable cost increases to 7.5%. Then, the formula becomes:

$$BE(Q) = \frac{\text{Fixed Cost}}{SP - \frac{UVC}{CR \text{ Ratio}}}$$

For year 2062/063,

$$BE(Q) = \frac{1942027}{14 - \frac{6}{0.8}}$$

$$= \frac{1942027}{14 - 7.5} = \frac{1942027}{6.5}$$

$$= 298773.38$$

Remaining year's calculation is given in following table:

Fiscal year	Fixed Cost	USP	UVC	CD Ratio	BEP(Q)= Lending Capital	Deposit (D)= Lending Capital /CD Ratio
Ref.	1	2	3	4	5 = $\frac{1}{(2 - \frac{3}{4})}$	6 = $\frac{5}{4}$
2062/063	1942027	14	6	0.8	298773.385	373466.731
2063/064	1486655	14	6	0.8	228716.154	285895.192
2064/065	2033521	14	6	0.8	312849.385	391061.731
2065/066	2631597	14	6	0.8	404861.077	506076.346
2066/067	2889320	14	6	0.8	444510.769	555638.462

4.9.2 Computation of Deposit

The volume of lending and deposit capital can't be same because of rules of NRB as mentioned above paragraph. After finding the volume of lending capital, the volume of deposit must be obtained. Here the calculation is based on the CD ratio is equal to 0.8:1.

$$\text{Deposit} = \text{BE}(Q) = \frac{\text{BE}(Q)}{0.8}$$

Table 4.12: Computation of Lending Capital and Deposit

Rs. in '000

Fiscal year	CD Ratio	BEP(Q)= Lending Capital	Deposit (D) = $\frac{\text{Lending Capital}}{\text{CD Ratio}}$
Ref.	1	2	$3 = \frac{2}{1}$
2062/063	0.8	298773.385	373466.731
2063/064	0.8	228716.154	285895.192
2064/065	0.8	312849.385	391061.731
2065/066	0.8	404861.077	506076.346
2066/067	0.8	444510.769	555638.462

Table 4.13: Verification of Break Even Point

(Rs. in 000)

Fiscal year	Fixed Cost	USP	UVC	CD Ratio	BEP(Q)= Lending Capital	Deposit (D)= Lending Capital /CD Ratio	Sales Revenue= Lending Capital X USP	VC = Deposit X UVC	CM= Sales Revenue - VC	NP = CM - FC
Ref.	1	2	3	4	$5 = \frac{1}{(2 - \frac{3}{4})}$	$6 = \frac{5}{4}$	$7 = 5 \times 2$	$8 = 5 \times 3$	$9 = 7 - 8$	$10 = 9 - 1$
2062/063	1942027	14	6	0.8	298773.385	373466.731	4182827.385	2240800.385	1942027.000	0.000
2063/064	1486655	14	6	0.8	228716.154	285895.192	3202026.154	1715371.154	1486655.000	0.000
2064/065	2033521	14	6	0.8	312849.385	391061.731	4379891.385	2346370.385	2033521.000	0.000
2065/066	2631597	14	6	0.8	404861.077	506076.346	5668055.077	3036458.077	2631597.000	0.000
2066/067	2889320	14	6	0.8	444510.769	555638.462	6223150.769	3333830.769	2889320.000	0.000

VC: Variable Cost

CM: Contribution Margin

FC: Fixed Cost

CD Ratio : Credit Deposit Ratio

UVC : Unit Variable Cost

USP: Unit Selling Price

4.10 Trend Analysis of Net Profit

In the least square method, it is assumed that the sales are consistently changed (increased or decreased) with the change in time. To fit the straight line trend, time factor is considered as independent variable(X) and net profit (Y) is assumed as dependent upon time (years).

Now the straight line trend by least square method for actual sales upon time is expressed by

$$Y_c = a + bx \dots\dots\dots(i)$$

Where,

Y= Net Income

x=Deviation taken in time = $X - \bar{X}$

a=Fixed value

b= Regression Coefficient that measures the annual change in net income

Table 4.14: Fitting Straight Line Trend by Least Square

From F/Y 2062/063 to 2066/067

(Rs. In '000)

Year	X	Y	$x = X - \bar{X}$ or $x = X - 3$	x^2	xY
2062/063	1	935980	-2	4	1871960
2063/064	2	1290516	-1	1	-1290516
2064/065	3	809717	0	0	0
2065/066	4	1720033	1	1	1720033
2066/067	5	1936135	2	4	3872270
Total	$\Sigma X = 15$	$\Sigma Y = 6692381$	0	$\Sigma x^2 = 10$	$\Sigma xY = 2429827$

$$\bar{X} = \frac{\Sigma X}{n} = \frac{15}{5} = 3$$

$$b = \frac{\sum xY}{x^2}$$

$$b = \frac{2429827}{10} = 242982.70$$

and

$$a = \frac{\sum Y}{n} = \frac{6692381}{5} = 3338476$$

Now, the best fit of straight line trend is obtained by substituting the value of 'a' and 'b' in equation i.e. $Y_c = a + bx$, we get,

$$Y_c = 3338476 + 242982.70x$$

For Year 2067/068,

x be the 3. (i.e. 6-3)

$$\begin{aligned} Y_{2067/068} &= 3338476 + 242982.70 \times 3 \\ &= 2067424 \end{aligned}$$

For Year 2068/069,

x be the 4. (i.e. 7-3)

$$\begin{aligned} Y_{2068/069} &= 3338476 + 242982.70x \\ &= 4310407 \end{aligned}$$

In this way, we can obtain the tentative net income by plotting in the following table:

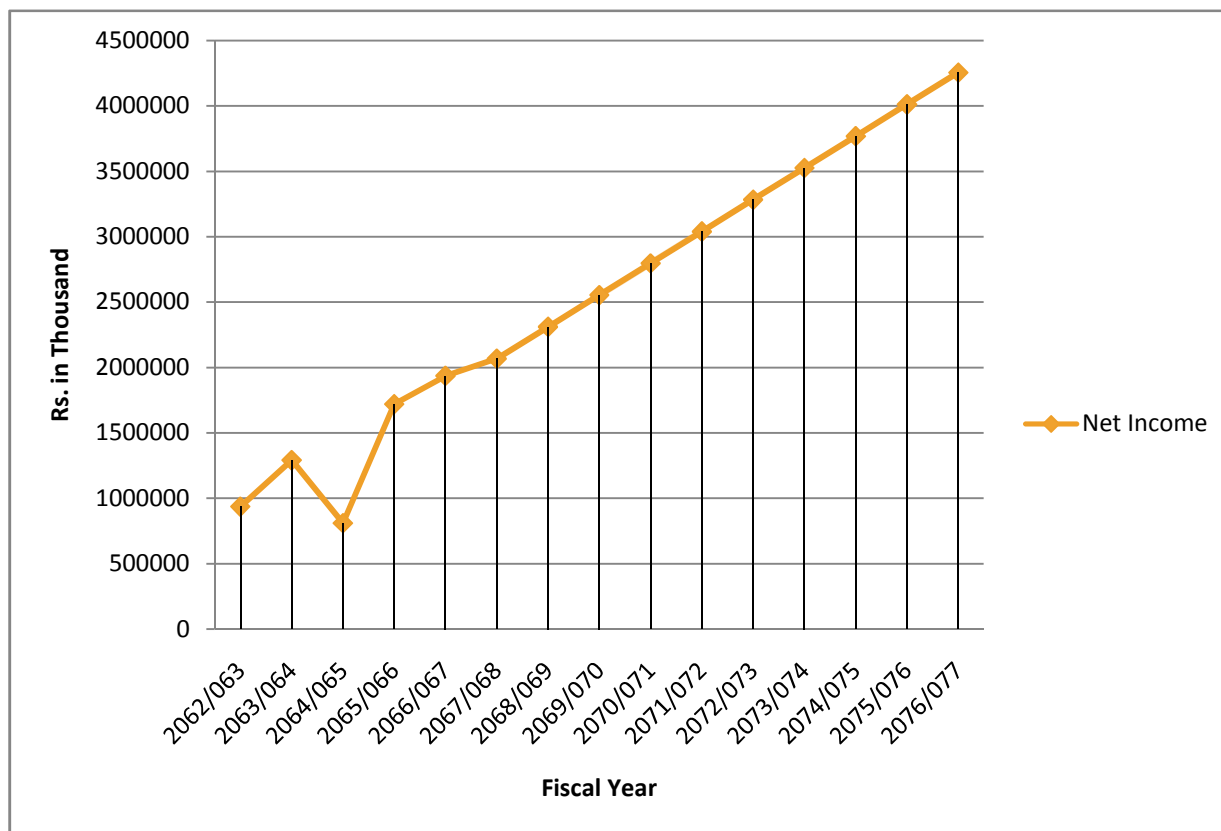
Table 4.15: Calculation of Forecasted Net Income

Rs. In '000

Year	X	x=X-3	=a+bx	YC	Remarks
2062/063	1	-2	No need to calculate	935980	Actual
2063/064	2	-1	No need to calculate	1290516	Actual
2064/065	3	0	No need to calculate	809717	Actual
2065/066	4	1	No need to calculate	1720033	Actual
2066/067	5	2	No need to calculate	1936135	Actual
2067/068	6	3	=1338476 + 242982.70×3	2067424	Forecasted
2068/069	7	4	=1338476 + 242982.70×4	2310407	Forecasted
2069/070	8	5	=1338476 + 242982.70×5	2553390	Forecasted
2070/071	9	6	=1338476 + 242982.70×6	2796372	Forecasted
2071/072	10	7	=1338476 + 242982.70×7	3039355	Forecasted
2072/073	11	8	=1338476 + 242982.70×8	3282338	Forecasted
2073/074	12	9	=1338476 + 242982.70×9	3525321	Forecasted
2074/075	13	10	=1338476 + 242982.70×10	3768303	Forecasted
2075/076	14	11	=1338476 + 242982.70×11	4011286	Forecasted
2076/077	15	12	=1338476 + 242982.70×12	4254269	Forecasted

Above obtained figures also can be presented in following graph:

Figure 4-5 Trend Line of Net Income



The moving line shows the trend of net income. It is gradually moving upwards with consistency of year passing during observed years. Despite of actual decreased net income in FY 2064/065, it is increasing trend in remaining years. Other things considered as constant, the net income will reach to 4254269 thousand in FY 2076/077. It is positive symbol for the bank.

4.11 Relationship between Total Revenue and Profit

Profit is the major element of each and every business endeavor for survival and future development. Business without Profit exists nowhere. However, the concept of profit is changing from time to time. In presents reasonable profit approach seems to hold a strong position. Profit is the nerve center of any business organization. So, it can be said that profit is the blood circulation of any organization. Profit is essential to pay expenditure, dividends, to get benefits from opportunities and to make financials contribution to natural treasury. In modern times effectiveness and efficiency of any business/management are measured by profit. Profit of any organization highly depends upon sales revenue.

ADBBL has been generating positive returns.

The following table shows the revenue and profit & loss trend of NTC from F/Y 2062/063 to 2066/067.

Table 4.16: Total Revenue and Profit & Loss Trend of ADBL

Rs. in '000

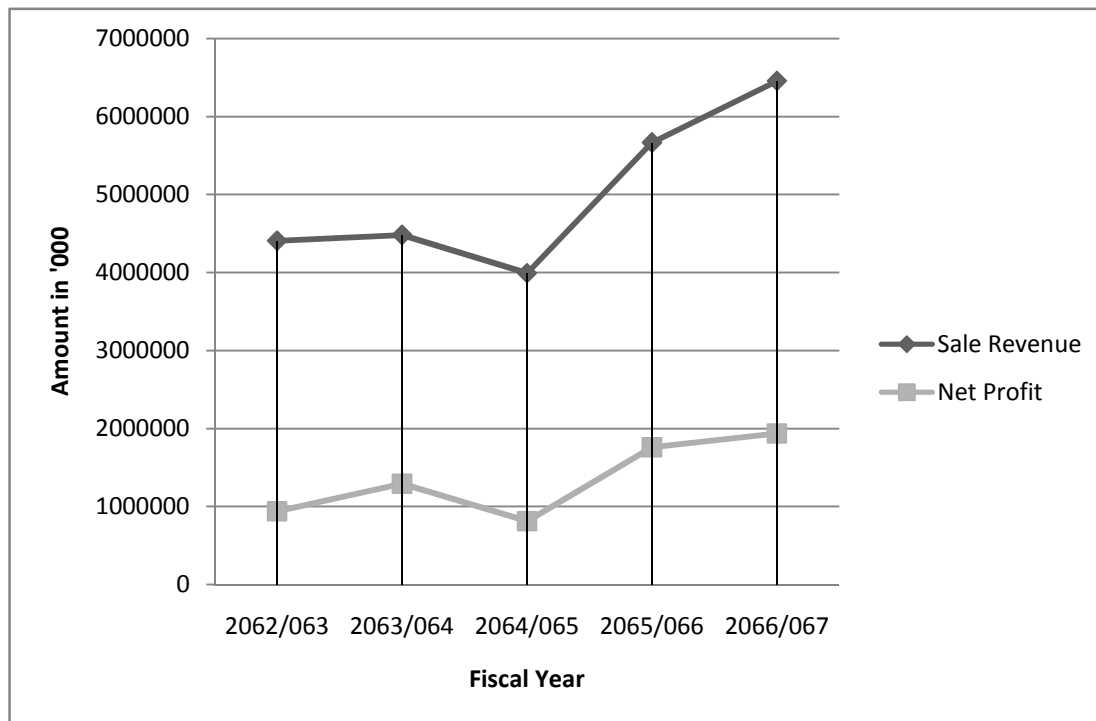
Fiscal Year	Sale Revenue	Increase or Decrease(%)	Net Profit	Increase or Decrease(%)
2062/063	4406050	0	935980	0
2063/064	4480734	1.7%	1290516	37.88%
2064/065	3990677	-10.94%	809717	-37.26%
2065/066	5664511	41.94%	1760034	117.36%
2066/067	6454016	13.94%	1936135	10.01%

Source: Annual Report of ADBL

The above table 4.7 gives the account of Total Revenue and profit & loss trends of ADBL from F/Y 2062/063 to 2066/067. It is clear that ADBL has been generating sustainable profit during research period. It was a Government supported Development Bank before transformation into the public limited company. At prior sometimes it had bore losses. But after being limited commercial bank in 2062 BS it has been run in profit every year. However the profit and sales are not constantly increasing. The fluctuation can be observed up and down during the study period.

Increase/decrease over previous year or the trend of total revenue and profit & loss can be presented by the help of following graph 4....

Figure 4-6 Sales Revenue and Net Profit Trend of ADBL



The above line graph gives the clear picture of relationship between total revenue and profit & loss of ADBL during the research period of 2062/063 to 2066/067. The total revenue is in increasing trends from F/Y 2062/063 to 2066/067 and it slightly down in f/Y 2064/065. Like the sales revenue, the profit & Loss trend is also upward sloped. The line casts the downfall in FY 2066/067. In conclusion, total sales revenue and profit & loss trend both are moving in same direction.

Coefficient of correlation

$$r = \frac{\text{Cov}(X, Y)}{\sigma_x \cdot \sigma_y}$$

where, $\text{Cov}(X, Y)$ = Covariance between X and Y

$$= \frac{1}{n} \sum (X - \bar{X}) (Y - \bar{Y})$$

$$= \frac{1}{n} \sum xy$$

where, $x = (X - \bar{X})$

$$y = (Y - \bar{Y})$$

$$\bar{X} = \frac{\sum X}{n}$$

$$\bar{Y} = \frac{\sum Y}{n}$$

$$\sigma_x = \text{Standard Deviation of } X = \sqrt{\text{Var}(X)} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

$$\sigma_y = \text{Standard Deviation of } Y = \sqrt{\text{Var}(Y)} = \sqrt{\frac{\sum (Y - \bar{Y})^2}{n}}$$

n = no. of pairs of observations

Table 4.17: Correlation Coefficient between Sales Revenue and Profit & Loss

From F/Y 2062/63 to 2066/067

Rs. in '000

Fiscal Year	Sale Revenue	Net Profit	$x = (X - \bar{X})$	$y = (Y - \bar{Y})$	x^2	y^2	xy
	X	Y	X- 4999197.6	Y-1346476.4			
2062/063	4406050	935980	-593147.6	-410496.4	351824075385.76	168507294412.96	243484954468.64
2063/064	4480734	1290516	-518463.6	-55960.4	268804504524.96	3131566368.16	29013430441.44
2064/065	3990677	809717	-1008520.6	-536759.4	1017113800624.36	288110653488.36	541332912143.64
2065/066	5664511	1760034	665313.4	413557.6	442641920219.56	171029888517.76	275145412951.84
2066/067	6454016	1936135	1454818.4	589658.6	2116496576978.56	347697264553.96	857846180998.24
	$\sum X =$ 24995988	$\sum Y =$ 6732382	$\sum x = 0.00$	$\sum y = 0.00$	$\sum x^2 =$ 4196880877733.20	$\sum y^2 =$ 978476667341.20	$\sum xy =$ 1946822891003.80

Sales Revenue is assumed as independent variable denoted by 'X' and Net Profit as assumed as dependent variable denoted by 'Y'.

Sales Revenue (X):

$$\text{Arithmetic Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{24995988}{5} = 4999197.6$$

$$\text{Standard Deviation } (\sigma_x) = \sqrt{\frac{\sum x^2}{n}} = \sqrt{\frac{4196880877733.20}{5}} = 916174.7516$$

Net Profit (Y):

$$\text{Arithmetic Mean } (\bar{Y}) = \frac{\sum Y}{n} = \frac{6732382}{5} = 1346476.4$$

$$\text{Standard Deviation } (\sigma_y) = \sqrt{\frac{\sum y^2}{n}} = \sqrt{\frac{978476667341.20}{5}} = 442374.6528$$

$$\text{Covariance of X and Y} = \text{Cov}(X,Y) = \frac{1}{n} \sum xy = \frac{1}{n} \times 1946822891003.80$$

$$= 389364578200.76$$

$$\text{Coefficient of Correlation } (r_{xy}) = \frac{\text{Cov}(X,Y)}{\sigma_x \cdot \sigma_y}$$

$$= \frac{389364578200.76}{916174.7516 \times 442374.6528}$$

$$= 0.96$$

$$\text{Coefficient of Determination } (r^2) = (0.96)^2 = 0.922945 = 92.29\%$$

Table 4.18: Summary of Statistical Tools

Statistical Tools	Sales Revenue "X"	Net Profit "Y"
Arithmetic Mean	4999197.60	1346476.40
Standard Deviation	916174.75	552374.65
Covariance of Sales and Profit	389364578200.76	
Correlation Coefficient (r)	0.96	
Coefficient of Determination (r^2)	92.29%	

The correlation coefficient is used to analyze the relationship between sales revenue and net profit. From above table the value of correlation is 0.96 which is near to 1 shows highly positive correlation between sales revenue and net profit, however it is not perfect. That means total revenue and profit moves in quite same direction.

One very convenient and useful way of interpreting the value of coefficient of correlation is coefficient of determination (r^2). The value of coefficient of determination between sales revenue and net profit is 0.9229 which shows that profit is expanded up to 92.29% only by sales revenue and remaining part by other factors.

4.12 Major Findings

The major findings of this research study are based on the analysis of available data are pointed out as follows:

- Investment trend is gradually increasing except FY 2066/067. Investment on Nepal Government Security has reached to 60.05% from 24.46% during the examined year, which seems that ADBL has the policy to hold the riskless assets.
- ADBL seems capable to decrease the portion of passive loan from 20.59% to 8.36%, which is the strength of bank. Net loan (Total Loan minus Provision) is gradually increasing.
- The major source of income of ADBL is interest income. However the income from commission and discount is gradually increasing as compare to prior year.

- Bank does not have the practice of revenue planning. To accomplish the appropriate level of revenue and profit, it sets mainly the budgeting of disbursement, principal recovery and interest collection and finally budgeted income statement. However it is not sufficient.
- The study shows that there is no significant difference between budgeted and actual disbursement. At 5% level of significance the calculated value of t, 1.195 is less than the tabulated value, 2.306.
- There is no significant difference between budgeted and actual principal recovery. The calculated value of t, 1.118 is less than the tabulated value, 2.306 at 5% level of significance. From this data, it can be said that ADBL has been acquiring the achievement as expected by the management.
- Since t calculated value 1.94 is less than t tabulated value at 5% level of significance, study concludes that is no significant difference between budgeted and actual interest collection.
- ADBL has not practiced CVP analysis yet. P/V ratio of the bank is in increasing trend except in FY 2063/064.
- Investment of ADBL is in fluctuating trend.
- ADBL's lending is in increasing trend except in FY 2060/061.
- Interest income is in increasing trend except in FY 2060/061.
- BEP sales of the bank including sundry income are 2973123; 2398594; 2854184; 3394345 and 3864447 in FY 2062/063, FY 2063/064, FY 2064/065, FY 2065/066 and FY 2066/067 respectively.
- On the basis of CD ratio at 80% and actual fixed cost incurred during the sampling period, ADBL would have collect the deposit 373466.73; 285895.19; 391061.73; 506076.35 and 555638.46 in FY 2062/063 thousands, in FY 2063/064, FY 2064/065, FY 2065/066 and FY 2066/067 respectively to be in BE, which are not identical to the actual deposit collection. This analysis does not consider the other variable cost. This study assumed that the selling price of capital is 14 and unit variable cost is 6 as per market trend of interest rate.

- The trend line equation by least square method shows that the net income is in upward slope. On the basis of analysis, the tentative net income will be 2067424 thousand in F/Y 2067/068, 2310407 in F/Y 2068/069, 2553390 in F/Y 2069/070.
- The correlation coefficient (r) of total revenue and profit is 0.96 which shows that the correlation is highly positive. This means they move in the same direction.
- The coefficient of determination (r^2) is 92.29%. This means that profit is expanded up to 92.29% only by total revenue and the remaining portion 7.71% is expanded by other factors.

CHAPTER V

5 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Agricultural Development Bank Limited (ADBL) was established in 2024 under the Agricultural Development Bank Act 2024 with the major objective of improving the socio economic status of rural population. With the enactment of Bank and Financial Institution Ordinance (BAFIO), ADBN Act 2024 was repealed and the operation of ADBL is now governed by the BAFIA. ADBL has been registered as a public limited company under company act 2053 in Ashad 31, 2062 B.S. and has obtained 'A' class operating license from the Nepal Rastra Bank in Chaitra 3, 2062 B.S. This new identity provides the bank ample opportunities to reach under coverage areas with more potentiality for full banking activities. Furthermore, the bank has broaden its range of credit services and provided all facilities to meet the entire banking need of the enterprises and the households purely based on the feasibility of the ventures and the repayment capability of the borrowers.

A comprehensive profit planning and controlling is a systematic and formularized approach for stating and communicating the firm's expectation and accomplishing management in such a way to maximize the use of a profit plan and to achieve the maximum benefit from the resources available to an organization over a particular span of time. It serves as a tool for management control. The effective operation of a business concern resulting into the excess of income over expenditure fully depend upon as to what extent the management follow proper planning, effective coordination and dynamic control. Organization cannot achieve its goals without proper planning and implementation. So profit planning is one of the most important management tools for planning and controlling business operation.

People invest huge amount of money in the business to earn profit. But future is uncertain which creates risk. Good management can reduce risk but can't fully eliminate.

Revenue is the money the company receives for selling their product or service. Every organization generates the reasonable level of revenue to survive in the business environment. Profit is the amount of money left over after costs have been covered. It is therefore calculated by: total revenue minus total costs. Profit can be used as a measure of the businesses success, attracting investors and reinvesting back into the business. The quality of profit can also be measured. Low quality profit is gaining money from an event which is unlikely to occur again in the future but high quality profit is from normal trading activities which should continue to

occur in the future. Profit is directly affected from the revenue. More revenue, more profit is possible if other things remain unchanged.

ADBL was a fully government owned organization in prior. At that period, no need to make sufficient revenue for it. After converting into public company its activities focused in revenue generating and sustainable profit making. The severe competitive situation leads to ADBL towards revenue oriented activities. For the time being it make planning, set objective, goal, long and short range target.

The main objective of this study is to identify and evaluate the current practice of revenue and profit planning of ADBL. So this study is focused the revenue and profit oriented activities of ADBL. In this study secondary data have been used mostly and related other information has collected through informal interview with concerned authority of the bank.

The study has covered five years period i. e. FY 2062/063 to FY 2066/067 and divided in five main chapters which consist of (1) Introduction (2) Conceptual Framework and Review of Literature (3) Research Methodology (4) Data presentation and Analysis (5) Summary, Conclusion and Recommendation.

5.2 Conclusion

On the basis of this study, bank should expand, develop, implement and improve the process of profit oriented activities. Being the member of WTO, there may be the chance of entering branch of foreign bank in Nepal. Now banking competition is increasing day by day. There, so many private and joint venture banks, financial institutions and micro credit development banks have been established. But the money supply within the boundary is limited. In this content ADBL should adopt the proper planning, which could boost the revenue as well as profit. Its activities should be focused in expanding the income generated business which have low risk as well as low cost. In advance revenue and profit planning and control tools can help to achieve the goal of bank in strong competition market. Following facts are summarized from the study:

- Investment trend is gradually increasing except FY 2066/067.
- ADBL seems capable to decrease the portion of passive loan from 20.59% to 8.36%.
- The major source of income of ADBL is interest income. However the income from commission and discount is gradually increasing as compare to prior year.

- ADBL has not practiced CVP analysis yet. P/V ratio of the bank is in increasing trend except in FY 2063/064.
- Investment of ADBL is in fluctuating trend.
- ADBL's lending is in increasing trend except in FY 2060/061.
- Interest income is in increasing trend except in FY 2060/061.
- BEP sales of the bank including sundry income are 2973123; 2398594; 2854184; 3394345 and 3864447 thousands in FY 2062/063, FY 2063/064, FY 2064/065, FY 2065/066 and FY 2066/067 respectively.
- The trend line equation by least square method shows that the net income is in upward slope. On the basis of analysis, the tentative net income will be 2067424 thousand in F/Y 2067/068, 2310407 in F/Y 2068/069, 2553390 in F/Y 2069/070.
- The correlation coefficient (r) of total revenue and profit is 0.96 and the coefficient of determination (r^2) is 92.29%. which means that profit is expanded up to 92.29% only by total revenue and the remaining portion 7.71% is expanded by other factors.

5.3 Recommendations

Based on the findings of the study, the following recommendation seems to be fruitful to the management of the bank and other concerned parties.

- Bank should develop separate planning and controlling division. The trained and qualified planning experts should be recruited and the entire employees should be well trained.
- There is no practice of segregating fixed and variable cost in the Bank, which is the most important to management decision. The effective and scientific method should be used to segregate the total cost into fixed and variable.
- ADBL should spend sufficient amount for research and development to carry the new technology and to invent new product. Nowadays the new and advance banking products are available in the market i.e. LC, FOREX, Foreign Remittance, Cash Loan etc which are not provided by the ADBL till this study period.

- Trade Finance and Money Market consist the almost non-fund business product. ADBL is in the stage of installing Core Banking System which helps the bank to expand the non-fund business.
- ADBL should invest its money as a portfolio basis. ADBL should increase its investment in share of leading organized institutions which helps to increase profit.
- Bank should use CVP analysis tools for revenue planning.
- Public deposit is the main source of fund of Bank. So, Bank should increase the deposit to level of maintaining CD ratio as directed by NRB.
- The study shows that the Coefficient Correlation between Revenue and Profit is very high, other affecting factors in profit is nominal. So, to increase the profit volume, Bank should focus into revenue oriented activities.
- ADBL has no long range strategic plan i.e. 20 years or 30 years or 40 years perspective plan which is necessary for survival. Long range strategic plan guides the short range tactical plan.
- ADBL should try to erase its passive loan by effective loan lending management.
- Lending money is mainly generated by deposit collection. In present scenario, due to the numerals of financial institutions and liquidity crunch there is throat cut competition in collecting deposit. The cost of lending capital is also found very high. Thus, the activities of bank should focused into non funded business i.e. remittance, guarantee, letter of credit, safe locker, FOREX etc.
- Though, there is no significance between budgeted and actual interest collection, the actual achievement have not meet the budget during study period. It was very low performance (only 64.15 percent) in FY 2062/063. It was satisfactory level in remaining year. The bank should formulate appropriate policy regarding the interest collection.
- The research has been done by taking only five years data. In this research only limited statistical and financial tools i.e. CPV analysis, trend analysis, student t-test, correlation coefficient and table and graph are used which may not be sufficient for managerial decision. This result may not be able to present other aspects of the bank. To analyze about managerial effectiveness of the bank, study on accounting system and policy, credit management, HR management, marketing strategy, IT strategy and other aspects of the bank might be needed.

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Website: www.adbl.gov.np

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7 APPENDICES

Appendix I

Income Statement as presented by ADBL

Rs. in '000

S.No.	Particulars	*Index	2062/063	2063/064	2064/065	2065/066	2066/067
1	Interest Income	18	4033545	4623096	3363731	4231143	5464857
2	Interest Expenses	19	1439844	1605867	1043807	1157071	1507997
A	Net Interest Income (1-2)		2593701	3017229	2319924	3074072	3956860
3	Fees Commission and Discount	20	42262	49818	71139	90045	101727
4	Other Operating Income	21	164861	232033	350676	382246	318804
5	Foreign Exchange Gain/Loss (Net)	22	2834	-14061	11955	22096	-5576
B	Total Operating Income (A+3+4+5)		2803658	3285019	2753694	3568459	4371815
6	Employees Expenses	23	1775337	1306805	1849133	2486716	2679862
7	Other Operating Expenses	24	254889	277546	288020	300691	330022
C	Operating Profit Before Provision (B-6-7)		773432	1700668	616541	781052	1361931
8	Provision for Possible Loss	25	149284	337783	2677476	2184688	2582234
D	Operating Profit (C-8)		624148	1362885	-2060935	-1403636	-1220303
9	Non Operating Income/Expenses	26	117765	7419	18336	634989	19474
10	Write Back of Provision for Possible Loss	27	549333	1803215	4064478	1381931	2469671
E	Profit From Regular Activities (D+9+10)		1291246	3173519	2021879	613284	1268842
11	Extra Ordinary Income/Expenses (Net)	28	-355266	-1883003	-1212162	1106749	667293
12	Net Profit Before Tax (E+11)		935980	1290516	809717	1720033	1936135

*Index of Annual Book of ADBL

Source: Annual Book of different year of ADBL

Appendix II

Segregation of Operating Expenses: A. Variable Operating Expenses

in Rs.

S.No.	Particular	2062/063	2063/064	2064/065	2065/066	2066/067
1	Electricity and Water	26757778.00	27656949.00	17140150.41	20002643.02	19152962.96
2	Repair and Maintenance	14569306.00	16547332.00	15347294.47	20288642.48	23898031.67
3	Postage, Telex, Telephone, Fax	1107373.00	1058164.00	14551338.66	15170612.44	16201929.84
4	Traveling Allowance and Expenses	17891475.00	20220314.00	22390870.00	21868729.25	25149225.82
5	Stationery and Printing	18381908.00	19579528.00	21271398.05	22580728.98	24000590.44
6	Periodicals and Books	1771528.00	1945882.00	2013264.03	2328765.00	2374415.80
7	Legal Expenses	186888.00	319983.00	110804.00	872964.00	276693.00
8	Donation	316900.00	1460834.00	1582772.00	68950.00	433000.00
9	Commission on Remittance	0.00	2134803.00	4186739.85	2233339.92	2564059.70
10	Entertainment	4980133.00	5827353.00	4798376.29	5123836.00	6140379.50
11	Commission and Discount	2235453.00	945227.00	239448.94	5270150.98	372812.60
A	Total	88198742.00	97696369.00	103632456.70	115809362.07	120564101.33

Appendix III

B. Fixed Operating Expenses

in Rs.

1	House Rent	41824549.00	42862985.00	45185970.00	46735979.00	53419589.00
2	Insurance	14686418.00	15915392.00	12869912.53	8458478.39	10578323.74
3	3. Advertisement	2376706.00	4381520.00	6584669.90	11536086.64	13869886.34
4	Expenses Relating to Board of Directors	2350835.00	2409217.00	2077794.00	1461382.00	2136852.00
5	Annual General Meeting Expenses	0.00	37125.00	169305.00	0.00	0.00
6	Expenses Relating to Audit	1071206.00	1087473.00	1347603.00	1413927.50	1599748.50
7	Depreciation on Fixed Assets	52854060.00	50748047.00	51817242.03	53702594.35	64724767.15
8	Share Issuance Expenses	0.00	0.00	2393800.25	252858.00	1149319.10
9	Amortization of Preliminary Expenses	4827095.00	3020219.00	2223944.69	1665435.14	1385937.08
10	Other	46698915.00	59387859.00	59717255.53	59654754.10	60593834.30
B	Total	166689784.00	179849837.00	184387496.93	184881495.12	209458257.21
	Total Operating Expenses (A+B)	254888526.00	277546206.00	288019953.63	300690857.19	330022358.54

Appendix IV

Modified Income Statement

Rs. in '000

S.No.	Particulars	2062/063	2063/064	2064/065	2065/066	2066/067
	Sales Revenue:					
1	Interest Income	4033545	4623096	3363731	4231143	5464857
2	Fees Commission and Discount	42262	49818	71139	90045	101727
3	Other Operating Income	164861	232033	350676	382246	318804
4	Foreign Exchange Gain/Loss (Net)	2834	-14061	11955	22096	-5576
5	Non Operating Income/Expenses	117765	7419	18336	634989	19474
6	Extra Ordinary Income/Expenses (Net)	-355266	-1883003	-1212162	1106749	667293
7	Write Back from Provision for Possible Loss	549333	1803215	4064478	1381931	2469671
8	Provision for Possible Loss	-149284	-337783	-2677476	-2184688	-2582234
A	Total Sales Revenue	4406050	4480734	3990677	5664511	6454016
	Less: Variable Cost:					
9	Interest Expenses	1439844	1605867	1043807	1157071	1507997
10	Variable Operating Expenses	88199	97696	103632	115809	120564
B	Total Variable Cost	1528043	1703563	1147439	1272880	1628561
C	Contribution Margin (A-B)	2878007	2777171	2843238	4391631	4825455
	Less: Fixed Cost :					
11	Employees Expenses	1775337	1306805	1849133	2486716	2679862
12	Fixed Operating Expenses	166690	179850	184388	144881	209458
D	Total fixed Cost	1942027	1486655	2033521	2631597	2889320
E	Net Profit Before Provision for Possible Loss (C-D)	935980	1290516	809717	1760034	1936135

