**CHAPTER-ONE**

# INTRODUCTION

## 1.1 Background of the Study

Nepal is a democratic, small and landlocked country situated in the southern slopes of Himalaya. Power river rush out of the Himalayas, beautiful temples, culture and festivals and equally exotic people really make Nepal the more beautiful nation of the world. The Himalayan nation, the land of Buddha and the Everest made Nepal a unique sovereign nation. It is endowed with natural resources. Geographically, it lies in $26^0$ 22' North and $84^0$ 5' to $88^0$ 12' East latitude and elevation range from 305 meters to 8848 meters. Total area of 147,181 sq. km with length of 885 km and the width ranging from 144 km to 240 km having salient feature of landlocked, developing third pole, non-aligned, peaceful and small country Nepal is also known as a nation of color and contrasts of nature, culture and adventure all over the world(MOF/NG: 2007).

Ironically, the country is under the vicious circle of poverty. More than 45% of population lies below poverty line. Agriculture is the backbone of Nepalese economy, means of livelihood for the majority of population and the main source of gross domestic production, income and employment. But nonagricultural sectors have also significant contribution in the national economy.

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 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.

"Organization 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 and 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, 2063:11). 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 from 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 some times 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 organize 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.

## 1.2 Statement of the Problem

Revenue planning is one of the most important tool for the effective formulation and implementation of strategic as well as tactical plans. Revenue planning is necessary for the effective co-ordination among various functional budgets of organization. Revenue planning has been the most intricate and challenging area if 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).

- Whether the bank has effectively utilizing its assets in generating revenue of not?
- What are the financial positions of the firm in the market?
- What level of revenue has maintained by the bank?

- What are the main factors affecting revenue planning of Everest Bank Limited?
- Whether the liquidity positions of the bank in satisfactory or not?
- Whether the bank has been utilizing its capital in effective manner of not?

## 1.3 Objective of the Study

The main objective of the study is to analyze revenue planning of Everest Bank Limited. To identify problems and recommend possible remedial measures, therefore, the major objectives of the study are as follows.

- To highlight the current revenue planning premise adopted and its effectiveness in Everest Bank Ltd.
- To study the growth of the business of the Bank over the period.
- The evaluate the soundness of profitability and operating efficiency of Everest Bank Ltd.
- To provide suggestion and recommendation of improvements of the overall profitability of the bank.

## 1.4 Significance of the Study

The irregularities and inefficient use of scarce resources are existing due to the weaknesses of proper Revenue planning that have to be corrected. So to perform this important task the concerned authorities and the enterprises should be made aware of what should be made to happen in future. Viewed in this light, this study which intends to enlighten the prevailing planning phenomena is justifiable. It will help the organization to identify how far the patterns of planning aspect have been in conformity with management philosophy. On the basis of foregoing information, the organization can identify strengths and weaknesses in respect of Revenue planning.

Revenue planning is the heart of the management. It tells us profits are the most important indicators for judging managerial efficiency. Every organization should manage it's profit to check its efficiency. Various types of functional budgets are the basic tools and control over them. This study is intended to analyze and examine the profit planning system of Everest Bank.

### 1.5 Limitation of the Study

Each and every research has some limitations. Basically, not availability of required data and information would be the major limitations of the study. The study has been conducted with the following limitations.

- Last five fiscal years will be the basis for the study.
- The study would base on secondary data.
- The accuracy of this study would base on the response and the data available from the management of the company.
- Due to limited time and resource constraint, these studies will neither the comprehensive nor extensive.
- The study covers only the revenue planning.
- This study would only concerned with fulfilling the partial requirement in Master of Business studies (MBS)

### 1.6 Organization of the Study

This study has divided into five parts Viz. introduction, review of literature, research methodology, presentation and analysis of data, conclusion, summary and recommendations.

**Chapter 1 - Introduction**

This chapter is introduction framework that includes background of the study, focus of the study, profile of the company, statement of the problems, objectives of the study, significance of the study, limitations of the study and organization of the study.

**Chapter 2 – Review of the Literature**

This chapter will review the existing literature in the relevant area. Mainly, it includes review of theories and journal, review of previous research work and research gap.

**Chapter 3 – Research Methodology**

This chapter deals with methodology that includes research design, sources of data, data collection techniques, method of analysis and research variable.

**Chapter 4 - Presentation and Analysis of Data**

This chapter deals with the presentation and analysis of collected data and information. For this purpose various analytical tools will be used.

**Chapter 5 - Summary, Conclusion and Recommendations**

This chapter will be the final chapter of the study that includes summary of the study, conclusion and recommendations.

The Bibliography appendix will be included in the last of the thesis.

# CHAPTER - TWO

# REVIEW OF LITERATURE

## 2.1. Introduction

This chapter in concerned with the review of relevant literatures available in the books, journals, articles, research reports, newspapers, magazines, policy documents which are published or unpublished. Every study is very much based on past knowledge, study and experiences. The past knowledge or the previous studies should not be ignored as it provides foundation to the present study. Various thesis works have done in different aspects of non performing assets of different organization are also reviewed for the purpose of justifying the study. This chapter consists of two parts-theoretical Framework and Review of Related Studies. In theoretical framework, review of what has been written in academic books is carried out while review of related studies is further dividend into review of journals and review of master degree thesis.

## 2.2 Conceptual Review of Profit Planning and Control

### 2.2.1 Profit

#### 2.2.1.1. Meaning and Concepts of Profits

Profit is the primary measure of success of business enterprise. It is the main task of the business enterprises performance. Simply stating profit is the excess of income over cost of product or service.

In a general sense, profit is required as income accruing to the equity holders. The maximizing of the profit is different to different people. The owners' point of view of profit is not of rentable assists and interest occurs the money lender. To a layman, profit means all income that how to the investors. To an accountant, profit is the excess of revenue overall paid out costs including both manufacturing and overhead expenses. For all practical purposes, profit or business income means profit in accounting or plus non-allowable expense. In the economic sense, profit is surplus of revenue and above all paid out cost, including manufacturing overhead expenses plus opportunity cost. Besides, in economics profit is considered to be a short terms phenomenon, it does not exists in the long run, especially under perfect competitive condition.

According to the economists perception, some economists say that profit is a rent of ability. Some says profit as reward for risk bearing of business. It is also said that profit is return to uncertainty bearing, is also as reward for innovation. Innovations are these new products or processes, which increase national income more than they increase national cost *(Reaki,1988, p 380-381).*

The word 'profit' implies a compensation of the operation of business between two specific dates, which are usually separated by an interval dated, which are usually separated by an interval of one year. In order to optimize those corporate course those of wealth in which national prosperity depends or those corporate financial objectives of the company is to maximize within social acceptable limits, profit form the use of the funds employed by them. The maximization of profit within a socially acceptable limit implies that a proper regard to public interests has been paid. No company survive long without profit, for profit is the ultimate measure of its effectiveness and in capitalized society there is no is a profit, which really is a measure of how will a business performs economically; profit is signal for the allocation of resources and a yardstick for judging managerial efficiency *(Kulkarni 1987, P-245).*

Every company, sooner or latter, is faced with the necessarily to mount a cost reduction or profit improvement effort to, accomplish results, which have not been possible in the normal budgeting routine.

Profit is a primary objective of the business. In the view of heavy investment, which is necessary for the success of most enterprises, profit is the accounting sense tends to become a long term objective, which measures not only the success of product but also a development of the market for it . The manager of business firms are vitally concern, without which the firms cannot long survive. They want to be able to predict how various managerial actions will affect profit *(Dominik, 4th Edition, P-17).*

It clearly shows that the variation among economists in regard to the meaning of profit. In general, there are four types of production factors i.e. land, labors, capital and organization. The factors of production help to production goods and services. But in the course of their assistance in production process they need incentives. Then the excess of revenue over such incentives is known as profit and profit is always given to organization. Profits are the expenses made or raw materials, labor, interest or borrowed money, fuel, power are included entrepreneurs would earns, as given to these are excluded from conventional accounting profits. Because, these opportunity cost does not appear to book of account. But the economist hold the view that factor should also be considered or subtracted to arrive at net profits. The word "profit" implies a comparison of the operation to business between the specific dates, which one usually separated by an interval of one year.

#### 2.2.1.2. Long Range and Short Range Profit Planning

Long range and short range profit plans means strategic and tactical profit plans respectively the two types of profit plans are developed in PPC. "The strategic profit plan is broad and it usually encompasses three or more years in the future. The tactical profit plan is detailed and encompasses on one year time horizon the up coming year. The development of strategic and tactical profit plans each year is a process that involves managerial decision and ideally a high level of management participation" (Welsch 1999)

### 2.2.2 Planning

#### 2.2.2.1. Meaning and Concept of Planning

Planning is the basic foundation of profit and control. We should clear in the concept of planning. According to "Oxford Dictionary" planning means;

- (To do something) arrangement for doing or using something, considered or workout in advanced.
- Way of arrangement something especially when shown on a drawing scheme.

The panning 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 function performed within framework of planning.

"Planning is the process of developing enterprise objective 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, 19900). 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:**

a) Recognizing and making a tentative statement of the problem.
b) Collecting and classifying relevant facts.
c) Setting forth alternative course of action.
d) Evaluating the pros and cons associated with these course and
e) 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 sown 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 dos not exist.

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

a) Establishing the objectives
b) Determining the short range objectives or goals
c) Developing strategies and
d) 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 we can point 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.

Generally planning can be divided into two parts, which are as follows:

**Long Range 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 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.

**Short Range 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. There 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 selecting to conform to fiscal quarters or years. Because of the practical needed for conforming plans to accounting periods and the some what arbitrary limitation of the long range to three of five yeas is usually based as has been indicated on the prevailing belief that the degree of uncertainty over long period makes planning of questionable value.

### 2.2.2.2 Corporate Planning

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

Corporate planning is one part of profit plant. It was first started in the USA in 1950 and it is however being used in one form or another in many companies there.

According to Andrew Robertson" Corporate planning is to determine the long term goals of a company as a while and then to generate plan designated to achieve these goals bearing in mind probable change in its environment. He pointed out the premises of the corporate planning are.

- Before drawing up a plan which designed to do something, decide what you want it to do.
- In these days of repaid change it is necessary to look ahead as far as possible to anticipate these changes.
- Instead of treating a company as a collection of department, treat it as a corporate whole.
- Take full account of company's environment before doing up any Plan. (Robertson-1968)

Long term planning is included in corporate planning. Corporate planning often is considered synonymous with long term planning. The main objectives of corporate planning are as follows:

- Achieving objectives.
- Embodiment of goals and objectives in the enterprise.
- Formulating realistic and attainable objectives.
- Clarity and adequacy of goals and objectives.
- Communication of goals and objectives.
- Involvement of personnel in developing the goals of the enterprises.

### 2.2.3. Forecasting and Forecasting

"Defined in its simplest terms planning is 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 organization objectives" (Edwin, 1969:49).

"A forecasting is a prediction of future event, condition or situation, whereas plan includes a program of intended future actions and desired results. Forecasting predicts the future events in such a way that the planning process can be performed more accurately. A forecast is not a plan, rather it is a statement and or a quantified assessment of future conditions about a particular subject (e.g. sales revenue) based on one or more explicit assumption. A forecast should always state the assumptions upon which it is based. A forecast should be view as only one input into the development of sales plan. The management of the company may accept, modify or reject the forecast, other inputs and management judgment about such related items as sales volume, prices, sales, efforts, production and financing. It is important to make a distinction between the sales, efforts, production and financing. It is important to make a distinction between the sales forecast and the sales plan primary because the internal technical staff should not be expected or permitted to make fundamental management decision and judgment implicit in ever-sales plan. Moreover, the influences of management actions are on sales potentials in difficult to quality for sales forecasting. Before, the elements of management experience and judgment must hold the sales plan. Another reason for identifying sales forecasting as only one step in sales planning is that sales forecasting is condition" (American Accounting Association).

The distinction between forecasting and planning is not an easy one. Webster gives-"To plan ahead" as the leading definition for forecast. Forecasting is our best thinking about what will happen to us in the future. In forecasting we define situations and recognize problems and opportunities. In planning we develop objectives in practical detail and we correspondingly develop schemes of action to achieve these objectives.

### 2.2.4. Control

After being clear about the concept of profit and planning we move towards the there components of profit planning and control i.e. control the director nary meaning of control is;

1. Have a power or authority over some body or something
2. Regulate something
3. Management, guidance, restriction
4. standard of comparison for checking the result of the experiment (Hornby- 1992)

Controlling can be defined as a process of measuring and evaluating actual performance of each organization component of an enterprises and initiating corrective action when necessary to ensure efficient accomplishment of enterprise objective, goals policies and standards planning established the control is exercised by using personal evaluation periodic performance reports and special reports.

"Control" is an ambiguous word; is means the ability to direct oneself and one's work. It can also mean domination of one person by another (management), Objectives are the basis of control in the first sense but they must never become the basis of control as in the second for this would defeat their purpose indeed one of the major contributions of management by substitute management by the objective is that is enable us to substitute management by self control for management by domination. (Drucker PF-1954)

"A control process designed to help monitor the periodic activities of business and of each responsibility center has the following phases.

i. Compare actual performance for the period with the planned goals and standards
ii. Prepare a performance report that shows actual result planned result and any differences between the two(i.e. Variation above or below planned result)
iii. Analyze the variations and the result operations to determine the underlying cause of the variations.
iv. Develop alternative course of action to correct any deficiencies and learn from the successes.
v. Make a choice (corrective action) from the set of alternative and implements it.
vi. Follow up to appraise the effectiveness of the correction. Follow with feed forwarded for re-planning" (Welsch -1999)

The comparison of actual result with planned goals and standard constitutes measurement of the effectiveness of control during a specified past period. This provides the basis for effective feedback. The fact shown in a performance report cannot be changed however the historical measurement may lead to improved control in the future. The significant concept here is that objectives policies and standards fulfill two basic requirement in the overall control process, namely (1) feed forward-to provide a basis for control at the point of action

(2) Feedback-to provide a basis for measurement of the creativeness of control after the action has taken place. Moreover, feedback is instrumental in re-planning.

**2.2.3 Budgetary Control**

**2.2.3.1 Meaning of Budgeting and Budget**

Budgeting is a forward planning and involves the preparation in advance of the quantitative as well as financial statement to indicate the intention of the management in respect of the various aspects of the business. in the words of I.M Pandey" A budget is a comprehensive and coordinated plan expressed in financial term for the operation and source of an enterprise for some specific period in the future". (Pandey -1991)

"As regards the term 'Budget' it can be visualized as the end result of the budgeting. If Budgeting is the procedure for preparing plan in respect of future financial requirements, the plan when presented in written form is called budget. Budgeting in facts is a managerial technique and a business budget is such a written plan in which all aspects of business operations with respect to a definite future period are included. It is a formal statement of policy, plan, objectives and goals established by the top-level management I respect of some future period." (Gupta 1992)

A budget is a forecast, in detail, of the results of an officially recognized programmed of operations based on the highest reasonable expected operating efficiency.

"Budget is defined as a comprehensive and co-ordinate plan, expressed in financial terms for the operations an resources of an enterprises for some specified period in the future" (Fremgen -1976)

**According to his definition the essential elements of a budget are;**

- Plan
- Operations and Resources
- Financial Terms
- Specified Future Period
- Comprehensiveness
- Co-operation

Therefore, we can say that budget is a tool, which may be used by the management in planning the future course of action-and in controlling the actual performance.

**2.2.3.2 Budgeting: As a Device of Profit Plan**

Budgeting is a forward planning. It serves basically as a device (tool) for management, control; it is rather pivot of any effective scheme of control. G.A. Welsch in his book "budgeting PPC" has rightly pointed out that" Budgeting is the principal tool of planning and control offered to management by accounting functions" (Welsch, 1999) John G. Glover and Coleman L.Maze have expressed a similar view. In their opinion the prime objective of budgeting is to assist in systematic planning and in controlling the operations of the enterprises. In fact budgeting is best sources of communication and an important tool in the hands of management. Since, budgeting deals with fundamental polices and objectives, it is prepared by top management. A formal budget by itself will not ensure that a firm's operations will be automatically geared to the achievement of the goals set in the budget. For this to happen, the top-level managers and lower employees have to understand the goals and support them and co-ordinate their efforts to attain them.

Budgeting is a device of a planning and control that serves as a guide to conduct operation and a basis for evaluating actual results. Actual results can be judged being satisfactory or unsatisfactory in the light of the relevant budgeted data and also in the light of changes in conditions. Company controls operations through its budgeting and responsibility reporting system. Top executive are able to control every area of the organization through a systems of budgetary planning and control reporting by responsibility area.

**Budgets are an important tool of profit planning. The main objectives of budgeting are,**

- Explicit statement of expectations
- Communication
- Co-ordination
- Expectation as a framework for judging performance

### 2.2.3.3 Essentials of an Effective Budgeting

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

#### A. Sound Forecasting

Forecasts are the foundation of budgets, these forecasts are discussed by the executives and when most profitable combinations of forecasts are selected they becomes budgets. The sounder are the forecasts better result would come out of the budgeting system.

#### B. An Adequate and Planned Accounting System

There should be proper flow of accurate and timely information in the enterprise, which is, must for the preparation of budgets. This can be ensured only by having an adequate and planned accounting system in the firm.

#### C. Efficient Organization with Definite Lines of Responsibility

An efficient adequate and best organization is imperative for budget preparation and its operation. Thus a budgeting system should always be supported by a sound organization structure demarcating clearly the lines of Authority and responsibility. Not only this, there should be a true delegation of authority from top to low levels of management. This will provide adequate opportunity to all executives to make decisions and also to participate in the function of budget preparation. Thus, and efficient organization helps not only in budget co-ordination but it also plays important role in budget co-ordination and operation.

### D. Formation of Budget Committee

As mentioned earlier, Budget committee receives the forecasts and targets of each department as well as periodic reports and finalizes. And also approves the departmental budgets. Thus in order to make a budgeting system more and more effective, a budget committee should always be set up.

### E. Clearly Defined Business Policies

Every budget reflects the business policies formulated by the top management. In other words budgets should always prepared taking in to account the policies set for particular department of functions. But for this purpose, policies should be precise and clearly defined as well as free from any ambiguity.

### F. Availability of Statistical Information

Since budgets are always prepared and expressed in quantitative terms. It is necessary that sufficient and accurate relevant that should be made available to each department. Such data may not be available from accounting system alone and therefore they may be processed through statistical techniques. These data should be as far as possible, reliable accurate and adequate.

### G. Support of Top Management

If a budget program is to be made successful, the sympathy to each member of the management team towards it should starts preferably form top i.e. chairman. The enthusiasm for budget operation as well as direction for it should initiate and come from top.

### H. Good Reporting Systems

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

### I. Motivational Approach

All the employees or staff other than executives should be strongly a properly motivated towards budgeting system. In an organization it is needed to make each staff member fell too much involved in the budgeting system. To meet this end, motivational approach towards budgeting should be followed.

### 2.2.4 Fundamental concepts of profit planning

The fundamental concepts of PPC includes the under using activities or tasks that must generally be carried out to attain maximum usefulness from PPC.

**These fundamentals are:**

a. Managerial involvement and commitment
b. Organizational adaptation
c. Responsibility accounting
d. Full communication
e. Realistic expectations
f. Timeliness
g. Flexible application
h. Zero base budgeting
i. Activity costing
j. Behavioral view point
k. Management control using PPC
l. Follow up
m. Management by exception

Each of these fundamentals is discussed briefly in the following paragraphs. And it is tried to proof to what extent they are playing the role to make PPC a meaning full and a comprehensive approach.

#### 2.2.4.1 Managerial involvement and commitment

Managerial support, confidence, participations and performance orientations include managerial involvement. All levels of management especially top level management should consider following points in order to make PPC program successful.

A. Understand the nature and characteristics of profit planning and control.
B. Be convinced that this particular approach to manage is preferable for their situation.
C. Be willing to devote the effort required to make it operative.
D. Support the program in all its ramifications.

E. View the results of the planning process as performance commitments.

For the comprehensive profit planning and control (PPC) program to be successful it must have the full support of each a members of management, starting with the president the impetus and direction most come from the very top.

#### 2.2.4.2 Organizational adaptation

In the word of Welsch, a success of the PPC program must rest on sound organizational structure, for the enterprises and a clear-cut designation of lines of authorities and responsibilities of all the department of an enterprise. The responsibility of or the obligation of each departmental manager should be well clarified. Whatever may be the nature and sense of organizational structure, on should always bear in mind the fact that no organizational structure can be taken as ends itself but it should always be treated as means or tools to attain the goal. In conclusion the organizational involvement includes:

**Delegation of authority and responsibility to each functional sub units**.

a. Sub-divide the whole organization into different functional subunits.
b. Each subunit should prepare its own annual or periodic plan.
c. Based upon plan prepared by subunits a master plan is to be prepared by higher management.

#### 2.2.4.3 Responsibility Accounting

The accounting system of any organization should build the responsibility structure of the firms. This is called responsibility accounting. Organizations' planning is based on historical data, which are largely generated by the accounting system, and control includes the measurement of actual results against objectives goals and plans by an account. Therefore PPC requires responsibility accounting system.

#### 2.2.4.4. Full Communication

Communication can be defined as "An interchange of thought or information to bring about a mutual understanding between or more parties".

Communication can be either of dialogue messages or understanding from working together. Although most of the management gives least importance on communication but is the most important thing for any organization observation and control. Most of the organization faces lot of problem due to bad communication system. (Welsch-1999)

The goals and objectives set by management should be well communicated in all levels management. PPC program can only be successful when the communication is done in fully manner.

#### 2.2.4.5. Realistic Expectation

In PPC the management must be realistic and avoid either undue conservation or irrational optimism. The care with which budget goals and objectives are set for such items as sales, production, cash flow and so on determines the success of PCC program. So for PPC purpose a realistic approach reared with time dimension and external and internal environment that will prevail during the time span should be considered. This is called realistic expectation.

#### 2.2.4.6. Timeliness

Time and tide wait for none' whether an individual or an entity is idle or busy time passes at the same rate. If the planning function is to be effectively carried out, one relation is to the concept of planning horizons and the other is to the timing of planning activities.

Planning horizons refers to the period of time into the future for which management should plan. Decisions made to the organizations obviously can affect only the future. No present decisions can effects or change the past, since all managerial decisions are futuristic each management is faced with the basic question of time dimension. The effective implementation of PPC concepts requires that the management of ES establish a definite time dimension for certain types of decision. And timing of planning activities suggests that there should be a definite management time schedule established for initiating and completing certain phases if the planning process. (Welsh-1999).

#### 2.2.4.7. Flexible Application

'This stress that a PPC program must not dominate the business and that flexibility in applying the plan must be forthright management policy. So, that strait Jackets are not imposed and all favorable opportunities are seized even through "They are not covered by the budget. Rigidity in practicability will be the harmful boundary in an association in an occasion for the enterprises. So, such boundary should be avoided which mean there should be flexibility in PPC so that the unseen golden opportunity should be grasped in future for the betterment of that organization." (Welsch-1999)

#### 2.2.4.8. Zero Base Budgeting

"Under zero base budgeting, every budget is constructed on the premise that every activity in the budget must be justified. It starts with the basic premise that the budget for next year is zero and that every expenditure, old and new, must be justified on the basic of its costs and benefits. The discipline of zero base budgeting takes a different approach, in fact, a reverse approach to this problem of justifying everything. What it says is this; Begin with where you are and establish a business as usual budget for nest year the same way and the same things you would do if you weren't concerned about concerned about constraint and total justification." (Welsch-1999)

#### 2.2.4.9. Activity Costing

"Responsibility accounting system generally accumulates costs by department and product-costing systems associate costs with units of product or service organization also frequently finds it useful to associate costs with activities. By decomposing an organizations production process into discrete set of activities, and then associating costs with each of those activities. Moreover, by systematically identifying the activities though out the organizations mangers can identify redundant activities." (Welsch-1999)

#### 2.2.4.10. Management Control

"The primary purpose of control is to ensure attainment of the objective, goals and standards of the enterprises. Control has many facets such as direct observation, oral express, policies and procedures, reports of actual results and performance reports. PPC focuses on performance reporting and evaluation of performance to determine the causes of both high and low performance. The essential characteristics of a PPC performance reports are as follow." (Welsch-1999)

1. Performance is classified by assigned responsibilities
2. Controllable and non controllable items are designated
3. Timely reports are issued.

Emphasis is given to a comparison of actual results and planned results the performance results should be designated the responsible manager and show actual results.

#### 2.2.4.11. Behavioral View Point

"An ounce of behavior is better than a quintal of the theorem" what so ever be the theory and theorem, the organization only when it improves its behavior, is best or in another way.

Welsch has suggested that the motivationo9f human resources through dynamic leadership is central to effective management. It is found by many psychologist and educators and businessmen that, there are many known and unknown, misconception and speculations concerning the responses of the individual and the group in the varying situation so the PPC programs bring many of these behavior problems in the sharp focus and trying to resolve.

**2.2.4.12. Management by Exception**

"A comprehensive profit planning and control program facilitates in many ways, underlying these is the measurement of actual performance against planned objectives goals, and standards and the reporting if that measurement in performance reports. This measurement and reporting extends to all areas of operations and to all responsibility centers in the enterprises. It involves reporting (1) actual result (2) budgeted or planned results and (3) the differences between the two. This type of reporting represents an effective application of the well-recognized management exception principle. The exception principle holds that the manager should concentrate primarily on the exceptional or unusual items that appears in daily, weekly and monthly reports, thereby living sufficient managerial time for overall policy and planning considerations. It is the ' out of line' that need immediate managerial attention to utilize extensive management time, how ever, they should trigger "rewards" in appropriate "rewards" in appropriate ways. To implement the exception principle, techniques, procedures must be adopted to call the manager attention to 'out of control' items. Performance reports because they include a comparison of actual results with plans by area of responsibility, emphasize in a relevant ways performance variations. The out of line items stand out. It is with respect to these items that the busy executive should investigate, determine the causes and take corrective action." (Welsch-1999)

**2.2.4.13. Follow Up**

This fundamentals holds that both good and substandard performance should be carefully investigated the purpose being three fold.

1. In the case of substandard performance, to lead in a constructive manner to immediate corrective action.
2. In the case of outstanding performance, to recognize it and perhaps provide for a transfer of knowledge to similar operation and
3. To provide a basis for better planning and control in the future. (Welsch-1999)

### 2.2.5. Profit Planning and Control Process

"A PPC program includes more than the traditional idea of a periodic or master budget. Rather, it encompasses the application of a number of related management concept through a variety of approaches techniques and sequential steps." (Welsch-1999). These steps are out lined in this study in the following manner.

#### 2.2.5.1. Identification and Evaluation of External Variables.

The variable identification phase of the PPC process focuses on (1) identifying and (2) evaluating the effects of the external variables. Management planning must focus on how to manipulate the controllable variables and how to work with the existing situation of non-controllable variables. Variables, which have a direct and significant impact on the enterprises, are called relevant variables. Variables may have their different relevancy according to the market nature. For the enterprises purpose the external relevant variables are, population, G.N.P. competitive activities product line, and industry sales. And so far internal variables are concerned employees, capital, research productivity, pricing, operating costs, advertisements etc. A particularly significant phase of this analysis includes an evaluation of the present strength and weakness of the enterprises. The comprehensive PPC approach is based on the expectation that enterprises. The comprehensive PPC approach is based on the expectation that these significant aspects of operations will be critically analyzed and evaluated periodically and in orderly manner. (Welsch-1999)

#### 2.2.5.2 Development of the Broad Objectives of the Enterprises

Development of the broad objectives of the enterprises is a responsibility of executive management. Based on a realistic evaluation of the relevant variables and an assessment of the strength and weakness of the organization, executive management, can specify or restate this phase of the PPC process.

The statement of broad objectives should express the mission, vision and ethical character of the enterprise. Its purpose is to provide enterprise identity continuity of purpose is to provide and definition. One research study listed the purpose of the statement essentially as follows.

1. To define of the purpose of the co.
2. To clarify the philosophy character of the co.
3. To create particular climate with in the business.

4. To set down a guide for managers so that the decisions they make will reflect the best interest of the business with fairness and justice to those concerned.

**2.2.5.3. Development of Specific Goals for the Enterprises**

This component of a comprehensive PPC process is to bring the statement of broad objectives into sharper focus and to move from the realm of general information to more specific planning information. It provides both narrative and quantitative goals that are definite and measurable. These are specific goals that relate to the enterprises as a whole and to the major responsibility centers.

These goals should be developed by executive management as the second component of the substantive plan for the up coming budget year. Executive management should exercise leadership in this planning phase so that there will be a realistic and clearly articulated framework with in which operations will be conducted toward common goals.

**2.2.5.4. Development and Evaluation of Company Strategy**

Company strategies are the basic thrusts ways and tactics that will be used to attain planned objectives and goals. Some examples of basic strategies.

- Increase long-term market penetration by using technology to develop new products and innovation the product.
- Emphasize product quality and price for the top market
- Expand market the company will not enter foreign markets in the foreseeable future.
- Market with low price to expand value
- Use both institutional and local advertisement program to build market share.
- Improve employee morale and productivity by initiating a behavior management program

Among probable alternative, the best should be chosen which would tackle to the objectives and goals of the organization. Strategies focus and 'how' so that they outline a plan of action for the enterprises.

**2.2.5.5. Executive Management Planning Instruction**

Executive management explicitly establishes a planning foundation that is a condition precedent to the movement in the planning process. On the basis of this planning foundation the statement of planning guidelines is set as executive management instructions and is disseminated in order to initiate a sophisticated and potent move from broad corporate planning to the development of profit plans by each major responsibility center in the enterprises. It is simply a communication steps from executive management to the lower levels of management and it should adopt the fundamentals of full communication.

### 2.2.5.6. Preparation and Evaluation of Project Plans

Periodic plans and project plans are different in feature and functions. It will be recalled that project plans encompasses different time horizons because each project has unique time dimension, they encompasses such items as plans for improvements of presents, products, view and expanded physical facilities, entrance in to new industries unit from products and industries and new technology and other major activities that can be separately identified for planning purpose. The nature of projects is such that they must be planned as separate units.
Consistent with this approach during the formal planning cycle, management must evaluated decide up on the plan status of each project in process and select any new projects to be initiated during time dimension covered by the up coming strategies and tactical profit plans.

### 2.2.5.7. Development of Strategies and Tactical profit plan

When the managers of the various responsibility centers in the enterprises receive the executive management planning instruction and the projects plans, they can begin intensive activities to develop their respective strategic or tactical profit plans. The strategic and tactical profit plans are usually developed concurrently. Certain format and procedural instructions should be provided by a centralized source, normally the financial functions, to establish the general format, amount of detail and other relevant procedural procedural and format requirement essential for aggregation of the plans of the responsibility centers, into the overall profit plans. All of this activity must be co-ordinate among the centers in conformity wit the organization structure.

When the two profits for the overall enterprises are complete, executive management should subject the entire planning package to a careful analysis and evaluation to determine whether overall plans are the most realistic set that can be developed under the circumstances. When this point reach the two profit plans should be formally approved by the top executive and distributed to the appropriate managers."

### 2.2.5.8. Implementation of profit plans

That profit plans strategies should be implemented by every level management is an accepted norm. Implementation of management plans that have been developed and approved in the planning process, involves the management functions of leading subordinates in attaining enterprises objectives and goals. Thus effective management at all levels requires that enterprises objectives, goals, strategies, and policy to be communicated and understood by subordinates. There are many facets involved in management leadership. However the comprehensive PPC program may aid substantially in performing this function, plans, strategies and policies foundation for effective communication. The plan should have been developed with the managerial conviction that they are going to be met or exceeded in all major respects. If these principles are effective in the development process, the various effective and supervisor will have a clear understanding of their responsibilities and the expected level of performance.

#### 2.2.5.9. Use of periodic performance reports

Only implementing the strategy will be on no meaning when the implementation is not checked and trail whether used appropriately. So that significance has been raised that monthly and three monthly performance reports are to be prepared.

#### 2.2.5.10. Follow up

It is an important part of control. Because performance reports are based on assigned responsibilities, they are the basis for effective follow up actions.

Finally, there should be a special follow up of the prior follow up actions. This step should be designed to:

- Determine the effectiveness of prior corrective actions and
- Provide a basis for improving future planning and control procedures.

### 2.2.6 Advantages and Disadvantage of PPC

The usefulness of comprehensive PPC may offer more benefits, which may be summarized as below.

1. It forces early consideration of basic policies.
2. It requires adequate and sound organization structure; that is there must be a definite assignment of responsibility for each function of the enterprise.
3. It compels all members of management, from the top town, to participate in the establishment of goals and plans.
4. It compels departmental managers to make plans in harmony with the plans of other departments and of the entire enterprise.

5. It requires that management put down in figures what is necessary for satisfactory performance.
6. It requires adequate and appropriate historical accounting data.
7. It compels management to plan for the most economical use of labor material and capital.
8. It instills at all levels of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.
9. It reduces cost by increasing the span of control because fewer supervisors are needed.
10. It frees executives from many day-to-day internal problems through predetermined polices and clear-cut authority relationships. It thereby provides more executive time for planning and creative thinking.
11. It tends to remove the could of uncertainty that exists in may organizations, especially among, lower levels of management, relative to basic policies and enterprise objectives.
12. It pinpoints efficiency and inefficiency.
13. It promotes understanding among members of management of theirs co-workers problems
14. It forces management to give adequate attention to the effect of general business condition.
15. It forces a periodic analysis of the company
16. It aids in obtaining bank credit; banks commonly require a projection of future operation and cash flows to support large loans.
17. It checks progress of lack of progress reward the objectives of the enterprise.
18. It forces reorganization and corrective action (including reward)
19. It rewards high performance and seek to correct unfavorable performance.
20. It forces management to consider expected future trends and conditions.

PPC model should not be assumed that the concept is full proof or that it is free of problem
The following main arguments are usually given against PPC.

1. It is difficult, if not impossible, to estimate revenues and expenses in our company realistically.
2. Our management has no interest in all the estimates and schedules. Our strictly informal system is better and works well.
3. It is not realistic to write out and distribute our goals, policies and guidelines to all the supervisors.

4. Budgeting places to great a demand on management time, especially to revise budgets constantly. Too much paper work is required.
5. It takes away management flexibility.
6. It creates all kinds of behavioral problems.
7. It places the management in a straitjacket.
8. Id adds a level of complexity that is not needed.
9. It is too costly asides from management time.
10. The managers, supervisors and other employees hate budgets.

What ever exists in the world has both advantages and disadvantages; and it is clear that we use or apply it only in that are if it has any advantages. P PPC model also has more advantages than disadvantages. Thus, now a days PPC system (model) is especially familiar to business organizations and widely used in this world of management.

**2.2.7 Basic Assumptions and Limitations of Profit Plan**

Profit Planning systems are more common in business organizations and non-business organization. But there are so many assumptions of using profit-planning program. Firstly, the basic plans of the business must be measured in items of money, if there is to be any assurance that many will be available for the beads of the business. Secondly, it is possible to plan for the future of a business in a comprehensive way, coordinating every aspect of the business, with every other aspects to establish optimum profits goals. Thirdly, profit planning is preplanning not merely what to do if things work out as forecasted, but also what to do if things work out differently from the forecast.

"In developing and using a profit planning and control (PPC) program, the following limitations should be kept in mind.

1. "The profit plan is based estimates.
2. A PPC program must be continually adapted to fit changing circumstances.
3. Execution of a profit plan will not occur automatically the profit plan is not a substitute for management." (Welsch-1999)

The profit plan should be regarded not as a master but as servant. It is one of the best tolls yet devised for advancing the affairs of a company and the individuals in their various spheres of managerial activity. It is not assumed that any profit plan is perfect. The most important consideration is to make sure, by intelligent use of profit plans that all possible attainable benefits are derived from the plans as rendered an to re-plan when there are compelling business." (Welsch-1999)

### 2.2.8 Development of Profit Plan

Development of profit plan in commercial Bank begins with the preparation of various functional budgets. Those functional budgets are in fact the pictures of various activities of the Bank are activity based such as budget for deposit collection, budgets for expenditures and revenues.

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

### 2.2.9. Resources Mobilization Plan or Budget

The Planning for resources mobilization is the foundation for planning in a Bank. The all other planning is based on it. The major ad the sustainable resources of a Bank is the customer deposit mobilization. The lending and investment activities are depended on the deposit mobilized buy the Bank. So the deposit mobilization or collection plan is the starting point in preparing the other different plan.

Deposit mobilization is the primary function of a Bank, which has major contribution in the total resources of the Bank. In terms of cost for the Bank, customer's deposits are of two kinds, viz. (i) Interest free deposits i.e. current deposits, margin deposits etc. and (ii) Interest bearing deposit i.e. saving deposits, fixed deposits of various tenure, call deposits etc. The interest free deposits are cost free but are generally volatile in nature. Those can be withdrawn without restriction from the bank, thus can be invested into higher income yielding assets.

Further, interest - bearing deposits involve cost of deposit but their retention ratio with the Bank are much better so they can be put to high income yielding assists having longer tenure.
Therefore a proper mix of cost free and costly deposits corresponding to short term and longer term deposits are to be maintained by the Bank in its deposit mix in order to minimize its average cost of deposit at the same time having comfortable mix of income yielding assists. The cost of deposit of Banks is also affected by the prevailing deposit interest rate of other Banks in the market.

Budgeted targets for deposit mobilization during a particular years is set in advance with the view of optimizing the cost of deposit and the same are allocated on the different branches of the Banks Such allocations may be regarded as the tactical plan for deposit mobilization of the Banks.

Banks resources other than customer deposits are the borrowing from other banks and the capital fund. Generally Banks borrows from other Banks to meet temporary requirement of liquidity which may occur sometimes during the course of banking operation caused due to unexpected withdrawals of deposit of deferment in loan repayments by the borrower buy some reason or other. Such activities are managed from the Head Office with the least possible cost.

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

General Reserve, the other item of capital fund, has to be raised every year by at least 25% of the net profit earned by the bank until the amount gets double the paid up capital. This is the mandatory provision made by Commercial Banking Act 2031.

Further, the bankers may choose by themselves whether or not to increase the owner's capital by raising the other item included in capital funds besides paid up capital and general reserves. It is always better to have a higher capital fund base of a bank because, creation of bank's assets, and the size of lending to any particular borrower are tied up with the capital adequacy requirement by the central Bank. As per NRB directives, banks shall have to build their capital base at least 20% by the end of F/Y 22010/11 and a bank can take the size of exposure per borrower equivalent to maximum of 25% of its core capital in fund based, and 50% of that in non-fund based exposure. (NRB Directives, 2008)

**2.2.10.1 Resources Deployment Plan or Budget**

The planning for deployment of resources starts from assessment of nature of resources to be mobilized. That is the assets are allocated on the basic of the nature lf resources. This approach of deployment of resources is called asset allocation approach. As M.C. Vanish write in his book 'Money Banking Trade as Public Finance', "The fundamental criterion which must be followed in allocating funds for acquiring different types of assets is that the velocityturnover rate of different sources of supply of fund determines the appropriate maturity of the assets acquired through fund utilization, for instance while relatively stable fund, like saving deposits, fixed deposits and paid up capital could be used to buy long dated high yielding securities, demand deposit which are ore volatile, could be used to acquire relatively liquid assets like cash or money at cal and short notice on which little or no return is made by the bank." (Vaish, 1996)

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

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

1. Deployment in liquid assets
2. Deployment in higher income yielding assets
3. Deployment in higher income yielding assets.

Finds kept as cash in vault and as balance with NRB and other banks in current account are the most liquid assets of the bank. Normally banks have to maintain certain fixed percentage of their deposit liability in this form as directed by the Central Bank from time to time. There is no yield in the fund deployed as liquid assets

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

Major portion the income of the Bank comes as interest income from the resources deployed to lowna advances and Bills discounting (LDO). As the most part of the resources are for LDO, Banks make its lending budgets in advance as per their lending policies. Lending targets affixed at various sector of economy for various kings of trades and commercial activities to various borrowers ensuring well diversification of the assets. The target are allocated to the benches, which are generally operated s separated as separate profit centers

**2.2.10.2 Planning for non funded Business activities**

The other activities of commercial banks where it does not have to involve is fund yet it can generate other income are called non-funded business activities of the Bank. They are usually letter of credit and Bank guarantee issuance business of the bank where the bank percentage of commission on such transaction to their client who are availing these facilities from the bank.

#### 2.2.10.3 Expenditure Planning

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

a. Interest Expenses
b. Personnel Expenses
c. Office operating Expenses
d. Expenses meeting the loss in Exchange fluctuation
e. Non-operative Expenses
f. Expenses for provision for staff bonus
g. Expenses for provision of income tax

The interest expenses are incurred while paying for the deposit mobilized by the bank and include the expenses incurred for interest payment in all k9ings of interest bearing deposit as per the agreed rate between the bank and the borrower. In the total expenses of a bank, the portion of interest expense is quite higher. Therefore, the expenses are categorized into interest expenses and other expenses while the later includes other expenses as mention above except the interest expenses.

Interest expenses in a bank depend on the average cost of deposit (COS) mobilization by the bank. Lower the COD lower the interest expenses and thus higher the profitability. Therefore from profitability point of view banks plan their COD ad lowest possible level. The nature of interest expense is that of a variable expense. The net earning from interest income of a bank deducting the interest expense for the deposit mobilized is called 'Spread' which is similar to the 'Contribution Margin' in sales of commodities by a manufacturing units.

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

**2.2.10.4 Revenue plan**

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

**Revenues of a bank are generated in the following forms:**

a) Interest income
b) Commission & Discounts
c) Dividend
d) Other income
e) Foreign exchange income
f) Non-operating income

Generally the interest income of a commercial bank holds a major portion in total revenue of the bank and it provides the major source of earning of bank. Therefore total income of a bank is categorized in two type viz. interest income and other income, while the later including other income items and listed above expecting the interest income.

The interest income is earned by charging interest on the fund deployed in interest earning assets such as loan and advance, overdrafts, investments in government securities debentures etc. for this study the income from Bills discounting has also been treated as interest income. As we consider loan overdraft and bills Discounting together as a single asset portfolios as LDO.

As the average rate of interest on LDO are comparatively higher than any other kind of income yielding assets. Form the profitability point of view hither asset allocation into LDO higher will be the income.

The other income are generated form other activities of the bank such as issuance of L/C. bank Guarantees from remittance charges cheque collection fee locker charges service charges, commitment charges trading gain on foreign exchange revaluation gain on foreign exchange reserves etc. the amount of other income of bank greatly contributes in lowering the burden on the profitability. Higher the other income earned by the bank lower will be the net burden amount and thus better will be the profitability of the bank.

Income of a bank is essentially activity based i.e. The volume of business. Higher the income generating activities of a bank higher will be the amount of its revenue. Therefore the bank develops its plans for various activities in such a way that is optimizing its revenue.

### 2.2.11. Implementation of the Profit Plan

#### 2.2.11.1 Completion of the Annual Profit Plan

"The development of an annual profit plan ends with the planned income statement the balance sheet and the planned statement of changes in financial position. These three statements summaries and integrate the details of plans development by management for the period. They also report the primary impact of detailed plans on the financial characteristics of the firm. Before redistributing the completed profit plan it is generally desirable to recast certain budget schedules so that technical accounting machines and jargon are avoided as much as possible.

The redesigned budget schedules should be assembled in on logical order, reproduced and distributed before the first day o the upcoming budget period. The profit plan completion date is important. Issuance of a profit plan after the beginning of the budget period is on sure way of destroying much of the budget potential. Timely completion of the planning budget suggests the need for a budget calendar"(Welsch-1999)

#### 2.2.11.2 Implementing the Profit Plan

"The final test of whether the efforts and cost in developing a profit plan are worthwhile is its usefulness to management. The plan should be developed with the convection that the enterprises are going to meet or exceed all major objectives. Participation enhances communication. If this principal is to be effective the various executive and supervisors should have a clear understanding of their responsibilities the copier of the complete profit plan be prepared and distributed to the member of executive management. The duding principal in establishing the distribution policy might be to provide one copy to each member of the management team according to his/her overall responsibilities while taking in so account the problem of security. After distribution of the profit plan a series of profit plan conferences should be held. The top executives discuss comprehensively the plans

expectations and steps in implementation. At this top level meeting the importance of action, flexibility and continuous control may well be emphasized. In essence, each manager has to realize that the budget is a tool for his or her use. Conferences should be held so as to convey the profit plan to each level of management.
The manager of each responsibility center obtain as approved profit plan for his center and it becomes the basis for current operation and excerpts considerable coordinating and controlling effects.

Performance that must be measured and reported to management .Execution of the plan is assured through control procedure must be established so that accomplishment ,or failure is immediately known .On this basis action can be taken to minimize and undesirable effects .Short-term performance reporting is essential.

"A budget programs viewed and administrated in a sophisticated way does not hamper or restrict management, instead, it provides definite goal around which day to day and mouth to mouth decision are made. Flexibility in the use and application of both the profit plan and variable budget also should be considered in details. Flexibility in budget application is essential and it increases the probability of achieving or bettering the objectives" (Welsch-1999)

**2.2.11.3. Performance Reports**

Performance reporting is an important part of a comprehensive PPC system. Its phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and objectives are attained. Performance report deal with control aspect of PPC. The control function of management defined as "The action necessary to assure the objectives, plans, policies & standards are being attended". Performance reports are one of the vital tools of management to exercise its controls function effectively.

Special external repots, to owner & internal report are specially presented in the organization. Performance report includes in internal reports groups. It is usually prepared on a monthly basis and follows a standardize format. Such reports are designed to facilitate internal control by management. Fundamentally actual results of reports are compared with goals & budget plans. Frequently they identify problems that require special attention since these reports are prepared to pinpoint both efficient performances.

**Features of Performance repot.**

In comprehensive PPC, performance report is very important. The main objective of performance repots in the communicating of performance measurement, actual results and the related variance. Performance reports offer management essential insight in to all the facts of operational efficiencies are:

a) Tailored to the organization structure and focus of controllability ( that is by responsibility centers)
b) Designed to implement the management by exception principle.
c) Repetitive and related to short tern period.
d) Adapted to the requirement of the primary users.
e) Simple understandable & reports only essential information.
f) Accurate and designed to pinpoint significant distinction.
g) Prepared and presently promptly.
h) Constructive in tone.

**2.3 Commercial Banks as a Concept**

By the term 'Bank', simply understand it as a place where keep our money for safe keeping as well as for earning some interest or the place from where borrow the money as loan. As regard to the borrowing money from the Bank may consider its function as that of a moneylender in society. But a bank and a moneylender is different in the sense that the former lends the money which is principally collected from their depositors while later does so from its own resources.

Meaning of 'Bank' in Oxford Dictionary says ' an establishment for keeping money and valuable safely, the money being paid out on the customer's order (by means of cheques).' (Hornby, 1992)

The Rendom House Dictionary of the English Language defines the bank as 'an institution for receiving money and, in some cases, issuing notes and transiting other financial business (Stein & Undang, (1985).

Banks refers to an institution, which perform the activities related with money and credit. Banks have been traditionally regarded as merely the purveyor of money. But today they are not merely purveyor of money but creator or manufacturer of money in the system ( vaish,

1996). Maclead, in his book 'theory of credit' has defined the bank not only as an institution, that borrows and lend money but also the institution for creating credit (Maclead, 1983).
In the opinion of **Sayers**-"Banks are the institution whose debts usually are referred to as bank deposit and are commonly acceptable in final settlement of other people's debt" (Sayers, 1967). He has taken the bank deposit as the debts owe by bank and that particular depositor can set off his creditor by the deposit in the bank to the extent of his deposit amount.

The Commercial Bank Act 2031, under which commercial banks in Nepal are established and operated, has defined Commercial Bank which exchanges money, accepts deposit, advances loans and performs other commercial transactions and which is not specifically established with the objectives of co-operative, agricultural, industrial or any other of such kind of specified purpose. (Commercial Bank Act, 2031)

The Act has defined the commercial bank on the basis of its objectives and activities. Referring to the act, a commercial bank:

- Should not be established with a specified objective of co-operative, agricultural, industrial or any of such kind of specific purpose.
- Should accept customer deposit
- Should advance loans and make investments
- Perform commercial banking transaction.

The same Act has described the modalities of establishing a commercial bank, as per which, a commercial bank can be established under the company Act as a limited liability company only with the recommendations of Nepal Rastra Bank, the Central Bank of Nepal (Commercial Bank Act- 2031).
Afterward, more commercial banks were opened under foreign joint venture of foreign best/finance with private sectors in Nepal which had contributed a lot to bring the commercial banking at present day position.

## 2.4 Activities of a Commercial Bank

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

As per the Commercial Banking Act 2031, a 'Bank' is a commercial bank established under this act and 'banking transactions' and the activities of accepting deposits from the others for the purpose of lending or investing, repayable on demand or after some stipulated time period by means of generally accepted procedure. (Commercial Bank Act, 2031)

Similarly, Which book has also quoted Sir John Paget's saying as "No person or body corporate or otherwise, can be a banker who does not; (i) take deposit accounts (ii) take current accounts (iii) issue and pay cheques drawn on himself and (iv) collect cheques for his customer."
(Gulshan & Gulshan, 1994: 271)

From above points, it is clear that a commercial bank's primary activities are two fold viz. one that of accepting deposit from public, which is the major source of the resources of the bank and another making loans and investments which is basically creating income yielding asset of the bank for fulfillment of its commercial objectives.

**The primary activities of a commercial bank has categorized in two folds as below:**

1. Mobilization of Resources &
2. Deployment of Resources

### 2.4.1 Mobilization of Resources

Resources of a commercial bank constitutes, as like in other business institutions,
(a) The owners fund and (b) The borrowed fund.

**A Owner fund or capital fund**

Owner fund of the bank is the capital fund, which includes paid up capital, reserves, retained earning, share premium, non- redeemable preference share. Apart from those mentioned above other reserves and provision items allocated out of profit of the bank are also considered as the supplementary capital fund. Owners' fund is the most dependable source of bank's liquidity.

As per Central Bank (NRB)'s guideline, a commercial bank must have paid up capital of Rs. 500 million in order to be established as a national level commercial bank. Further the NRB has also prescribed the capital adequacy norms (the ratio of capital fund to the risk assets as per varying weight assets) to be of at least 20% by the end of Fiscal year 22010/11.

The Borrowed fund of a bank constitutes the resources apart from the owners' fund. In a bank, it is mostly contributed by customer's deposit, and some part by the short-term fund borrowed from other bands and/ or central bank.

**A. Customer Deposits**

Customer deposits are the chief source of commercial bank's resources. It is so much important for a bank for its liquidity supply that banks are often engaged in keen competition for deposit mobilization because the capacity of a bank to grant credit to its borrowers depends upon it's capacity to mobilize deposits. Deposits in the banks are accepts from their customers in various types of account opened in banks by the depositors.

The total deposit of a bank is composed of demand and time deposits. The demand deposits are most volatile and can be withdrawn at time by their depositors subject to the general rules of the banks governing these deposits. Generally no interests are paid into those accounts.

Demand deposits are usually accepted in current accounts. A current is running and active account which may be operated upon any number of times during a working day. As per commercial banking act of Nepal a current account is the bank account having money, which is subject to repayable whenever demanded. These accounts are suitable for businessman, joint stock companies, institutions, public authorities etc.

The time deposits consisting fixed deposit and partly of saving deposit are called so because these can be withdrawn only after the expiry of the stipulated period for which these have been made. Banks offer interest on these accounts varying the duration of deposit maturities. Time deposits are kept by generally by individuals, educational institutions, charitable trusts and others having surplus fund for future saving and earning some regular return on it.

The saving deposits are accepted on saving accounts which are defined by commercial banking act 2031 as "the bank account having money which is deposited for the purpose of saving" (commercial bank act-2031). Banks generally impose certain restrictions on withdrawal from such accounts.

Fixed deposit accounts are opened by the bank in the name of the depositors keeping fixed deposits. Amount in such are called time liabilities of the bank because the money is payable on the expiry of a fixed period of time which the depositors as per his convenience.

The commercial banking act 2031 defines fixed accounts account as the "bank account, which is having money in it for of specific period of time."

### C. Other Liabilities

Resources other then the capital fund are customer deposits are the other liabilities of the bank. It includes short-term borrowed fund from other banks locally or foreign and central bank. Such borrowings are called inter bank borrowings which are normally obtained for a very short period and those are meant for meeting temporary liquidity crunch in the bank. The rates of interest on such borrowing depends on the prevailing inter bank interest rate.

Other liabilities also include the payables in the account of the bank, which has been arisen during the regular operation of the bank.

### 2.4.2 Deployment of resources

Deployment of resources of the bank means utilization of the bank's fund in such a way that it ensures liquidity as well as gives some earnings for meeting its operating expenses and optimum return on the shareholder's investment. Thus it is setting up of the best possible assets portfolio, which meets above requirement in the best way. In fact the efficiency of a banker is reflected by this activity.

Thus for a banker, deployment of the available of the resources is a challenging job, because the liquidity and profitability are the consideration to each other. M.C. Vaish, in his book 'money Banking trade and Public Finance' has rightly said, "the secret of successful banking consists in allocating the resources between various forms of competing assets in such a way that a proper balance is stuck between the opposing consideration of liquidity and profitability. the sound balance will be achieved when the bank has sufficient (and no more then sufficient) cash in hand to meet every claim that is or is likely to be made be its depositors on it and at the same time it earns enough income to pave its way and earns profit for its shareholders. (Vaish-1996)

### A. Assets Portfolio for Liquidity

Liquidity in bank means its capacity to convert its deposit of a bank's resources constitute customer deposit which are subject to repayable on demand or after some times as the case may be, a banker can not afford to neglect his cash position so as to be always capable to meet withdrawal of the deposit. Therefore bank keeps adequate amount of liquid asset in the form of cash in their vault and balance as their account in central bank (NRB). As said earlier, maintenance of excess liquid assets that required is detrimental to the profitability objective of the bank as idle cash gives no return rather it involves the cost of carrying (insurance cost, guarding cost etc).

The central bank fixes the mandatory cash reserve ratio (CRR) from time to time. Current CRR fixed by NRB for commercial banks is as below.

(ii) Balance to be maintained at NRB account: At least 9% of current and saving deposits amount and 5% of fixed deposit amount.

(iii)Balance to be kept in bank's vault: at least 4% o total deposit liability. (NRB circular 2007/2008)

**(Sources: Directives of Nepal Rastra Bank, Banking operation Department 2008)**

**B. Investments**

Investment includes the fund invested for buying government and other stock exchange security, treasury bills, fund placement at call account with other bank etc. such investments can easily be liquidated if required thus has a feature of liquid assets as well as giving some yield out of it also. Therefore it is second line in terms of liquidity apart from cash and balance at NRB.

**C. Loans, Overdrafts and Discounts (LDO)**

Banking business essentially involves lending. In fact the deposits are accepted for lending or investment. This is the most profitable activity of a commercial bank. Banks being a business proposition, it must declare handsome dividends to its shareholders. Unless the profit outlook of a bank is bright, new funds will be difficult to obtain (Vaish, 1996: 154).

Commercial banks generally lend for short-term commercial purpose to finance the need of trade and commerce. As the fund available for lending with the banks, are mostly the fund mobilized from the depositors, a commercial bank should carefully consider the safety margin before granting the loan. The banker should be extra careful should be extra careful in selecting the borrowers; generally banks lending is guided by their lending policies. General principles of a sound lending policy of a bank are as follows: (Gulshan & Gulshan, 1994: 243)

Generally banks make their advances in the forms of loans, overdraft, cash credits and bills discounting.

- In a loan account, the entire amount is disbursed to the borrower, which is repayable in installments or in lump sum on the expiry of loans. Interest is charged on the entire loan disbursed to the entire loan disbursed to the borrower. the types of loans may be pledge loan, demand loan, hire purchase, import finance (transit loans), export finance (packing credit), loan against fixed deposits, against government securities, against shares etc.

- Overdrafts are granted in current account of a customer. it is the permission given to overdraw from the account up to a certain limit allowed to the person on revolving basis. Interest is charged on daily outstanding overdrawn amount only. Normally such facility given against the security of collaterals, fixed deposits, government securities, shares, life insurance policies etc.

- Cash credit are similar to overdraft in terms of operation but it is provided to the borrower as working capital finance, normally to traders, industrialists, farmers etc. in cash credit facility, unlike in loans, the borrower shall enjoy the flexibility of drawing the amount up to the sanctioned limit anytime they require fund during the validity of limit. As the interest is charged only to the actually utilized amount on daily basis, the borrower can repay instantly upon receipt of proceed in order to minimize their interest liability. Generally such facilities are availed against security of pledge or hypothecation of stocks of trade commodities along with collaterals.

- Discounting of bills by a Bank actually is buying the bills of borrower, which are self-liquidating nature by means of endorsement on the documents, the title on the payment upon liquidity transferred in favor of the bank that discount it. Bills may be clean or documentary. if it is a clean negotiable cheques., drafts, bills of exchange payable at sight or after certain tenor, then it is called clean bill and if the instrument is accompanied with other trade documents (commercial invoices, transport documents etc) it becomes the documentary bill. Bills discounting is short-term credit availed by the bank in which bank gives the value of the bill (called negotiation) deducting some amount (usually the interest until the period of its possible realization) from the face value.

**Concept of Spread**

Deposit mobilization activity of banks is a costly affair. The bank has to incur expenses toward payment of interest on the bearing deposits accepted by the bank. Such expenses is called interest Expenses. For a better profitability, a business concern should be careful in minimizing its cost. In case of a bank also, as the interest expenses from a bulk in total cost of the bank, a successful banker pays adequate attention toward lowering its interest cost by marketing low cost deposits and building optimum portion of interest free deposits in his deposit mix.

Deployment of resources in income generating assets (loans and investment) is the income yielding activities of the banks. Higher the proportion of loan and advances in the asset portfolio, higher will be the on fund. As the interest income is the major contributor of income of a bank. The banker should be careful in realization of interest and enhance the profitability. The difference of interest earned from lending and interest expenses incurred in deposit is called the spread. In other words spread is the net income of the bank from which banks have to meet their other operational costs and give out the dividends to the shareholders. A banker can attempt to maintain higher spread by minimizing the average cost of deposit and maximizing the average yield on fund. But as per the current regulatory provision of NRB, the interest spread of a bank can be maximum of 5% only. (BOD, NRB, 2008.)

**Concept of Burden**

During the establishments and operation of a bank, it has to incur various kinds of expenses besides the expenses incurred for interest payments. Such expenses are employee's expenses. administrative expenses, depreciation on fixed assets, other operating expenses, expenses for loan loss provision, interest suspense expenses, employ bonus expenses, expenses for income tax provisions etc. all such expenses other then interest expenses cumulatively from a burden to profitability. The spread earned by the bank must be at least enough to meet the burden in order to break even. However the other income (income other then interest income) earned by the bank from their other activities besides fund lending contributes to lowering the burden thereby increasing of the profitability of the bank. Therefore the net burden (other expenses less other income) has been termed as burden.

## 2.5. Review of previous Studies

**Giri (2005)** has made research on Profit Planning System & Financial Conditions of NEA. In this study Mr. Dahal has pointed out following objectives and major findings.

**Objectives:-**

1. To examine the present planning premises adopted by NEA on the basis of budgeting;

2. To observe the NEA's profit planning on the basis of overall managerial budgeting;
3. To analyze the variances between budgets & actual achievement of the authority;
4. To assess the financial performance of NEA;
5. To recommend measures to be taken instantly and further to encounter with the identified budgeting and profit planning problems;

**Major Findings:**

1. There is positive and perfect correlation between budget and achievement of NEA is higher than the budgeted sales.
2. NEA ahs a practice of preparing both strategic long-range and tactical short-range profit plan.
3. Actual sales are less than actual production and it indicates the remarkable loss of power in NEA.
4. Total assets turnover ratio, profitability ratio and return on net capital employed ratio are not perfectly satisfactory.
5. There is perfect positive correlation between actual sales and actual production.

**Karki (2006)** has made research on Revenue Planning and Cash Management of Public Utility in Nepal, a case study of Nepal Telecom. In this study Mr. Bhatta has pointed out following objectives and major findings.

**Objectives:-**

1. To analyze the gap between budgeted and actual revenue and its demand;
2. To examine cash collection and disbursement;
3. To review cash flow from operating, financing and investing activities;
4. To have information, control and security over cash balances and payment systems;

**Major Findings:-**

1. Sales budget shows ISD sector's sales revenue is main revenue sources of Nepal Telecom, which contributes more than 40% in average.
2. Because of high demand of Telephone line there exist small gap between actual production and actual sales in lines.
3. Correlation and coefficient value shows that there are positive correlation between budgeted and actual sales units and Rs. By the regression line, it is clear that future revenue will increase with compare to budgeted if other things remaining same.

4. Revenue per employee is increasing trend but Nepal Telecom has not incentive or motivating planning to promote employees.
5. The collection of receivable from the customers in the company is very small decreasing year by year. It denotes efficiency of Nepal Telecom to collect its revenue in time. But A/R is low increasing in F/Y 22006/07. The decreasing trend of average collection period has shown the improvement of credit management and strict credit policy of the company.

**Sharma (2007)** has made research on A Study of Cash Management in Nepalese Public Enterprises, a case study of Salt Trading Corporation Ltd.; In this study Mr. Neupane has pointed out following objectives and major findings.

**Objectives:-**

1. To avail the daily necessary things to the general people in the reasonable price;
2. To carry out the export and import business;
3. To act as an agent for domestic as well as foreign companies;
4. To make investments in new as well as old industries;
5. To import and distribute chemical goods and fertilizer;

**Major Findings:-**

1. Cash Management in the STCL is primary based on the traditional practices lacking in scientific approach. A more serious aspect of cash management has been the absence of any formalized system of cash planning and cash budgeting in STCL.
2. The STCL could not make the best use of available cash balance prudently.
3. The average cash turnover time in a year is found 40 times which is in fluctuating trend over the study period.
4. Management has taken liberal credit policy to sales of goods. Hence, the cash and bank balance of the study period is minimal of account receivable.
5. Modern practices with respect to debt collection, monitoring the payment behavior of customers and relevant banking arrangements in connection with collection of receivables have been virtually ignored in STCL.
6. No optimum cash balance is maintained. The cash & bank balance with respect to current assets has been fluctuating trend similar is the case with respect to the total assets.

**Bhandari (2008)** has conducted a research on the topic " Profit planning and control: A case study of Nepal Telecom. Mr. Thapa has pointed out the following objectives and major finding.

**The main objectives of the study were.**

1) To examine the present comprehensive profit planning system applied by NTC.
2) To evaluate the targeted variable and actual variables of NTC.
3) To analyze the gap between budgeted and actual revenue.
4) To examine the financial performance the NTC.

**The major findings were as follows.**

1) NTC is lacking the proper System of Performance report.
2) NTC has not practices of control policy considered controllable and inconsolable variables affecting the organization.
3) The sales plan and achievement is satisfactory to some extent.
4) Financial Performance of NTC is not so good.
5) NTC does not consider the use of flexible subjective.

**Basnet (2009)** has made research on Profit Planning in Public Utility Sector of Nepal – A case study of NEA. In this study Mr. Shrestha has pointed out following objectives and major findings.

**Objectives:-**

1. To examine profit planning system applied by NEA;
2. To analyze the financial performance of NEA by using various financial tools;
3. To observe the various functional budgets of NEA associated with comprehensive profit planning;
4. To evaluate budgeted and actual achievement of NEA;
5. To provide a package of recommendations and suggestions to be taken instantly and further to be encountered with identified budgeting & profit planning problems on the basis of findings;

**Major Findings:-**

1. Budgeted sales are more variable than actual sales.
2. Budgeted production is more fluctuating than actual production.
3. Authority formulates various functional budgets as a part of comprehensive profit plan.

4. NEA has been paying a large amount of interest on long term loan.
5. Power leakage is significantly high in NEA.

**Pradhan, (2010)** has conducted a research on the topic "Profit Planning and Control in Agriculture Development Bank Limited". Mr. Upreti has pointed out the following objectives and major findings.

**The main objectives were as follows.**

1) To study and examine the financial performance of ADBL.
2) To analyze the various functional budget.
3) To evaluate present planning adopted by the bank.
4) To examine the variance between estimated and actual profit of the bank.
5) To provide suggestions for improvement in the overall profitability of the bank on the basis of study results.

**The major findings of the study were as follows.**

1) Specific goal and financial targets are not defined clearly to achieve the basis objectives of the bank.
2) The decision making process is highly centralized.
3) The bank has not practiced the short term and long term planning properly.
4) The revenue targets, in most of the year are under estimated. As a result there is high difference between target revenue and revenue achievement.
5) Actual revenue of the bank in the last years is in increasing trend, which shows the positive sign of the bank.
6) There is inadequate profit planning due to lack of planning experts.
7) Political situation is the major affecting factor to the banking activities.
8) Lack of investment in the productive sector, fluctuation of liquidity in the market, competition in the banking sector, strike, lockout and unsuitable situation within country are also the major affecting factors to the banking activities.
9) Advanced training to the personnel is lacking.
10) Controlling functions of the branches are so for being carried out directly by head office, which may be difficult in the days to come because of its wide geographical coverage.
11) Bank's deposit collection is continuously incasing but loan disbursement is in decreasing trend.
12) Interest income of the banks is the highest among income items of the bank every year.

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