CHAPTER - ONE

1. INTRODUCTION

Profit is the life blood of the business organization. Which not only keeps it alive but also assures the future and makes if sound. In other words, every such organization needs profit to survive and compete in the open market. The success or the failure of the business firm depends upon the margin of profit because profits are the primary requirement for its success. More over, the margin of profit is regarded as a indicator of economic situation of the business firm, since profit earning plays a vital role for achieving the objectives of an organization. It's necessary for all organization to earn reasonable profit.

Generally, profit is the difference between total cost and total revenue. Profits are the primary measure of success of a firm. The objectives of a business firm may be to maximize its profit as well as to render service. These both objectives have a sharp link in the management of organization. And the question arises, are profits happen automatically? This is a serious question in the life span of a business firm. "Profit does not just happen. Profits are to be managed."

Before making an intelligent approach to managerial process of planning, it is important to understand the management concept a planning is the process of developing enterprises objectives, and selecting future courses of action to accomplish them. In other words, planning is the essence of management and all other functions are performed within the framework of planning. Planning means deciding in advanced what is to be done in future. Planning start from forecasting and predetermination future events.

Profit planning is one of the most important tools used to plan and control business operations. Profit planning is a part of overall planning process of an organization. The process of preparing and using budget to achieve management objective is called budgeting. Budget or profit plans are financial plan prepared as a guide to the control of future operation. It is an estimation and predetermination of revenue and expenses that estimates how much income will be generated and how it should be spent in order to meet investment and profit requirements.

Profit planning is a comprehensive statement of intensions expressed in financial terms, for the operation. Profit planning and control is a tool for management control. It is a base source of communication. It is an accounting for future. It cannot be properly classified as an accounting technique rather it is a management technique.

A comprehensive profit planning and controlling or budgeting is a systematic and formalized approach for stating and communicating the firm's expectation and accomplishing the planning, co-ordination and control responsibilities of management in such a way as to maximize the use of given resources. Comprehensive profit planning and control model can be taken as the best use of opportunities for and strengths of the firm and minimization the threats and weakness of the firm to meet the target profit.

1.1 BACKGROUND OF THE STUDY

Nepal lies between two large countries India and China in the central part of Asia with the area of 1,47,181 sq km. Nepalese economy is fully depended on agriculture, so it plays a vital role in the Nepalese economy. More than 80% people depend upon agricultural sector. Agriculture sector contributes 38.8% on gross domestic products (GDP) and non-agriculture sector contributes remaining 61.2% in fiscal year 2062/63. Agriculture is an effective means of achieving economic development. Agriculture is the major instrument of progress, modernization and social change in Nepal.

With the main objective of providing institutional credit for enhancing the production and productivity of the agricultural sector in the country, the Agricultural Development Bank. Nepal was established in 1968 under the ADBN Act 1967 , as successor to the cooperative Bank. The Land Reform Savings Corporation a similar institution established in the year 1966 was merged with ADBN in 1973. Subsequent amendments to the Act empowered the bank to extend credit to small farmers under group liability and expand the scope of financing to promote cottage industries. The amendments also permitted the bank to engage in commercial banking operations since 1984.

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

The enactment of Bank And Financial Institution Ordinance (BAFIO) in February 2004 abolished all Acts related to financial institutions including the ADBL Act, 1967. In line with the BAFIO, ADBL has been incorporated as a public limited company on July 14, 2005. Thus, ADBL operates as an "A" category financial Institution under the legal framework of BAFIO and the Company Act, 2053.

Currently, ADBL has many branches within Kathmandu valley and beyond the valley. The main office of the ADBL is located at Ramshaha path in Kathmandu. In the beginning it started with about Rs.70.5 million of authorized capital, now its authorized capital is Rs.13000 milion, issued capital of Rs.11900 million and the paid up capital of Rs.10777.5 million. (up to Ashad 2065/66.)

There are mainly five sources of the bank's total financial resources, they are as follows:

Financial Sources of Bank

S.N	Sources	Amount in Percentage
1	Share Capital	6.5
2	Customer's Deposit	61.3
3	Internal Borrowings	3.5
4	External Borrowings	14.5
5	Others	14.2

Source: Reports of ADBL

1.1.1 ORGANIZATION AND MANAGEMENT OF ADBL

The Board of Directors is the apex body of the bank. It formulates policies as well as strategies and provides guidance to the management. The Board comprises a total of eight members; three members representing Ministry of Land Reform and two members representing individual shareholders. Besides, the Board as per the BAFIA nominates one member. Audit Committee and Governance Committee in the area of internal control and good governance support the Board respectively.

The Chief Executive/General Manager executes the day-to-day operation of the bank. Two Deputy General Managers and 12 Division Chiefs closely assist the Chief Executive/General Manager. Moreover, General Manager is supported by Asset and Liability Committee for various activities related to risk management.

The bank has three-tier organization structure consisting of Head office, Regional offices (ROS) and field offices. Field offices are further categorized into four levels; main branch, branch, sub-branch and depot depending particularly upon their volume of business. The head office is the policy making body at the top, field offices are implementing units at the bottom and ROS with monitoring and supervisory role are in between.

ADBL is also operating a Central Training Institute (CTI) at corporate head office and five Regional Training Centre (RTCS) with residential facilities in five development regions. The CTI and RTCS conducts training and seminars particularly for enhancing abilities and skills of organizational members.

Present Manpower at the bank (F.Y. 2065/66)

Office	No. of Employee
Head Office	299
Regional Office	223
Development Banking Office	1443
Commercial Banking Office	1509
Regional Training Center	36
Employee Retirement Fund	3528

Source: Annual Reports of ADBL

Present Office Network of the bank:

Office	2061/62	2062/63	2063/64	2064/065	2065/066
Head Office	1	1	1	1	1
Regional Office	10	11	11	10	10
Branch/ Sub-branch Office	399	283	225	225	225
Regional Training Center	4	5	5	5	5
Total	**414**	**300**	**242**	**241**	**241**

Sources: Annual Reports of ADBL

1.1.2 OBJECTIVES OF AGRICULTURE DEVELOPMENT BANK LIMITED

ADBN was established with an objective of improving the living standard of farmers by providing easy access to loan in order to increase production and productivity in agriculture sector. The bank has been lending to individual, farmers and co-operative societies for agriculture production, farm improvement, irrigation and allied purpose like business and industrial project based agriculture. The bank is the largest vehicle providing agricultures credit and has a wide network all over the country. It collects public deposits through its commercial bank branches. The bank's objectives are as follows:

- To be the pre-eminent bank, providing services throughout Nepal.
- To deliver comprehensive banking and financial services, capitalizing its extensive network in rural areas.
- To provide quality banking and financial services to clients adopting market driven strategy delivering sustained and competitive return on investment.

1.1.3 AREAS OF LENDING

Agriculture development bank limited is the main financing instruction in the agriculture sector in Nepal. Beneficiaries of its programmers vary from marginal farmers to big entrepreneurs. It has provided loans and technical assistance to the most of farmers. The main arrears where the bank provides credit as follows:

- Agriculture sector
- Mineral sector
- Production sector
- Construction sector
- Metal's products, Machinery
- Production and setting of transportation goods
- Transportation, communication and other services
- Wholesaler and retailer
- Finance and insurance sector
- Services oriented organization
- Consumption loan
- Rural electrification
- Other sector etc

1.1.4 MAIN FUNCTION OF THE ADBL

To achieve the objectives of its, the major functions of ADBL are to:

- Comply with all relevant legislation, codes or conduct and standards of good corporate citizenship in Nepal while maintaining full autonomy in the management of its operations:
- Conduct its operations in an open and transparent manner;
- Put local resources to work for local development, serving the rural community and its aspirations;
- Provide a full and balanced range of financial products and services that satisfies the needs of the rural population of Nepal, on a profitable and sustainable basis;
- Strive consistently to provide improved products and services to its clients at reasonable cost, using modern banking, information and communication technology in the most appropriate form to its clients needs;
- Be vigorous in building reputation for professionalism, competitive pricing, reliability and quality of service and innovation;
- Operate in accordance with best banking practice, acting with financial prudence and keeping in mind the need to balance profitability with asset preservation and liquidity and to safeguard depositor's funds;
- Work together with its employees to develop their capabilities to contribute to achievement of the bank's objectives, promoting excellence, rewarding achievement and providing them the opportunity to share in the bank's success;
- Develop mutually acceptable relationship with government in the pursuit of improvement in living standards in rural areas, while respecting best financial practices;
- Ensure that its activities contribute to the environmental stability and overall improvement of living standards in Nepal.

1.1.5 COMMERCIAL BANKING ACTIVITIES OF THE BANK

A commercial banking activity is an important activity of the bank. ADBL initially opened its banking unit attached with branches and sub-branches offices working in rural areas aimed to provide banking facilities along with agriculture credit. Due to cost factor the bank started to close down rural units gradually since 1989. It started full-fledged banking branches in Kathmandu city with modern facilities in 1984 in order to attract urban deposits and invest in the rural areas.

The scheme, apart form collection of saving from the farmers as well as from general public also, aims providing quick and prompt services to the depositors. To this end all banking offices are in the process of computerization. The ADBL has decided to start commercial banking services in view of the profitability and the financing of business houses, ago-based industries, cottage industries and expand its commercial business.

The bank's loan disbursement in commercial sector comprises overdraft, contract loan, business loan, cottage industry loan and fixed deposit loan are providing by the commercial office. The market of commercial banks has become so competitive every day due to the participation of private sector.

1.2 STATEMENT OF THE PROBLEM

Large number of organizations could not achieve their pre-defined objectives and goals due to lack of delegation of authority and communication of objectives and goals from top to lower level management. They are not applying the various profit planning and control tools due to their lack of time, training, knowledge and resources, which needs to be studied.

The following are the major problems of Nepalese Bank like as Agriculture Development Bank Limited :

- Lack of management skills
- Lack of efficient trained manpower as well.
- Lack of infrastructure and financial resources.
- Lack of proper and updating accounting information.
- Lack of implementation of rules and regulation.
- High corruption and skeptism.
- Weakness in strategy formulation and implementation.

In the above light, this study strives to get the answer of the following research questions:

- What are the major problems faced by ADBL in developing and implementing PPC ?
- What is the policy adopted by the bank for achieving the result ?

- In which accounting system are the records kept ?
- Are present rules and regulations of Government of Nepal favourable or unfavourable for growth of the company ?
- What is the average income and expenditure per month of ADBL ?

1.3 SIGNIFICANCE OF THE STUDY

Although ADBL was established in 1968 with broader and specific objectives, it is also facing so many problems such as traditional thinking, ignorance. So, this study focuses on the profit planning and control system in Nepalese context. Nepalese economy is based on agriculture and ADBL is a largest bank, which fully supports in the agriculture sector by providing different facilities. The study highlights and analyzes the problems, practices and prospects in budget application and implementation.

Accomplishment of objectives in every organization depends upon the application of scarce resources most effectively. Also the financial performance of an organization depends purely on the use of its resources. Budgeting is the key to productive financial planning. If the planning process of an organization is effective and result oriented, the pace of development naturally steps forwards. Profit planning process significantly contributes to improve the profitability the help best utilization of resources.

Profit planning is the heart of management. It tells us that profits is the most important indicator for judging managerial efficiency and do not just happen. For this, every organization has to manage its profit various functional budgets are the basic tools for proper planning of profit and control over them. This research study may be useful for those who want to know the PPC in the ADB/N. It may also be helpful for future researches as the reference material.

1.4 OBJECTIVES OF THE STUDY

The basic objectives of this research are to examine how far the PPC system in ADBL has been effective. The major objectives of the study are as follows :

- To study and examine the financial performance of ADBL.
- To analyze the various functional budget.
- To evaluate present planning adopted by the bank.
- To examine the variance between estimates and actual profit of the bank.

- To provide suggestions for improvement in the overall profitability of the bank on the basis of study results.

1.5 LIMITATIONS OF THE STUDY

In the dynamic world, nothing existing is free from limitation. This study also is not an exception. The research has however tried to eliminate the limitations to the best possible extent yet it suffers from the following limitations.

- The analysis covers the period of last 5 fiscal years i.e. 2060/061 to 2064/065.
- It is especially based on the secondary data collected from ADBL so, the reliability of data depends upon their sources.
- It is mainly related to financial and accounting aspects so, it does not cover the other areas of the bank.

1.6 ORGANIZATION OF THE STUDY

The present study has been divided into the following five chapters :

a. **Chapter One**

   It entitles "Introduction Chapter" the reading materials in this chapter are general background of the study, brief introduction of the companies, statement of the problems, objectives of the study, significances of the study, limitations of the study and organization of the study.

b. **Chapter Two**

   This chapter is concerned with review of literature. Reading materials in this chapter are the conceptual framework and review of previous related studies.

c. **Chapter Three**

   This chapter consists of "Research Methodology" adopted for the study and includes research design, period covered, sources of data collection and tools analysis.

d. **Chapter Four**

   This chapter comprises "Data Presentation and Analysis"

e. **Chapter Five**

   This chapter is concerned with the output of the study in the form of summery, conclusion and recommendations. List of bibliography and annexes have been included at the end of the study.

CHAPTER - TWO

2. REVIEW OF LITERATURE

2.1 BACKGROUND

With the main objective of providing institutional credit for enhancing the production and productivity of the agricultural sector in the country, the Agricultural Development Bank, Nepal was established in 1968 under the ADBN Act 1967, as successor to the Cooperative Bank. The Land Reform Savings corporation was merged with ADBN in 1973. Subsequent amendments to the act empowered the bank to extend credit to small farmers under group liability and expand the scope of financing to promote cottage industries. The amendments also permitted the bank to engage in commercial banking activities for the mobilization of domestic resources.

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The chapter review of literature includes the review of concept and finding of previous research on the same field books, journals and unpublished thesis are reviewed for this purpose.

This chapter has been divided into two parts as :

a) Conceptual Framework
b) Review of Previous Related Studies.

2.2 CONCEPTUAL FRAMEWORK

2.2.1 CONCEPT AND MEANING OF DEVELOPMENT BANK

Bank established for the development of basic infrastructure of the country is known as Development Bank. Different countries have different provision for the establishment of such banks even though the objectives of its establishment are to develop the country. In Nepal, development banks are established under the provision of development bank Act 20582 for the investment and development of the particular sector of country.

Development Bank gives the proper environment in the country for the development of concerned sector i.e. rural area, urban agriculture and industrial are of country. It invest short term, medium term and ling term loan, provides capital, technical assistance managerial and administrative guidance to the development of agriculture, rural and other specific sector of the country.

The main function of the bank is to collect capital from different sources and invest it in productive sector, which can make self-reliant in goods and services. It provides capital and renders technical consultancy services to entrepreneurs.

A development bank may be defined as an institution whether wholly or particularly owned by Government or by private interests (both domestic and foreign) primary developed to the situation and invigoration of the national capital market to the provision ling term capital (both loan and equity) and to the supply of entrepreneurship including technical know how and management to the private co-operate sector.

"The Development Bank is to provide loan both commercial and development sector is called Development Bank. It means development bank is the main infrastructure of national development of a nation every country have to establish the development bank." (Since : 1974:15)

2.2.2 DIFFERENT DEVELOPMENT BANKS IN NEPAL AGRICULTURE DEVELOPMENT BANK

Agriculture Development Bank Limited (ADBL) was established in 1968 under the Agriculture Development Bank Act. 1968. It provides short term and mid term loans and technical assistance. The Bank inherited the assets and liabilities of the co-operative bank, which was established in 1963. ADBL was established with an objective of improving the living standard of farmers by providing loans with simple procedure to increase production and productivity in agriculture sector. It collects money from its commercial bank branches and has wide network all over the country.

Industrial Development Bank

Industrial Development Bank is related with industrial sector. It provides funds and other technical assistance to industries. It extends loans against adequate collateral and also seeks share participation in private sector industries in their establishment, improvement, expansion and modernization, NIDC was established in 1959 with a view to encourage industries in private sector in Nepal. So, it is necessary to establish the industrial development bank, which helps the development of the country.

Rural Development Bank

With the primary goal of uplifting the living standards of poor women of the rural area, as of mid July 2002, the rural development bank operating in the five development region disbursed the loan to rural women members and provides services to VDC of different districts through different centers. As the RDB provided services to the households of the rural area, the operating cost have been more.

Regional Development Bank

Regional Rural Development Bank (RDB), a proto type of Grameen Bank Bangladesh was established toward the end of 1992 by HMG-NRB for assisting the poorest of the poor women living in remote areas. The participant who has land holding of less than 0.6 hectors in Terai and 0.5 hector in hill and literate enough to write his/her name is allowed to take part in the credit activities. So, far the bank is in operating in all the five development regions.

2.2.3 ORIGIN AND EVOLUTION OF DEVELOPMENT BANK

Origin of Development Bank is in Europe in the 19th century was also followed by several other Asian countries in the 20th century. The first Asian country to experience such development bank was Japan. First development bank was established in 1902 in Japan and it helped a lot in the economic transformation of Japan. It is also said that the idea of development bank emerged in Belgium. The importance such institution was recognized only after the establishment of industrial development bank of Japan. Japan Development Bank is another Japanese Development Bank established in 1953 to uplift the industrial economy of Japan. The next phase in the development of these institutions can be witnessed after the Second World War when a large number of institutions like Industrial Development Bank of Canada (1944), Herste Bank in Holland (1949), Industrial Credit Bank in Germany (1949), Finance Corporation for industry in England (1948), etc were set up thus the basic idea behind development bank was organized and developed form the industrialized European nations.

2.2.4 NEPALESE CONTEXT

Today many commercial and development bank has been establishing but before 1937, there were no any financial and banking institution in our country. At that time loan money lender and village money lenders carried out the financial and banking function. The first banking institution was established in 1937 is Nepal Bank Limited in the form of the first commercial bank in Nepal. Nepal Rastra Bank was established under the NRB Act of 1955 in 1956 in the form of central bank. It worked as a development bank also in a direct and indirect term. Direct in the sense that if performs the functions of commercial bank indirect in the sense that it provides loan to Agriculture Development Bank and Nepal Industrial Development Corporation for the promotion of Development Bank. The third financial institution established in Nepal was the Nepal Industrial Development Corporation in 1957. The fourth financial institution established in Nepal, was Agriculture Development Bank in 1967, and next financial intermediary setup in Nepal was National Insurance Corporation in 1968. Small farmers Development Program (SFDB) was established in 1957 to provide financial and technical assistance to small farmers.

Today's many other financial institutions have also been established e.g. Nepal Arab Bank Ltd., Himalayan Bank, Everest Bank, Bangladesh Bank, SBI Bank, Investment Bank, NIC Bank, NEBIL Bank, Global Bank, Laxmi Bank and Rural Development Band etc. in Nepal. Development Banks are established under the provision of Development Bank Act of 2052 B.S. Many development banks are operating in Nepal at present.

2.2.5 PROFIT : The Basic Element of Profit Plan

The general understanding of "PROFIT" if to achieve monetary advantage. Profit is the acid test of the individual firm's performance. Profit is the basic elements of profit plan so that concept of profit may not be complete and meaningful in absence of the clear-cut well-defined idea of profit. According of Oxford Dictionary profit means:

- Financial Gains
- Amount of money gained in business especially the difference between the amount earned and the amount spend.
- Advantage of benefits gained form something.

But different scholars and experts have different ideas about profit. An economist assumes that profit is the reward for entrepreneurship for risk taking. A labor leader may view that profit is the measure of how effectively labour has produced and that it provides a base for negotiating a wage increases. An investor will view it is as a measuring gauze of the return that he expects from his/her investment. Tax payers or tax assessors may take it as a basic for determining income taxes. An accountant may view profit simply as the difference of revenue and expenses that arises there from the business which can shown as below:

$$\begin{aligned} \text{Profit} &= \text{Total Revenue - Total Cost} \\ &= \text{TR - TC} \end{aligned}$$

Profit is the excess of income over cost of production. The expenses made on raw materials, labour, interest on borrowed money, fuel power etc are included in cost. No company business can service longer without profit and in capitalistic economic dominated business, profit is a signal for the allocation of resources and a yardstick for judging managerial efficiency.

2.2.6 PLANNING : The Basic Foundation of Profit Management

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

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

Planning is a mental process requiring the use of intellectual facilities, imagination, foresight, sound judgment etc. whether the manager is of top level, medium level or lower level he can not be separated form the planning task i.e. their commonality but planning differs as the level.

Planning is management responsibility, not an accounting function. To plan is to decide and only the manager has authority to choose the direction the company is to take. Planning is a rational way, a systematic way of perceiving how business, industrial or any organization will get where it should go by examining future alternative course of action open to any organization and choosing them. Planning is the first function of management. It is performed consciously because the passing of time demands both re-planning and making new plans. The major function of business management is planning execution and control, which constitute the key element of the management process.

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

Management Planning is a continuous process a opposed to a predicted endeavor. Since a planned projection can never be considered as the final product. It must be revised as condition change and new information became available. Management Planning is a process that includes the following five phases :

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

2.2.7 FORECASTING V/S PLANNING

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

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

2.2.8 TYPES OF PLANNING

As per the time period covered by a plan, it can be divided into three types : long range, medium range and short range s follows :

2.2.8.1 LONG RANGE PLANNING :

Long range planning is closely concern with the organization as a long live institution. It is most important for a broad and long live institution. Long range planning verifying from five to ten years with the enterprises and is sometimes extended to ten years. Long Range Planning is closely concerned with the concept of the corporation as long living institution.

Long Range Planning is a decision making process. The decision may be related about

- Determination of goals, objectives and strategies.
- The level of direction of capital expenditure.
- The accession of new source of fund.
- Organization decisions and structure.
- Keeping enterprises strong.
- Evaluating management skills.
- Bringing attention to new technique.

2.2.8.2 MEDIUM RANGE PLANNING

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

Medium term planning most correctly predict the general level of economic activity since that affect such factors as revenues profits, costs and expenditures. More detail is involved in it than with short-range plans but less than for long range plans, while resources allocation is important.

2.2.8.3 SHORT RANGE PLANNING

The Short Range Planning is a limited time dimensions usually it covers one year time period. Management as a substantial part of the long-range plan uses short-term planning. The short range planning is selected to confirm to fiscal quarters or years. Because of the practice needed for confirming plans to accounting periods and the some what arbitrary limitation of the long range of three to five years usually based as has been indicated on these prevailing beliefs that the degree of uncertainty over long period makes planning of questionable value.

2.2.9 PROFIT PLANNING

Profit Planning & control is function of management and rests upon some fundamental views that is the conviction that a management can plan and control the long-range destiny of the enterprise by making a continuing steam of well conceived decisions. The trust of the comprehensive profit planning and control concept goes to the very heart of management that is the decision making process especially for long-range success. The stream of managerial decision must generate plan and actions to support the planned outflow of the enterprise, so that realistic profit and return on investment are earned. Continuing generation of profit by managerial manipulation of the inflows and outflows provides the substance of profit planning and control.

Profit planning focuses on profit and its management in aggregate. The management thinking about profit is planning itself. It can be defined as estimation and predetermination of revenue and expenses that estimate how much income will be generated and how it would be spend in order to meet investment nd profit requirement. In the case of institutional operations, it presents a plan for spending income in a manner that does not result in loss. It represents an overall plan of operations.

A profit planning and control program helps management perform its control function by providing realistic goals and standards that are implemented and are then compared with actual results to measure performance. Under profit planning and control this performance measurement extends from top to the lowest organizational level in the enterprise.

Profit Planning is a detailed plan of action during a period of one year or less. Profit planning helps a firm's financial manager to regulate flow of funds, which is his primary concern. A profit plan or budget is the formal expression of the enterprises plans and objectives, stated in financial terms for a specified future period of time. It is called the profit plan because it explicitly states the goals in terms of time expectation and expected financial result for each major segment of the entity.

Profit Planning in fact is a managerial technique and a profit plan is such a written plan in which all aspects of business operations with respect to definite future period are included. It is a formal statement of policy, plan, objective and goals established by top management in respect of some future period. Profit Planning is a predetermined detailed plan of action developed and distributed as guide to current operations and as a partial basis for the sub-segment evaluation of performance. Thus we can say that profit planning is a tool, which may be used by the management in planning the future course of actions and in controlling the actual performance.

2.2.9.1 ADVANTAGES AND DISADVANTAGES OF PROFIT PLANNING

Profit Planning means the development and acceptance of objectives and goals and running an organization effectively to achieve the objectives and goals by substantive and financial plan techniques. Profit planning is very important to emphasis on developing positive reinforcement, improving motivational goals, coping with effect of budgetary pressure solving budget, padding problems and using budget for control.

It is called for profit planning because it explicitly states the goals in terms of time expectations and expected financial results for each major segment of the entity.

The usefulness of comprehensive PP offer more benefits, which may be summarized as below :

a) If forces early consideration of basis polices.
b) If requires adequate and sound organizations structure that is there must be a define assignment of responsibility for each function of the enterprises.
c) It compels department manages to make plans in harmony with the plans of other departments and of the entire enterprises.
d) It compels all members of management from the top down to particulars in the establishment of goals and plans.
e) It compels all members of management put down to participate necessary for satisfactory performance.
f) It requires adequate and appropriate historical accounting data.
g) It compels management to plan for the most economical use of labour, material and capital.
h) It instills at all levels of management the habit of timely careful and adequate consideration of the relevant factors before reaching important decisions.
i) It reduce cost by increasing the span of control because, fewer supervisors are needed.
j) It frees executive from many day-to-day internal problems through predetermined policies and clear cut authority relationships. It thereby provides more executive time for planning and creative thinking.
k) It tends to remove the cloud of uncertainty that exist is many organization especially among, lower levels of management relatives to basic policies nd enterprise objectives.
l) It pinpoints efficiency and inefficiency.
m) It promotes understanding among members or theirs co-workers problems.
n) It forces management or give adequate attention to the effect of general business conditions.
o) It forces a periodic self-analysis of the company.
p) It aids in obtaining bank credit, banks commonly require a projection of future operation and cash flows to support larger loans.
q) It checks progress or lack attainment of progress toward the objectives of enterprises.

r) If forces reorganization and corrective action (including rewards).
s) It rewards high performance and seeks to correct unfavourable performance.
t) It forces management to consider expected future trends and conditions.

PP models 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 PP :

a) It is difficult, infact impossible, to estimate revenues and expenses in company realistically.
b) Our management has no interest in all the estimates and schedules. They think that informal system is better and works well.
c) It is not realistic to write out and distribute our goals, policies and guidelines to all the supervisors.
d) It takes away management flexibility.
e) It creates all kinds of behavioural problems.
f) It places the management in a strait jacket.
g) It adds a level of complexity that is not needed.
h) It is too costly asides from management time.

Whatever exists in the world has both advantages and disadvantages and it is clear that we use or apply it only in that case if it has many advantages. A PP model also has more advantages than disadvantages. Thus, now a days PP system is especially familiar to business organization and widely used in this world of management.

2.2.9.2 BASIC ASSUMPTIONS AND LIMITATIONS OF PROFIT PLANNING

Profit Planning system is more common in business organization and no-business organization. But there are so many assumptions of using profit planning process. Firstly, the basic plans of the business must be measured in terms of money, if there is to be any assurance that money will be available for the business must for the need for the business. Secondly, it is possible to plan for the future of business in a comprehensive way, coordinating every aspects of the business with every other aspect to establish optimum profit goals. Thirdly, profit planning is pre-planning not merely what to do if thing work as forecasted, but also things works out differently from the forecast.

Profit plan and control is an important tool for management. But each tool suffers from some limitation and its use is fruitful within these limits. So, it is essential that the user of profit plan and control must be having a full knowledge of its limitations. The major limitations of profit plan and control are as follows:

i) **Profit Plan is based on estimates :**

Profit Planning is not an exact science. It is based on estimates. The success of a profit planning depends to a large degree on the accuracy with which the basic estimates are made. Therefore, estimates should be made on the basis of all the facts available.

ii) **Danger of Rigidity**

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

iii) **Profit Planning and Control is Application for Long Period**

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

iv) **Execution of Profit Plan will not occur automatically**

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

v) **The Profit Plan will not be a substitute for Management**

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

vi) Costly Affairs

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

vii) Proper Evaluation

For finding out the inefficiencies, proper evaluation should be made. In the absence of proper evaluation, budgeting will hide inefficiencies. So there should be continuous evaluation of the actual performances, standards also should be re-examined regularly.

viii) Lower Morale & Productivity

Unrealistic targets should not be set and used as pressure tactic. By doing it profit planning and control will lower moral and productivity. To some extent profit planning may be used as pressure device, but it must be extended carefully. The profit plan should be required not as a master but as servant. It is one of best tools yet devised for advancing the affairs of a company and the individuals in their various sphere of managerial activities. 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 and to re-plan there are compelling business reasons.

2.2.10 BUDGETARY CONTROL

2.2.10.1 MEANING OF BUDGETING & BUDGET

Budgeting is a forward process 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 sources of an enterprise for some specific period in the future."

As regard 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 fact 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 in respect of some future period..

A budget is a detail of the results of an officially recognized programme of operating efficiency.

"Budget is defined as a comprehensive and co-ordinate plan expressed in financial terms for the operations and resources of an enterprises for some specified period in the future." (Freemaen, 1976). According to his definition the essential elements of 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.

2.2.10.2 BUDGETING : As a Device of a Profit Plan

Budgeting is a device of a planning and control that serve as a conduct of operation for evaluating actual results. Actual results can be judged being satisfactory or unsatisfactory in the light of the relevant budget data and also in the light of change on conditions. Company controls operation through its budgeting and responsibility reporting system. Top executives are able to control every area of the organization through a system of budgetary and control reporting by responsibility area.

A budget is a quantitative expression of a plan of action and an aid to co-ordination and implementation. Budget may be formulated for the organizations as a whole or for any subunit. Budgeting includes sales, production, distribution and financial aspects of an organization. Budget program are designed to carryout a variety of functions, planning, evaluating performance, co-ordinating activities, implementing plans, communicating, motivating and authorizing actions.

A budget is a written plan for the future. The managers of firms who used budgets are forced to plan ahead. A firm without financial goals may find it difficult to make proper decisions. A firm with specific goals in the form of a budget makes many decisions ahead of time. A budget helps a firm to control its costs by setting guidelines for spending money for needed items because they know that all costs will be compared to the budget. If actual costs exceed the budgeted costs, a justifiable explanation is required. A budget also helps employees to do good job. This is particularly true when employees help in setting up the budget.

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 fudging performable.

2.2.10.3 ESSENTIALS FOR EFFECTIVE BUDGETING

An effective budgeting system has some essential feature to ensure best results. The following are the chief characterizes of n effectives budgeting.

a) Sound Forecasting

Forecasts are the foundation of budgets, the executives discuss about these forecast. The more sounds are the forecasts better result would come out of the budgeting system.

b) An Adequate & Planned Accounting System

There should be proper flow of accurate and timely information in the enterprises, which is, must for the preparation of budget. An adequate and planned accounting system in the firm can ensure this.

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 responsibilities, not only this, there should be true delegation of authority from top of 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 play an 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 finalities and also approves the departmental budgets. Thus in order to make budgeting system more and more effective, a budget committee should always be set up.

e) Availability of Statistical Information

Every budget reflects the business policy formulated by the top management. In other words budgets should always be prepared taking in the account the policies set of particular department or 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 budget are always prepared and expressed in quantitative terms, it is necessary that sufficient and accurate and relevant data 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 accurate and adequate.

g) Support Top Management

If a budget program is to be made successful, the sympathy of each member of the management terms towards it should start preferably form top i.e. Chairman. The enthusiasms 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 feedback system. As work proceeds in the budget, actual performance should not only be recorded but it 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 and properly motivated towards budgeting system. In an organization it is needed to make each staff member feel too much involved in the budgeting.

j) Degree of Flexibility

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

k) Constant Vigilance

An effective system of budgetary control requires that provision must be made for the comparison of budgeted and actual results at frequent intervals. As soon as unfavourable trends are detected, immediate action should be taken to remedy them.

2.2.10.4 CLASSIFICATION OF BUDGET

The budget can be classification according to various points of view. The commonly used bases are as follows :

a) Classification according to Time Factor
b) Functional Classification
c) Classification According to Flexibility

2.2.10.4.1 CLASSIFICATION ACCORDING TO TIME FACTOR

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

i) Long-term Budget

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

ii) Short-term Budget

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

iii) Current Budget

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

2.2.10.4.2 FUNCTIONAL CLASSIFICATION

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

i) Sales Budget

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

ii) Selling and Distribution Cost Budget

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

iii) Production Budget

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

iv) Production Cost Budget

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

v) Purchase Budget

Correlated with sales forecast and production planning, it deals with purchases that are required for planned production. Purchase would include both direct and indirect materials and goods.

vi) Personnel Budget

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

vii) Research Budget

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

viii) Cash Budget

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

ix) Plant Utilization Budget

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

x) Office and Administration Budget

This budget represents cost of all administrative expenses such as managing director's salary, staff salary and expenses of office management like lighting and cleaning.

xi) Capital Budget

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

xii) Master Budget

The ultimate integration of separate budgets by the accountant provides the master budget, which includes estimated profit and loss account for the future period and estimated balance sheet at the and of thereof.

But the all-functional budgets are not prepared by non-manufacturing organization

2.2.10.4.3 CLASSIFICATION ACCORDING TO FLEXIBILITY

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

i) Fixed Budget

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

ii) Flexible Budget

The figures used in this form of cost and expenses budget are made acceptable to any given set of operating conditions within any month of the fiscal year.

2.2.11 FLEXIBLE BUDGET

After being clear about the concept of profit planning and budgeting we move towards the third component of profit planning and control i.e. control. The dictionary meaning of control is.

- Have a power or authority over some body or same thing.
- Regulate something.
- Management, guidance, restriction.
- Standard of comparison for checking the results of the experiment.

Controlling can be defined as a process of measuring and evaluating performance of each organizational component of an enterprises and initiating corrective action when necessary to ensure efficient accomplishment of enterprise objectives, goals, policies and standards. Planning establishes the objectives, goals policies and standards of an enterprise. Control is exercised by using personal evaluation, periodic performance report and special reports.

An important aspect of control that is frequently overlooked is its relationship to the point of action or at the time of commitment. Effective control requires feed forward. In other words it is assumed that objectives, plans, police and standards have been developed and communicated to those managers who have the related performance responsibilities. Therefore, control must necessarily text upon the concepts of feedback, which requires performances measurement and triggers corrective action designed to ensure attainment of the objective. When plans become aspect of control that is frequently overlooked is its relationship to the point of action or at the time of commitment. Effective control requires forward feedback. In other words, it is that manager who has the related performance responsibilities. Therefore, control must necessarily rest upon the concept of feedback, which requires performance measurement, and triggers corrective action designed to ensure attainment of the objective. When plans become operational, control must be exercised to measure progress. In, some cases control also results in the revisions of prior plans and goals in the formulation new plans, changed in operations and reassignment of people. Control approach must be the characteristic of the operation and the organizational structure.

A control process designed to help monitor the periodic activities of business and of each responsibly center has the following phase.

- Compare actual performance for the period with the planned goals standards.
- Prepare a performance report that show actual, planned results and any difference between the two (i.e. Variations above or Below Planned Results).
- Analyze the variations and the related operations to determine the underlying cause of the variations.
- Develop alternatives course of action to correct any deficiencies and learn form the successes.
- Make a choice (corrective action from the set of alter-natives and implements it.
- Follow up to appraise the effectiveness of the correction. Follow with feed forward for preplanning.

The comparison of actual result with planned goals and standard constitutes measurement of the effectives of control during a specified past period. This provides the basis for effective feedback the facts shown in a performance report cannot be changed, however the historical measurement may lead to improve control in the future.

2.2.12 PROFIT PLANNING AND CONTROL

It has been said and applied by different persons and organizations. Comprehensive profit planning and control is viewed as a process designed to help management effectively program significant phases of planning and control and is not confined in the traditional view of budget but as a clerically derived set of quantitative schedules prepared by an accountant. The three relevant aspects of profit planning and control concept are s follows:

i) Profit planning and control requires major planning decisions by management.
ii) Profit planning and control entails pervasive management control activities.
iii) Profit planning and control organizes many of the critical behavioural implications throughout the organization.

Thus, it can be said that comprehensive planning and control is the recent origin in the field of management but budgeting is the traditional view of accounting and presenting financial statement, which can not include all management functions: planning, organizing, reporting as the basis foundation for effective management.

2.2.12.1 THE FUNDAMENTALS OF PROFIT PLANNING & CONTROL

The fundamentals are concerned with effective application of the theory at management process. It is based in some fundamental assumptions. The fundamental concept of profit planning and control includes underlying activities or task that must generally be carried out to attain maximum usefulness from profit panning and control. The some of the important fundamentals are as follows:

I) Management Involvement and commitment

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

- Must understand the nature and characteristics of profit planning and control.
- Be convinced that this particular approach to managing is preferable for their situation.
- Be willing to devote the effort required to make it operative.
- Support the program in all its planning process s performance commitments.

For a comprehensive profit planning and control programmer each member of management starting from the president, the impetus and direction must come from the very top.

II) Organizational Adaptations

A profit planning and control program must rest upon sound organizational structure for the enterprises and a clear-cut designation of line of authorities and responsibilities. The purpose of organizational structure and the assignment of authority are to establish a framework within which enterprise objectives may be attained in a coordinated and effective way on a continuing basis. The scope and interrelationship of the responsibilities of each individual manager are specified.

For easy and effective control sometime the organizational structures are divided into different functional sub-unit chiefs and are assigned with specific responsibility centers. Sometimes these responsibility centers are used to be in for, of division or department or a sales district. But in most of the cases these centers are use to be a functional area like:

a) Cost Center

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

b) Profit Center

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

c) Investment Center

Investment center is responsible for cost, revenue, profit and amount of investment invested on assets.

III) Responsibility Accounting

In order to set-up profit planning and control on a sound basis, there must be a responsibility accounting system, that is, one tailored first and forermost to the organization responsibilities. Within this primary accounting structure, secondary classification of costs, revenues, and other financial data that are relevant may be utilized in accordance with in needs of the enterprise. A responsibility accounting system can be designed and implemented on a relevant basis regardless of the other features of the accounting system standard cost systems, direct costing systems, and so on. When the accounting system is established on a responsibility basil, the historical data generated become especially pertinent for planning and control purposes.

IV) Full Communication

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

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

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

V) Realistic Expectation

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

VI) Time Dimensions

Whether an individual or entity remains idle or busy, time passes at the same rate. The problem of the manager in one hand is to accomplish the planned activities in a given time and on the other hand is to prepare the plan itself. For effective implementation of planning, management of the enterprises must establish a definite time dimensions for certain types of activities. Other word for each activities related with planning would be to give definite time for implementation, followed by other activities related with planning would be to give definite time for implementation, followed by other activities. This is called planning activities. In the viewpoint of time dimension a manager should maintain clear-cut distinction between historical consideration and futuristic consideration. Timing of planning activities suggests that there should be a definite management time schedule established for initiating and completing certain phases of planning process. Planning horizon is the time for which the planning is done or we can call it life span of the plan. For every enterprise. There used to be many planning horizons to maintain the continuity of planning activities.

VII) Flexible Application

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

VIII) Behavioral View Point

Behavioral aspects of human being are of the field of study of the psychologist, educators and businessman and finding was that there could be so many unknown misconception and speculations, which has to be considered for an efficient management. A good and dynamic leadership can resolve this problem by intergrading all the group efforts for betterment of the organization. This fact also has been well considered under profit planning and control approach and focuses have been given to resolve the behavioral problems.

IX) Follow Up

This fundamental holds that the both good and substandard performance should be carefully vest gated; the importance of comprehensive profit planning and control approach is much more. The following action after a careful study is needed to:

Correct the action of substandard performance in a constructive manner.

To recognize and transfer the knowledge of outstanding performance to other.

On the basis of the study and evaluation to provide a sound basis for further comprehensive profit planning and control.

2.2.12.2 PURPOSES OF PROFIT PLANNING AND CONTROL

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

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

I) To state the firm's expectation (goals) in clearly formal terms to avoid confusion and facilitate their attainability.

II) To communicate expectation to all concerned with the management of the firm so they are understood supported an implemented.

III) To provide a detailed plan of action for reducing uncertainty and for the proper decision of individual and group efforts to achieve goals.

IV) To coordinate the activities and efforts in such a way that the use of resources is maximized.

V) To provide a means of measuring and controlling the performance of individuals and units and to supply information n the basis of which the corrective action can be taken.

2.2.12.3 DEVELOPMENT OF PROFIT PLAN & CONTROL IN THE BANK

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

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

2.2.12.3.1 RESOURCES MOBILIZATION PLAN OR BUDGET

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

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

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

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

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

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

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

2.2.12.3.2 RESOURCES DEPLOYMENT PLAN OR BUDGET

The planning for deployment of resources starts form assessment of nature of resources to be mobilized. That is assets are allocated on the basis of the nature is called asset allocations approach as M.C. Vanish writes in his book money banking trade and public finance. "The fundamental criterion is which must be followed in allocating fund for acquiring different types of assets. That is turnover rte of different source of supply of fund; determine the appropriate maturity of the assets acquired through fund utilization. For instance while relatively stable fund like saving deposits, fixed deposit and paid up capital could be used to buy long duration high yielding securities, demand deposit which are more volatile, could be used to acquire relatively liquid assets like cash or money at call and short notice in which little or no return is made by the bank.

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

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

A. Deployment in liquid assets.
B. Deployment in lower income yielding assets.
C. Deployment in higher yielding assets.

Funds kept as cash in vault and as balance with NRB and other bank 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. Therefore there is no yield in the fund deployed as liquid assets.

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

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

2.2.12.3.3 PLANNING FOR NON FUNDED BUSINESS ACTIVITIES

The other activities of banks where it does not have to involve its fund, yet it can generate other income are called non-funded business activities of the bank. They are usually letter of credit Bank guarantee issuance business of the bank where the bank undertakes the payment liabilities, which are contingent in nature and the banks charges, certain percentage of commission on such transaction to their client who are availing these facilities form bank.

2.2.12.3.4 EXPENDITURE PLANNING

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

a) Interest expenses.
b) Personnel expenses.
c) Office operating expenses.
d) Expenses meeting the loss in exchange fluctuation.
e) Non-operating expenses.
f) Expenses for provision for loan loss.
g) Expenses for provision for staff bonus.
h) Expenses for provision of income tax.

The interest expenses are incurred while paying for the deposits mobilized by the bank and include the expenses incurred for payment in all kinds 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.

Interest expenses in a bank depend on the average cost of deposit (cod) mobilized 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 at lowest possible level. The nature of interest expenses is that it is a variable expense. The net earning from interest income of a bank deducting the interest expense for the deposit mobilized is called spread which is similar to the contributions margin in sales of commodities by a manufacturing unit.

Other expenses are the administrative expenses and are generally incurred by the bank during the course of its operation. Higher the volume of business transaction of a bank, higher will be the amount of it other expenses. Therefore, the expenses should be related with the business activities, which ultimately should yield income for t he bank. Such other expenses form 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 budget is formulated in correlation with the activities or the bank and the targets are allocated to different branches.

2.2.12.3.5 REVENUE PLANNING

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

Revenues of a bank are generated in the following forms:

a) Interest income .
b) Commission and Discount
c) Dividend.
d) Other income.
e) Foreign Exchange income.
f) Non-operating income.

Generally, the interest income of a bank holds a major portion on total revenue. And it provides a major source of earning of a bank. Therefore total income of a bank is categorized in two type viz. Interest income and other income. The later inducing other income items as listed above the income comprises excepting the interest income.

The interest income is earned by charging interest on the fund deployed in interest earning assets such as loan and advances, overdraft, investments in government securities etc. For this study the income from bills discounting has also been treated as interest income as well. Loans overdraft and Bills Discounting together as a singled assets portfolio as LDO, higher will be the income.

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

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

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

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

2.2.12.4 PERFORMANCE REPORT

Performance reporting is an important part of a comprehensive PPC system. It's a phase of a comprehensive PPC program to see significantly the extent to which the organization's planned goals or objectives are attained. Performance reports are one of the vital tools of management to exercise its control to assure necessary compliance to the objectives, plans, policies and standards. Performance reports are one of the vital tools of management to exercise its controls function effectively.

Special external reports, reports to owner & internal reports are specially presented in the organization. Performance reports include in internal reports groups. It is usually prepared on a monthly basis and follows a standardized format. Such reports are designed to facilitate internal, control by management. Fundamentally, actual of reports are compared with goals and budget plans. Frequently they identify problem that require special attention since these reports are prepared to point both efficient and inefficient performance.

a) Features of Performance Report

A comprehensive PPC, performance report is very important. The main objectives of performance reports are the communication of performance measurements of actual results and the related variables. Performance reports should be:

Tailored to the organizational structure and focus on controllability that is by responsibility centers.

i. Designed to implements the management by exception principle.
ii. Repetitive and related to short term period.

iii. Address requirements of the primary users.
iv. Simple, understandable & reporting only essential information.
v. Accurate and designed to pinpoint significant distinctions.
vi. Prepared and presented promptly.
vii. Constructive in tone.

b) Aspects of Performance Reports

To extent to which the various managers use their performance reports depends on many factors, some behavioural and some technical. One important factor isf to which level the performance reports serves the management and decisions making needs of the users.

Top management needs reports that give a complete and reality, comprehensive summary of the overall aspects of operations and identification of major events. Middle management needs summary to date as well as detailed data on day-to-day operation. Similarly lower level management needs reports be defined as simple, understandable and limited to items having a direct bearing on the supervisor's operational responsibilities.

The design and preparation of performance reports, careful attention must be given that title and readings should be clearly identify the date and the technical jargon should be descriptive, complex tabulations should be avoided. Performance report be standardized to a reasonable agree.

Performance reports should be available on a timely basis. To attain a realistic balance between immediate reporting and the costs of detailed reporting monthly performance reports are widely based in the organization.

3. REVIEW OF PREVIOUS RELATED STUDIES

On manufacturing companies like banks; financial companies don't produce any physical goods. They produce loan and financial innovation to facilitate trade transaction. Because of special role they play in the economy, the concerned authorities heavily regulate them. Analysis of bank's profit planning and control is different from that of other companies due to the special nature of assets and liabilities structure of the banking industry.

It has already mentioned that our study relates to the profit planning and control of the ADBL. The profit earned by the firm is the main financial indicator of business enterprise. Profit is the result of successful management, cost control, and credit risk management, efficiency of operation etc. profit is essential for an enterprise to survive and grow and to maintain capital adequacy through trained earnings. Profit is essential to raise the market price of shares and to attract additional capital investment.

Various thesis works have done in different aspects on development and commercial banks such as finding policy, interest rate structure, investment policy, resource mobilization, capital structure etc. But the concept of profit planning and control (PPC) is still new in non-manufacturing concerns, comparatively; the application of PPC in non-manufacturing concerns is not as easy as in manufacturing ones.

Various studies have been submitted in different aspect of ADBL and PPC of different banks, which are directly or indirectly liked with the topic PPC of ADBL. A brief review of some of these comparison the followings:

A) **Mr. Upendra Rawal** has submitted a dissertation on the topic "PPC aspect of Nepal Investment Bank Ltd" in partial fulfillment of the requirement for the degree of Master in Business Studies submitted to Sankar Dev Campus, Tribhuwan University in 12 Oct. 2004. This board objective has specified in following main sub-objectives:

i) To highlight the current profit planning premises adopted and its effectiveness in Nepal Investment Bank.

ii) To observe N I Bank's profit planning on the basics of overall management budget developed by the bank.

iii) To analyze the variance of budgeted and actual achievement.

iv) To study the growth of the business of the bank over the period.

v) To provide suggestion and recommendation for improvements of the overall profitability of the bank.

HIS MAJOR FINDINGS ARE :

i) It is observed that the bank is adopting a policy to keep minimum number of employees as possible. But it has unnecessary long ladder at various levels with out specific job description.

ii) The decision making process is highly centralized however, top management takes the feed forwards for annual planning and strategy building through building manager conferences and strategic meeting organized twice in every year at the head office.

iii) Controlling functions of the branches are so far being carried out directly by head office, which may be difficult in the days to come because of its wide geographical strength.

iv) Major concentration of resources mobilization of NIBL is at deposit mobilization. In this respect they are incurring higher cost toward deposit mobilizations.

v) The target set for deposit mobilization by the bank has been well meet every year.

vi) From the data analysis of deposit budgeted and actual achievement by coefficient of variation. It is found that the actual deposit is less variable than the budgeted one.

vii) Banks Resources deployment for non-yielding assets (cash and bank balance) is increasing every year, which is detrimental to profitability objectives, but it is supportive to meeting liquidity requirements of the bank.

viii) From the study of total number of manpower and total volume of over all activities of the bank, it is found that the volume of business per employee is increasing productively of manpower.

Upendra Rawal has recommended following major points in his study for the consideration to improve the exiting situations:

a) In the internal management and personal part:

i) Level wise specific job description and responsibility assignment should be mentioned clearly.

ii) Bank management should adopt the policy of appropriate authority delegation at all level of management in order to save the valued time chief executive officer for the productive use.

iii) Employee training at advance level should be given more focus in order to keep the manpower updated with the changing practices and the technologies.

iv) It is suggested to the bank to form a specific planning and Research Department, which shall be responsible for developing new innovative products, further development and up gradation of existing products, which in turn ensure better profitable business for the bank.

v) Branch monitoring and controlling mechanism should be made at the regional level also in order to ensure the better functioning of the branch offices located at such locations, which are far from the Head office.

b) In the Business Part:

i) The average cost of deposit of the Bank is high. Therefore, Bank should try to lower it by mobilizing more and more low cost or cost free deposit there by the interest cost because due to high cost of deposit bank is forced to invest its liquid and obviously risky for the bank.

ii) Bank CD ratio is high, which is rather a compulsion to meet the cost of high cost deposit. Higher CD ratio although gives better return is short term; it hampers the liquid and is more risky for the bank and calls for more provision for loan loss. In this way the profitability of the bank also get hampered on the long run. Therefore, the bank should improve its position from lowering the deposit cost and increase the investment in liquid asses although they are of low yield.

iii) LABP of bank has increasing significantly but the part of proper loan assessment and monitoring aspects are not well developed and the infrastructures.

iv) The Nepal Rastra Bank has the restriction on the difference of average rate of interest income and average rate of interest expenses of the Bank (i.e. Spread) not to exceed 5 percent. Therefore the bank has to put more focus on the other kind of non funded activities by which is shall increasing income from other sources than interest to increase its profitability.

v) Expenses cannot be avoided and always are growing with increasing activities but it should be optimize and should be related with the income generating activities. Bank should minimize those expenses, which are not related to income earning. Other expenses than interest form a burden to the gross profit margin (interest margin) of the bank, therefore lowering the other expenses the Bank shall enhanced its profit.

vi) Net profit of the Bank is the amount, which is obtained by subtracting the amount of net burden from the amount of gross interest margin. Therefore, NIBL shall attempt to lower the burden cost, by increasing the other income and decreasing the other expenses. At the same time it should take a policy to make the interest margin at the maximum extent as allowed by the central Bank's norm.

B) **Mr. Jiwan Nath Devkota** has submitted a dissertation on the topic "Profitability analysis of Agriculture Development Bank in Nepal" in partial fulfillment of the requirement for the degree of Master in Business Studies submitted to Nepal Commerce Campus, Tribhuwan University in Sep. 2007. The main objective of the study is to examine the current practice of profit planning and control and its effectiveness in ADBL. The other specified objectives of the study are as follows:

i) To identify the profit planning process adopted by ADBL

ii) To establish the financial justification of profit planning.

iii) To analyze the profit trends based on the variables selected.

His major findings are:

i.) Due to increase in operating expenses, reduces its profit in long term, which is unfavorable for bank.

ii) Interest expenses are increasing then total income every year and operating expenses to total income ration is satisfactory for the bank because the ratio is net mare fluctuated.

iii) Loan recovery of the bank is not satisfactory but investment of the bank is in satisfactory level.

iv) Actual staff expenses are greater than planned expenses.

v) Office expenses of the bank are satisfactory because the actual office expenses are les than planned expenses.

vi) Bank has not followed the direction of NRB in the preparation of cash flow statement. it has been following its own format. bank has adequate idle cash balance remaining idle.

Jiwan Nath Wagle has recommended following major in his study for the consideration to improve the exiting situations:

i) The ADBL should follow the process of profit plan to increase its efficiency and profitability position.

ii) The bank should reduce its expenses such as operating expenses such as operating expenses. staff expenses and interest expenses. the bank must take effort to collect non-interest bearing deposit. the band should make effort to utilize the available resources and implement the cost effectiveness techniques to reduce operating expenses.

iii) To increase the profit. the band should increase its income such as interest income. the bank should utilize its fund (deposit) properly to increase its interest income.
iv) The bank has collected high amount of deposit but could not utilized its fund towards in profitable sectors. its must utilize its fund towards in profitable sectors. the bank should find out new area of investment and increase lending activities to utilize available fund in profitable project.
v) Investment is the safe sectors to utilize the fund. it reduces loan loses. the bank should find out new area of investment.
vi) The bank should not keep large amount of banking and non- banking assets. These assets block the fund in one hand not in other hand; it increases the expenses (staff. operating, maintain, repair, interest expenses). the bank must reduce its idle fund by mobilizing them on profitable projects.
vii) The bank should utilize its fund to increase the overall profitability.
viii) The bank has to make proper plan for the profit planning help to proper utilize the resources and mobilize deposit towards in profitable sector.
ix) The bank has to invest its fund to profitable and less risk-bearing sector to get more interest income.
x) The bank should completely follow the directives format of NRB while preparing financial reports/statements.

C) **Mr. Deepak Man Shrestha** has submitted a dissertation on the topic "role of ADBL with reference to agricultural credit" in partial fulfillment of the requirement for the degree of master business studies submitted to Nepal commerce campus, Tribhuwan university in may 2006. The study is made to fulfill these objective as follows:

i) To analysis the loan disbursement by ADBL (Purpose wise and term wise)
ii) To analysis the loan recovery
iii) To find out the loan outstanding (Purpose wise and term wise)
iv) To provide suggestion to ADBL in basis of findings.

His major findings are as follows:

i) The ADBL has huge amount of loan investment in livestock and agro business each year as compared to other sectors.
ii) Bank's activity increases which shows that there is increasing demand for agriculture credit but the actual performance of the bank is not satisfactory

because it is not able to provide loan especially in rural sector where bank financing is almost necessary.

iii) Bank has provided discount on interest extended the repayment period of recover the loan time like wise bank introduced reform program which focused it's priority to make the farmers more labourious, take loan with refundable capability, maintain financial discipline and restructure past due loans. Besides this it organizes training, which may brings charges in the performance of the bank.

iv) There are some foreign donor originations like World Bank, INGOS and different NGOS activity involved in the agriculture development procedures with the ADBL.

His Recommendations :

i) The most important thing is that the bank must improve its present supervision and controlling department by providing them necessary powers. The officials must visit the field before investment to find out the viability, feasibility an after investment to find out the progress.

ii) The bank is recommended to identify the true borrowers while lending loan. And to give equal priority to all development regions by providing suitable programs according to the economic conditions, climate, living standard and culture of the people.

iii) Both the borrowers and non-borrowers have complained regarding higher interest rate, services and commitment securing loan when needs. So ADBL should reduces its interest rate, services and commitment charges and make easier to attract and motive the small farmers.

vi) Bank should provide agriculture production loan in Terai region and livestock, horticulture, poultry farming loan in hill and mountain region. Expect these the bank must launch different education program to give information about new ideas, new and scientific technology, modern equipment to improve the existing quantity and quality to the production.

v) Earning per share is very low so it may be disappointed to shareholders, so the ban should consider on increasing EPS by improving its profit earning.

vi) Non-only in production field, bank must provide other services like marketing and selling the product, transport facility, warehouses and godown facilities to store the goods for long time and give the suitable price of the products.

vii) Government should provide powers to the bank and individual must bear their responsibility to help the bank to achieve the national objectives.

4. Research Gap (Different between previous studies & this studies)

The above two studies about ADBL are related with profitability analysis and financial analysis of the bank on non-performing assets. This study is shall be a new one about the bank. No study has been made so for in the profit planning and controlling system in particularly ADBL. This study has tried to indicate the role of budget for effective formation and implementation of profit planning system. This study has analyzed the financial position of ADBL by applying the tools of ratio analysis and other mathematical and statistical tools finally is concludes the various finding research nd recommendations to ADBL.

In the context of Nepal very weak management in the sector of government, weak accounting system, information system and believes, less auditing system are major important problems in banking system. So, this study focuses in the profit planning and controlling system. What are major problems of profit planning and controlling process of the bank and what kinds of problems are facing by the bank to process the profit planning and control, so the study wants to find out present problem and present effectiveness of banking activities in the special case of profit planning and control. The study wants to recommend to respective bank in the basis of major findings.

CHAPTER - THREE

3. RESEARCH METHODOLOGY

3.1 INTRODUCTION

This study has intense relation with the application of planning in the bank with a specific reference to Agriculture Development and Limited regarding the objectives to analyze, examine and interpret the application of profit planning in Bank. The Research methodology includes research design, data collection procedures, time period covered and tools used for analysis.

3.2 RESEARCH DESIGN

This study is an examination and evaluation of profit planning program of Agriculture Development Bank Limited. Various functional budgets and other related accounting information's and statement of the bank are the materials to analyze and evaluate the profit planning systems of the Bank. As descriptive as well as analytical research designs has been adopted in this research. This is a case study research.

3.3 SOURCES OF DATA COLLECTION

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

3.4 METHOD OF DATA ANALYSIS

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

3.5 ANALYTICAL TOOLS USED

3.5.1 FINANCIAL TOOLS

3.5.1.1 RATIO ANALYSIS

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

i) Liquidity Ratio

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

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

ii) Turnover Ratio

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

$$\text{Total Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Total Assets}}$$

$$\text{Current Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Current Assets}}$$

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Fixed Assets}}$$

iv) Profitability Ratio

The profitability Ratio is calculated to know the ultimate result of business activities of ADBL. The profit margin as follows :

$$\text{Gross Operating Profit Margin} = \frac{\text{Gross Operating Profit}}{\text{Sales}}$$

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Sales}}$$

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

$$\text{Return on Shareholder's Fund} = \frac{\text{Net Profit after Tax}}{\text{Total Shareholder's Fund}}$$

$$\text{Earning Per Share (EPS)} = \frac{\text{Net Profit after Tax}}{\text{No. of Equity Share}}$$

$$\text{Dividend Per Share (DPS)} = \frac{\text{Dividend Paid to Equity Shareholders}}{\text{No. of Equity Share}}$$

$$\text{Dividend Payout Ratio (D/P)} = \frac{\text{Dividend Paid to Share (DPS)}}{\text{Earning Per Share (EPS)}}$$

3.5.1.2 CASH FLOW ANALYSIS

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

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

3.5.1.3 COST VOLUME PROFIT ANALYSIS

This tool of accounting will be used to define break -even point and sensitivity analysis of the ADBL. The relationship between cost volume and profit is known s cost volume profit analysis. It is an analytical tool for studying the relation ship between volume, cost and profit. It is also an important tool for the profit planning in the business. There are three factors of costs volume of profit analysis which are interconnected and depended on one another for example profit depends upon sales, selling price to a greater extent will depend upon the cost, cost depend upon the volume of productions.

3.5.1.4 DIFFERENTIAL FUNCTIONAL BUDGET

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

i) Sales/Revenue Budget

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

ii) Human Resource Planning Budget

Human Resource Planning is the process by which the organization's management determines how an organization moves from its current manpower position to desired manpower position. It refers to the broad area of determining the level of (1) Personnel Needs (2) Recruitment (3) Training (4) Job Description and Evaluation (5) Performance Evaluation (6) Union Negotiations and (7) Wages and Salary Administration.

(iii) Administrative Expenses Budget

Administrative Expenses include those expenses other than manufacturing and distribution i.e. employee and office expenses. They are incurred in the responsibility centers that provide supervision of and service to all function of the enterprise rather than in the performance of any function. Each administrative expense should be directly identified with a responsibility center and the center manager should be responsible for planning and controlling the expenses. In a company general administrative department is designated for administrative accounting including director of profit planning. The head of each of these departments submit an expenses budget for consideration and approval by the financial vice president.

3.5.1.5 OTHER ASPECTS OF PROFIT PLANNING AND CONTROL

i) Profit and Loss Account

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

ii) Projected Balance Sheet

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

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

iii) Variance Analysis and Performance Report

A comparison of actual results with budgeted results is stated as variance analysis, which is an important factor of control. It is vital for the management to know the underlying causes of significant variation because causes rather than the results provide the basis for appropriate correction. Performance report is an internal part of budgetary control. It is a document that periodically communicates the achieved exceeded or not. It will give the management an insight into the operational inefficiencies. It is defined by management control function s the necessary to assure the objectives, plans, policies and standards are being attended. Separate performance reports should be prepared periodically for each responsibility center.

3.5.2 STATISTICAL TOOLS

3.5.2.1 STANDARD DEVIATION (S. D.)

The standard deviation is used to measure the risk. It shows the deviation between actual mean and average mean. The standard deviation is calculated with the following formula :

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum X^2}{n} - \left[\frac{\sum X}{n}\right]^2}$$

Where,

X = Variables

n = Number of Years

The standard deviation has been applied to calculate and analyze the risk on ADBL/N.

3.5.2.2 COEFFICIENT OF VARIANCE (C. V.)

The corresponding relative measure of dispersion is known as the co-efficient of variation. It is used in such problem where the study needs to compare the variability of two or more items of series.

$$\text{Coefficient of Variation (C. V.)} = \frac{\sigma}{\overline{X}} \times 100$$

Where, $\overline{X} = \frac{\sum X}{n}$, σ = Standard Deviation

3.5.2.3 CORRELATION OF COEFFICIENT (R)

Correlation refers to the degree of relationship between two variables. Correlation of coefficient is used for measuring the mathematical relationship of linear relationship between two variables. The value of correlation of co-efficient always lies between +1 and -1.

The correlation of co-efficient is calculated with the following formula :

$$r = \frac{N\Sigma XY - \Sigma X\Sigma Y}{[N\Sigma X^2 - (\Sigma X)^2]\,[N\Sigma Y^2 - (\Sigma Y)^2]}$$

Where,

r = Correlation of Co-efficient

N = No. of Years.

X & Y = Financial Variables of ADBL.

3.5.2.4 CO-EFFICIENT OF DETERMINATION (R^2)

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

Co-efficient of determination (r^2) is a measurement of the degree of correlation between two variables, one of which happen to be independent and another happen to be dependent variable.

3.5.2.5 PROBABLE ERROR (PER)

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

$$(PEr) = 0.6745 \text{ X } \frac{1 - r^2}{N}$$

Where,

r^2	=	Square of Correlation of Co-efficient
N	=	No. of pair of Observation

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

3.5.2.6 REGRESSION ANALYSIS

Regression analysis is used to measure the average relationship between two or more variable.

Regression Equation, Y = a + b1x1 + b2x2 + ... + bnxn

Where,

Y	=	Dependent Variable
a	=	Constant Variable
x	=	Independent Variable
b	=	Marginal relation between independent and dependent variables.

3.5.2.7 GRAPHIC PRESENTATION

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

CHAPTER - FOUR

4. DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

The methodology used in analysis of profit planning and control is mentioned in former chapter. The main purpose of this research paper is to analyze the profit planning system in ADBL and effectiveness of profit planning. This chapter analyzes the various functional budgets, their actual achievement, ratio analysis etc. with the help of 5 years data of ADBL.

4.2 ANALYSIS OF FINANCIAL RATIOS

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

4.2.1 LIQUIDITY RATIO

The study has applied only current ratio to measure its liquidity position. This single ratio itself does not indicate favourable or unfavourable condition of company. It should be compared with a conventional rule of current ratio 2:1 or more is considered to be satisfactory. This principle may be more suitable to manufacturing concern but this principle may not be used or applied to the service oriented companies because there is no need to maintain the inventory. In the banking sector, industry ratio does not exist for the comparison purpose. So the average ratio of this company is taken into consideration in order to compare with calculated ratio. The average ratio of this approximate that is used in the absence of predetermined standard. The current ratio of ADBL for the year under study has been shown below :

Table No. : 4.1

Current Ratios (in times)

(Rs. in Million)

Fiscal Year	Current Assets	Current Liabilities	Ratio	With Average
2061/062	34403.73	44682.80	0.77	(0.13)
2062/063	32904.21	36168.98	0.91	0.01
2063/064	34193.87	36887.12	0.93	0.03
2064/065	36523.20	38351.43	0.94	0.04
2065/066	40561.39	41493.57	0.97	0.07
		Average Ratio	0.90	

Source : Annual Report of ADBL (Annex I)

The above table shows that the ratio between CA & CL is increasing trend & the average ratio is 0.90 times.

The data shows the current ratio of ADBL is always less than 2:1, which means that the bank is not capable to meet its short-term obligation with current assets.

The average current ratio is 0.90 times during five years study period. The liquidity position of ADBL is not at satisfactory level. Lack of appropriate current assets, there can barrier to perform activity on time.

4.2.2 TURNOVER RATIO

Turnover Ratio is one of the tools measuring the financial performance of the ADBL, which is used to text the efficiency in the utilization of assets. It covers the followings ratios :

4.2.2.1 TOTAL ASSETS TURNOVER RATIO

The total assets turnover ratio is used to measure the effectiveness in the use of total assets. The relationship between total assets and revenue is known as total assets turnover ratio. The PPC of ADBL is analyzed with the help of this ratio by considering the data of Fiscal Year 2061/062 to 2065/066, which is shown below :

Table No. 4..2

Total Assets Turnover Ratio (in times)

(Rs. in Million)

Fiscal Year	Revenue	Total Assets	Ratio	With Average
2061/062	4244.18	38694.52	0.11	(0.02)
2062/063	4243.49	35297.62	0.12	(0.01)
2063/064	4904.95	38160.21	0.13	0
2064/065	7861.98	44086.02	0.18	0.05
2065/066	6107.46	51818.98	0.12	(0.01)
		Average Ratio	0.13	

Source : Annual Reports ADBL (Annex - II)

The above table shows that the total assts turnover ratio. Ratio starts from 0.11 times in F. Y. 2061/062 to 0.12 times in F. Y. 2065/066.

It shows that the every 1-rupee investment in assets generates Rs. 0.11 revenue in F. Y. 2061/062. Accordingly we can interpret the implication of other ratios of various fiscal years.

The general trend of the ratio shows the satisfactory position. The average total assets turnover ratio is 0.13 times during the five years study period. First two and last years ratio couldn't meet the average ratio but remaining three years are higher than the average.

From the above analysis, it reveals that till the first two and last years of the study period bank was unable to utilize its assets properly. But during later years of study period company has adopted precaution to increase revenue by best utilization of assets. There are many factors responsible for decreasing its assets turnover ratio. The major factors are the less revenue earned by the bank and high investment in total assets and so on. ADBL should strive to generate high volume of revenue in coming fiscal years through the proper utilization of its total assets.

4.2.2.2 FIXED ASSETS TURNOVER RATIO

Fixed Asset Turnover Ratio is analyzed to measure how efficiently the capital employed in fixed assets has been utilized to generate revenue. The relationship between fixed assets and revenue earned is called fixed assets turnover ratio. The higher ratio shows favourable condition and well plans of profit and vice versa. Fixed assets turnover ratio is analyzed considering relevant data of five years of study period from F. Y. 2061/062 to 2065/066 as follows:

Table No. 4.3

Fixed Assets Turnover Ratio (in times)

(Rs. in million)

Fiscal Year	Revenue	Fixed Assets	Ratio	With Average
2061/062	4244.18	816.19	5.20	(1.76)
2062/063	4243.49	882.087	4.81	(2.15)
2063/064	4904.95	788.87	6.22	(0.74)
2064/065	7861.98	718.16	10.95	3.99
2065/066	6107.46	803.43	7.60	0.64
		Average Ratio	6.96 times	

Source : Annual Report of ADBL (Annex II & III)

The above table shows that the fixed assets in F. Y. 2061/062 were Rs. 816.19 million and Rs. 803.43 million in F. Y. 2065/066. The revenue is Rs. 4244.18 million and 617.46 million in F. Y. 2061/062 and 2065/066 respectively. The trend of revenue is not continuously growing till F. Y. 2065/066.

The fixed assets and the fixed assets turnover ratio are fluctuating in fiscal years under study. The average ratio is 6.96 times; it indicates that the every one rupee invested in fixed asset is able to earn Rs. 6.96 as revenue.

4.2.2.3 CURRENT ASSETS TURNOVER RATIO

The relationship between current assets and revenue is known as current turnover ratio. It is analyzed to measure how efficiently the capital employed in current assets has been utilized to generate revenue. Generally the higher ratio indicates the favourable position and lower ratio indicates unfavourable condition. Revenue is directly associated with the bank's profitability. So that PPC is examined with the help of current assets turnover ratio by taking relevant data of five years during the study period, which as follows:

Table No. 4.4

Current Assets Turnover Ratio (In times)

(Rs. in Million)

Fiscal Year	Revenue	Current Asset	Ratio	With Average
2061/062	4244.18	36522.49	0.12	(0.03)
2062/063	4243.49	34071.15	0.12	(0.03)
2063/064	4904.95	37068.87	0.13	(0.02)
2064/065	7861.98	36423.20	0.22	
2065/066	6107.46	40561.39	0.15	
		Average Ratio	0.15 times	

Source : Annual Report of ADBL (Annex I & II)

The above table shows that the current assets turnover ratio of ADBL from F. Y. 2061/062 to 2065/066 is continuously increasing every year except in second year.

The average current assets turnover ratio of five years during the study period is 0.15 times. It indicates every one rupee capital investment in current assets generates Rs. 0.15 as revenue. In the absence of common standard, we assume the average ratio as a standard to analyze PPC of the bank. The management should try to maintain the ratio s the average ratio.

4.2.3 PROFITABILITY RATIO

There is no doubt that profit is the ultimate goal of a company. The future of a organization depends upon it. It is the operating result of a firm and reflects its ability to ensure adequate return to shareholders. The profitability of a firm is tested with profitability ratios. By assuming the total income as sales, profitability ratios are analyzed as follows:

4.2.3.1 GROSS OPERATING PROFIT MARGIN

Gross Operating Profit Margin reflects the efficiency of management. Gross operating profit comes after deduction of operating expenses from gross sales (total income). The gross profit margin is a percentage of operating profit on total income. Gross operating profit margin is analyzed considering relevant data of five years of study period from F. Y. 2061/062 to 2065/066 as follows :

Table No. 4.5

Gross Operating Profit Margin (in percentage)

(Rs. in millions)

Fiscal Year	Revenue	Gross Operating Profit	Gross Operating Profit Margin	Change Over Margin
2061/062	4244.18	(171.41)	(4.04)	871.75
2062/063	4243.49	624.15	14.71	894.54
2063/064	4904.95	1362.88	27.78	907.61
2064/065	7861.98	(2060.94)	(2105.94)	(1226.11)
2065/066	6107.46	(1403.64)	(2331.67)	(1451.84)
Average Gross Operating Margin (879.83)				

Source : Annual Report of ADBL (Annex II)

Note :

Gross Operating Profit = (Interest Income + Commission & Discount + Other Operating + Income + Exchange Fluctuation Income) - (Interest Expenses + Staff Expenses + Other Operating Expenses + Exchange Fluctuation Loss + Provision for Possible Loss)

The above table shows the overall trend of gross profit margin is increasing but is fluctuated. It shows the financial performance especially gross profit of the company with total income. Gross operating profit margin is not satisfactory. Average gross operating profit margin of ADBL is (879.83) for five years study period. It is only an approximate that is used in the absence of common standard. The gross operating profit margin is negative for F. Y. first, fourth, fifth & average. Minus change over margin and GOPM indicate the unfavourable position that shows the inefficiency of management to maintain the operating expenses at the level of income. But in the recent years the margin is increasing rate; it is the good symptom for the bank.

4.2.3.2 NET PROFIT MARGIN

The relationship between net profit and total income is shown by net profit margin ratio. It is a percentage of net income on total revenue. Net profit margin is analyzed considering relevant data of five years of study period from F. Y. 2061/062 to 2065/066 as follows:

Table No. 4.6

Net Profit Margin (in percentage)

(Rs. in millions)

Fiscal Year	Revenue	Net Profit	Net Profit Margin	Change in Net Profit Margin
2061/062	4244.18	(78.63)	(1.85)	(12.63)
2062/063	4243.49	353.52	8.33	(2.45)
2063/064	4904.95	1058.45	21.58	10.8
2064/065	7861.98	669.24	8.51	(2.27)
2065/066	6107.46	1057.59	17.32	6.54
Average Net Profit Margin 10.76				

Source : Annul Report (Annex - II)

The data presented on the above table shows that the net profit of the bank follows a trend of ups and down, during the study period but its margin is continuously increases. The average net profit margin is 1078% and is an approximate that is used for comparative study in absence of standard. There is net loss in 2061/062 which is definitely the symptoms of weak performance but the net profit margin is increasing in recent years, which are the symptoms of the good performance of the bank, and we can hope that the margin will continuously increase in the coming years.

4.2.3.3 RETURN ON TOTAL ASSETS

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

Table No. 4.7

Return on Total Assets (in percentage)

(Rs. in millions)

Fiscal year	Total Assets	Net profit	Return on Total Assets	Change in ROA
2061/062	38694.52	(78.63)	(0.20)	(1.63)
2062/063	35297.62	353.52	1.00	(0.43)
2063/064	38160.21	1058.45	2.77	1.34
2064/065	44086.02	669.24	1.52	0.09
2065/066	51818.98	1057.59	2.04	0.61
Average return on total Assets (1.43)				

Source: Annual Reports of ADBL.

The above table shows that the total assets of the company and the ROA are fluctuated in the study period. The average return on total assets under the study period is (1.43%) and ROA in F. Y. 2061/062 and 2062/063 is negative. The management must be responsible for it. It is caused by inefficiency of management, due to the increasing competition in banking sector in the country, critical situation and technology. Therefore, the management of ADBL must be conscious to improve the condition. But in the latest two years the return on total assets is increasing continuously, it is the good improvement of the bank.

4.2.3.4 RETURN ON SHAREHOLDER'S FUND

Return on Shareholder's Fund is tested to measure how well the company has used the resources of owners. Five years study period's return on network has been tabulated as below :

Table No. 4.8

Return on Shareholder's Fund (in percentage)

(Rs. in Millions)

Fiscal Year	Shareholder's Fund	Net Profit	Return on Shareholder's Fund	Change in ROSF
2061/062	1198	(78.63	1.31	(11.33)
2062/063	1514.60	353.52	(42.27)	(55.09)
2063/064	412.60	1058.45	83.14	70.32
2064/065	5734.77	669.24	11.67	(1.15)
2065/066	10325.41	1057.59	10.24	(2.58)
Average Return on Shareholders Fund			12.82	

Source : Annual Reports Annex II & III

Shareholder's Fund = Share Capital + Reserve & Surplus

Above table shows the total shareholder's fund is negative in F. Y. 2061/062 and 2062/063 due to the negative reserve and surplus. Return on shareholder's fund is fluctuated during the study period and negative in 2062/063. The average return on shareholder's fund is positive i.e. 12.82%. It indicates the satisfactory condition of the bank. And in F. Y. 2063/064 the return is highest among the five years return, it is the improvement of the bank.

4.2.3.5 EARNING PER SHARE (EPS)

Earning Per Share (EPS) is one of the vital measurements of company's profit planning function. EPS is found by dividing net profit by the number of existing equity share in the absence of preference shares in the capital structure. The single EPS tells nothing. In the absence of industry indicators of EPS comparison with the help of average EPS of five years study period is made. That is presented as below:

Table No. 4.9

Earning Per Share (in Rs.)

(Rs. in Million)

Fiscal Year	No. of Equity Share	Net Profit	Earning Per Share	Change in EPS
2061/062	16.78	(78.63)	(4.69)	(10.86)
2062/063	64.77	353.52	5.46	(0.71)
2063/064	75.28	1058.45	14.06	7.89
2064/065	107.77	669.24	6.21	0.04
2065/066	107.77	1057.59	9.81	3.64
Average Earning Per Share			6.17	

Sources : Annual Reports of ADBL.

The above table of EPS shows the EPS is highest in F. Y. 2063/064 AND LOWEST EPS is in F. Y. 2061/062. The average EPS is Rs. 6.17 under the study period. There is fluctuation in EPS within the study period. So, management should pay more attention to increase EPS but in the latest two years the EPS is increasing continuously, its credit directly goes to management.

4.2.3.6 DIVIDEND PER SHARE (DPS)

Dividend Per Share (DPS) is the amount provided to the existing shareholder out of net profit earned by the bank. It is directly related to net profit. The higher DPS shows sound financial position of company. But the bank is unsuccessful to pay dividend during the study period. So, there is no need to compute DPS and Dividend Payout Ratio (DP Ratio)

4.2.4 COST VOLUME PROFIT ANALYSIS

Cost Volume Profit is an analytical tool for studying the relationship between volume, cost, price and profit. There are three factors in CVP analysis, which are interconnected and dependent on each other. CVP analysis shows the volume or level of activity that is necessary to stay at break-even or to gain a certain amount of profit. CVP analysis includes both contribution analysis and bread-even point. There is zero profit at breakeven point. To find the break-even point, unit selling price, unit contribution margin and total fixed cost are to be found. Contribution analysis includes a series of analytical techniques to determine and to evaluate the effects on profit of change in sales volume, sales prices, fixed expenses and variable expenses.

Classification of cost into fixed, variable and semi-variable is very important to plan and control the cost. It helps to determine the volume of the operation desired to maintain the department cost as to be studied and analyzed in detail so as to find out its variability. Some of expenses will be readily identified either as fixed or variable.

ADBL does not classify the cost into fixed and variable. To control the cost, separate headings of fixed and variable expenses for each responsibility centers should be created, so cost is separated into fixed and variable according to nature of the cost. The following table shows the cost variability in ADBL based on annual report of fiscal year 2065/066.

Cost volume profit analysis of ADBL is based in some assumptions, which are given as below :

1. CVP analysis of ADBL is based on the accounting data of fiscal year 2065/066.
2. Activity base is selected in terms of operating income (Revenue).
3. Unit variable cost, total fixed cost and selling price are assumed to remain constant.
4. All expenses can be categorized into two categories, fixed cost and variable costs.

(Rs. in Millions)

Total Revenue	6107.46
Total Fixed Cost	2539.08
Total Variable Cost	248.07
Total Budgeted Revenue	7049.25

BEP Calculation for Fiscal Year 2065/066

1. Variable Cost Volume (V/V) Ratio :

$$\text{V/V Ratio} = \frac{\text{Total Variable Cost}}{\text{Sales}} = \frac{248.07}{6107.46} = 0.04$$

2. Profit Volume (P/V) Ratio :

$$\text{P/V Ratio} = 1 - \text{V/V Ratio} \quad = \quad 1 - 0.04 = 0.96$$

3. BEP in Value (Rs.) :

$$\text{BEP (Rs.)} \quad = \quad \frac{\text{Total Fixed Cost}}{\text{P/V Ratio}} \quad = \frac{2539.08}{0.96} = 2644.88$$

4. Margin of Safety :

MOS = Budgeted Revenue - BE Revenue
= 7049.25 - 2644.88
= Rs. 4404.37

5. Margin of Safety Ratio :

$$\text{MOS Ratio} = \frac{\text{MOS}}{\text{Budgeted Revenue}} \quad X \quad 100$$

$$= \frac{4404.37}{7049.25} X 100 = 62.48\%$$

6. Budgeted Profit and Loss :

Budgeted Profit = Margin of Safety X P/V Ratio
= 4404.37 X 0.96
= 4228.20

In order to reach break-even point, the sales revenue should be Rs. 2644.88 million. The above figure shows that 4% of total sales revenue is occupied by variable cost and the remaining 96% is available for meeting non-operating or fixed expenses and make a profit. The margin of safety is 4404.37 margin of safety ratio is 62.48% and then the expected profit is Rs. 4228.20 in F. Y. 2065/066.

Table No. 4.10

Expenses Variability of ADBL for F. Y. 2065/066

(Rs. in Millions)

Details	Fixed Cost	Variable Cost
Salaries	657.78	
Allowance	264.19	
Contribution to Provident Fund	86.80	
Training Expenses		20.03
Uniform		35.67
Treatment		72.97
Employees Insurance		0.03
Pension & Gratuity	1349.25	
Others Facility		
House Rent	46.74	
Electricity and Water	20.00	
Repair & Maintenance		20.29
Insurance	8.46	
Postage, Telephone, Fax and Telex	15.17	
Our Allowance & Expenses		21.87
Printing	22.58	
Stationary and Books		2.33
Advertisement	11.54	
Legal Expenses		0.87
Donation		0.07
Board Meeting Expenses	1.46	
General Meeting Expenses		
Audit Expenses	1.41	
Cash Transfer Commission		2.23
Depreciation Written Off	53.70	
Entertainment		5.12
Subscription		1.67
Commission & Discount		5.27
Miscellaneous		59.65
Total	2539.08	248.07

Source : Annual Reports of ADBL

4.2.5 Cash Flow Planning of ADBL

Cash budgeting is an effective way to plan and control the cash flows, assets cash need and make effective use of excess cash. A primary objective is to plan the liquidity position of the bank as a basis for determining future borrowing and future investments. The planning and control of the cash inflows, the cash outflows and the related financing is more important to all enterprises. The cash flow analysis shows the planned cash inflows, outflows for a specific time span. Planning cash flow of ADBL gives the planned beginning and ending cash position for the study period. Cash shortage will disturb the enterprises in its smooth operation while excess cash will only remain idle without contribution anything towards company's profitability. Thus the major action of finance manager is to maintain a sound cash position. Cash flow planning is analyzed considering relevant data of five years of study period from F.Y. 061/62 to 065/66.

Table No. 4.11

Cash Flow Statement

For the fiscal year 2061˪62 to 2065˪66

(Rs in Millions)

Particular	2061˪62	2062˪63	2063˪64	2064˪65	2065˪66
Cash Receipts					
Interest Income	3915.22	4033.54	4623.10	3363.73	4231.12
Commission and discount	41.50	42.26	49.82	71.14	90.04
Exchange gain	10.78	-	-	-	-
Loan written off	-	56.63	739.97	1031.25	1434.95
Other Income	378.19	829.86	818.61	365.30	1017.23
Total	**4345.69**	**4962.29**	**6231.50**	**4831.42**	**6773.34**
Cash payment					
Interest expenses	1487.50	1439.84	1605.87	1043.81	1157.05
Employee expenses	787.62	1775.34	1306.81	965.79	1137.57
Office expenses	447.88	254.89	277.55	233.98	245.32
Other expenses	1680.66	513.12	426.13	14.50	84.05
Income tax paid	-	630.51	3192.82	241.47	281.10
Expenses for exchange	11.94	-	-	-	-

Total	**4415.60**	**4613.70**	**6809.18**	**2499.55**	**2915.09**
Cash flow before change in working capital	(69.91)	348.59	(577.68)	2331.87	3858.25
(Increase)\Decrease in current Assets					
(Increase)/Decrease in A/C receivable	-	-	(161.60)	111.60	(2194.20)
(Increase)/Decrease in short term Investment	471.61	(198.82)	(1362.60)	(946.70)	(1819.25)
(Increase)/Decrease in loan and borrowings	(1716.47)	(2262.66)	(1129.62)	(4393.25)	(1940.54)
(Increase)/Decrease in other assets	(610.88)	(146.06)	567.10	(552.98)	386.43
Increase\(Decrease) in current Liabilities					
Increase/(Decrease) in sundry creditors	978.90	2408.77	2784.54	137.47	2605.78
Increase/(Decrease) in certificate of deposit	-	-	-	-	-
Increase/(Decrease) in short term loan	(75.00)	(380.00)	(27.00)	(100.00)	(50.00)
Increase/(Decrease) in other liabilities	94.53	(412.27)	(1890.82)	665.51	996.90
Cash from operating activities (CFOA) A	**(927.22)**	**3971.25**	**(1797.69)**	**(2746.48)**	**1771.34**
Cash from Investing activities:					
(Increase)/Decrease in long-term investment	907.96	43.22	(303.53)	(524.11)	(123.15)
(Increase)/Decrease in fixed assets	49.15	(65.89)	93.22	(46.32)	(77.55)

(Increase)/Decrease in long-term inv. interest	-	-	-	-	-
(Increase)/Decrease in dividend income	0.90	2.10	2.00	3.75	-
CFIA (B)	**958.01**	**(20.57)**	**(208.31)**	**(566.68)**	**(200.7)**
Cash flow from financing activities:					
Increase/(Decrease) in accured loan	(0.64)	(2695.77)	(112.58)	(11.49)	(4.04)
Increase/(Decrease) in share capital	103.05	4800.39	1050.00	3249.50	-
Increase/(Decrease) in Reserve	0.59	-	-	-	-
Increase/(Decrease) in NRB reinsures	-	-	-	(5.08)	()5.08
Cash from financing activities (CFFA) (C)	103	2104.62	937.42	3232.93	(9.12)
(Loss) in exchange in cash/bank balance (D)	-	2.83	14.06	11.95	22.09
Total Cash flow (A+B+C+D)	133.79	6058.13	(1054.52)	(68.28)	
Opening cash balance	2910.86	3044.65	9102.78	8048.26	7979.98
Closing cash balance	3044.65	9102.78	8048.26	7979.98	1583.61

Source : Annual Reports of ADBL.

Above table highlights the sources and utilization of cash. Cash flow statement used here to check the liquidity of the bank accurately. The closing balance is highest in F. Y. 2062/063 and lowest in F. Y. 2065/066 which are Rs. 9102.78 and Rs. 1583.61 million respectively. Here is reflected the low of cash as operating, investing and financing activities.

4.2.6 DIFFERENTIAL FUNCTIONAL BUDGET

4.2.6.1 SALES (REVENUE) BUDGET

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

Operating Income or Total Revenue or Sales included:

1. Interest Income
2. Commissions and Discount
3. Exchange Fluctuation Income
4. Other Operating Income

ADBL has prepared five years revenue plan. According to planning officer past experienced is considered in preparing revenue budget. Revenue budget is prepared considering relevant data of five years of study period from F. Y. 2061/062 to 2065/066 as follows :

Table No. 4.12

Revenue Target & Achievement

(Rs. in Millions)

Fiscal Year	Target Revenue	Actual Revenue	% of Achievement
2061/062	3373.80	4244.18	122.83
2062/063	4209.50	4243.49	100
2063/064	5456.60	4904.95	89.89
2064/065	6541.91	7861.98	120.18
2065/066	7049.25	6107.46	86.64
	Average	103.91	

Source : Annual Reports (Annex II & V)

The Comparative status of the target revenue and actual revenue portfolio of ADBL is shown by the scattered bar diagram as below :

Diagram No. 1 : Bar diagram of Target & Actual Revenue.

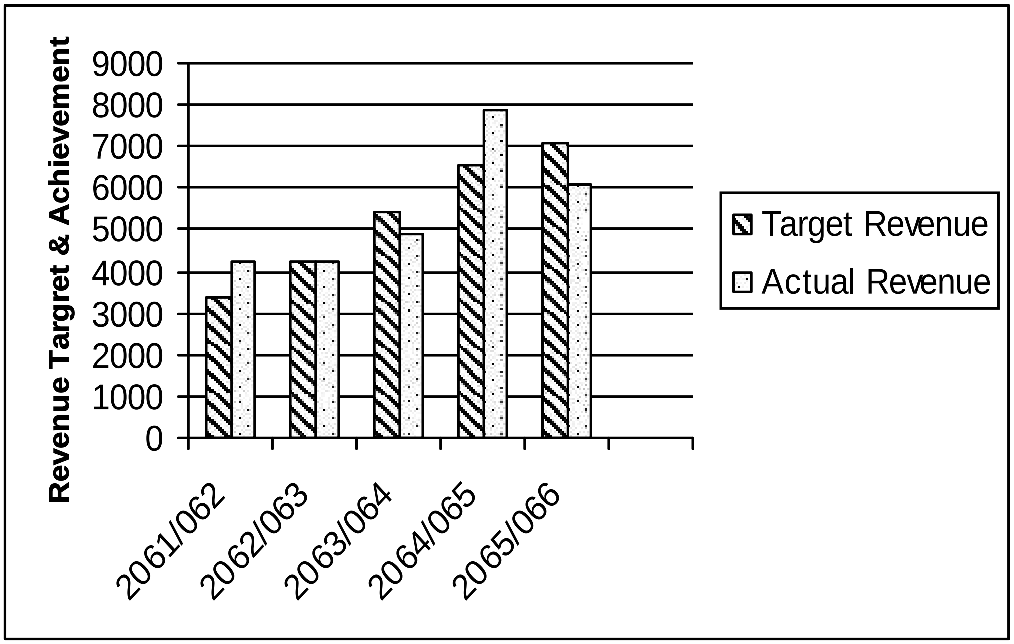
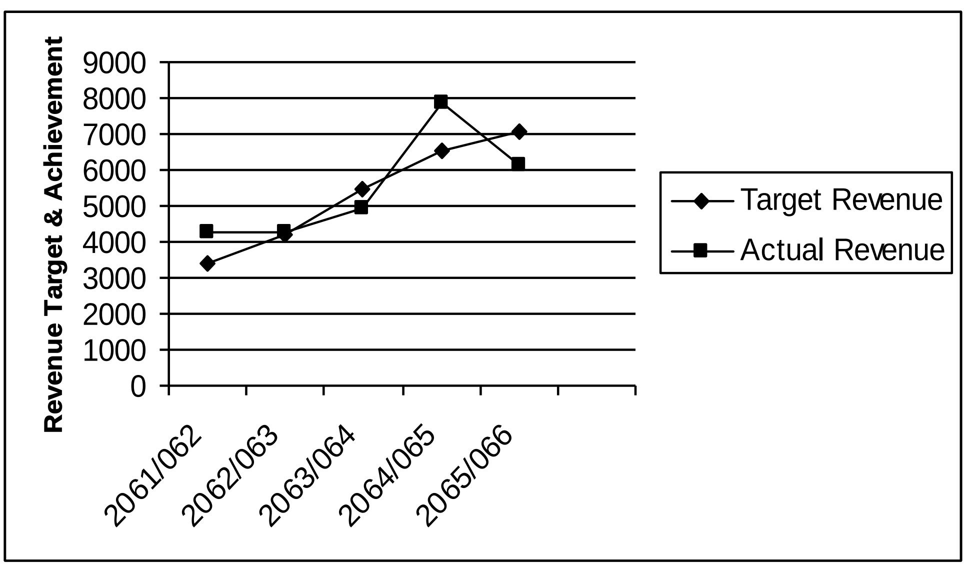


Diagram No. 1 : Scatter diagrams of the Target Revenue and Actual Revenue.



Above table shows that the revenue target is in increasing trend and revenue achievement is also in increasing trend. The diagram shows the relationship between the target and achievement revenue. The table shows that actual achievement of ADBL is very sound which indicate the higher performance situation of management although there may be the under estimation of revenue as a responsible factor so management should give the attention about it. The average achievement percentage is 103.91% for the study period.

The arithmetic mean, standard deviation, co-efficient of variance can be applied to find the variance between targeted revenue and achievement revenue for the five years period from F.Y. 2061/62 to 2065/66 is as under:

Let us consider Revenue Target Rs. (X) and Achievement Rs. (Y)

Table 4.13

Summary of Revenue Target and Achievement

Statistical Measures	Revenue Target	Revenue Achievement
Mean	3920.96	4056.95
Standard Deviation	843.85	580.08
Co-efficient of Variation	21.52%	14.30%
Correlation of Coefficient	0.82	
Co-efficient of Determination	0.6724	
Probable Error	0.10	

Source: Annual Reports (Annex VI)

The above analysis shows that revenue achievement mean is greater than revenue target and its standard deviation and CV are also in same direction. We have also found out the coefficient of correlation (r) is 0.82 shows that there is high positive correlation between targeted and achievement revenue. Now the coefficient of determination which explains the change in y be co-efficient of determination (r^2) = 0.6724.

ADBL prepares sales budget based on future programs and prospect of the bank. Revenue target budget is not prepared on the basis of achievement of past years so, we can see the variation in its targeted and achievement revenue continuously. To judge the significance of correlation, the value of compared with 6 (PEr), it will be significant and vice versa.

There,

r = 0.82

6 (PEr) = 6 X 0.10 =0.60

> 6(PEr)

r 0.82>0.60, the coefficient of correlation is significant.

Another statistical tool, regression line can also be fitted to show the degree of relationship between revenue target and revenue achievement and to forecast the achievement with given target. For this purpose achievement figure have been supposed to be dependent upon independent target. So that regression line of achievement 'Y' on target (X) or 'Y' on 'X' is as follows.

$Y - \overline{Y}$ =rx 6x $(X - \overline{X})$

Y - 4056.95 = 580.08/843.85 (X - 3920.96)

Y - 4056.95 = 0.68 (X - 392096)

Y = 0.68X - 8086.05 + 4056.95

Y = 0.68X - 4029.09

In the above equation, it is clear that actual deposits are in increasing trend by the help of this regression equation, we can ascertain the expected deposit achievement with given value of target sits say (x) ascertain one expected deposits achievements for study period.

4.2.6.2 HUMAN RESOURCES BUDGET

Starting with about 100 staffs, the bank today has 3559 staffs of all levels due to its expansion of operation, size and broad responsibilities of providing maximum services. Most of the employees salary based permanent. The bank recruits the new employees from the free competition (with consent of public service commission) by taking different selection process.

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

Table No. 4.14

Human Resource Budget

S.no.	Type	2061/062	2062/063	2063/064	2064/065	2065/066
1	Officer Level	1023	319	252	260	265
	AGN Graduates	412	44	33	35	40
	Others	611	275	219	220	231
2	Assistant Level	1823	1813	1621	1644	1660
3	Others	723	728	677	689	689
	Clerks & the same level	263	263	250	250	260
	Peons, Guard & Drivers	460	465	427	434	450
4	Contract & Temporary	524	1113	887	890	890
	Total	**4093**	**3973**	**3437**	**4422**	**4485**

Source : Annual Reports of ADBL.

The above actual achievement table shows the no. of employees in different levels. The number of working employees are continuously decreasing in first three years and then after increasing, it is caused by modernization in technology and education the over staffing problems.

4.2.6.3 ADMINISTRATIVE EXPENSES BUDGET

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

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

Table 4.15

Administrative Expenses Budget

Fiscal Year	Amount
2061/062	1235.50
2062/063	3215.18
2063/064	2912.67
2064/065	3030.12
2065/066	3210.57

Source : Annual Reports of ADBL (Annex VII)

The above actual achievement table shows that the administrative expense of ADBL for the five years study period from the F. Y. 2061/062 to 2065/066. This highest administrative expense is Rs. 3215.18 and lowest is Rs. 1235.50 million for F. Y. 2062/063 and F. Y. 2061/062 respectively.

4.2.7 OTHER ASPECTS OF PPC

4.2.7.1 PROFIT AND LOSS ACCOUNT

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

At the end of each financial year ADBL prepares profit and loss account in order to know the profit and loss situation of the bank. The actual profit and loss account of the bank for the F. Y. 2061/062 to 2065/066 is as follows :

Table 4.16

Profit and loss Account

(Rs. in million)

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
1. Interest Income	3915.22	4033.54	4623.09	3363.73	4231.14
2. Interest Expenses	1487.50	1439.84	1605.87	1043.81	1157.07
Net Interest Income	**2427.73**	**2493.70**	**3017.23**	**2319.92**	**3074.07**
3. Commission and Discount	42.64	42.26	49.82	71.14	90.04
4. Other Operating Income	286.31	164.862.84	232.03	350.68	382.25
5. Exchange Income	-	2.84	4904.95	11.95	22.10
Total Operating Income	**2756.68**	**2803.66**	**3299.08**	**2753.69**	**3568.46**
6. Staff Expenses	963.18	1775.34	1306.80	1849.13	2486.72
7. Other Operating Expenses	447.88	254.89	277.54	288.02	300.69
8. Exchange Loss	11.94	-	14.06	-	-
Operating Profit Before Provision for possible Loss	**1333.69**	**773.43**	**1700.67**	**616.54**	**781.05**
9. Provision for possible losses	1505.11	149.28	337.78	2677.48	2184.69
Operating Profit	**(171.41)**	**624.15**	**1362.88**	**(2060.94)**	**(1403.64)**
10. Non-operating income/Loss	92.78	117.76	7.42	18.34	634.99
11. Write-back from Loan Loss Provision	-	549.33	1803.21	4064.48	1381.93
Profit from regular activities	**(78.63)**	**1391.24**	**3173.52**	**2021.88**	**613.28**
12. Profit/Loss from transaction of extraordinary	**-**	(355.26)	(1883.00)	(1212.16)	1106.75
Profit after inclusion of all types of transaction	**(78.63)**	**935.98**	**1290.51**	**809.72**	**1720.03**

13. Provision for Staff Bonus	-	69.33	95.59	59.98	127.41
14. Provision for Income Tax	-	513.13	136.47	80.50	232.48
-This Year	-	148.27	136.47	80.50	232.48
-Up to Last Year	-	364.85	-	-	302.55
Net Profit	**(78.63)**	**353.52**	**1058.45**	**669.24**	**1057.59**

Source : Annual Reports of ADBL (Annex II)

The above table shows that in fiscal year second and third loss is arising, which indicates that the bank did not provide proper attention to profit planning. In year second loss is so large due to the writing the loan loss provision as the name of expenses with the objective 'to make the clean of bank financial statement'. The maximum profit is in fiscal year 2065/066 is Rs. 1057.59 million. In the last two years the profit is in the increasing rate, which is the good symptom for bank. Nepal Government, Asian Development Bank and Bank Management team and staffs played the important to control the expenses and increase the revenue. To improve the condition, Asian Development Bank is playing vital role. It provided 56 million dollar loan, 8.6 million dollar gratuity and 5 million dollar technology under the Finance Sector Development Cluster Program - 1.

4.2.7.2 BALANCE SHEET

The development of an annual plan ends with the planned income statement, planned balance sheet and planned cash flow statement summarizing different functional budgets. The balance sheet shows the overall financial condition of a firm. It shows the effect of operations on the assets, liabilities and capital of the company.

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

Table No. 4.17

Balance Sheet

Particulars	2061/062	2062/063	2063/064	2064/065	2065/066
Capital & Liabilities					
Share Capital	1677.61	6477.10	7528	10777.75	10777.75
Reserve & Surplus	-7666.88	-7313.36	-6254.91	-5042.98	-452.34
Debenture and Bond	-	-	-	-	-
Outstanding Expenses	3589.30	513.53	373.95	257.37	198.25
Sundry Creditors	27222.05	29631.82	32416.36	32553.83	35159.61
Bills Payable	-	-	-	-	-
Advance Receipt	-	-	-	-	276.00
Provision on Taxation	-	748.27	284.74	365.24	597.72
Other Liabilities (CA)	13871.45	5239.36	3812.07	5174.99	5261.99
Total	**38694.52**	**35297.62**	**38160.21**	**44086.20**	**51818.98**
Assets					
Cash in Hand	680.84	746.81	749.55	905.24	1413.97
Cash at NRB	-	3018.30	2001.14	1806.73	2717.82
Cash at Bank or Finance	235.42	1006.59	938.62	912.04	1075.88
Receivable	-	-	161.60	50.01	2244.20
Investment	-	1511.33	3177.46	2881.66	4896.16
Short-term Loan & Borrowings	22638.26	24900.91	27252.33	30589.44	32603.12
Fixed Assets	816.19	882.08	788.87	781.16	803.43
Non Banking Assets	-	-	-	-	-
Other Assets (CA)	10849.21	3231.60	3090.63	6159.74	6064.40
Net Loss	-	-	-	-	-
Total	**38694.52**	**35297.62**	**38160.21**	**44086.02**	**51818.98**

Source : Annual Reports of the ADBL (Annex II)

The ADBL Balance Sheet is showing the picture of various assets, liabilities and capital up to five years study period, which shows the financial condition of the company. In fiscal year third, fourth and fifth reserve and surplus is in negative due to the writing off of cumulated loss.

CHAPTER - FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY

Agricultural Development is pre-condition for the further economic development of the country. In a developing country such as Nepal agriculture plays a vital role in economic development. Though agriculture is the backbone of the Nepalese economy, there are many obstacles in the field of agricultural development. Nepalese economy is almost depended upon agriculture. 38.8% of GDP is derived from agriculture and 78% of population is employed in this sector. Due to lack of modernization in agriculture, Nepalese has not been able to have adequate economic development. The prosperity of every developing country can only be ensured by its economic growth. It is every important to improve the agriculture sector of Nepal as a result the ADBL was established.

Agriculture development bank limited (ADBL) established in 1968 with the major objectives of improving the socio economic status of rural peoples is the largest state-owned government bank of the country. ADBL is one of the wells-run government development banks in Nepal. The prosperity of every developing country can only be ensured by its economic growth. The role of ADBL in the economic growth of the nation can be fairly estimated to be very prominent. By mobilizing the scattered idle resources from the savers, ADBL pools the fund in a sizable volume in order to feed to the fund requirement of productive sector of the economy. Thereby raising the employment opportunities and earning to the labours, material and service providers to such industries and trades, which as a chain effect, promotes saving into the banks and more saving means more funds available in the banks for further investment. In this way, as the chain moves rolling on, the economy of the nation also grows.

To remain s the major contribution factor to the growth of the nation's economy, the banks also have to have sustainable existence and growth of themselves. For the sustainable existence and growth of the bank, it must ensure reasonable profitability. A profit earning organization can better feed to their employee, there by enhancing the morale of employees and motivates them for better performance. Therefore profit for the financial institution has been defined s the lifeblood. A bank has to plan for the reasonable profit earning; it may be in short time s well as long time. Profit planning is the planning of activities in such a way that it helps in increasing the income at a minimum possible cost or at optimum cost. This study aims at examining the applications of profit planning in ADBL.

This study has tried to cover the various aspects of budgeting and profit planning in the bank for the time of five years from fiscal year 2061/062 to 2065/066. The first introductory chapter of this study report has tried to give brief introduction of banking and its relation to the economy, general concepts to the profits and profit planning, its background, scope, limitation and significance.

During the research works, an extensive review of literatures through books, past thesis, journals have been made and internet materials from relevant web also consulted. The works were compiled into the chapter two titled s 'Review of Literature' of this study report.

Research methodologies followed for this research works are mentioned in the chapter three titled as 'Research Methodology'.

Data relating to various activities of the bank has been collected presented in tabular and various diagram form and tried to be interpreted in the study report in logical way. Data are analyzed and interpreted applying various financial, mathematical and statistical tools in a systematic manner. All these works are computed, titled as 'Data Presentation & Analysis' of this study.

Finally the summary, conclusion and the recommendation made by the researcher by this study are hereby being presented in this current chapter, chapter five titled as summary, conclusion and recommendation.

5.2 CONCLUSION

The conclusions drawn from this study are summarized below :

- Loan and advances of ADBL is increasing in trend. As a result interest income is also increasing.
- Planning of the bank is not strong. So, there is large a variance between actual and target revenue.
- The Bank is adopting new Accounting Policy, which has prescribed by Nepal Rastra Bank.

- The main sources of earning are interest income, commission and discount, exchange gain etc.
- There is high positive correlation between target and actual revenue.
- The net profit of the bank is in increasing trend of the study period.
- The collection outstanding is in increasing trend.
- The average current ratio of the bank is 0.90 times, so the liquidity position of ADBL is not at satisfactory level.
- Interest expense is highest portion among in other cost.

5.3 RECOMMENDATIONS

After the detail analysis of profit planning and control in ADBL, some suggestions have been recommended on the basis of major findings to improve the performance of the bank. It should adopt the comprehensive profit planning from the very beginning to the end. The following actions should be implemented to apply the major profit - planning concept in ADBL:

- The bank should clearly define its objectives, goals, and policies to achieve the basic goals, annual goals and targets fixed. There should be a scientific implementation of policies and plan in order to achieve goals and objectives in time.
- It should introduce SWOT analysis to improve the bank's capability. Besides this, political, social, economic and technical factors should be also taken into account.
- Level wise specific job description and responsibility assignment should be mentioned clearly
- Bank Management should adopt the policy of appropriate authority delegation at all level of management in order to save the valued time of chief executive officer for the productive use.
- Being as the government bank, it should be conscious about the financial problem of small farmers.
- Branch monitoring and controlling mechanism should be made at the regional level also in order to ensure the better functioning of the branch offices located at such locations, which are far from the Head Office.
- The outstanding loan is increasing so the bank should give the proper priority about it.

- Finally, the ADBL should consider the basic fundamentals of profit planning while formulating and implementing the profit plan.

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Annex I

Total Current Assets and Current Liabilities of ADBL

For the Fiscal Year 2061/62 to 2065/66

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Current Assets:					
Cash in hand	680.84	746.81	749.55	905.24	1413.97
Cash at NRB	-	3018.30	2001.14	1806.73	2717.82
Cash at bank and finance	235.42	1006.59	938.14	912.04	1075.88
Receivable	-	-	161.60	50.01	2244.20
Short term loan and borrowings	22638.26	24900.91	27252.33	30589.44	31603.12
Other CA	10849.21	3231.60	3090.63	2159.74	1506.40
Total current assets	**34403.73**	**32904.21**	**34193.87**	**36423.20**	**405861.39**
Current Liabilities					
Outstanding Expenses	3589.30	513.53	373.95	257.37	198.25
Sundry creditors	27222.05	29631.82	32416.36	32553.83	35159.61
Bills payable	-	-	-	-	-
Advance Receipts	-	-	-	-	276.00
Provision for taxation	-	784.27	284.74	365.24	597.72
Other CA	13871.45	5239.36	3812.07	5174.99	5261.99
Total current liabilities	**44682.80**	**36168.98**	**36887.12**	**38351.43**	**41493.57**

Source: Annual Reports of study period.

Annex II

Actual Profit and Loss Account

For the Fiscal Year 2061/62 to 2065/66

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Income:					
Interest income	3915	4033.54	4623.10	3363.73	4231.14
Commission and discount income	42.64	42.26	49.82	71.14	90.04
Income on exchange fluctuation	-	2.83	0.0049	11.95	22.10
Non-operating income	92.78	117.76	7.42	18.34	634.99
Loan write-off	-	549.33	1803.21	4064.48	1381.93
Other operating income	286.31	164.86	232.03	350.68	382.25
Total income	**4336.67**	**4910.58**	**6715.58**	**7880.32**	**6742.45**
Expenses:	.				
Interest expenses	1487.50	1439.84	1605.87	1043.81	1157.07
Employee expenses	963.18	1775.34	1306.80	1849.13	2486.72
Exchange fluctuation loss	11.94	-	14.06	-	-
Provision for Possible loan loss	1505.11	149.28	337.78	2677.48	2184.69
Non operating expenses (extra ordinary)	-	355.27	1883.00	1212.16	(1106.75)
Other operating expenses	447.88	254.89	277.54	288.02	300.69
Bonus to staff	-	69.33	95.59	59.98	127.41
Provision for income tax: last year	-	364.85	-	-	-
This year	-	148.27	136.47	80.50	232.48
Profit and loss	(78.63)	353.52	1058.45	669.24	1057.59
Total expenses	**4336.97**	**4910.58**	**6715.56**	**7880.32**	**6439.9**

Source: Annual Reports of study period.

Or

Actual Profit and Loss Account

From the fiscal Year 2061⌊62 to 2065⌊66

Particular	2061⌊62	2062⌊63	2063⌊64	2064⌊65	2065⌊66
1. Interest Income	3915.22	4033.54	4623.09	3363.73	4231.14
2. Interest Expenses	1487.50	1439.84	1605.87	1043.81	1157.07
Net Interest Income	**2427.73**	**2493.70**	**3017.23**	**2319.92**	**3074.07**
3. Commission and Discount	42.64	42.26	49.82	71.14	90.04
4. Other Operating Income	286.31	164.862.84	232.03	350.68	382.25
5. Exchange Income	-	2.84	4904.95	11.95	22.10
Total Operating Income	**2756.68**	**2803.66**	**3299.08**	**2753.69**	**3568.46**
6. Staff Expenses	963.18	1775.34	1306.80	1849.13	2486.72
7. Other Operating Expenses	447.88	254.89	277.54	288.02	300.69
8. Exchange Loss	11.94	-	14.06	-	-
Operating Profit Before Provision for possible Loss	**1333.69**	**773.43**	**1700.67**	**616.54**	**781.05**
9. Provision for possible losses	1505.11	149.28	337.78	2677.48	2184.69
Operating Profit	**(171.41)**	**624.15**	**1362.88**	**(2060.94)**	**(1403.64)**
10. Non-operating income/Loss	92.78	117.76	7.42	18.34	634.99
11. Write-back from Loan Loss Provision	-	549.33	1803.21	4064.48	1381.93
Profit from regular activities	**(78.63)**	**1391.24**	**3173.52**	**2021.88**	**613.28**

12. Profit/Loss from transaction of extraordinary	**-**	(355.26)	(1883.00)	(1212.16)	1106.75
Profit after inclusion of all types of transaction	**(78.63)**	**935.98**	**1290.51**	**809.72**	**1720.03**
13. Provision for Staff Bonus	-	69.33	95.59	59.98	127.41
14. Provision for Income Tax	-	513.13	136.47	80.50	232.48
-This Year	-	148.27	136.47	80.50	232.48
-Up to Last Year	-	364.85	-	-	302.55
Net Profit	**(78.63)**	**353.52**	**1058.45**	**669.24**	**1057.59**

Source: Annual Reports of study period.

Annex III

Balance Sheet

From the Fiscal Year 2061/62 to 2065/66

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Capital and Liabilities					
Share capital	1677.61	6477.10	7528	10777.75	10777.75
Reserve & surplus	-7666.88	-7313.36	-6254.91	-5042.98	-452.34
Debenture and bond	-	-	-	-	-
Outstanding expenses	3589.30	513.53	373.95	257.37	198.25
Sundry creditors	27222.05	29631.82	32416.36	32553.83	35159.61
Bills payable	-	-	-	-	-
Advance receipt	-	-	-	-	276.00
Provision on taxation	-	748.27	284.74	365.24	597.72
Other liabilities (CA)	13871.45	5239.36	3812.07	5174.99	5261.99
Total	**38694.52**	**35297.62**	**38160.21**	**44086.2**	**57919.98**
Assets					
Cash in Hand	680.84	746.81	749.55	905.25	1413.97
Cash at NRB	-	3018.30	2001.14	1806.73	2717.89

Cash at bank or finance	235.42	1006.59	938.62	912.04	1075.88
Receivable	-	-	161.60	50.01	2244.20
Investment	-	1511.33	3177.46	2881.66	4896.16
Short-term loan & borrowings	22638.26	24900.91	27252.33	30589.44	32603.12
Fixed assets-	816.19	882.08	788.87	781.16	803.43
Non banking	-	-	-	-	-
Other assets (CA)	10849.21	3231.60	3090.63	6159.74	6064.40
Net loss	-	-	-	-	-
Total	**38694.52**	**35297.62**	**38160.21**	**44086.02**	**51818.98**

Source: Annual Reports of the ADBL.

Annex IV

Cash flow Statement

For the fiscal year 2061/62 to 2065/66

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Cash Receipts					
Interest Income	3915.22	4033.54	4623.10	3363.73	4231.12
Commission and discount	41.50	42.26	49.82	71.14	90.04
Exchange gain	10.78	-	-	-	-
Loan written off	-	56.63	739.97	1031.25	1434.95
Other Income	378.19	829.86	818.61	365.30	1017.23
Total	**4345.69**	**s4962.29**	**6231.50**	**4831.42**	**6773.34**
Cash payment					
Interest expenses	1487.50	1439.84	1605.87	1043.81	1157.05
Employee expenses	787.62	1775.34	1306.81	965.79	1137.57

Office expenses	447.88	254.89	277.55	233.98	245.32
Other expenses	1680.66	513.12	426.13	14.50	84.05
Income tax paid	-	630.51	3192.82	241.47	281.10
Expenses for exchange	11.94	-	-	-	-
Total	**4415.60**	**4613.70**	**6809.18**	**2499.55**	**2915.09**
Cash flow before change in working capital	(69.91)	348.59	(577.68)	2331.87	3858.25
(Increase)/Decrease in current Assets					
(Increase)/Decrease in A/C receivable	-	-	(161.60)	111.60	(2194.20)
(Increase)/Decrease in short term Investment	471.61	(198.82)	(1362.60)	(946.70)	(1819.25)
(Increase)/Decrease in loan and borrowings	(1716.47)	(2262.66)	(1129.62)	(4393.25)	(1940.54)
(Increase)/Decrease in other assets	(610.88)	(146.06)	567.10	(552.98)	386.43
Increase/(Decrease) in current Liabilities					
Increase/(Decrease) in sundry creditors	978.90	2408.77	2784.54	137.47	2605.78
Increase/(Decrease) in certificate of deposit	-	-	-	-	-
Increase/(Decrease) in short term loan	(75.00)	(380.00)	(27.00)	(100.00)	(50.00)
Increase/(Decrease) in other liabilities	94.53	(412.27)	(1890.82)	665.51	996.90
Cash from operating activities (CFOA) A	**(927.22)**	**3971.25**	**(1797.69)**	**(2746.48)**	**1771.34**
Cash from Investing activities:					
(Increase)/Decrease in long-term	907.96	43.22	(303.53)	(524.11)	(123.15)

investment					
(Increase)/Decrease in fixed assets	49.15	(65.89)	93.22	(46.32)	(77.55)
(Increase)/Decrease in long-term inv. interest	-	-	-	-	-
(Increase)/Decrease in dividend income	0.90	2.10	2.00	3.75	-
CFIA (B)	**958.01**	**(20.57)**	**(208.31)**	**(566.68)**	**(200.7)**
Cash flow from financing activities:					
Increase/(Decrease) in accured loan	(0.64)	(2695.77)	(112.58)	(11.49)	(4.04)
Increase/(Decrease) in share capital	103.05	4800.39	1050.00	3249.50	-
Increase/(Decrease) in Reserve	0.59	-	-	-	-
Increase/(Decrease) in NRB reinsures	-	-	-	(5.08)	()5.08
Cash from financing activities (CFFA) C	103	2104.62	937.42	3232.93	(9.12)
(Loss) in exchange in cash/bank balance (D)	-	2.83	14.06	11.95	22.09
Total Cash flow (A+B+C+D)	133.79	6058.13	(1054.52)	(68.28)	
Opening cash balance	2910.86	3044.65	9102.78	8048.26	7979.98
Closing cash balance	3044.65	9102.78	8048.26	7979.98	1583.61

Annex V

Targeted Profit and Loss Account

For the Fiscal Year 2061/62 to 2065/66

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Income:					
Interest income	3213.30	3794.50	5049.80	6065.22	6502.23
Commission income	99.30	95.00	104.50	126.23	150.24
Other income	61.20	320	302.30	350.46	396.78

Total income	3373.80	4209.50	5456.60	6541.91	7049.25
Expenses:					
Interest expenses	1189.00	1029.60	1029.60	1229.60	1106.54
Employee expenses	749.90	817.10	1091.50	1512.52	1839.49
Provision on loan loss	640.00	1015.20	1015.20	1515.20	1515.20
Depreciation	60.60	60.60	60.60	60.60	65.02
Office expenses/other expenses	213.80	229.70	231.40	250.25	297.77
Rebate	490.00	300	300	320	320
Profit and loss	27.20	757.30	1728.30	1653.74	1905.23
Total expenses	**3373.80**	**4209.50**	**5456.60**	**6541.91**	**7049.25**

Source: Annual Planned Reports of study period.

Annex VI

Administrative Expenses Budget

For the Fiscal Year 2061/62 to 2065/66

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Employees Expenses	787.62	1439.84	1605.87	1849.13	2486.72
Office Expenses	447.88	1775.34	1306.80	1103.86	921.39
Total	**135.50**	**3215.18**	**2912.67**	**2952.99**	**3408.11**

Source: Annual Planned Reports of study period.