

CHAPTER-I

INTRODUCTION

1.1 OVERVIEW OF PROFIT PLANNING AND CONTROL

Comprehensive profit planning and control is viewed as a process designed to help management effectively perform significant phase of the planning and control functions. The profit planning and control model involves (1) development and application of broad and long- range objectives of the enterprise; (2) specification of enterprise goals; (3) development of strategic long- range profit plan in broad terms; (4) specification of tactical short- range profit plan detailed by assigned responsibilities (divisions, departments, projects); (5) establishment of a system of periodic performance report detailed by assigned responsibilities; and (6) development of follow-up procedures.

Profit just does not happen, profits are managed. Profit is the primary measure of business in any economy. Before we go further the managerial process of profit planning, it is important to understand the concept of profit. There are several definitions of profit. An economist will define that the profit is the reward for the entrepreneurship for taking the risk. An accountant will say the excess of firm's profit over the expenditure of producing revenues in given fiscal year.

Planning is the first essence of management and all other functions are performed within the framework of planning. Planning means deciding in advance what is to be done in future. Planning starts from forecasting and predetermination of future events. The primary purpose of planning in business is to increase the chance of making profit. The budget is the primary operation-planning document. Committed performance budgets are called profit plan. Each manager and subordinates has the authority in varying degrees to make the decisions, the result of which will nearly accomplish or better his budgetary targets.³

FUNDAMENTAL CONCEPT OF PROFIT PLANNING AND CONTROL

The fundamental concept of profit planning and control include the underlying activities or tasks that must generally be carried out to attain maximum usefulness from profit planning and control. These fundamentals have never been codified-. As a basis for

Discussion, an outline of the fundamental concepts usually identified with profit planning and control is given below:

A management process that includes planning, organizing, staffing, leading and controlling.

A managerial commitment to effectively management participation by all levels in the entity.

An organization structure that clearly specifies assignment of management authority and responsibility at all organization levels.

A continues and consistent coordination of all the management functions.

Continuous feed forward, feedback, follow-up and replanning through defined communication channels.

- A strategic long-range profit plan.
- A tactical short-range profit plan.
- A responsibility accounting system.
- A continuous use of the exception principle.
- A behavioral management program

Profit planning in service Sector Company includes:

Capital Expenditure Budget

Capital expenditures often called capital budgeting, which is the process of planning and controlling the strategic (long-term) and tactical (short-term) expenditure for expansion and contraction of investments in the operation (fixed) assets.

Evaluation of Investment Budget

Traditionally there are several methods to measure the capital investment decision such as Net Present Value, Internal Rate of Return, Payback period and average-return of total investment method.

Administrative Expense Budgets

A non-manufacturing enterprise should develop expense budgets for company administrative expenses and distribution expenses by responsibility centers. Expenses should be classified as fixed or variable.⁴

Cash Budgets

In all companies of all types, cash management is vital. The planned statement of the cash budget is necessarily prepared near the end of the annual planning cycle along with the planned income statement and balance sheet. The cash plan or budget is prepared from the previously completed budgets, such as sales, and capital expenditure budgets. Also previous year profit and loss account is the basis for cash budget of next or forthcoming years.

Variance Analysis and Performance Report

The measurement of actual performance relative to planned targets is just as applicable to non-manufacturing companies as it is to manufacturing enterprises. Service and retail companies also use tactical plans that specify performance standards, measure and actual results, and prepare responsibility center performance reports that analyze departures from planned performance. With the variance analysis the company can find out the achievement of the organization. If not achieved it helps to find out the reason behind it also.

1.2. BRIEF HISTORY ON DEVELOPMENT OF BANKING

The importance and contribution of finance and financial institution are essential for the growth of business activities. Finance serves as fuel for providing energy to move the tempo of economic development. It serves as the reservoir for the supply and control of money. Although most people are familiar with financial institutions like bank, it is still difficult to define them accurately. The oxford dictionary defines bank as "as an establishment for the custody of money". This definition is very limited, as

modern banks are not confined only to the custody of money. .Macleod in his "the Theory of Credit" defines a bank not as an institution that borrows and lends out money but an institution for creation of credit. Banking sector plays an important role of intermediary between the deficit and surplus of financial resources.

The history of modern banking dates back to the ancient period i.e as early as 7th century B.C. There was reference to the activities of moneychangers in the temple of Jerusalem in the New Testament. In ancient Greece the famous temples of Delphi and Olympia served as the great depositories for people's surplus funds and these were the centers of money lending transaction. Indent the trace of "rudimentary banking" were found in the Chaldean, Egyptian & Phoenician history. The development of banking in ancient Rome roughly followed the Greek pattern. Banking suffered oblivion after the fall of the Roman Empire after the death of Emperor Justinian in 565 A.D. and it was not until the revival of trade and commerce in the middle ages that the lessons of finance were learnt a new from beginning. Moneylenders in the middle ages was however largely confined to the Jews since the Christians were forbidden by the Canon Law to indulge in the sinful act of lending money to others in the interest. However as the hold of the Church loosened with the development of trade and commerce about the thirteen century. Christians also took the lucrative business of money lending, thereby entering into keen competition with the Jews who had hitherto monopolized in the business. The bank of "Venice was the first public banking institution, established in 1157. It then inspired other countries to open up banking institutions like the Bank of Barcelona in 1401 and Bank of Geneva in 1407.

Tracing the genealogy of modern banking, G. Crowther observes that the present day banker has three ancestors of particular note: Merchants, the moneylenders & the goldsmith. Similarly according to C.A. Connant, the forefathers of modern banks were individual money changer, the Jewish moneylenders & Lombard Bankers.

1.2.1 Evolution of banking in Nepal:

In the country the development of banking is relevantly recent. The reward of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. Through establishment of banking industry was very recent, some crude bank operation were in practice even in the ancient times. In Nepalese Chronicle it was recorded that the new era known as Nepal Sambat was introduced by Shankhadhar Sakhwa a Sudra merchant of Kantipur in 879/80 A.D. after having paid all the outstanding debts in the country. This shows the basis of money lending practice in ancient Nepal. Towards the end of 11th century during Malla regime there was an evidence of professional money lenders and bankers. It is further believed that money lending business particularly for financing the foreign trade with Tibet became quite popular during reign of Mallas. Also in the end of 8th century during Mall reign, Gunakama Dev had borrowed money to rebuild the Kathmandu valley. According to historical records, in the 14th century Jayasthiti Malla the king of Kantipur had introduced many measures to codify the laws relating to commercial bank. In his reign, the business of a group of people called "Tankdhari" was engaged in the occupation of money lending. They used to lend money against personal securities or merchandise.

Late on with a growing consciousness towards banking business Ranodip Singh who was the Prime Minister from 1877-85, established a financial institution called "tejarath Adda" with an aim to easy and cheap credit to the public particularly for civil servants at interest on the security of gold and silver or other ornaments. Payment of loan was done on installment basis from their salary. The set up of this institution was the first remarkable step in the history to save the public from exorbitant rate of interest and other malpractice of indigenous bankers and moneylenders. In the overall development of the banking system in Nepal, the Tejarath Adda may be regarded as the father of modern banking institution. This institution flourished and extended its branches in various parts of the country. At the same time country started trade with India and Tibet and the various

indigenous bankers handled even the trade because transfer of the money could be safely made only through these bankers in the absence of modern banking institutions. Hence the need of banking institutions was realized. This was even strongly supported

by the situation caused during 1934 A.D's earthquake where there was a need of finance for the reconstruction of works. Reviewing these situations the "Udhyog Parishad" (Industrial Development Board) was constituted in 1936 A.D. One year after its formulation it formulated the "Company Act" and "Nepal Bank Act" in 1937 A.D. The Tejarath alone could not meet the need of the society and in the year 1937 Nepal Bank Limited was incorporated marking the beginning of a new era in the history of modern banking in Nepal. This semi-government bank incorporated under the Nepal Bank Act 1936 with its head office in Kathmandu.

Until 1964, the country had no suitable banking legislation to provide opportunities for opening new branches or banks. So realizing a need for a modern and scientific banking legislation, the government passed a new commercial Bank Act on 28th February 1964 replacing the old act. In this way, banking history had begun in Nepal with the establishment of Nepal Bank Limited. 30th Kartik 1994 BS was the red-letter day for the bank. At that time, this bank had authorized capital of RS 10 Million and paid up capital of RS 842 thousand and ownership were controlled by private shareholders till 1951 AD, though the government had very insignificant amount of share. Later government increased its share up to 51% of the total share in 1952 and hold control over the bank's management⁵.

While one writes about banking, no body can forget the Nepal's first Bank, the Nepal Bank Ltd. It was established in 1994 BS on government initiatives. Right from the very beginning it has been functioning as a semi-government organization. The bank was setup at a time when banking was little known in the country and bank's activities being limited to money lending. About 19 years from its establishment it used to do the central bank's work. For a year the Nepal Bank Limited had to manage apart from the commercial functions, almost all banking transactions including those of the government, however limited, conducting central banking activities without a central bank.

Before the establishment of Rastriya Banijya Bank (RBB) Nepal Bank Limited was an authorized agent of Nepal Rastra Bank. In the places where RBB does not have branches even today, it undertakes a number of activities including the foreign exchange (selling & buying) business. The authorized capital of Nepal Bank Ltd. is

RS 20 million. The government has 51 percent of its total share. Besides its historical importance, its importance in mobilizing resources for development of the country has been quite significance from its establishment.

About after 19 years from the establishment of Nepal Bank Limited, Nepal Rastra Bank as the Central Bank, was established with authorized capital of 10 Million (fully subscribed by HMG) on 26th April 1956 Under the Nepal Rastra Bank Act 1955. Until then Nepal Bank Ltd. had to perform some of the functions of central bank itself. Rastriya Banijya Bank was established under full government ownership with authorized capital of 10 million and paid up capital of 2.50 million on 23rd Jan 1956, after ten years from the establishment of Nepal Rastra Bank. Rastriya Banijya Bank and Nepal Bank Limited are serving people of this country as well as for the nation with more than 200 branches of each spread all over the country.

Another 28 years have been taken by the Nepalese economy for the establishment of a commercial bank in Nepal. During this period government changes and adopted some new policy. It introduced "Financial Sector Reforms" in 1980's through structural adjustment policy. The inability of economy to attain its full growth capacity along with failure in the enhancement of self-dependency and social welfare is main reasons that compelled the government to adopt such reform policy⁶. The interest rate deregulation, curtailment or elimination of directed credits, lifting entry and exit barriers for financial intermediaries, restructuring of banking system and institution of regulatory mechanism are some of the key components of such liberalization⁷ Government, through this policy, allowed private sector (both domestic and foreign) to enter in the banking business in order to bring healthy competition among banks and increase foreign investment in Nepal. As a response to this, with in a short period of four years, three banks established with the participation of foreign banks i.e. in Joint Venture form.

The Nepalese financial system has witnessed a substantial growth particularly after the government initiated the process of financial liberalization in mid eighties. The implementation of structural adjustment program (1987/88 - 1989/90) followed by the enhanced structural adjustment facility (ESAF) agreement with IMF in 1992/93 helped gain momentum to the development of modern financial system. The financial

sector reforms introduced as part of the liberalization process also contributed towards strengthening the role of private sector and foreign investment. It has opened avenues for establishing financial intermediaries like bank, finance company, and other non-bank financial institution performing the verity of activities⁸.

The emergence of Joint Venture Banking system in 1984 followed by a concrete policy on opening financial institutions in 1985 encouraged the private sector to setup banks and non-bank financial institutions. Because of this, there are 13 commercial banks, seven development banks, 44 finance companies, 29 co-operative societies, and 30 NGO (conducting limited banking transactions) are operating in Nepalese financial industry. 12 insurance companies and other NFBI's like security/capital market institution, a contractual saving fund, and a postal saving system are also existence in the Nepalese economy as at mid July 1998.

Apart from this, some development banks and regional banks (commercial) are on the pipeline of establishment. With the modernization of the financial system, new products, and technologies in banking system have been introduced⁹.

1.3 A Brief Overview of Joint Venture Banks:

A joint venture is the joining of forces between two or more enterprises for carrying out a specific operation¹⁰.

A Joint Venture is an association of individuals or firms formed to carry out a specific business project. Although a joint venture is very similar to a partnership, it differs in that it is limited to the success or failure of the specific project for which it was formed. As in the case of the partnership, a joint venture is formed by a contract agreement in which each partner assumes unlimited liability for the organization's debt¹¹. Joint venture banks are the mode of trading to achieve mutual exchange of goods and services for sharing comparative advantages by performing joint investment schemes between Nepalese investor's financial and non-financial institution as well as private investors and their parent banks each supplying 50% of total investment. The parent banks, which have experienced in highly mechanized and efficient modern banking services in main parts of the world, have come to Nepal with higher technology, advanced management skills, and an international banking

system. JVBs are formed in Nepal as full-fledged commercial bank under the Company Act, 2021 BS and operated under the Banijya bank Act 2032 BS. The JVBs that are established in Nepal are operated under the rules, regulations, and guidance of Nepal Rastra Bank. NRB has issued certain directives to those banks.

HMG's deliberated policy of allowing foreign JVBs to operate in Nepal is basically targeted to encourage local traditionally running commercial banks to enhance their banking capacity through competition efficiency, modernization, mechanization via computerization and prompt customer service¹².

The main objectives of the JVBs are to grant banking facilities to the businesspersons by facilitating different services. Under the liberalization policy of HMG, so many JVBs are established in Nepal.

Joint venture banks pose serious challenges to the existence of the inefficient and very traditional domestic banks. However, the same challenge can be taken by the domestic banks as an opportunity to modernize them and sharpen their competitive zeals¹³. It is undoubtedly true that the JVBs are already playing an increasingly dynamic and vital role in the economic development of the country. The role, which is being playing, by the JVBs can be categorized by the services which are rendering by it. Introducing new methods and technology in banking services, creating a competitive environment, providing new services, providing more resources for investment, offering better links with international market etc are the roles that are playing by JVBs today.

More than 26 commercial banks are being well operating in Nepalese economy and among them 15 are in Joint Venture form.

The first Joint Venture bank in Nepal is Nepal Arab Bank Limited (NABIL Bank Ltd). It had commenced its operation on July 12, 1984 with RS 100 million as authorized capital; RS 50 million as issued capital and RS 30 million as paid-up capital. 50% of paid up capital has shared by National Bank of Bangladesh (NBB). Dubai Bank Ltd. financed that capital after its collapse. The same was shared by Union Bank of Middle East and later it was renamed as Emirates Bank International

Limited and recently, its 50% share has hold by NBB, 20% by Nepalese Financial Institutions and remaining 30% by general public.

Nepal Indosuez Bank Limited (Investment bank) (NIBL), as second Joint Venture bank was registered on 21 January 1986 and it commenced its operations on 27 Feb. 1986 with Rs. 120 million, Rs. 60 million and Rs. 30 million as Authorized, Issued, and Paid-up Capital respectively. Banque Indosuez, Pairs has shared 50% of the paid up capital, Rastriya Banijya Bank, and National Insurance Corporation each has shared 15% and public has shared 20% of the paid up capital.

The third Joint Venture Bank is Nepal Grindlays Bank Limited (Standard Chartered Bank Ltd.) (STBL). It was established and operated in 1987 with authorized capital, Issued Capital and Paid-up Capital of RS. 100 million, RS. 50 million and RS. 30 million respectively. Its 50% paid up capital has shared by Grindlays Bank (London) 35% by Nepal Bank Limited and remaining 15% by public.

The new government, elected in 2065/066 introduced liberal and market oriented economic policy, then the number of Joint Venture Banks grew dramatically.

Himalayan Bank Limited (20% shares owned by Habib Bank Pakistan), Everest Bank Limited (20% shares owned by United Bank of India, later Punjab National Bank), Nepal SBI Bank Limited (50% shares owned by State Bank of India) was established on July 1995 (2050/03/23). Its authorized capital is RS 1000 million. Issued capital is 877.5 million. Moreover, its paid up capital is 874.5 million. Deposits reached up to 13715.359 million and total loan and advances reached up to 12776.216 million in the end Fiscal Year 2064/065 Nepal Bangladesh Bank Limited (50% shares owned by International Finance Investment of Commerce Bank Limited Dhaka), Bank of Kathmandu (50% shares owned by the Siam Commercial Bank PCL Thailand) is operating in Nepalese Banking sector.

The Nepal Industrial and commercial Bank (NIC), established in July 1998, has gained success within just one and half year. Ten private investors including Rastriya Banijya Bank promoted the bank. The promoters group holds 65% of these shares and 35% were issued to public and staff.

Apart from this, the Standard Chartered Bank of London has opened a liaison office in 1979 which was converted in to a representative office in 1983 and the City Bank, one of the leading bank of USA, has opened its representative office in November 1984, in Kathmandu. The representative office is involved only in exchange of information with local commercial banks and finance for Industrial Development Projects.

There are 27 commercial banks operating in the country.

- i) Nepal Bank Limited,
- ii) Rastriya Banijya Bank,
- iii) Nabil Bank Limited,
- iv) Nepal Indosuez Bank Limited,
- v) Stander Charter Bank Ltd.
- vi) Himalayan Bank Limited,
- vii) Nepal SBI Bank Limited,
- viii) Nepal Bangladesh Bank Limited,
- ix) Bank of Kathmandu Limited,
- x) Everest Bank Limited,
- xi) Nepal Bank of Ceylon Limited,
- xii) Lumbini Bank Limited,
- xiii) Nepal Industrial and Commercial Bank Limited.
- xiv) Kumari Bank Ltd.
- xv) Laxmi Bank Ltd.
- xvi) Siddartha bank Ltd.
- xvii) Machhapuchhre Bank
- xviii) Nepal Investment Bank Ltd.
- xix) Janta bank Nepal Ltd.
- xx) Citizen Bank Limited.
- xxi) Prime Commercial Bank Ltd.
- xxii) Bank of Asia Nepal Ltd.
- xxiii) Sunrise Bank Ltd.
- xxiv) DCBL Bank Ltd.
- xxv) NMB Bank Ltd.
- xxvi) Crist Bank Ltd.
- xxvii) Megha Bank Ltd.

1.4 A BRIEF OVERVIEW OF NEPAL SBI BANK LIMITED

1.4.1 An Introduction:

Nepal SBI Bank Limited is the first Indo Nepal Joint Venture in the financial sector. Sponsored by three institutional promoters, namely, State Bank of India, Karmachari Sanchaya Kosh (Employee Provident Fund) and Agricultural Development Bank through a memorandum of understanding signed on 17th July 1992, the bank became operation on the 8th July 1993 with in a period of less than one year.

The bank received registration from the Registrar of Companies Ministry of Industry, HMG on the 25th April 1993 and commenced its first board meeting on the May 25th, 1993 to pave the way for operational zing the bank with in the quickest possible time. The bank received certificate of commencement of business on the 30th June 1993. Moreover, it received its License from Nepal Rastra Bank for all commercial banking transactions on The 6th July 1993. 7th July 1993 was the Red Letter Day for the Bank. On that day the then President of Nepal Congress party Mr. Girija Prasad Koirala inaugurated the bank in the presence of dignitaries, distinguished Citizen, and professionals and congratulated the promoters and the Board of Directors for making the bank a reality.

Mr. Koirala also appreciated that 30 per cent equity of the bank would be floated to the Nepali public to ensure increased participation of the Nepali People in the management of the enterprise.

The bank had set up its corporate and banking office at Durbarmarg \with computerized operations. However, the space available at Durbarmarg was not adequate to facilitate its business, latter the corporate office was shifted to Kamalpokhari leaving Durbarmarg office as banking office. Now this bank has its corporate office at 1 lattisar. Various centers were surveyed for its Branch expansion and action plan in this regard was finalized to implement it in future. Regarding the branch expansion since its establishment, most of the boarder cities of Nepal-India have been favored. In course of Branch Expansion in the Border City of Nepal-India, the first city Brach out side Kathmandu was established at Adarsha Nagar, Birgunj on 2052/08/01 (17.11.1995).

1.4.2 Financial Resources:

Nepal SBI Bank Limited is a Joint Venture Bank registered on 2050/01/16 by the Department of Industry, HMG/N under the Company Act 2021 and commercial Act 2031. The authorized capital of the bank is RS 1000 million. It is divided into Ten million ordinary shares of RS hundred each.

A. Total Number of shares allotted:

8745278.4 ordinary shares of Rs. 100/- each,

B. Number of fully paid up and partly up shares from among the allotted shares:

i) Fully paid up shares

8745278.4 ordinary shares of Rs. 100/- each,

C. The manner in which shares were allotted:

The shares were allotted in terms of the provision made in Article 5.2 memorandum of association and section 2.3 of Articles of Association of Nepal SBI Bank Limited and in accordance with the decisions of the board of Directors in their meeting held on the 17th September 1993.

As per Article and Memorandum of the bank, the capital structure is as under:

Authorized capital 10000000 shares of Rs. 100/- each.

= Rs 1,000,000,000/-

Issued capital 877500000 shares of Rs. 100/- each.

= Rs. 877500000

Share holding pattern of the bank:

a) State Bank of India & its four Nominees 50%

= 4387500

b) Karmachari Sanchaya Kosh (EPF) 15% share

= 1316250

c) Agricultural Development Bank 5% share

= 438750

d) General Public 30% share

= 2632500

State Bank of India, Employee Provident Fund, Agricultural Development Bank of Nepal and the general Nepalese have fully paid up their shares in the issued capitals. Nepal SBI Bank Limited commenced its operations on the 8th July 1993 from Durbar Marg Premises of the Bank, which is its banking office and main branch also.

The Bank accepts savings, current and fixed deposits, extends credit facilities by the way of term loan and working capital and extends L/C facilities, Bank Guarantee facilities etc.

Its Paid-up capital reached up to RS. 478.5 million Whereas its total deposits reached up to RS 13715.355 million in the fiscal year 206465 Total loan and advances reached up to Rs.12746.216 million in the same fiscal year.

1.4.3. Functions (Areas) of Nepal SBI Bank Limited:

Since its establishment this bank has been giving all commercial banking facilities like Nepal Bank Limited, Rastriya Banijya Bank, Nepal Arab (Nabil) Bank Limited, Nepal Grindlays (Standard Chartered) Bank Limited and etc. It performs almost all kind of commercial banking operations inclusive of the most modern ones. The fund based activities include short-term as well as long-term loans covering purchases like export credit, import LC, industrial loan, commercial loan, priority sector credit, working capital loan, term loan, higher purchase, lease financing, overdraft and loan against fixed deposit receipts, HMG bond and guarantees including cash credit. With respect to non-financing activities, the bank issue guarantees (Besides providing forward covering, foreign exchange transactions, partially for import payments). Even today, who makes plan to travel India used to take SBI Rupee Traveler's Cheques from Nepal SBI Bank Limited. Indians take it (Indian Rupee Traveler's Cheques) as cash equivalent.

1.4.4. Operational Aspect of Nepal SBI Bank Limited:

Nepal SBI Bank Limited a Joint venture with. State Bank of India has been well operating since its establishment. It covered a remarkable market share, among the financial institutions, with in a short period. It is the fifth bank as Joint Venture in Nepal. Now, there are more than 13 commercial banks including eleven Joint Venture Banks. However, the market share for the banks is nearly the same as of past 7 to 8 years, the tendency of emergence of commercial banks is increasing. It clearly states that the competition among banks are increasing day by day. Here also, the Darwin's theorem perhaps will be applied ... "The struggle for existence and the fittest will only survive". The cutthroat competitions among banks to banks and to financial

companies will lead the financial sector a highly risky sector. Besides these, some Joint Venture Banks are well operating since its establishment.

While we write or talk about Nepal SBI Bank, we should know about its history. As we, know it is the fifth bank as joint venture form in Nepal, the date of its establishment is 23rd of Asadh2050.

Until the date of this study Nepal SBI Bank Ltd. has many branches and extension counters, and very shortly new branch is going to be opened. In different place of country.

The Branches of Nepal SBI Bank Limited are listed below:

1. Baglung branch, Baglung
2. Bhairawa Branch, Bhairawa
3. Bhaktapur Branch, Bhaktapur
4. Bharatiya Gorkha (Extension Counter)
5. Biratnagar Branch- Morang- Biratnagar
6. Birtamod branch, Birtamod, Jhapa
7. Bouddha branch, Kathmandu
8. Butwal Branch, Butwal
9. CGI extension counter, Kathmandu
10. Damauli branch, Damauli
11. Dhang branch, Dhang
12. Dharan Branch – Dharan
13. Durbarmarg branch, Kathmandu
14. Embassy of India (extension counter)
15. Gongbu branch, Kathmandu

16. Gulmi branch, Gulmi
17. Hethauda branch, Chitwan
18. Ilam branch, Ilam
19. Ithari branch, Ithari
20. Janakpur Branch, Janakpur
21. kalanki branch, Kathmandu
22. Maharaj gunj branch, Kathmandu
23. Narayanghat brach, Chitwan
24. Nepalgunj branch, Nepalgunj
25. Newbaneswor branch, Kathmandu
26. Newroad (Dhakwa) branch, Dharan
27. Palpa branch, Palpa
28. Patan branch, Patan
29. Pokhara branch, Pokhara
30. PPO Dharan
31. PPO branch, Pokhara
32. Shiswa branch, Shiswa
33. Surket branch, Birendranagar
34. Rampur Rural Branch- Rampur- Bara
35. Teku branch, Kathmandu

The extension counters are:

1. Indian Embassy- Lazimpat. Kathmandu

2. Pension Payment Office- Pokhara

3. Dharan Extension Counter- Dharan

Nepal SBI Bank Limited is being giving all shorts of commercial banking facilities to its customers. Such as: it accepts deposits from customers and such accumulated deposits are used to lend to the borrowers. Not only it provides the lending and deposits collection facilities, it also facilitate to its customers by the means of Letter of Credits, Guarantees, collection of outward as well as inward bills. Customers are taking facility of local clearing with out charge. Nepal SBI Bank Limited has the broad network with all over India as it is the joint venture bank with State Bank of India and the parent bank has about 12 thousand branches in India only. Its network is also linked with rests of the world. In India, the State Bank of India has launched its own credit card (SBI Card) recently.

Issue and payment of Demand Drafts drawn to and from India is its main service. This bank, not only give service of money transfer to and from India by the means of Demand Drafts, it also issue SBI Rupee Travelers' Cheques. SBI Rupee Traveler's' Cheque is as good as cash but better to carry with than cash because of big denominated cheques.

The facilities of money transfer which is giving by the bank by the means of:

- A. Demand Drafts.
- B. Traveler's' Cheques
- C. Fax Transfer
- D. Telex Transfer
- E. ATM etc.

Are being provided to its customers by Nepal SBI Bank Limited.

1.5 OBJECTIVE OF THE STUDY:

The general objective of the study is to appraise Nepal SBI Bank Ltd. The application of comprehensive profit planning system and specific aims are given below:

- To identify the Profit Planning process adopted by Nepal SBI Bank Ltd.
- To sketch the trend of profit and loss.
- To evaluate the variance between target and actual performance.
- To recommend the steps to be taken to improve the Profit Planning Process.

1.6 IMPORTANT OF THE STUDY

- It forces management to considers expected future trends and conditions with proper analysis of adequate and appropriate historical data.
- It tends to move the cloud of uncertainty that exists in many organization.
- It measure efficiency & inefficiency in attaining enterprises objective.
- If forces early consideration of basis policy and management to give adequate attention to the effort to general business condition.
- It increase efficiency and productivity of employees by seeking meaningful participation in the establishment of goals and objective and plans bringing harmony between individual and the enterprises objectives by providing incentive to perform more efficiently and effectively.
- It helps to co-ordinate integrate and balance the effort of various department in the light of overall objective of the corporation.
- It instills into managers the habit of evaluating carefully their problem and related variables before making any decisions.

1.7 STATEMENT OF THE PROBLEM:

The economic prosperity of Nation depends upon the development of industries and commerce of the country. The banking sector plays a vital role in the development of the industries and commerce. The banking sector can be termed as a booster of economic development.

The government owned banks such as Nepal Bank Ltd., Rastriya Banijya Bank and Agricultural Development Bank have been contributing towards the overall development of the country but lack in efficient management of resources i.e human and -monetary resources. This has led to the establishment of joint venture banks in Nepal such as Nabil Bank, Indosuez (now Investment) Bank, Standard Chartered Bank and Nepal SBI Bank Ltd. In order to overcome the drawbacks of government owned banks such as over staffing which subsequently lead to higher operational cost thus making a negative impact on the profit.

When management plans its profit performance that is known as profit planning. "The term comprehensive profit planning and control may be broadly defined a systematic and formalized approach for accomplishing the planning, coordination and control responsibilities of management". The paramount consideration in business is profit without which no business can sustain. "Usually profits do not just happen. Profit are managed." A business firm is an organization designed to make profit and the profit are the primary measures of its success, social criteria of business performance usually relate to quality of the desirability of the whole profit system. "Planning deals with the activities that will take place in future. But the planners do not know with certainty the conditions. Which exists in future when the activity will take place? Therefore planning involves the making of assumptions regarding the future, this is forecasting. Profit planning can be evaluated by budgeting. Cost Volume Profit analysis, ratio analysis and cash flow statement analysis.

The present study will try to analyze and examine the profit planning side of Nepal SBI Bank Ltd. In regards to issue such as:

1. Whether Nepal SBI Bank has developed and applied short range and long range objectives for the company.
2. A system of periodic performance report detailed by assigned responsibilities is in practice or not.
3. Have the bank developed a follow up procedures on non performing assets?
4. Is tactical short range profit plan detailed by assigned responsibility (divisions, departments and projects)

5. Does the bank have specific goals?
6. Is there any effective communication within the various levels in the organization with continuous feedback and responsibility accounting?
7. What are the major problems faced by the bank in developing and implementing profit plan?
8. What steps should be taken to improve the profit planning of the bank.

1.8 SCOPE AND LIMITATION OF THE STUDY

The study is confined to the budgeting and profits of Nepal SBI Bank Ltd. The following factors have limited the scope of the study.

Analysis is concentrated on some managerial, financial and accounting aspects of the bank. It doesn't cover other aspects of the bank.

The comprehensiveness and the accuracy of the study is based on the data available from the management of Nepal SBI Bank and the response made by respondents on the research questionnaire.

The study is mainly focused on short-term profit planning. The reason behind it is that the initial conversation made by the authority Nepal SBI Bank, it has been known that the bank normally does not prepare long-range profit plan.

1.9. SCHEME OF THE STUDY

Chapter 1: Introduction

Chapter 2: Review of Literature and Conceptual Framework

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CHAPTER-II

RIVEW OF LITERATURE AND CONCEPTUAL FRAME WORK

2.1. THEORETICAL CONCEPTS

The paramount consideration in business is profit without it there can not be any business. “ usually profit do not happen .Profit are managed before we can make an intelligent approach to the managerial process of profit planning it is important that we understand the management concept of profit” . a business firm is an organization designed to make profit and profit are the primary measures of its success, social criteria of business performance usually relate to quality of the desirability of the whole profit system within which that system profit are the valid test of the individual firms performance.

Economic theories on profit may be put in there broad group, the first looks up an profit as the reward for bearing risk and uncertainties, the second views profit as the consequence of friction and imperfection in the competitive adjustment of the economic to dynamic change, the third sees.

No company can survive long without profit, for profit is the ultimate measure of its effectiveness and in a capitalists society there is no future of a private enterprise which always incurs losses. The survival measures of the effective performance of a business is profit, which really is a measure of how well a business performs economically. Profit is a signal for the allocation of resource of a business in view of the heavy investment, which is necessary for the success of most enterprises. Profit in the accounting sense tends to become a long range objective, which measure not only the success of a product but also for the development of the market for it.

2.1.2 Planning

In simple terms planning is deciding advance about what to do, when to do and how to do, something. Planning is a two phase activity, consists of deciding upon objectives and determining strategies. It is the essence of management and all the function are perform within the framework of planning is one of the frontiers better management.

“Three major function of management are planning, execution and control and these are the key elements of the management process. Business management must plant o its activities is in advance carryout the plan and institute appropriate technique of observation and reporting to insure that deviation from plan are properly analyzed and handled” “ planning deals with activities that will take place in future. But planners do not know with certainty the condition, which exists in the future when the activity will take place. Therefore planning involves the making of assumption regarding the future, this is forecasting.”

“As an inherent aspect of management, planning is the part of all business endeavors. A company or one of its unit is engaged in planning when ever it sets on objective to be achieved in the future”. Management has to have a plan of action as means of protection profit. Planning cannot of course guarantee, profit in all circumstance, but it can provide safeguards. Better planning is one of the printers of better management.

Management planning and control begins with the establishment of the fundamental objective of the organization and continues, as the process by which necessary resources are provided and employed efficiently towards achievement of the goal. Planning is the first function of management process. It is performed continuously because the passage of time demands both re-planning and making new plans. Management planning is the process of developing enterprise objectives and selecting a future course of action to accomplish them. It includes:

1. Establishing enterprise objectives and goals.
2. Developing preemies about the environment in which they are to accomplish.
3. Selecting a course of action for accomplishing the objectives.
4. Initiating activities necessary to translate plans into action.
5. Current re-planning to correct current deficiencies.

The management planning provides the basis for performing the four other functions of management organizing, staffing, leading and controlling.

A management planning and control system proved the comprehensive framework within which this process is carried out. Such a system encompasses all aspects of an

organizations operation. A fundamental purpose of management planning is to provide each manager with guidelines for making operational decisions on day today basis. Planning is no simple task and until a form acquires experience in formulized planning the objectives may be vague and indeterminate and any planning based on them could be misdirected planning procedures can never be fully effective. These are linked with responsibility for performance. By the means of planning process than one can determine what he is going to do and how is going to do it.

Planning is of rational way a systematic way of parceling how business, industrial or any organization will get where it should go by examining future alternative courses of action open to any organization and choosing them. In choosing most feasible current decision. In this process planning examines the evolving chains of courses and effect likely to result in the future and respectively, exploit or combat them as the case may be.

Planning doesn't illuminate risk, it minimize it. It can not predict the future with accuracy or prevent mistakes, but it can reduce the number and magnitude of surprise and can provide contingency plans for the occurrence of both favorable and unfavorable situations.

2.13 Strategic, Long range, Tactical and Corporate Planning.

In practice many organization do not make a clear distinction between strategic planning and corporate planning but their lies a fundamentals distinction in terms of time and nature decisions. Corporate objectives and decisions are concerned with short, medium and long range time while strategic decisions are concerned with long issue affecting the whole organization. So strategic planning is considered as a constituent of corporate planning. Strategic planning is long range on it's time perspective and complete in it's breadth of scope and depth of penetration.

Long range plans are usually from two to five years in length. Sometimes they are detailed and sometimes are not. Very often corporate planning is concerned with long range planning and it is interchangeable used. Corporate planning is concerned with objective determination and developing means to achieve objectives. It may encompass both short range as well as long range plans depending on the requirement capabilities of organization. "Corporate planning is concerned with all the factors.

Certainly all major factors that can influence the success of the business. It is concerned with policy objectives organization, methods and procedures and the other considerations that stem from them, e.g. standards of performance and controls.”

Corporate planning determines long range goal of a company as a whole in order to achieve them, functional plans are made probable change in the environment in view, corporate planning thus in action oriented and concerned with long terms goal, they can not be obtained without a forecast whose purpose is to anticipate the future base on factors forms the forecasts one knows that one has to aim achieve, that is the formulated the objectives and than determines that means which must be orchestrated in order to achieve objectives. Corporate therefore seems to be the technique for action now for ensuring the goal.

S. Bhattacharya makes a fair distinction between corporate planning and tactical planning (operational planning) could be on the basis of following attributes.

- a) Corporate planning is comprehensive and embraces long and short terms where as technical planning is fragmentary and tends to concentrate on short term basis.
- b) Corporate planning is systematic which covers the whole planning process logically and sequentially, where as tactical planning is ad-hoc which tends to work according to a timetable based.
- c) Corporate planning is formal in which the thinking process, the assumptions and the reasons are set down in writing and figure where as tactical planning is informal often no more than ideas.

According to the period covered by the planning can be broadly divided into two parts, which are strategic long term planning or corporate planning and short term (tactical) planning. The distinction between strategic and tactical planning is related to three dimensions, which are outlined as follows:

Classification	Dimensions		
	Time	Scope of entity	orientation
Strategic	Long term	Board views of activities	Objectives of goals.
Tactical	Short term	Detail view of activities	Means to achieve goals.

“Since the description for each of the three dimensions is in relative terms, there are some arbitrary distinctions. Generally, strategic planning is views as planning beyond one year, deals with the broad sub-divisions of the entity and focuses on objectives and goals that extent over the long term. Planning rests upon the belief that the future state of an entity can be enhanced by continuous management actions. If presupposes that an entity can be more successful, in terms of board objective because of planned management decision that it can if there were no planned intervention by the management. On the basis that management of an entity, during the planning process should engage in three different types of projections as follows:

1. A Reference projection:

An attempt to specify what the future of the entity would be if nothing new is done.

2). A wishful projection:

A specification for the “hope and dreams” tots the futures state of the entity.

3). A planned projection:

A specification of how closely the entity can attain the wishful projection realistically.

The planned projection tends to be realistic compromise between the reference and wishful projection.

Therefore planning should start with a reference projection, coupled with a wishful projection and conclude with a planning that represents the management plan. Management planning is a continuous process as opposed to a periodic endeavor, since a planned projection can never be considered as the final and ultimate product. It must be revised as condition change and new information becomes available.

From another new point management planning may be approached with complete informality at one extreme, or with complete formality at the other extreme. The formal plans are properly structured and are expressed in written forms. Formal planning is certainly better than informal planning. It should be realized that too much over formalization is also dangerous. Therefore a reasonable balance should be struck between the formal and informal planning.

Planning decisions are interdependent and must be partitioned in conformity with the operational or organizational sub-division of the entity. Therefore planning flow the lines of authority and responsibility in the enterprise. The sub-division means that there is a subset of planning for each manager of the entity from the highest to the lowest management levels.

The task of planning the enterprise activities involves the identification of relevant variable i.e. controllable and non-controllable. The controllable variables are influenced by management and can be controlled and manipulated to the best advantage of the enterprise. The non-controllable on the other hand are amendable to management control. The direction and magnitude of these non-controllable variables can however, be anticipated to maximize their unfavorable effects. For non-controllable variables are necessary. In many situations, the non-controllable variables significantly influences the controllable variables, ignoring them can thus render planning meaningless.

“The planning function should vary in scope and intensity with the level of management. Top management has a much broader planning responsibility than lower management and yet each level of management should have definite planning responsibility.”

2.1.4 Planning Vs forecasting

Forecasting and planning are not the same things. A forecast is predication of future event, condition or situation where as plans includes a program of intended future events/action and desired result, “Forecasting predicts the future events in such a way that the planning process can be performed more accurately. Forecasting is our best thinking about what will happens to us in future, in forecasting we define situation and recognize problems and opportunities. In planning we develops our objectives in practical detail and we correspondingly develop schemes of action to achieve these objectives.

Planning can be performed under conditions of certainly, uncertainly or ignorance about the future, it is in those situations involving uncertainly forecasting provides the

maximum help to planners when certainty exists, forecasting doesn't require, when there is ignorance, the most that forecasting can do provide some clues about future possibilities in many organizations the major purpose of forecasting is to reduce uncertainty and minimize ignorance. Because both forecasting and the future activities, it is important to integrate these two functions within the organization. Knowledge of forecasting techniques is of little value, unless they can be effectively applied in the organization planning process.

A simple definition might be that a forecast is a prediction of future event condition or situation, whereas a plan includes a program of intended future action and desired results. A forecast is not a plan; rather it is a statement of future condition about a particular subject. A forecast should always state the assumptions upon which it is based and it is only input into the development of plans. Actually forecasting is usually as important part of the total planning procedures.

2.1.5 Profit Planning:

When management plans its profit performance that is known as profit planning. "The term comprehensive profit planning and control may be broadly defined as a systematic and formalized approach for accomplishing the planning coordination and control responsibilities of management." Comprehensive profit planning and control is a new term in the literature of business. Though it is a new term it is not a new concept in the management, the other terms, which can be used in same context, are comprehensive budgeting, managerial budgeting and simply budgeting. The profit planning and control model involves:

1. The development and application of broad and long range objectives for the enterprise.
2. The specification of enterprise goals.
3. Development of a strategic long-range profit plans in board terms.
4. Specification of a tactical short-range profit plans detailed by assigned responsibility (division, department and project).

5. A system of periodic performance reports detailed by assigned responsibility and
6. Development of follow-up procedures.

Profit plans as an estimation and predetermination of revenue and expenses that estimates the planning divisions of management. "Profit planning through cost-volume profit analysis, however is a modern concept of management planning, a tool designed primarily for industrial enterprise. It involves a study of what a business cost expenses should be will be at different level of operations and it includes a study of the resultant effect up on profit due to this changing relationship between volume and cost." Profit planning is a part of overall planning focus and in area in which the finance functions play a major role. Profit planning is well thought out operational plan with its financial implications expressed of both long and short profits plans and budgets in the form of financial implications expressed both long and short profits plans in the budgets in the form of financial statements, including balance sheets, income statement and working capital/cash projections modern profit planning encourage desirable action and recognize the divisional and departmental autonomy and responsibility of managers, motivating them to strive for attainment of their personal objectives in congruence with the organization objectives.

Profit planning and control is a management technique, in far it is a way of managing. It directly depends upon the rational and systematic approach of management by objectives and realistic flexibility in performing the management process, it is the only comprehensive approach to managing so far developed that, if utilized with sophistication and good judgment, fully recognize the dominate role of the manager and provides a frame work for implementing such fundamentals aspects of scientific management as management by objectives, effective communication, participate management, dynamic control, continuous feedback, responsibility accounting, management by exception and managerial flexibility.

The profit planning and control is used for the development and acceptance objectives and goals. It approaches the total system concept that integrates all the functional and operational aspects of enterprise. Comprehensive profit planning and control does have a unique relationship to the accounting in the following respects:-

1. Accounting provides inputs of historical data, which are particularly for analytical purpose in the development of enterprise plan.
2. The financial component of a profit plan generally is structured in an accounting format.
3. Actual data utilized in the measurement of performance are provided in large measured by the accounting format.

Profit planning and control is not a separate technique that can be thought of and operated independently of the total management process, rather the board concept of profit planning and control entails an integration of numerous managerial approaches and techniques that can be exploited, the foundation for profit planning and control the management must have absolute confidence in its ability to establish realistic objectives and to devise efficient strategies to attain those objectives for the enterprises.

“Profit planning and control viewed as the more important approach that has been developed to facilitate effective performance of the management process, there are three most relevant aspects of the PPC concept.

1. PPC requires major planning decisions by management.
2. PPC entails pervasive management control activities and
3. PPC recognizes many of the critical behavioral implications throughout the organization.

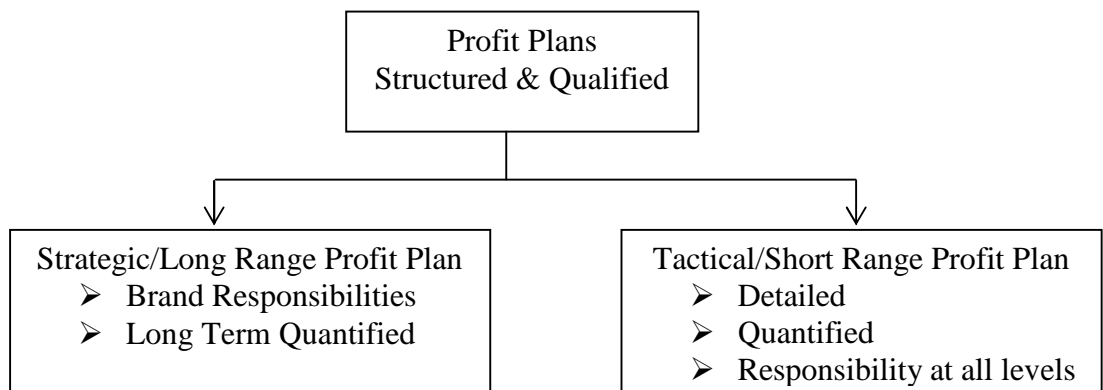
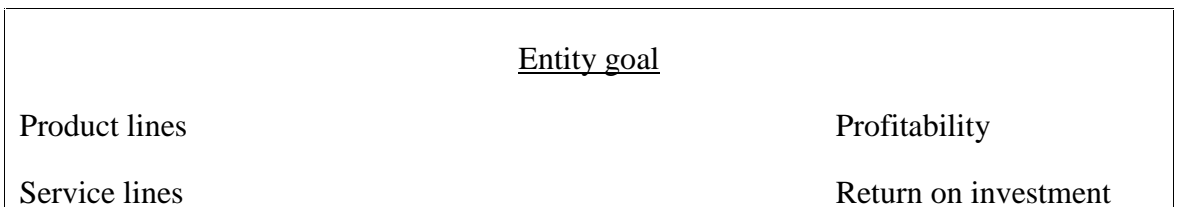
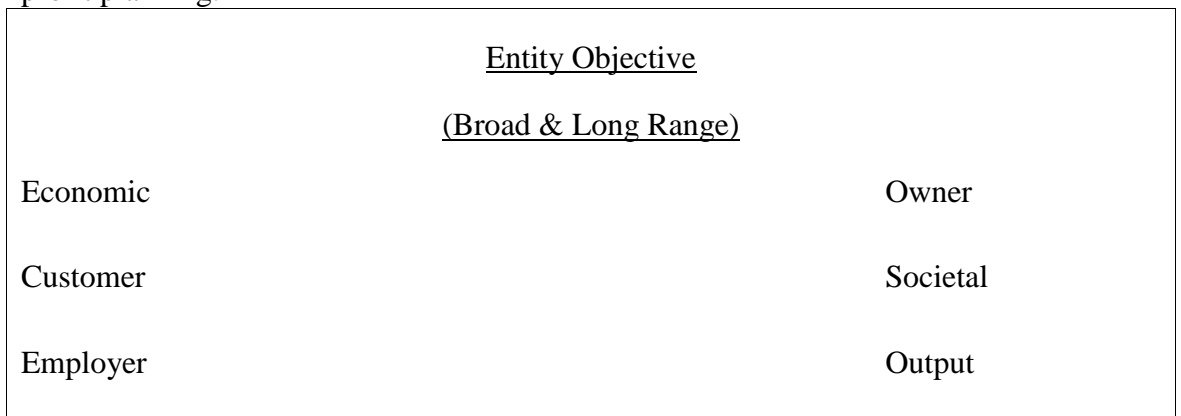
2.1.6 Profit planning and control

Profit planning is the final process in a comprehensive planning network. Business planning doesn't operate within any determined time limit but is conditioned by the particular requirements of a company's profit planning to ensure that it meets the financial requirements of management in terms of sales, profitability and growth, the annual profit plan is changed with the taste of realizing the profit potential created by strategic planning.

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

- a). Establishing the objectives.
- b). Determining the broad objective or goals.
- c). Developing strategies.
- d). formulating profit plans.

Following figure presents a conceptual view of the linkage between planning and profit planning:



2.1.7 Long-Range Vs Short Range Profit Plans:

“Two concurrent profit plans typically are developed one ‘strategic’ (long range) and one “tactical” (short range). The strategic profit plan is broad and is usually encompass three or more years in the future. The tactical profit plan are detailed and encompass a one-year in the horizon the up coming year. The development of strategic and tactical profit plan is a process that involves managerial decisions and ideally, a high level of managerial participation.”

Both of profit plans include monetary expectations (i.e. goals) for assets liability profit and return on investment. The foundation for the strategic profit plan (usually extending three or four or less years in future) includes the objectives, broad goals, planning premises and strategies of the enterprises as developed of top management. The tactical profit plan can actually be viewed as first year of the strategic profit plant. It is detailed plan for the enterprise and for each of its responsibilities centers.

Preparation for long range profit plans in addition with short range profit plans is also viewed as total planning concepts of business. For most companies long term planning in addition to annual budgetary planning it is essential to maintain the profit plan at consistently good or improving level. The ultimate measures of the success of a business is generally based on growth in the volume of sales increasing returns on capital investments, efficient organization and these are all long terms conditions. The total planning concept generally embraces the following sub-divisions.

- Strategic long-terms planning.
- Operational Planning.
- Annual Planning.

2.1.8 Problems and limitations of Profit Planning and Control:

Profit planning and control is not full proof, it suffer fro certain problems and limitations. The major problems in developing profit plan are as follows:

1. Seeking the support and involvement of all levels of management.
2. Developing meaningful forecasts and plans.

3. Establishing realistic objectives and standards.
4. Developing management sophistication in its application.
5. Adequate communication of the attitude. Policies and guidelines by higher level of managements.
6. Attuning managerial flexibility in application of the system.
7. Maintaining effective follow up procedures and adopting the budgeting system whenever the circumstances changes.

Management must consider the following limitations in using the profit planning and control system as a device to solve managerial problems

1. 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 extent on the accuracy with which the basic estimates are made. Therefore estimates should be made on the basis of all the facts available. The accurate can be made by using correct and modify statistical technique and management.

2. Based on Rigidity:

Profit planning and control is an estimation and quantities expression of all relevant data. So there can be the tendency to attach some sort of rigidity or finality of them. But rigidity makes the PPC useless, the PPC must be flexible. Various techniques must be tried, improved or discarded and replaced with others. In other words, PPC program must be dynamic in every sense of the word.

3. Application For Long Period:

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

4. Execution is not automatic:

A skillfully prepared PPC will not itself improve the management of an enterprise unless

It is properly implemented. For the success of PPC it is essential that it is understood by all the related persons inside the enterprise. It is very much required that each executive must feel the responsibility and should make efforts to attain the budget goals.

5. Not a Substitute for management:

PPC is not a substitute for the management. It is totally wrong to think the introduction of PPC is alone sufficient to ensure success and to guarantee future profits. It is only achieving the end.

6. Costly affairs:

The installation of a PPC system is an elaborate process involving too much time and costs.

7. Proper evaluation:

For finding out of the deficiencies proper evaluation should be made. In the absence of proper evaluation budgeting will hide inefficiencies. So there should be continuous evaluation of the actual performance, standard also should be reexamined regularly.

8. Lower morale and productivity

By setting unrealistic targets and using PPC as a pressure tactic, it will lower morale and productivity.

2.2 PRINCIPLE AND PURPOSE OF PROFIT PLANNING AND CONTROL.

A comprehensive profit planning and controlling is a systematic and formalized approach for stating and communicating the firm's expectations and accomplishing management in such a way as to maximize the use of profit plan is to achieve the maximum benefit from the resources available to an organization over a particular span of time. PPC is to assist in systematic planning and in controlling the operations of the enterprise. In fact it is the best source of communication and an important tool in the hands of management.

The main principles and purpose of profit planning are as follows:

1. To provide a realistic estimate of income and expenses for a period and of the financial position at the close of the period, detailed by areas of management responsibility.
2. To provide a coordinated plan of action, which is designed to achieve the estimates, reflected in the budget.
3. To provide a comparison of actual results with those budgeted and an analysis and interpretation of deviations by the areas of responsibility to indicate courses of corrective actions and to lead to improvement in procedures in building future plans.
4. To provide a guide for management decisions in adjusting plans and objectives as uncontrollable conditions change.
5. To provide ready basis for making forecast during the budget period to guide management in making day to day decisions.

2.3 DEVELOPMENT OF PROFIT PLAN THROUGH FUNCTIONAL BUDGETS:

Profit plans are developed with the help of functional budgets. But before *going* to this process we have to have a general knowledge about budgeting, it's purpose. procedures and the concept of functional budgets.

“A budget should not be more projections of figures and it should represent future management policy. The first step is to determine the key factor and the second step is to finalize the top management policy. This will include new products, new markets. and selling prices, profit earned, desired profit, labour policy, capital expenditure. working capital management and issue of share and debentures. On the basis of key factor, current performance and top management policy, a series of functional budgets is formulated in terms of quantities and money values.”

Every business organization has to carry three major functions. VIC manufacturing. administrative and selling during each year. The ultimate results of these functions are expected to be net profit. According to the basis of functional classification there are various functional budget that includes sales budget, material consumption's budget. materials purchase budget, direct labour budget, overhead budget (manufacturing.

administrative, selling and distribution). Plant utilization budget etc. process of preparing functional budget as follows:

- Demand estimation
- Analysis and estimation of the company's capacity to produce and sell
- Preparation of sales budget
- Preparation of other functional budget and finance budget.

After preparing the functional budget the combined result of this budget may be net profit or loss. A master budget is a summary of functional budget and thus, it shows the overall budget plan and profit and losses during the budget period. A master budget consists of mainly two statements in the case of service sector:

- Budgeted and profit/loss account
- Balance Sheet

Generally, budgets are quantitative and financial expression of plans that are they allocate resources to activities. Budgets give managers the resources needed to implement plans in their areas of work responsibility. They also become a foundation for exercising management control over how well resources are utilized to accomplish those plans. In any organization you can well expect to find that.”

- a. Budgets are started in monetary terms :- Resources are allocated in scientific monetary amount even though they may be tied to predominance targets stated in non-monetary amounts (e.g. units sold or produced)
- b. Budgets contains an element of management commitment :- Managers agree to accept the responsibility for attaining the budgeted objectives.
- c. Budgets are based on proposals :-Those proposals are usually reviewed and approved by some one in higher authority than the person is or unit to which the budgets apply.
- d. Budgets can be changed only under specific conditions Budget are plans that can be modified only after a formal review and approval by higher authority.

A budget can be regarded as primarily a plan of goal or objective and we know of no better definition of budgeting than to say it is primarily a planning and control system and this planning and control aspect of budgeting is related with the fundamentals of

the management process, planning execution and control budgeting is a system since this implies a continuous process through out the year.

2.4 BUDGETING AS TOOLS FOR PROFIT PLANNING AND CONTROL

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

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

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

1. Setting the objectives
2. Specify the goals
3. Laying down the strategies
4. Preparation of budgets and profit plans

“Budgeting means deciding or estimating in advance the course of action to achieve a particular target or objectives in a given period of time along with the numerical expression of the inputs required the outputs expected’.” A budget is a quantitative expression of a plan of action and an aid to coordination and implementation. Budgets may be formulated for the organization as whole or for any sub-unit. Budgeting includes, budget programs are designed to carry out a variety of function planning performance evaluating, coordinating activities and implementing plans. communicating, motivating and authorizing actions.

“A budget is a realistic statement of income and cost objective for a year. It is a plan against which the exsuring actual performance is compared to achieve control by detecting and correcting off standards performance.³ A Budget is a detailed. quantitative plan to guide its operations in the planning. organizing and controlling all the financial operating activities of the firms in the forthcoming period”

“Thus the primary purpose of budgeting is profit planning and control and in this connection it is concerned with every aspect and every aspect and every activity of a business. The essence of accurate budgeting is to be close to the events and for this reason it is unusual to operate through an annual budget as the ideal project. There is the further aspect that the performance of companies is judged, by the annual accounts and it follows that management should focus its profit aims on the same period. There are two distinct stage of budgeting first the formulation of the plan and the means of achieving them and second the translation of these plans into financial terms and preparing a profit budget and balance sheet.

The first stage is generally a function of line management and the second is an accounting function.

2.5 HUMAN DIMENSION IN BUDGETING:

The human factors in budgeting are more important than the accounting techniques. The success of a budgetary system depends upon its acceptance by the company members who are affected by the budgets”. Whether or not a profit lower management personnel accept plan will be reflection of

1. The degree to which top management accepts, the budget program is vital part of the companies activities and
2. The way in which top management uses budgeted data. If a budget program is to be a successful it must have the complete acceptance and support of the person who occupy key management positions. If lower or middle management personnel sense that top management is lukewarm about budgeting or if they sense that top management simply tolerates budgeting as a necessary evil then their own attitudes will reflect a similar lack of enthusiasm. Budgeting is hard work and if top management is not enthusiastic about and committed to the budget program, then it is unlikely that anyone else in the organization will be either

'Budget place managers in the spot light. The natural reaction to restriction to criticism and to control is resistance and self-defence. The job of education and selling is overwhelmingly important here. Too many department heads think that budgets represents a penny pinching, negative brand of managerial pressure. To them the word budget is about as popular as say. lack. off strike or pay decrease. Ideally company personnel should understand and accept the role a budgets as positive vehicles for company improvement. The budget is not a heinous means of squeezing the last drop of sweat out of employees. Properly used, it is simply a systematic tool for establishing standard of performance, for providing motivation, for gauging results. and for helping management advanced towards its objectives. The budget technique in itself is free of emotion; its administration however is often packed with trouble. The budget's major role is to communicate the various motivations basically already exist among the management personnel, so that everybody sees, understand and coordinates the goals, means and drives of the organization

Management must keep clearly in mind that human dimensions in budgeting are of key importance. It is easy for the manager to become preoccupied with the technical aspects of the budget program to the exclusion of the human aspects. Accountants are particularly open to criticism in this regard. Indeed the study cited earlier found that use of budget data in a rigid and inflexible manner was the greatest single complaint of persons whose performance was being evaluate, through the budget process. In light of these factors, management should remember that the purpose of the budget are to motivate employees and to coordinate efforts, preoccupation with the amount. (NPR)

in the budget or being rigid and inflexible in budget administration can only lead to frustration of these purpose

2.6 FUNDAMENTAL DISTINCTIONS OF PROFIT PLANNING & CONTROL

Will established and a well understood profit planning and control leads an organization to ultimate success. But a failure to grasp these concepts leads to choose for a business.

So just to understand this concept better, consideration should be given to following points:

1. The mechanism of planning and control:

Mechanism of the profits planning includes the matter related with design of budget schedules, clerical, methods of crrijpleting such schedules and routines computation and checks of such schedules.

2. The Techniques of profit planning and control:

Techniques are special approaches and methods of developing information for managerial use in the decision making process. Those approaches like forecasting sales volume, a frequent application operation research, (approaches in resolving the sales-production inventory problems) break even analysis, resource, determinants (Such as the discounted cash flow approach) cash flow analysis and variable budget procedures which can be developed and used for managerial decision making process are known as techniques.

3. The fundamental of profit planning and control:

The fundamental concern in effective implementation of the management process in reasonable .complex endeavors. The fundamentals, as we define them at this point. represent desirable management orientation activities and approaches necessary for proficient and sophisticated application of comprehensive profit planning and control.

These fundamentals need to be established on a sound foundation of managerial commitment. The more important fundamentals are:

- Managerial
- involvement and commitment

- Organizational accounting
- Responsibility accounting
- Full communication
- Realistic expectation
- Timeliness
- Flexible application
- Individual and group recognition
- Follow-up

2.7. AN OUTLINE OF THE FUNDAMENTAL CONCEPT OF PPC

Welsch, Hilton and Gordon viewed that the fundamental concept of PPC includes underlying activities or tasks that must generally be carried out to attain maximum usefulness from PPC. An outline of the fundamental concepts usually identified with PPC is given below.

- a) A management process that includes planning organizing staffing leading and controlling.
- b) A management commitment to effective management participation by all levels in the entity.
- c) An organization structures that clearly specific assignment authority and responsibility at all organization levels.
- d) A management planning process.
- e) A management control process.
- f) A Continuous and consistent coordination all the management levels! functions.
- g) Continuous fed forward, feedback, follow-up and re-planning through defined communication channel (both downwards and upwards).
- h) A strategic (long-range) profit plan.
- i) A tactical (short -range) profit plan
- j) A responsibility accounting systems.
- k) A continuous of the expectations principle
- l) A behavioral management program.

2.7.1 Managerial involvement and Commitment

Managerial involvement entails managerial support, confidence, participation and performance orientation. All levels of management especially top management should engage itself to comprehensive profit planning and control, top management must :-

1. Understand nature and characteristics of PPC.
2. Be convinced that this particular approach to managing is preferable for their situation.
3. Be willing to devote the effort required to make it operative.
4. Support the program in all its ramifications.
5. Views the results of the planning process a performance commitments.

Involvement in PPC means to understand, to select, to devote us to support by its entire department and to evaluate the performance of the profit planning and control. For PPC the direction should come from top and the implementation level should follow it in to. It is therefore one of the most difficult problems of the financial executive or the budget director is to 'sell' the idea of budgeting to the Managing Director and other top officials.

Managerial involvement and commitment in PPC program is directly related to the confidence of top management and its capability to plan the future course of action and run the enterprises successfully. Managerial involvement also deals with the idea of direct participation of the lower staff on the program. But one should not forget the fact that ultimate decision should come from the top level and the ideas of protect on self should be totally controlled. The line executives generally prepare profit plans but top management has the responsibility of coordinating budgets of different departments and approving them finally. Modern concept of PPC program or budgeting has emphasized an managerial involvement due to the fact that modern

budgeting believes on performance expectatior rather than on 'fiscal expectations' because modern business believes on the principal of attaining set objectives or goals rather *than* earning short run monetary profit.

2.7.2 ORGANIZATIONAL ADAPTATION

Success of the PPC program rest upon the sound organizational structure and also on a clear cut designation of the line of authority responsibility of all departments of an enterprise. Authorities and responsibilities of each manager should be clearly identified and great role in the organization. So, it is advisable to clarify well coordinate all round responsibility and authority of and between the departments; an enterprise may have a formally defined organization structure.

For easy and effective control' sometime the organizational structures are divided into defective functional sub-units and each unit chief are assigned with specific responsibilities. These sub sub-units are known as decision centers or responsibility centers or responsibility centers. Sometimes these responsibility centers are used to be in form of a division or departments or a seals district. But in most of cases these centers are used to be a functional like:

1. Cost Center

Which is only responsible for controllable cost incurred in the sub-unit but not responsible for profit or investment.

2. Profit Center:

Is the responsibility center, which is responsible for both revenue and cost and hence profit.

3. Investment Center:

A responsibility center, which is responsible for cost revenue, cost (profit) and the amount of resources invested in the assets.

Apart from functional sub-division or organizational structure something includes the assignment of managerial authority relationship and responsibilities also. Organizational structure must be viewed not as an end in itself but a managerial tool for accomplishing the enterprise objectives. So to attain' the set goal or adjective of comprehensive profit plan and control program set up must be favourable in nature and all the functional sub-units have to participate actively. Based upon the set organizational structure the annual sales plans and programs are prepared. To prepare the plan or set objectives

1. Top management should furnish the information about the objectives planning assumption to the managers of all functional sub-units.
2. Based upon the information furnished to them sub units prepare the annual profit plan followed by sales and production plan.
3. The manager of each sub-unit presents his segment of the profit plan to the top management for critical review evaluation and suggested revisions.
4. After reviewing and evaluating the plan

2.7.3 Responsibility Accounting:

Planning is done with the help of historical data supplied by accounting section and control is done by comparing actual data with planned data. So for this reason accounting system of any enterprises should be build around responsibility structure of organization or around functional sub-units. This is called responsibility accounting. A responsibilities accounting system is primarily oriented towards the organizational responsibility and is a means to achieve effective control. Within this primary accounting structure, secondary classification of costs, revenues and other relevant financial data may be used to meet the enterprise needs.

As It's orient cost accounting was given emphasis only on costing of goods produced. But now a day situation has changed and it is given more attention on cost planning them only to costing. This changed and it is given more attention on cost planning than only to costing. This changed in priority is based upon the responsibility accounting principle and principle of product cost has been given secondary importance. At first cost data generated from historical cost accounting are used for cost planning and control purpose the same cost data are used for costing purpose.

Comparisons between planned and actual results are not effective if the parameter of costs and revenues used in the profit plan are not in harmony. So for evaluation purpose and for accounting purpose each of the responsibility center have to prepare chart accounting parameters to be used for planning purpose and have to supply it with full instructions to respective unit them only main objective of the responsibility accounting can be fulfilled.

2.7.4 Full Communication

Communication can be defined as interchange of thought or information to bring about a mutual understanding between two or more parties. Communication can be either of dialogue combination or words symbols, messages or understanding from working together. All communications involve a sender, a message and a receiver. Managerial decisions and leadership are actuated by communication, the means by which behavior is affected, modified and energized. There must be three primary flow of information in an entity; down-ward, up-ward and lateral in the organization.

In many organizations, ineffective communication is the root cause of many negative attitudes. Some of the main barriers of effective communication are the badly expressed message, faulty translation, inappropriate transmission means, attention of the receiver, in classified distrust of the communicator and premature evaluation.

A profit planning and control can be one of the more effective communication networks in an enterprise. Communication for effective planning and control requires the both executive and subordinate have the same understanding of responsibilities and goals. Profit plans, if developed through full participation and in harmony with assigned responsibilities ensure a degree of understanding not other wise possible.

2.7.5 Realistic Expectations

Profit planning and control must be based on realistic approach or estimation. Management not takes either optimism or unnecessary conservatism. Perfection on setting goals or objectives of the future sales, production levels, costs, capital structures, cash flows, and so on determine the success of profit planning and control program. For profit planning and control purpose. enterprise objective and specific budget goal should represent realistic expectations. So far profit planning and control purpose. a realistic approach reared with time dimension and external internal environment that will prevail during the time span should be considered. This is called realistic expectations.

Before preparing comprehensive PPC program management have to take a good care that the goal an objectives which is going to be determined neither should be too low

nor should be too high but should be attainable with high level of efficiency because goal set very low will destroy motivation as it does not require no special effort and goals set high will discourage the implement as it would not be attained with existing of the units. But the goals, which will be of challenging nature, will of real value and will keep the organization alert which is the main objective of the realistic expectation.

2.7.6 Time Dimension in PPC

The problem of manager in one hand is to accomplish the planned activities in a given time and other hand is to accomplish the plan itself. Phasing of the planning is of two types ,one of them is (a) Timing of planning horizon and (b) Timing of planning activities.

Planning horizons is the time for which the planning is done or we can call it life span of the plan. For any enterprise there may be many planning horizons to maintain the continuity of planning activities reflects the managerial planning. In other words, managerial decisions, which reflect planning activities always used to have effects on the future activities only. It doesn't use to have any effects on present or past. Major decisions should be made on the basis of adequate supporting stud, analysis, evaluation and consolation.

For effective implementation of planning, management of an enterprise must establish a definite time dimension for certain types of decision. For each activities related with planning would be given definite time for implementation followed by other activities, which is called planning activities. form the viewpoint of time dimension, manager should maintain clear but distinction between historical and futuristic consideration. Because the result derived from historical activities also plan can be of two types :- periodic and project plan, classifying managerial into these two categories focuses on the characteristics of managerial planning and differing related needs. Project planning meets the specific requirement for an enterprise with in certain time limits. For example :- installation of plant ad machinery, construction of plan building forecasting of sales are the project plans which completes with the

accomplishment have said activities. to be accomplished with in a certain given time. Sometimes periodic plans include many project plans and vice -versa.

Evaluation of the project plan is done on the basis of degree of activities, where as the periodic plan needs evaluation on the basis of calendar year month and days, for periodic plans, periodic reports are prepared on the basis of the same necessary amendments on planned activities will be done if needed.

Periodic planning directly represents a cross sectional focus by time an income determination and periodic performance. periodic plans are of two categories tactical or short range and strategic or long range. For the concept of comprehensive PPC a systematic approach be applied to integrate tactical plan with strategically plan.

2.7.7 Flexible Application

Profit planning and control program or any other managerial tools must be flexible, not rigid because these are techniques of only not end of the management itself. Because the main aim or end of the management is to utilize the resources in most effective way and earn high return on investment and for this purpose comprehensive profit planning and control or other techniques are used as means only.

Unlike budget, which imposes rigidity on any activity and puts constraint on the decision making freedom to managers, profit planning and control program permits freedom to all managers. This is possible in profit planning because in the course of preparation profit planning and control program all level of managers are involved and hence top level management will have privilege to make necessary decisions and delegate more responsibilities to the managers .This position gives more to unit managers, the power of making favorable decision. In such a situation the profit plan place management in the position of being able to access, on a more objective basis, the soundness of contemplated decision. Profit planning and control approach also use to have place for such unanticipated event and adjustment for the same.

To, cost control also, the principle of flexibility is especially important. Expenses and cost budgets must not be used and interpreted rigid. The budget must not prevent the making of rational decisions in respect to expenses merely because expenditure was

not expected. Variable expenses budgets are frequently employed to meet one of the problem of cost control arising from a change in circumstances.

Finally it can be said that for profit planning and control purpose budget should not regarded as "straight jackal" and for management purpose the profit planning and control approach should not be regarded as the constraints for management to seize the opportunities which is going to most beneficial for the enterprises in long term.

2.7.8 Individual and Group Recognition/ Behavioral view- point

Behavioral aspect of human being are the field of study of the psychologist, educators and speculations which has to be considered by and efficient manager. A good and dynamic leadership can resolve there problems by integrating all the groups efforts for profit planning and controls approach and a focus has been given to resolve the behavioral problem.

Goals orientation is the characteristics of ambitions and completed individuals who are normally involved in management process. A goal, which has been identified for an individual, can enhance such persons to intensify their performance. Do motivate men there should be a good harmony between their personnel interest and organizational interest and goal have to be identified accordingly. More than monetary benefit personnel satisfaction from the works counts a lot for the competent people. so it will be much more fruitful for an enterprise to pursue all the persons to formulate the plan and set the goals and policies before asking them to implement if because a realistic goals established through meaningful participation tends to raise aspiration level of the entire management of the firm. The PPC provides a means to resolve largely the goal orientation problem in an enterprise.

Finally of relevant study conducted by industrial psychologist has described about the effect of pressure on human behavioral. Pressure up to moderate limit is needed to pursue , the working staff to work but excess pressure will have negative effects. The comprehensive PPC

approach has been developed on this principle. In some of the traditional enterprise budget and personnel management technique were applied as a means of pressure on the working group and used to have notion that even under comprehensive PPC

program also pressure is needed it has given importance realistic participation and decision-making rather than imposition of thought principal.

Another aspects of behavioral recognition is the individual recognition of the world should be carefully done. The system of recognizing the efficient work if a manger should be done and individual manager and identification of an efficient manager should be done and should be rewarded. Because the dignity of an individual is important in the management process. Profit planning and control entails placing a high degree of responsibility on the individual manager. It entails a procedure for careful evaluation of the planning capabilities of the manager and with the help of the performance report and other observation careful study of his work should be done. Thus the profit planning and control approach establishes a basis for some process it is likely that those with high competence will soon be noticed and those with low competence will be identified. Due to lack of understanding between the working group of the program and its operation, effect of program them, and expectations of over pressure, and disagreement with planning and control approach. But a careful management has to tackle this problem very carefully and have to divert the attention of the workers in positive way.

2.7.9 Follow up

The importance of follow-up action on comprehensive profit planning and control approach is much for. Follow-up action after a careful study is need to:-

- Correct the action of sub-standard performance in constructive manner.
- To recognize and transfer the knowledge of outstanding performance to others.
- Can the basis of study evaluation to provide a sound basis for further comprehensive PPC program.

2.7.10 Management control using PPC

Control may be defined simply as the action necessary to assure that objective plants policies and standards are being attained control has many facts such as direct observation, oral expression, narrative memoranda, policies, procedures, report of actual result and performance report. A comprehensive PPC program aids control in

many ways-underlying planned objectives goals and the reporting of that measurement in what is commonly is referred to as a performance reports. That measurement and report extends to all areas of operations and to all responsibility centers in the enterprise. From this point of view methodology involve reporting (1) actual results, (2) planned results and (3) the different between the two variance.

2.7.11 Activity costing

Responsibility accounting system generally accumulates costs by department, and product-costing systems associates cost with unit of product or service. Organizations also frequently find it useful to associates costs well activities. By decomposing an organization production process into a discrete set of activities and then associating cost with each of those activities, management is in a better position to determine the costs with of those activities and management will be in better position to determine the costs and benefits of continuing the activities. Moreover by systematically identifying the activities throughout the organization, managers can identify redundant activities. Some managers have found to their surprise, that the some activity was being done in a dozen of different places in the company. An activity cost analysis can assist managers in eliminating redundant activities, eliminating activities that are not cost-benefit and achieving greater coordination among the activities remain.

2.7.12 zero Base Budgeting

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

2.7.13 Application of the Expectation Principle

Measurement of actual performance against planned objectives, goals and standards and the reporting of the measurement is performance reports. This type of reporting represents an effective application of the well organized management, exception principle. The exception principle holds that the manager should concentrate primarily on the exception organization usual items that appear in daily, weekly and monthly reports, thereby leaving sufficient management time for overall policy and planning considerations. It is the "out of line" items that need immediate managerial attention to determine the cause and to take corrective action. Comparison with the actual result of period is insufficient for the following reasons:

Reorganization, different accounting classification, prior period performance may have been unsatisfactory, the profit planning and control approach makes it possible for management to feel the pulse of the enterprise throughout the year and to know specifically where it is satisfactory or unsatisfactory progress towards the company's objective goals.

2.7.14 Coordination Using PPC

Coordination is the synchronization of individual actions with the result that each subdivision of an entity effectively works toward the common objectives, with due regard for all other sub-division and within the enterprise objectives is one of the central tasks of management, since it involves a reorganization of effort policies and allocation of resource. When a department head is permitted to expand activities of his company, then the lack of coordination can be emphasized and his department which has a negative effect for other departments. Sales, department and production department closely related sales should not plan to sell than production department can provide and vice-versa.

Fundamentally, coordination is attained through effective performance of the management functions; coordination involves the interpersonal relationships of people in the work situation as they exchange views, technical expertise, gossip and attitudes. When managers at all levels understand how their particular function contributes to the overall enterprise objectives, a basis foundation for coordination is established.

2.8 Establishing the foundation for PPC

For successful implementation of profit planning and control program, it is necessary to establishing a sound foundation. For this enterprise should take certain steps which are as follows:

- Commitments by the top management to the proud concept of PPC and a sophisticated understanding of its implementations and operations.
- Identification and evaluation of the controllable and non-controllable variables of the environment and the characteristics of the enterprise.
- Evaluation of the organizational structure and assignment of managerial responsibilities and implementation of changes demand necessary for effective planning and control.
- Evolution and recognition of the accounting system to ensure hat it is a tailored to the organizational responsibilities.
- A policy determination must be made in respect to the time dimension to be used for PPC purpose.
- Development of budget education program to inform management at all levels about (a) the purpose of the program (b) the manner in which it will operate, (c) the responsibility of each level of management, (d) the way of program which can facilitate the performance of each manager's functions.

2.9 THE PROFIT PLANNING AND CONTROL PROCESS

Overview of the PPC Process

Management Functions	Sequential phase of the process	Primary Responsibility
Planning	1) External relevant variables, identify and evaluate	Primary Responsibility
	2) Broad objectives of the business: develop organization revise	
	3) Specific enterprise goals: development consistent with items above	
	4) Enterprise strategies: specify major thrusts to attain the object and goals.	
	5) Executive management planning institutions:- specify planning premises for managers (based on items 1-4 above)	
	6) Project plans :- develops and evaluates for each project	Middle Management

Leading	7) Strategic profit plan: develop for 3	
	8) Strategic profit plan:- develop for upcoming year	
	9) Implementation of profit plans:- implement throughout the year	
Controlling	10) Performance reports:- prepare monthly reports by responsibility	All management levels
	11) Follow-up :- provide feedback, take corrective action and re-plan.	

2.10 COMPONENTS OF PPC PROGRAM

A PP Cprogram should have its entire component that is required to fulfill the objectives and goals.

A PPC program for a particularly year are outlined as follows"

- A. The Substantive Plan :
1. Broad objectives of the enterprise.
 2. Specific enterprise goals.
 3. Enterprise strategies
 4. Executive managerial planning instructions.
- B. The financial plans
- (a) Strategic Long range profit plan
- 1) Sales, cost and profit projection.
 - 2) Major projects capital addition.
 - 3) Cash flow and financing
 - 4) Personnel requirements
- (b) Tactical short-range profit plans
- 1) Operating plans

Planned income statement,

Sales Plan

Production/merchandise plan

Administrative expense budget

Distribution expenses budget

- 2) Financial position plan

Planned balance sheet

Assets

Liabilities

Owner's equity

Cash flow plan

- (c) Variable expenses budget:- output expenses formulas
- (d) Supplementary data : (e.g. cost-volume-profit analysis ratio)
- (e) Performance Reports:- Each month end as needed
- (f) Follow-up corrective action, and re- planning reports.

2.11 PROCESS OF PPC

Profit Planning and Control process outlines the sequential phases that management must perform from the development of objectives for the business through control corrective action and re-planning, consistent between the processes and component of PPC is vital. The PPC process typically is repeated each budget year. The strategic long-range profit plan covers a five year time span and the tactical short-range profit plan encompasses one year planning period. Assume that the formula PPC program is repeated on an annual basis.-Thus the entire basic steps in the planning phase reviewed and evaluated annually. In a particular year some of the components such as the broad objectives of the enterprise. may not be changed in any major respects. when other components may be completed revised for the upcoming year. The following eleven steps are the sequential phases of the PPC process.

1. Identification and Evaluation of External Variables

The relevant variables can be classified as external (uncontrollable) and internal (controllable) variables. The variable identification phase of the PPC process focuses in (I) identifying and (II) evaluating the effects of the external variable, management planning focus on how to manipulate controllable variables. But for the non-controllable variables management planning focus on take to the advantage of their potential favorable impacts and to minimize their potential unfavorable impacts of the organization. By relevant variable we obviously imply those that have a direct and significant impact on the enterprise. Planning must necessarily start with an objectives and realistic understanding of the present status of the products, price, service, markets, profits, return on investment, employees, cash flow, availability of capital, productive capabilities etc. planning without the proper evaluation, the

enterprise weakness and strength at present will be unworthy because the capacity of the enterprise for the future activities cannot be anticipated as well.

2. Development of the Broad Objectives of the Enterprise .

On the basis of realistic evaluation of the relevant variable of the enterprise and an assessment of the strength and weakness of the enterprise, executive management is in a position to special the broad objectives of the enterprise. The statement of broad objectives should express the mission, vision and ethnical character of the enterprise. Its purpose is to provide enterprise identity, continuity of the purpose and definition. The purpose of the statement of objectives can be summarized as follows:

- To identify the purpose of the company.
- To clarify the philosophy character of the company
- To create a particular climatic within the business.
- To set down a guide for manage so that decisions they make will reflect the best interact of the business with fairness and justice to those concerned.

The statement of broad objectives normally should not specify quantitative goals; rather it should be a narrative expression of the purpose.

3. Development of Specific Goals for the Enterprise

The purpose of the goal phase' of the PPC process is to bring objectives into sharp focus aid to move from the realm of genera' information of more specific information. It provides both narrative and quantitative goals that are definite and measurable. The statement of specific goals should define such operational goals as expansion organization contraction of product and service lines, geographical areas share of the market by major product service lines, growth trends, production goal profit margin and ROI. These specific goals enlarge measure quantified and expressed (specified) for each major subdivision of the enterprises. Executive management develops measurable goals in area of operation critical to long run success of the enterprise. These goals must represent realistic goals a appraised to more hopes organization guesses.

4. Development and Evaluation of Enterprise Strategies

Enterprise strategies are the basic thrust, ways and tactics that will be used to attain planned object and goals. A particular strategy may be short term organization long term. The purpose of developing and disseminating the enterprise strategy should – express how the goal could be achieved. In the Development of basic strategies for the enterprise, executive management must focus on identification of critical areas that influence the long run success of the enterprise. They are generally with financial performance, market effectiveness, productivity improvement, internal strengths. financial and physical resources, public acceptance and product and service quality. The executive management must be involved continuously in the development of new strategy in the adoption of current ongoing strategies in harmony with the relevant variables which management must cope.

5. Preparation of Planning Premises:

This phase involve communication of the substantive plan to middle and lower management levels, it explains the broad objectives, enterprise goals, enterprise strategies and any other executive management instruction needed to develop the strategic and tactical profits plans. It also is called the statement of planning premises organization the statement of planning guidelines.

When the objectives of the periodic plans are developed the executive management should provide with the certain instructions and guidelines to the lower level management in order to develop the lower level management in order to develop the profit plan of other responsibility centers. It is simply a communication step from executive management to the lower level of management.

6. Preparation and Evaluation of Project Plans

Project plans encompass variables time horizons since each project, has a unique time dimension and each project is considered and planned as separate unit. The project once approved by the top management then must be fitted into strategic and tactical profit plans. Project plans encompass such items as plans for improvement of present products, news and expanded physical facilities, entrance into new industries, exist from product and industries, new technologies and other major activities. In addition to any ongoing projects, management should encourage continuing basis

project proposals from any source within the enterprise. Consistent with this approach, during the formal planning cycle, management must evaluate and decide upon the plan status of each project in process and select any new projects to be initiated during time dimension coverage by the upcoming strategic and tactical profit plans. Preparation and evaluation of current and future plans are essential a formal basis.

7. Development and Approval of Strategic and Tactical Profit Plans:

When the managers of the various responsibility centers in the enterprise receive the executive management planning instructions and project plans, they can begin intensive activities to develop their strategic and tactical profit plans. The strategic long-range plan and the tactical short-range plans are usually developed concurrently. It is possible that executive management will develop the strategic and tactical profit plans, but it doesn't involve the full participation of middle and lower management, which can cause unfavorable behavioral effects. Assuming participatory planning and receipt of the executive management instructions, the managers of each responsibility center will immediately initiate activities within his organization her responsibility center to develop a strategic and tactical profit plan. Certain formula and procedural instructions should be provided by a centralized source. After development of two profit plans, the approval process must be initiated. This process involves approval disapproval and revision. Based on either (a) action by executive management (b) presentation and justification. Each member of the executive management group would have been provided a copy of the center's plans to study before the final presentation. The manager of each responsibility center should be given the opportunity to make complete presentation of the plans and to use members of his or her staff and line people in this meeting. From these discussions some revision of the plans may occur or alternatively. The plans may be considered sound in every major respect.

After this process is completed for each major responsibility center and all relevant differences are resolved, various plans and programs from the several major responsibility centers are then combined into overall strategy and tactical profit plans for enterprise whole. When the two profit plans for the overall enterprise is

completed. executive management should subject to entire planning package to a careful analysis and evaluation to determine whether the overall plans are the most realistic set that can be developed under circumstances. When this part is reached, the two profit plans should be formally approved by the top executive and distributed to the appropriate managers.

8. Implementation of Profit Plans:

Implementation of management plans involves the management function of directing subordinates in the attainment of enterprise objectives and goals. Communication is an important aspect of direction. Thus effective management act all levels requires the enterprise objectives, goal strategies and the policies be keenly appreciated and understood by subordinates. Comprehensive PPC may aid in performing his function. Objectives and goals should be realistic and attainable and they should present a real challenge to the overall enterprise. The plans should have been developed with managerial communication that they are going to be met organization exceeded in all major respects. If these principles are followed then various executives and supervisor clearly understand their responsibilities and the expected level of performance.

After distribution of the profit plans, a sense of profit plan conference should be scheduled for each level of management. The chief executives should meet initially with the other top executives to discuss implementation and action in conformance with the objectives and goals as specified in the profit plans. Similar conference is conducted at all management levels. These conferences are conducted at all management levels. These conference sense to induce profit consciousness, performance orientation, aggressive yet flexible application of the plans deal with broader spectrum of the management process and developed to the manner in which anticipated events and problems will be handled at the several management level. Profit plans cannot manage the business and that they must not sense to constrain management in taking advantage of opportunities, even those not anticipated in the profit plans.

9. Use of Periodic Performance Report:

The implementation of plan require the timely performance report to be prepared and forwarded by separate organizational sub-unit. The control also relates to the

performance reports. A clear distribution must be made between external and internal financial reports. Interest reports further classified by (I) statistical reports (ii) special managerial report (iii) periodic performance reports, the latter reports focus on dynamic and continuous control tailored to the assigned managerial responsibilities. These reports are primarily be repetitive, short-term report developed for each of the responsibility centers, and short term performance reporting is essential for effective control.

10. Use of Flexible Experience Budgets:

The flexible expense budget is also referred to as the variable budget sliding scale budget. expenses control budget and formulate budget. It is completely separate from the profit plan but it is used to complement it. Flexible expenses gives realistic information about expenses that make it possible to compute budget amounts for various output volumes organization rates organization activity in each responsibility course. It provides a formula that gives the relationship of each expense to output in the center. Each formula induces a constant expenses factor and variable expense rate.

In case of fixed expense the variable rate is zero. The constant factor is zero and in the case of variable expense there is a value for both constant factor and variable rate. Expense of department must be classified into one of three categories fixed expenses. variable expenses and semi-variable organization semi-fixed expenses. Flexible expense budget formulae can be used in two phase of the PPC process. It is used in performance control reports and developing the tactical profit plans.

11. Implementation of follow-up:

Follow up is an important part of effective control and re-planning. Because performance reports are based on assigned responsible. they are the basis for effective follow up actions. The performance variations are affects (the results). The management must determine the underlying causes. Analysis to determine the underlying causes of both favorable and unfavorable performance should be given immediate priority. In the unfavorable performance should be given immediate priority. In the unfavorable performance after identifying the basis causes is opposed to the results, and having selected what appears to the most fruitful alternative for corrective action. the manager must initiates implementation. In addition, a special

type of follow-up procedure should be implemented continuously. It should be designed to (i) determine the effectiveness of the prior corrective actions, and (ii) provide a basis to improve future planning and control procedure.

2.12 BUDGETING FOR SHORT RANGE MASTER BUDGET IN SERVICE SECTOR

.A Administrative Expenses Budget

" Administrative expenses include operational costs. They are occurred in the responsibility centers that provides supervision of and service to all functions of the enterprise, rather than in the performance of any one function. Because a large portion of administrative expenses are fixed rather than variable. This signed persists that they cannot be controlled. General administrative expenses are close to top management therefore there is a strong tendency to overlook their magnitude and effects on profit. Each administrative expenses identified with a responsibility center that centers manager should be responsible for planning and controlling expenses. Many companies have found it helpful to apply fixed variable expenses concept to administrative expenses. It is also remarkable that a bare budgeted administrative expenses on specific plans and programs. Past experience, adjusted for anticipated change in management policy and general economics condition is helpful. Because most of administrative expenses are fixed and an analysis of the historical records will after provide a sound bases for budgeting them".

B. CAPITAL EXPENDITURE BUDGET

Capital expenditures often called capital budgeting which is the process of planning and controlling the strategies (long term) and tactical (short term) expenditures for expansion and contraction of investments in operating (fixed) assets. A capital expenditure is the uses of funds to obtained operational assets that will (a) help earn future revenues organization (b) reduce future costs, capital expenditures includes such fixed (operational) assets as property plant, equipment, major renovations and potential. Typically capital expenditure projects involve large amounts of cash other expenditures are investments because they require the commitment of goods and services are being used to earn higher future revenues organization to achieve future cost wrought. Capital budgeting is the making of ion term planning decisions for

investments and their financing capital budgeting then consists in planning the development of the available capital for the purpose of maximizing the term profitability of the firm. Capital budgeting involves the generation of investment proposals, the evaluation of cash flow, the selection of project based upon acceptance criterion, and finally continual revaluation of investment projects after their acceptance. The investment decisions are commonly known as capital budgeting. capital budgeting means planning for capital expenditure in acquisition of capital assets uh as new building, new machinery or a new project as a whole. Thus capital budgeting Involves following steps:

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

The budget of capital expenditure is include in the short range profit plan presents that specific portion of the strategic long range capital additions plans that will materialize during the upcoming year. Capital expenditures are for (a) major improvements and maintenance and (b) minor or small capital expenditures that should initially recorded as assets because they help generate future revenues. The capital expenditure budget includes a strategic plan and a tactical plan for (a) the major capital expenditures project and (b) a blanket appropriation for the minor or small expenditures.

The following features of capital budgeting may be outlined:

- a) Potentially large anticipated benefit
- b) A relatively high degree of risk.
- c) A relating long time period between the initial outlay and the anticipated return.

“The top executive, working with the other members of executive management has the primary responsibility for the capital additions budget. However, the primary responsibility for projects and other proposals should include divisional and department manager”

There are three stages of capital budgeting proposal generation. analysis and implementation.

The important steps involved in capital budgeting process are (a) project generation, (b) project selection. Welch, Hilton and Gordon have suggested the following process for planning and controlling capital expenditure”

Component (Activity)

Phase I : Identify and generate capital additions, projects and other needs.

Phase II : Develop and redefine capital addition proposals.

Phase III : Analyze and evaluate all capital additions, proposals and alternatives.

Phase IV : Main capital expenditure decisions to accept the best alternatives and the assignment of project designations to selected alternatives.

Phase V : Develop the capital expenditure budget.

a) Strategic Plan

Re-plan and extend the long-term plan by drop point the past year and adding one year into the future.

b) Tactical Plan

Develop a detailed annual capital expenditures budget by responsibility center and by time. that is consistent with the comprehensive profit plan.

Phase VI: Establish control of capital expenditures during the budget year by using periodic and special performance reports by responsibility center.

Phase VII: Conduct post completion audits and follow up evaluations of the actual results from capital expenditures in periods after completion.

The primary problems in developing a capital expenditures budget are: -

(a) Identification, analysis and evaluation of all relevant capital expenditure alternatives and (b) based on investment worth, selection of the best alternative.

Capital expenditure involve two kinds of assets a) depreciable assets and (b) non-depreciable assets such as lands capital expenditures decision situation may be divided into three types: a) certainty, b) risk and c) uncertainty.

“The essence capital budgeting analysis is in comparing the benefits that occur over a period of time with the amount invested. This comparison is made with a view to judging organization not the benefits are at least high as the amount invested.

2.13 Evaluation of Investment Decisions.

Traditionally there are several methods used to measure the capital investment decision. Welsch, Twiton and Gordon described the basic approaches used to measure such decisions.

- A. Discounted cash flow method and
- B. Short cut simple methods.

A. Discounted Cash Flow Method

The discounted cash flow methods recognize the time value of money and in that way measure economic value or investment worth as a true interest rate. There are two discounted cash flow methods widely utilized (i) net present value and (ii) internal rate of return. They both focus on the two fundamental concepts of present value cash flow :

(i) Net Present Value:

The net present value method compares the present value of the net cash inflows with the present value of the initial net cash cost of capital expenditures project the amount difference between these two present value -is called net present values. The net cash inflows are discounted to present value by using a “target organization minimum rate of return”. Therefore this method requires determination of three interims for a

projects initial cash outflow, future cash inflows and a target rate of return. The formula to net present value is:

$$NPV = \sum_{t=0}^n \frac{At^{-t}}{(1+K)^t}$$

Where,

K = cost of capital or target rate of return.

C = initial cash outlays or cost of the investment proposals.

T= No of years

A = Expected cash inflows

N = Expected life of the proposals.

Accept the investment project if its net present value is positive organization equal to zero and to reject if the net present value is negative.

(ii) Internal Rate of Return

The internal rate of return is the rate that will discount all the future net cash inflows so that their discounted sum (total present values) will exactly equal the initial outflows (cash cost) of the investment in the project.

Formula

$$C = A_1 + A_2 + A_3 + \dots + A_n$$

$$(1+r) + (1+r)^2 + (1+r)^3 + \dots + (1+r)^n$$

Where C = initial cash outlays

R= rate of interest

n = number of years of project

A₁, A₂, A₃, A_n etc = expected future cash inflow at the end of year 1,2,3 and so on.

If IRR is equal to or more than the required rate of return, the proposal can be accepted.

B. Shortcut and simple method

There are mainly two types of methods used to measure investment worth.

(i) The Payback Period.

This method computes the payback period, which is the number of years that it takes to recoup a cash investment from the annual net cash inflows from the investment. The formula is :

$$\text{Payback Period in years} = \frac{\text{Net Cash Investment}}{\text{Annual net cash inflow from investment}}$$

The project, which gives the shortest payback period, is to be selected.

(ii) The average rate of return of total investment method.

This method represents the ratio of average annual profit to the investment in projects.

The formula is

$$\text{Average cash return on total cash} = \frac{\text{Average annual net cash investment}}{\text{Cash outflow of investment}}$$

2.14 Cash Budget or Plan

The planned statement of cash flows (cash budget) is necessarily prepared near the end of the annual planning cycle along with the planned income statement and balance sheet. The cash plan organization budget is prepared from the previously completed budget such as the sales, materials, labor, overhead and capital expenditure budget. Thus preparing the cash plan organization budget primarily involves two activities (a) combining all the planned cash inflows and outflows and (b) making decisions about interim financing, in case of cash shortages and interim investing in case of excess of cash.

Cash Budgeting involves projection of cash inflows; outflows and financing needs coupled with cash control. A comprehensive profit planning and control program establishes the foundation for a realistic cash budget. Cash budget shows the planned cash inflows, outflow and ending position by interim periods for a specific time span. Most companies should develop both long term and short term plans about their cash flows. A cash budget basically includes two parts (1) the planned cash receipts

(inflows) and (2) the planned beginning and ending cash position for the budget period and this will indicate (i) the need of financing probable cash deficits or (ii) the need for investments planning to put excess cash to profitable use. The cash budget focuses exclusively on the amounts and timing of cash inflows. The primary purposes of the cash budgets are:

1. Give the probable cash position at the end of each period.
2. Identify cash excess organization shortage by time periods.
3. Establish the need for financing and or the availability of idle cash for investment.
4. Coordinate cash with (i) total working capital, (ii) sales revenues. (iii) expenses and (iv) investments and liabilities
5. Establishing a sound basis for continues monitoring of the cash position.

Preparation of the cash budget should be the responsibility of the company treasurer. the cash budget is a forecast of expected cash receipts and payments for a future period. Cash forecast precedes a cash budget. The cash budget consists of three parts (I) estimates of cash receipts (ii) estimates of cash disbursements and (iii) cash balances each month of budget period. Cash budget is also called as cash flow statement, which indicates the expected cash inflow, and cash outflow. It doesn't include depreciation and other non- cash expenses. Non actual items are included in the cash budget.⁷⁴ a cash budget is a summary statement of the firms expected cash inflows and outflows over a projected time period. Cash budget may be done daily, weekly organization monthly basis. The period and frequency of cash budget generally depends upon the size of the firm and philosophy of management.

The cash budget can be prepared by using either (a) the cash receipt and cash disbursements approach organization (b) the financial accounting approach. The cash receipts and disbursements approach basically involves the use of detailed data from the budgeted cash account. Financial statement approach starts with net income (accrual basis), which is adjusted to a cash basis to compute cash flow from continuing operations. The remaining cash sources and uses must be determined by using data from various budgets already prepared. The cash receipts and disbursements approach is usually used for the tactical short-term plan because it provides more details. The financial statement method is usually used for broad analysis of the cash position and for strategic long range planning.

Planning the cash flows of a company should include consideration of how' to improve cash flow. Improving cash flow basically involves increasing the amount of available cash on a day to day basis to accomplish this objectives the management should focus on.

1. The cash collection process to speed up cash collection.
2. The cash payment process to slow downs the payments.
3. The investment policies for the immediate investment of idle cash balance to maximize interest earning.

2.15. Other Sub-Budgets Required For Completion of the Profit Plan

In planning process includes a long-range profit plan and a short-term profit plan. In developing these plans. many budget schedules are prepared to detail plan for each phase of a company's operations. The final step in the planning process is to complete the profit plan by combining the component schedules and preparing planned financial establishment. Planned statements of financial position. income and cash flows are prepared in order to determine the implications of the company's plans for its future financial condition. When the company prepares its planned income statement. the planned cash flows then the process of developing annual profit plan ends. This statement is the summary and integration of all functional budgets. To complete the annual profit plan of an enterprise the following sub budget requires:

- Planned income statement
- Planned statement of cash flows
- Planned Balance sheet

At this point in profit planning, the budget director has an important responsibility. Aside from designing and improving the overall system, the budget director has an advisor to the various manager to help develop plans for each responsibility center the completed profit plan is variously referred to as the profit plan, the planning budget, the plan master budget, the forecast budget, the financial budget, the operating plan organization the plan of operations.

Achieving Budgeting Control or Control Process of the Profit Plan

Planning facilitates control. Good budgets like special types of plans have the potential to help managers effectively fulfill their controlling responsibilities. Achieving budgetary control however requires budgets that are both well prepared and well utilized. Two areas of attention are of special management significance in this regard. 1. Organizing for budgetary control. 2. Characteristics of effective budgetary control systems.

2.15.1 Organizing for budgeting control

“The administration ‘of an organization’s budgetary control system often involves the participation of a separate budget department staffed by specialists and headed by a budget director. In addition to the budget department, which serves as formal staff unit an organization may have a budget committee consisting of top management including the chief financial officer or budget director. This committee typically reviews, approves, disapproves or adjusts each component of master budget. In addition to approving initial budgets, budget director or committees are responsible for approving changes in budgets”

2.15.2 Characteristics of Effective Budgetary Control Systems.

"Successfully budgetary controls share the following characteristics, they are”

- Based on information
- Simple and understandable
- Prompt and oriented to expectation
- Flexible
- Based on controllable factors
- Fair and objective
- Positive and conducive to self control

2.15.3 Performance Reports

‘Performance reporting is an important part of comprehensive profit planning and control system. The performance reporting phase of comprehensive PPC program significantly influences the extent to which the organizations planned goals and objectives are attained’⁷⁸. The performance reports should be prepared periodically

generally. On a monthly basis and occasionally generally, on weekly or daily basis for each responsibility center. starting with those at the lowest level, which in turn is compiled into summary report for each higher level. Periodic performance reports are prepared for each responsibility are distributed monthly basis and follow a standardize format. Such reports are designed to facilitate internal control by management. Fundamentally, actual results of reports are compared with goals and budget plans. Frequently they identify problems that require special attention since these report are prepared to pin point both efficient and inefficient performance. These reports serve to motivate managers to perform in conformity with expected actions. Moreover they signal upper management when operations are not proceeding according to the plans.

The main objectives of performance reports in the communication of performance measurements, actual and the related variances. In addition to control implications, performance reports after management is essential insights into all facts of operational efficiencies. Performance reports pose critical behavioral problems because inefficiencies as well as efficiencies of individual are pin pointed and reported. Therefore certain criteria must be developed in designing performance reports i.e performance reports should be.

1. Tailored to the organizational structure and locus of controllably (that is by responsibility centers)
2. Designed to implement the management by exception principle.
3. Repetitive and related to short term periods.
4. Adapted to implement the management by exception principle.
5. Simple, understandable and report only essential information.
6. Accurate and designed to pinpoint significant distinctions.
7. Prepared and presented promptly
8. Constructive intones.

“Performance report must clearly distinguish between controllable and non-controllable items. Performance measurement requires that actual results be compared with plans, objectives and standards. So that differences call management attention to high low and satisfactory performance variances from plans, identify for managers the areas that need investigation and possible action. Management action may be corrective commendatory”

The extent to which the various managers utilize their performance reports depends upon many factors, some behavioral and some technical. One important factor is the extent to which the performance reports are the same as the measurement and decision-making needs of the users. In designing and preparation of performance reports, keep in mind that the report is to serve a user rather than the report maker. Titles and headings of performance reports should be descriptive, column, heading and side captions should clearly identify the data and technical jargon should be avoided. Reports should not be too long, complex tabulation should be avoided. Reports should carefully be screened to eliminate all nonessential information. Performance reports should be standardized. Reports must be kept relevant. Minimizing the time gap between the decision and report is another important aspect of performance reports. If an unfavorable situation continues before correction, the greater the financial loss to the company and it is more significant to the supervisor at the time they occur. Similarly, management follow-up procedures are also equally important. When performance reports give the favorable and unfavorable variances between actual and planned performance on a monthly basis then managers should give immediate priority to determine the cause of very high and low performance. Follow-up action is strictly a line responsibility rather than a staff-responsibility.

The primary value of performance reports is in the comparison of actual results with budgeted targets and in the analysis of the resulting variation. There are numerous methods of expressing variance. The expression of variance as absolute amounts is not always satisfactory because an absolute amount standing alone frequently is not meaningful. Variances also should be expressed in relative terms that are as a percentage of the planned or budgeted amounts. Although statistical central limits can be developed to determine the significance of variances, most companies find it satisfactory to establish a general 'rule of thumb' policy for this purpose.

Monthly performance reports covering operations should generally show the variance for the month being reported and cumulative variance to date.

The performance reports should (i) include all significant aspects of operations (ii) be

consistent with the assigned responsibilities and (iii) implementation the management by exception principle.

2.15.4 Budget Variances

“The difference between standard costs and actual cost is variance. Variances are deemed favorable or unfavorable depending on whether they reflect performance above or below standard. Variables are analyzed according to their cause and the person responsible.⁸³ if the variance can be traced with the responsibility of a particular individual, it is said to be controllable variance. If the variance stem from causes beyond the control of responsible individual, it is said to be uncontrollable. This distinction of variance is extremely important.

Variance analysis is an important tool that can increase the usefulness of periodic performance reports. Rather than taking action only on the basis of differences between actual and planned or budgeted costs, variance analysis enables management to decompose such differences into smaller sub-variance.

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

1. Conference with responsibilities center managers and supervisors and other employee in the particular responsibility center involved.
2. Analysis of work situation including the flow of work, coordination of activities, effectiveness of supervision and other prevailing circumstances.
3. Direct Observation
4. On the spot investigation by the line managers
5. Investigation by staff group
6. Internal audits
7. Special studies
8. Variance analysis.

“Variance analysis involves a mathematical analysis of two sets of data in order to gain insight into the underlying causes of *variances*. One amount is treated as the base, standard or reference point. Variance analysis has wide application in financial reporting. It is frequently applied in the following situations:

1. Investigations of variance between actual results of current period and actual results of prior period. The prior period is considered as the base.
2. Investigation of variances between actual results and standard costs. The standard cost is used as the base.
3. Investigation of the variances between actual results and planned or budget goals reflected in the profit plans. The planned or budget goals are used as the base.

2.16 REVIEW OF RESEARCH WORK

2.16.1 Regarding Profit Planning

Few researches have been made in the areas of profit planning in Nepalese context in the fulfillment of Masters Degree of Business Studies. Of those researches done in the past, this study is that is based on joint venture commercial bank from profit planning point of view. An attempt has been made to review journals and some dissertation submitted in the topics on profit planning of commercial banks.

Review of thesis

Uma Devi Karki has conducted a research in the topic A comparative study on Profit Planning of Rastriya Banijya Bank Ltd. (RBB) and Himalayan Bank Ltd. (HBL)’. This research of Ms. Karki was mainly concerned with examining system of profit planning applied in RBB and HBL.

The time period covered by this research was five years i.e FY 1993/94 to FY 1998/99. The data and other necessary information were collected by using secondary as well as primary sources. In the research she has come across certain findings and recommendations. The following are important findings and recommendations.

1. Total revenue & total Cost of RBB is higher than HBL but its profits are lower.
2. Volume of loans and advances is increasing every year in both the banks and the provision for bad debt is higher in RBB than in HBL.
3. Ratio of interest income to total income is almost more than 86% in RBB and more than 80% in HBL. It shows that RBB is more dependent in interest income than HBL.
4. Return on paid up capital is always negative in RBB. Net profit is also negative in RBB.
5. Ratio of loan and advances to customers deposit shows that more than 60% of customers deposit is utilized where as in HBL it is around 50%.
6. Interest spread is higher in RBB than in I-BL.
7. Regression analysis showed that volume of profit is directly related with the size of loans and advances. There is only 0.5% profit in every loan of NPR 100 in RBB and 3.7% in I-BL.
8. Interest coverage ratio of both banks is more than 1 except in the FY 1995-96 of RBB. It shows that interest paying capacity of both the banks is sound but the ratio - of HBL is higher than the ratio of RBB. It means HBL is more strong to pay interest liability. -
9. No proper planning strategy seems to be developed although IBL is operating at profit but RBB is running with heavy cumulative loss.
10. As the accounting system of RBB is careless that it has not been audited from the FY 1993-94 and it is difficult to take decision about data analysis.
11. In case of RBB, its deposit, total revenue, loan and advances are increasing every year whereas the profits are negative or highly fluctuating, which is mainly due to high fluctuation in Cost.
12. Analysis of profit planning and control is 'basically an internal affair. It needs to analyze the insight position. As insight is not flashed out due to the cause of secrecy, attempt is made to analyze on the basis of data published.
13. Government seems less conscious in the present situation of RBB.

Ms. Karki in her detail analysis of Rastriya Banijya Bank Limited and Himalayan Bank Limited points out the following recommendation to improve the formulation and implementation of profit plans.

1. RBB is running with heavy loss but it has more chance to improve present situation as it has higher market share, so the government has to, be conscious about the present situation.
2. As banks are playing with public's money it is recommended for these banks to check out target rate of return every year and on the basis of which the bank should plan of profit by linking its activities with income generating program.
3. Accounting system should be systematic so that proper strategy can be applied specially In the case of RBB and auditing of accounts should be done in time.
4. The management of the bank should have more interaction with the shareholders.
5. HBL should try to control the fluctuation in revenue, cost and net profit in order to lessen the chance of uncertainty.
6. For the survival of the bank and to maintain the present market share, RBB should increase their commercial activities and also it should not forget the public responsibilities being government owned bank. Similarly HBL should adopt to innovation to increase the present market share.
7. HBL is advised to increase the investment of deposit. It is investing almost 50% of its deposit on loans and advances.
8. RBB should focus on constant return because it has always negative earning on capital.
9. Local experts should be involved more in top level of management of RBB so that they can run the bank easily in future. Both banks should try for proper image building from international perspective.
10. Proper profit planning are the major means to achieve the desired objectives and constant growth from its focused activities, so the banks are advised to prepare better plans. As a result, there would not be highly fluctuating increments.

Regmi has conducted a research on Profit Planning and Control in commercial banks of Nepal. For this study Nepal Grindlays Bank Ltd. (Now Standard Chartered Bank

Ltd.-STBL) have been taken as sample. This research was mainly concerned with the practice of Profit Planning and Control and its effectiveness in STBL. This study covered only ten years period from FY 1986/87 to FY 1995/96. Major objectives of this research were as follows:

- Highlight about the company's establishment, *growth*, objectives, function and other relative factors.
- Analyze the PPC of STBL by measuring various quantitative suggestion such as profit dividend, cost, interest income, loans, investment, deposit and other important variables.
- Profit Planning analysis, it provides workable suggestion that would prove useful to the formulation of future profit planning strategy.

The data were extracted from both sectors, i.e primary as well as secondary sources. Mainly primary data- have been collected and secondary data have been used as per necessity. Interviews and questionnaire approaches were the main- techniques of primary source of data. Statistical tools like percentage, mean, standard deviation, and coefficient of variation, time series, correlation and regression have been used to analyze the data. Similarly, financial tools like financial ratios, flexible budgets. Cost Profit Volume analysis and variance analysis have also been used.

Regmi has pointed out various findings based on the analysis of data and information. Major findings and conclusions of this study are as follows:

1. Revenue, cost and profit of STBL is higher than other joint venture commercial banks.
2. Profit and cost, both are increasing every year but the increment of profit is higher than cost, and the size of increment is highly fluctuating.
3. Volume of loans and advances is increasing every year but the provision for bad debts is only 1% in all the years.
4. In an average percentage interest income is seen about 15% on loan and advances.
5. STBL has given less importance in government securities because average income for Govt. securities is around 8% p.a. which is low compared to average interest of loans and advances.

6. Interest income has been the major source of income.
7. Regression analysis has shown the volume of profit is directly related with the size of loans and advances. There is a profit of 7% in every Loan of NPR 100.
8. Ratio of interest income to total income is almost more than 70%.
9. Earning per share is increasing every year.
10. Ratio of loans and advances to customer deposit shows that almost half of the customer deposit is utilized for loans and advances.
11. Interest coverage ratio of STBL is about two times.

Mr. Regmi in his study has recommended the following to improve, develop and implement profit planning: -

1. The bank should be shareholder minded. Only most appropriate way is to think from the shareholder's point of view.
2. To maintain the market share, STBL should adopt innovation that takes place in the market.
3. Loans and advances is generating good amount of interest income so the size of loan volume should be increased.
4. Payment of dividend is neither weightier nor static nor constantly growing. It is highly fluctuating so STBL is advised to follow either static or constantly growing dividend payment policy for positive impression In the market.
5. Shareholders should be given a choice whether they prefer stock dividend or cash dividend.
6. Focus on profit should be continued, as it is one of the social responsibilities of the bank.

Mr. Raendra Lamsal has conducted a research in the topic "A comparative financial statement analysis of HBL and STBL". This research of Mr. Lamsal was mainly centered in financial analysis of both the banks. The main objectives of his research was to highlight the financial position of both the banks.

The data and other necessary information were collected by using secondary data as well as primary sources. In this research, he has pointed various findings and recommendations. Some remarkable findings and recommendation are as follows:

1. HBL is recommended to raise its amount of shareholders fund for maintaining proper capital adequacy position where as STBL is recommended to maintain its present position.
2. Profitability position of STBL is comparatively better than the same of HBL. So HBL is recommended to utilize its resources more effectively for generating more profit margin.
3. Reports of HBL show that it is not involved in social activities. Therefore it is suggested that HBL should involve or contribute for such social programs to maintain favorable public image.
4. Both banks should fulfill some social obligations by extending their resources to rural areas and promote development of poor and disadvantaged groups. in order to do so, they should open branches in the remote areas with the objective of providing cheaper banking services. The minimum amount to open account should be reduced.

“A Study of Joint Venture Banks Profitability”, this study was conducted by Pramod Dhungana’ with main objectives of assessing the profitability of Joint Venture Bank in Nepal (during the period of five years from 1987/88 to 1991/92).

Other objectives of the study was:

- i) To identify whether the profitability of Joint Venture Banks are optimal or not.
- ii) To identify the pattern of profitability of Joint Venture Banks especially of Standard Chartered Bank Limited,
- iii) To suggest on the basis of findings and analysis:

The major findings, he had presented were as follows.

1. Interest income of NIBL (Nepal investment Bank Limited) was highest
2. STBL’s commission and discount earnings and foreign exchange income were higher than both of NIBL and Nabil were.
3. Nabil’s other operating income was appeared higher than other banks.
4. NIBL had paid highest tax per share than other banks and STBL paid the same least.
5. In average. Nabil, NIBL, and STBL had highest personnel expenses. Interest expenses on Deposits and other operating expenses respectively.

“Financial Analysis of Joint Venture Banks’, this thesis was submitted to IOM. TU. by Dinesh Raj Shakya (July 1995) with main objective of evaluation of financial performance of Nabil and STBL comparatively. The study covered six financial years beginning form 1988/89 to 1993/94. Besides this main objective. he had specified other objectives too:

- i) To evaluate the trend of “Deposits” and “Loan and Advances” of Nabil and STBL.
- ii) To evaluate the liquidity, profitability, Capital Structure. activity and capital
- iii) To suggest and recommend some measures, on the basis of comparative financial - performance, evaluation and findings for the improvement of financial performance of Nabil & STBL in future.

In this thesis work he had presented so many findings (about 32 in numbers), among them some major findings he had presented are as follows:

- i) Loan and advances as well as total deposits of Nabil are increasing each year,
- ii) There exist highly positive correlation between Total Deposits and Loan and Advances of Nabil during the study period($r = 0.9867$),
- iii) There exist highly positive correlation between Total Deposits and Loan and Advances of STBL ($r = 0.9942$),
- iv) Average cash and bank balance (excluding money at call) to current deposits ratio of STBL is higher (77.29%) than that of Nabil (67.04%),
- v) Nabil's Fixed Deposits to Total Deposits ratio is in increasing trend but the same of STBL is in declining trend.
- vi) Saving Deposits to total Deposits ratio is in increasing trend for both STBL and Nabil,
- vii) NRB Balance to Total Deposits ratio is in highly fluctuating trend for the both banks,
- viii) STBL's liquidity position is comparatively better than that of Nabil.
- ix) Investment to Total Deposits ratio is following fluctuating trend for Nabil and increasing trend for STBL. (I.e. average ratio of STBL 30.75% is fairly greater than that of Nabil 22.0 1%)
- ix) STBL's practicability position is more satisfactory than that of Nabil

2.16.2 Review of Journals

For better consequences of every commercial bank. Dr. Manohar Krishna Shrestha has given some suggestion. The more honestly one applies these concept, the better change it brings in life of the bank. His view are the great contribution in the field of commercial banking. The following are some of his suggestions:

1. No additional loan facilities should be granted to customer or firm who has overdue loans for two or more years.
2. Strong reservation should be applied in restructuring portfolio relating to overdue loans.
3. All credits even overdrafts should be given a maturity date and be subjected to revision at that date and consequently categorized as good, substandard and doubtful loans.
4. The professional credit commerce must be formed and a broad member must be appointed in that committee to proper check and balance.
5. An estimate of personal wealth and income must be considered while granting credit to individuals.

Prof. Dr. Shrestha adds. A clear cut criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid more than six months needs to be treated as unearned income. Adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. Mandatory provisioning should not be linked with the duration of loan. Instead, provisions in case of doubtful debt must cover from the beginning. For bad loans a less stringent provisioning should be adopted depending upon consideration of customer situation and value of guarantees. As profit is the prime concern of business organization. he adds commercial banks can shift focus on new field of business like syndicated loans. documentary credits involving foreign trade guarantees given and received. forward exchange operation etc.

CHAPTER -III

RESEARCH METHODOLOGY

3.1 RESEARCH METHODOLOGY

The main objective of research is to analyze, examine and interpret the budgeting techniques:

Its use in the process of planning profit and its effectiveness on the enterprise with the help of various financial subject matters. In accordance with the basic objectives other sub-objectives are also formulated and the research methodology is following to achieve the objectives of this research paper. The major contents of research methodology followed in the course of this study are as follows:

3.2 RESEARCH DESIGN

The research design of this study is analytical as well as a descriptive. This study is an examination and evaluation of budgeting procedure used in this process of profit planning of Nepal SBI Bank Ltd. Therefore the study is closely related with the various functional budgets and other accounting statements. These information and data are presented in an analytical method. Beside these quantitative aspects, problems of profit planning process while preparing budgets are also discussed.

3.3 THE POPULATION AND SAMPLE

Since this research work is designed to study the use of budget, a tool of profit planning in Nepal SBI Bank. Of the total population of commercial banks in Nepal, Nepal SBI has been randomly chosen for the case study.

3.4 PERIOD COVERED

This study paper covers a time period of ten years for the purpose of trend analysis and a time period of one year for the purpose of short-range profit plan analysis. Long trends are taken from FY 2060/61 to FY 2064/65. Both budgeted and actual have been taken from the same years.

3.5. NATURE AND SOURCES OF DATA

Primary as well as secondary data have been used in this study paper. Primary data are based on questionnaire as well as unstructured dialogues with the at least ten executive and other staffs of Nepal SBI Bank Ltd.

Secondary data have been taken from published financial statements of Nepal SBI Bank such as audited profit and loss statements, cash flow statements and balance sheet publication of "SBI Bank Ltd. in the web site, publication in bankers review articles, book, booklets and magazines etc.

3.6 TOOLS USED

Data collected from various sources are managed, analyzed and presented in proper tables and formats. Such tables and formats are interpreted and explained as and where necessary. The analysis of data are done through financial and statistical tools. The financial tools mainly used are variance analysis, flexible budget and ratio analysis. Similarly the statistical tools used are mean, correlation, regression, coefficient of variance etc.

3.7 RESEARCH VARIABLES

The research variables of the study are mainly related with the financial statements and budgets of Nepal SBI Bank. Other variables are also used where an necessary.

3.8 RESEARCH QUESTION

As the basic objectives of this study is to examine how far the different functional budget are being applied as tool for profit planning. The research questions are designed to answer the following:

1. To what extent the functional budget play in planning process of the profit ?
2. What are the major problems in the profit planning process ?
3. What are the steps to be taken to improve profit-planning process ?

CHAPTER -IV

DATA PRESENTATION AND ANALYSIS

4.1 SCENARIO OF NEPAL SBI

Nepal SBI Bank Ltd. was incorporated on April 28, 1993 under the Company Act 1964 and licensed by Nepal Rastra Bank (Central Bank) on July 06,1993 to operate under the commercial bank act 1974. Nepal SBI commenced operation on July 08. 1993 with their corporate office at Kamalpokhari, Kathmandu.

4.1.1 Shareholding Pattern

The bank is a joint venture bank between State Bank of India. Employees Provident Fund Nepal and Agricultural Development Bank Nepal. Authorized capital of this is NPR 240,000,000.00 (Nepali Rupees Two Billion Fourty million), issued capital is NPR 120,000,000.00 (Nepali Rs. One Billion venty Million) and Paid up capital is 425,157,000 (Nepali Rs. For Hundred Twenty-Five Million One Hundred and Fifty Seven Thousand). The shareholding pattern of Nepal SBI bank Ltd. is as follows:

1. State Bank of India :50%
2. Employees Provident Fund: 15%
3. Agricultural Development bank Nepal: 15%
4. Nepalese General Public 30%

4.1.2 Personnel and Organizational Pattern:

The bank was started with the total staff of 25 of which five were expatriates at senior management level and 5 were local based officers and 15 local staff at assistant level, he total number of staff in the bank (including 3 India based Officials) reached 180 by the end of July 2004

4.1.3 Performance Highlights

The overall performance of the bank remained quite satisfactory during the FY 2064/65. The progress achieved by the bank during the period is manifest in the key performance indicators summarized below:

Table : 4.1

S.No.	Particular	FY 60/61	FY 61/62	FY 62/63	FY 63/64	FY 64/65
1	Paid up Capital	426876.00	431866.00	640236.00	647798.00	874528.00
2	Reserves	199761.00	257147.00	342138.00	515492.00	540117.00
3	Deposits	7198327.00	8654774.00	11002041.00	11445286.00	13715395.00
4	Gross Loans and Advance	5531834.00	6739347.00	8241456.00	10065052.00	12746216.00
5	Investment	1907521.00	2607680.00	3610775.00	2659453.00	3088887.00
6	Loans to priority Sector	1033339.00	831265.00	744442.00	648036.00	657430.00
7	Loans to Deprived Sector	212445.00	212473.00	245159.00	280680.00	356892.00
8	Interest Income	493598.00	578372.00	708718.00	831117.00	970513.00
9	Interest Expenses	255919.00	258430.00	334770.00	412262.00	454918.00
10	Operating Profit after providing for Loan loss	191921.00	277932.00	315146.00	300790.00	353325.00
11	Profit after Tax	60852.00	57387.00	117002.00	254909.00	247771.00

The Bank's Loans and advances increased at a significant rate of 24.64% during the financial year. The bank has been able to reduce the average cost of funds from 3.60% to 3.58% despite the adverse deposit market seeing increase in rates. Bank's exposure to the deprived sector was in line with the benchmarks laid down by the Nepal Rastra Bank in this regard. The Bank has been able to increase the interest income by 16.77% The operating profit of the Bank has gone up by 17.4% However, the Net Profit after tax has failed marginally by 2.8% mainly on account of lesser write back of loan loss provision compared to last year.

Capital Adequacy

Bank's total capital fund and core capital amounted to 12.32% and 9.897% respectively of the risk weighted assets as against the prescription of 11% and 5.5% by Nepal Rastra Bank under Basel I.

Basel II was implemented under parallel run during the FY 2064/65 and is being fully implemented from the beginning of the FY 2065/66. Under Basel II parallel run, total capital fund and core capital amounted to 10.71% and 8.67% respectively of the risk weighted assets as against the prescription of 10% and 6% by the Nepal Rastra Bank.

Appropriation of Profit & Loss

Your Bank has earned a Net Profit of Rs. 247.77 million after providing for staff bonus and income tax liabilities. With Rs. 4.25 million of Accumulated profit up to last year, the Bank has Rs. 252.02 million in total for appropriation. This has been appropriate as under.

- (i) Rs. 49.55 million i.e. 20% of the net profit transferred to General Reserve fund.
- (ii) Rs.2.36 million transferred to Exchange Fluctuation Reserve.
- (iii) Rs.28.57 million transferred to Debenture Redemption Reserve.
- (iv) Rs. 170.00 million transferred to Capital Adjustment Reserve.
- (v) Rs. 1.53 million retained in the business as accumulated profit.

With this appropriation of Rs. 170 million your Bank has an accumulated balance of Rs. 230 million in Capital Adjustment Reserve which may be used for the purpose of issuing bonus shares in future to meet the minimum paid up capital requirement of 'A class' licensed institutions as stipulated by Nepal Rastra Bank.

Bank's Activities and Future Plans

(i) Branch Expansion and ATMs

After the last Annual General meeting, your Bank has opened two branches at Waling (Sayanja) and Baglung and extension counter at Bhartiya Gorkha Sainik Niwas, Thamel, The process of opening branches at Bhaktapur, Bouddha, Damauli, Dang, Gulmi, Gongabu, Hetauda, Ilam, Ithari, Kalanki, Maharajganj, new Baneswar, Palpa,

Patan, and Surkhet is in progress. All these branches will be opened before 31.01.2009. At the end of FY 2065/66 your bank will have 32 branches as against 15, of which 10 branches will be in Kathmandu valley and the rest outside. The centres to be covered around Nepal will go up from 11 as at close of 2064/65 to 21.

The Bank is planning to shift its entire information technology related offices to a new location at Thamel. This would be named as NSBL IT Center.

After the last AGM, we have set up 7 new ATMs at Bhairahawa, Birgunj, BPKIHS Dharan, Embassy of India, Patan, PPO Dharan & PPO Pokhara, Installation of 5 more ATM at Biratnagar, Birtamod, Butwal, Janakpur, and Narayangarh is in progress.

Your Bank is in the process of adding eight more ATMs in Kathmandu valley within the next three months. These ATMs will be located at Gongabu, Bouddha, Kalanki, Bhaktapur, New Baneshwar, Maharajgunj, Thamel and Hattisar, After Setting up of all these ATMs the total number ATMs will go upto 25.

The ATM card increased from 1500 to 12177 by end of FY 2064/65 (2007/08). The ATM hits thus went up from around 25000 in FY 2063/64 (2006/7) to 110000 by the end of F/Y (2064/65) 2007/08

4.2 BRIEF OVERVIEW

The main objectives of this study is to appraise Nepal SBI Bank Ltd the application of comprehensive profit planning system and specific aims are given below:

To identify the profit planning process adopted by Nepal SBI Bank Ltd.

To analyze the trend of revenue and expenditure.

To evaluate variance between target and actual performance.

To recommend steps to be taken to improve the profit planning process.

Generally two types of profit plans are prepared. the first being long-range profit plan and second being short range profit plan which is usually referred as budget. Nepal SBI prepares only short-range profit plan which covers a time span of one year. The

accounting or fiscal year of. Nepal SBI begins from 16 July to 15 July of the following year.

Since Nepal SBI only prepares short-range profit plans, the study will be focused on short- term profit plans only.

To analyze the financial trend and estimate the .possible future trend of Nepal SBI study has covered a period of 5 years from FY 2060/61 to 2064/65. Two years represents the technique process and other procedures of preparing the budgets. Various functional budget of FY 2061/62 to 2064/65 are the bases of preparing related variances between budgets and actual that is analyzed in detail. An effort has been made to point out the reasons behind the deviation between budget and actual results. Some recommendation has been pointed out.

4.3 Revenue and Expenditure Budgets of Nepal SBI

Preparation of revenue budgets is the most important step in the development of budget in a financial institution as revenue is the main basis for budgeting other functional budget like budget of deposit, loan and advances, interest income, interest expenses and overhead therefore all business operation are directly linked with the budget of revenue thus budgeted revenue should be as possible.

There are some factors which affects the bank's business :

- i) The declining trend in lending rates coupled with sluggish credit off take is putting constant pressure on the profitability of the bank. The recent decision of the Central Bank to grant autonomy to the commercial banks in quoting interest rates on advances to their clients is likely to further intensify the stiff competition among banks to get good clients to their books. The interest spreads will be under immense pressure.
- ii) The continued under and disturbed political climate in the country have adversely effected the trade and industry in general and the hotel and tourism industry in particular thereby impeding the recovery efforts and interested realizations.

- iii) The central Bank's recent guidelines to banks on provisioning and blacklisting are mandatory in nature and are bound to have impact on the profitability of the banks, particularly in the short run.
- iv) Fund management has assumed significant importance on account of extremely limited options available for profitable investments.
- v) Continued slackness of economic activities and the lack of new projects may not only affect the growth in quality lending but also the recovery of investments.

Budgeted revenue is the foundation of periodic planning in a financial institution. Revenue budgets are prepared on the basis of previous revenue figures and general economic trend of the country along with an expected return by the share holders.

Nepal SBI has been preparing short range budget since its inception in FY 1993 although in a unscientific manner. Scientific manner in budgeting procedure have only been practiced from FY 1998. A different department "Account Department" is the main department of NSBL. The corporate office is the one which is busy in formulation budgets for the forthcoming years. The budgeted plan is prepared to all the branches on the basis of months. So, although a short term budget is prepared, a slight different methods is used. The budgeted target is provided to all the branches and all the branches should be able to meet the given targets. Branch managers are then fully responsible for meeting the given targets. The effort made by individual branches helps the bank to raise its profit. The budget of Nepal SBI Bank Birgunj Branch is given in the appendix.

The overall responsibility of preparing budget of profit mainly lies with the General Manager and Assistant General Manager who sets a target to the managers of credit department as well as branch managers of various branches which offers credit facilities which in view the general direction of the industry, According to this budget various other budget are framed in accordance to the guidelines issued by Nepal Rastra Bank (the central regulatory bank of Nepal)

Let us know analyzed revenue and expenditure of Nepal SBI bank for the five years beginning from FY 2060/61 to 2064/2065

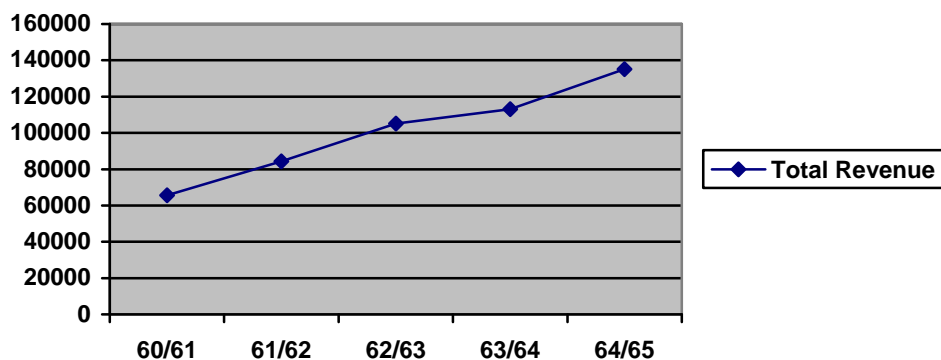
Table:4.2

Fiscal year	Interest Income		Commission & Discount		Forex Trading		Non Operating Income		Total Income
	Amt	%	Amt	%	Amt	%	Amt	%	Amount
2060/61	39498	0.60	22685	35	2551	4	811	1	65545
2061/62	49359	6.59	30666	36	3061	4	1222	1	84308
2062/63	57837	0.55	42568	71	3235	3	1442	1	105082
2063/64	70871	0.63	40753	36	4306	4	2926	3	113004
2064/65	83111	0.62	52591	39	49463	37	2710	2	135123
Total	300676		141931		62616		3475		503062

Let us examine the total revenue according to the sub heading:

Chart No. 4.1

Total Revenue



Total revenue of the bank from the last five years is seen to be positively moving upwards. The above graph of total revenue shows the positive trend of total revenue. The bank recorded total revenue of Rs. 135123 thousands in 2064/65 than Rs. 113004 thousand in year 063/64 which is almost increased by 10.16%

Table 4.3

Total Revenue	
Year	Amount in 00's
2060/61	65545
2061/62	84308
2062/63	105082
2063/64	113004
2064/65	135123
Total	

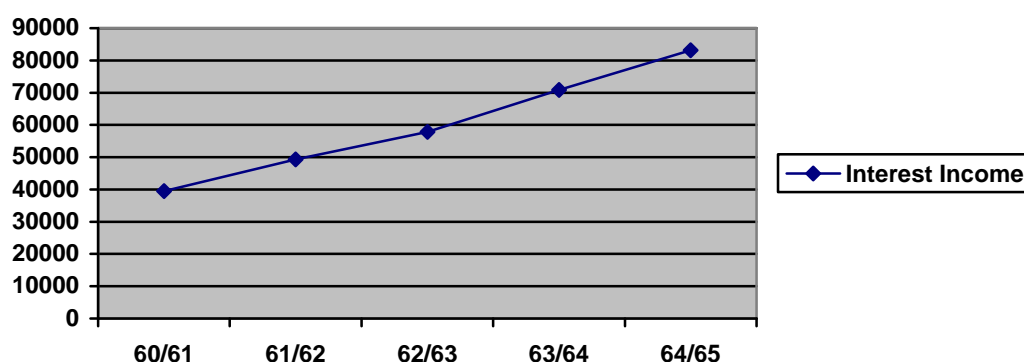
Now let us examine the interest income of Nepal SBI Bank Ltd. from the past five years

Table No 4.4

Interest Income	
Year	Amount in 000's
2060/61	39498
2061/62	49359
2062/63	57837
2063/64	70871
2064/65	83111
Total	

Chart No. 4.2

Interest Income



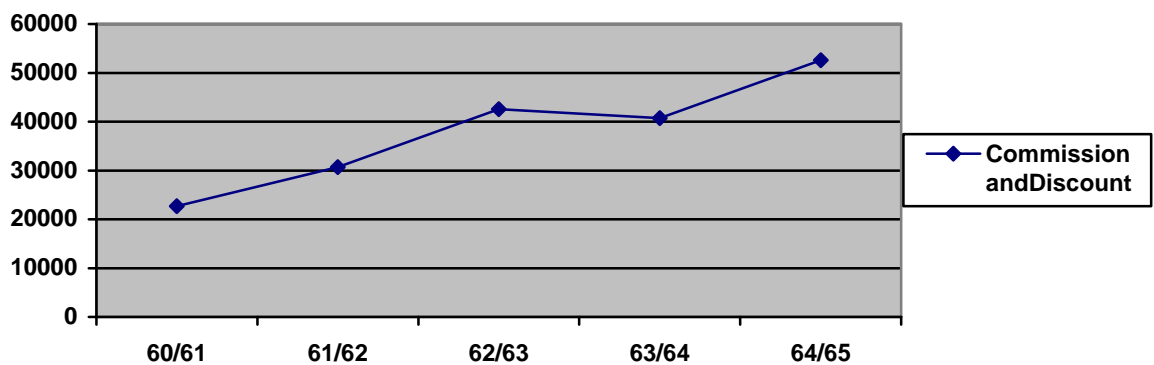
The above table shows that in the establishment years the profit line tends to move upward with higher elevation till 2060/61. Then the profit line steady moves upwards whereas it has been moved the bank recorded total interest income of Rs. 70871 thousands in 2063/64 than Rs. 83111 thousand in year 2064/65 with almost increased by %

Table No. 4.5

Commission and Discount	
Year	Amount in 000's
2060/61	22685
2061/62	30666
2062/63	42568
2063/64	40753
2064/65	52591
Total	189263

Chart No. 4.3

Commissions & Discounts



Income from commission and discounts has experienced a growth of over five folds during the year whereas it has it has increased gradually in the year 2060/61 to 2064/65. The increased in the amount of the recent year is found to be healthy competition on the commission charged on the amounts. Nepal SBI's major commission source is the remittance and on t he remittance earning. The other banks such as Everest bank as well as Kumari Bank with arrangement with different Indian banks had resulted in the decline of total income. Also the right of any bank to decide the rates had affected Nepal SBI Bank adversely.

Chart No. 4.4
Forex Trading

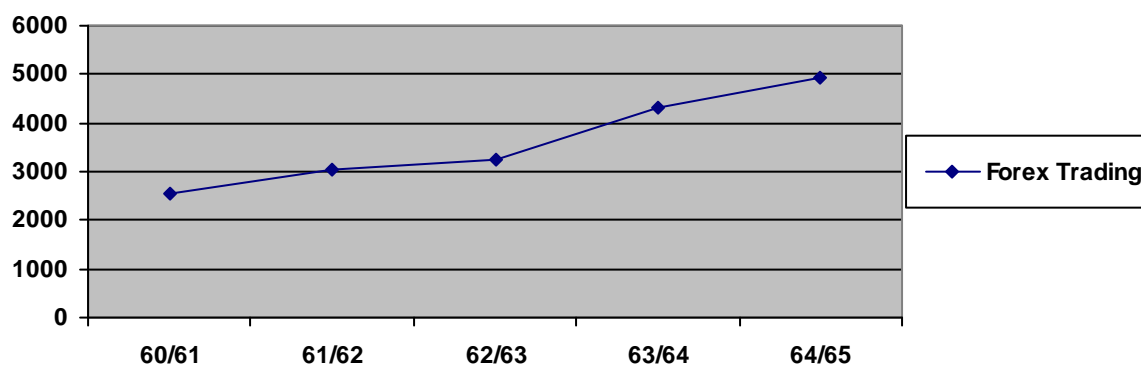


Table No. 4.6

Forex Trading	
Year	Amount in 000's
2060/61	2551
2061/62	3061
2062/63	3235
2063/64	4306
2064/65	4946
Total	18099

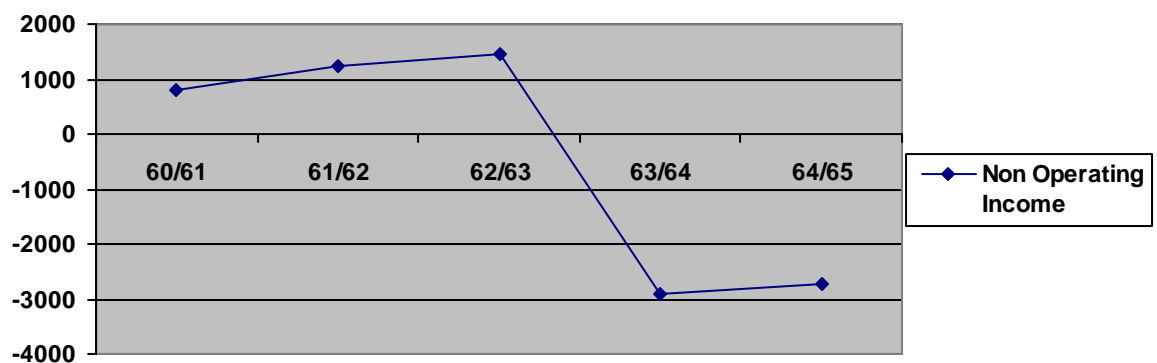
Income from Forex Trading is one of the major source of income not only of Nepal SBI Bank whereas it is of the Standard Chartered Bank, Nabil Bank etc. the major source from foreign exchange is due to the foreign trade last five year the total resource of All commercial Bank of Foreign exchange is only increased gradually.

Table No. 4.7

Non- Operating Income	
Year	Amount in 000's
2060/61	811
2061/62	1222
2062/63	1442
2063/64	(2926)
2064/65	(2710)
Total	(2161)

Chart No. 4.5

Non-operating Income



Like other commodities the price of currency also fluctuates, thus the operating logic of the forex market is same as in any other market. "Buy low and sell high". The bank has been able to earn a lot in the year 2062/063 but in other years the income from Non-operating has very little impact on the total profit of the organization. In the year the income from non operating is negative which shows that there is very less fluctuations in the exchange rate of foreign currencies.

After looking at the incomes of Nepal SBI Bank let's examine the expenditure of Nepal SBI Bank

Table No. 4.8

FY	Int. Exp.		Staff Exp.		Operating Expense		Provision for Loan loss		Provision for bonus		Provision for income tax		Total Expenditure
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	
2060/61	255919	30	32510	39	8218	9	10955	13	1217	1.4	4867	5.83	83358
2061/62	258430	25	37582	37	9062	9	190261	19	1391	1.3	6780	7	99684
2062/63	334770	28	50539	42	9921	8.34	17665	12	1997	1.7	8276	7	118875
2063/64	712261	3.3	53232	43	12011	9.6	5937	4.8	3445	2.8	8968	7.18	124819
2064/65	454917	18	74890	30	15239	6.2	5746	2.34	3480	1.7	100262	41	245108
Total	1716297		248753		54451		56329		11530		129153		671844

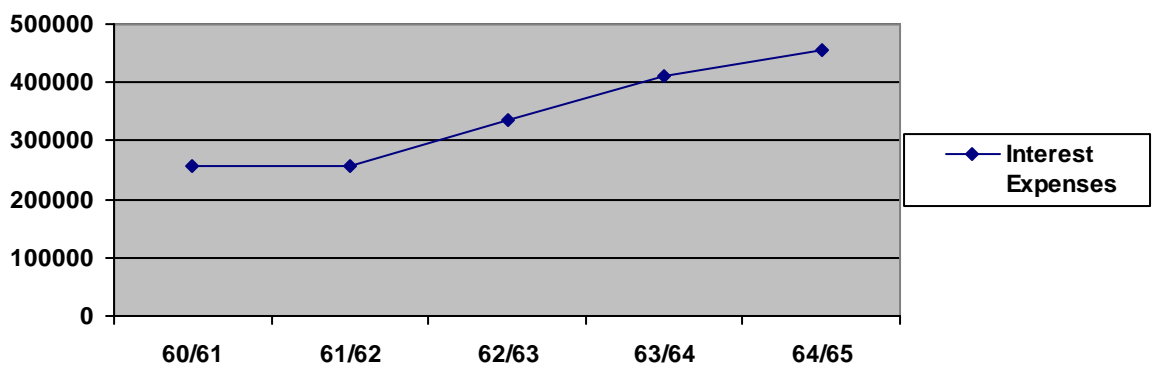
Now let us examine the total expenditure on the basis of their sub-heading:

Table No. 4.9

Interest Expenses	
Year	Amount in 000's
2060/61	255919
2061/62	258430
2062/63	334770
2063/64	412261
2064/65	454317
Total	1716297

Chart No. 4.6

Interest Expenses



Nepal SBI's Interest expenses is one of the major expenses to be met. Due to higher rate of interest provided to the depositors the bank had to pay higher interest.

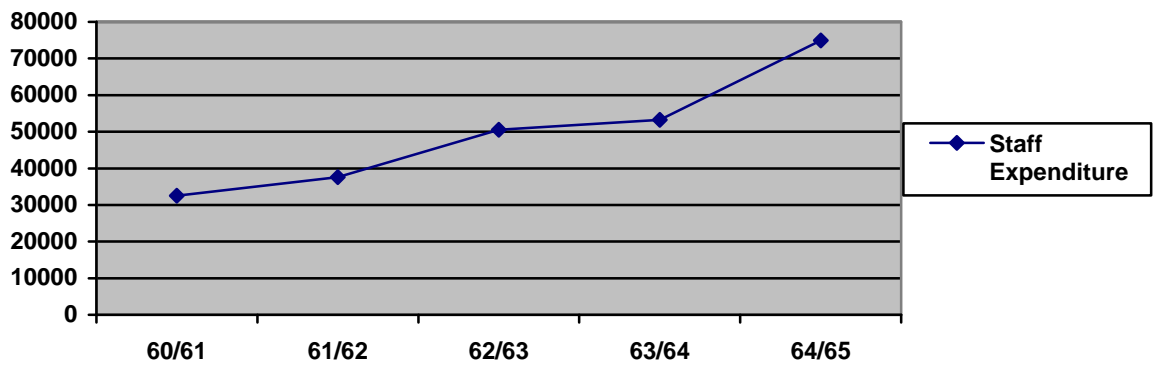
Now the bank has also increased the deposit rate to mobilize deposit in present financial crisis. Because of present financial crisis, Banks over increasing deposit rate. Steadily up works.

Table No. 4.10

Staff Expenditure	
Year	Amount in 000's
2060/61	32510
2061/62	37582
2062/63	50539
2063/64	53232
2064/65	74890
Total	248753

Chart No. 4.7

Staff Expenditure



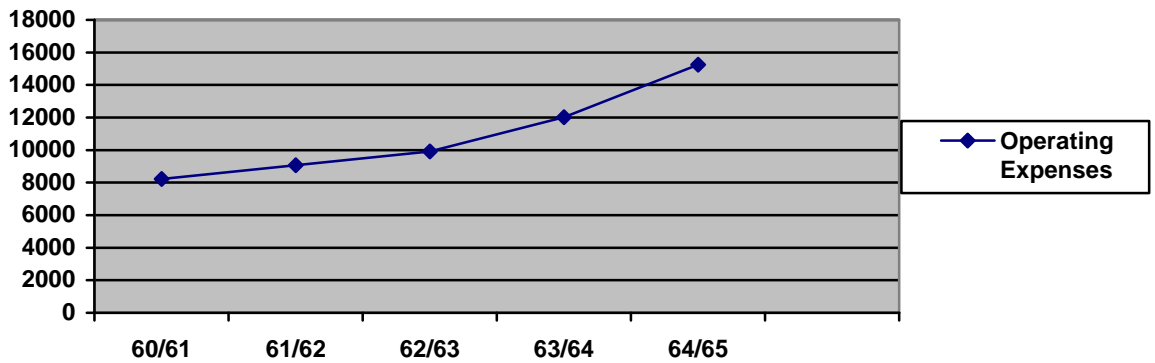
For the continuous operating of organization human resource is very necessary. Hence the bank also had increasing number of staffs year by year. The staff expenditure includes the expenditure of 74890 thousand in year 2064/65

Table No. 4.11

Operating Expenses	
Year	Amount in 000's
2060/61	8218
2061/62	9062
2062/63	9921
2063/64	12011
2064/65	15239
Total	54451

Chart No. 4.8

Operating Expenses



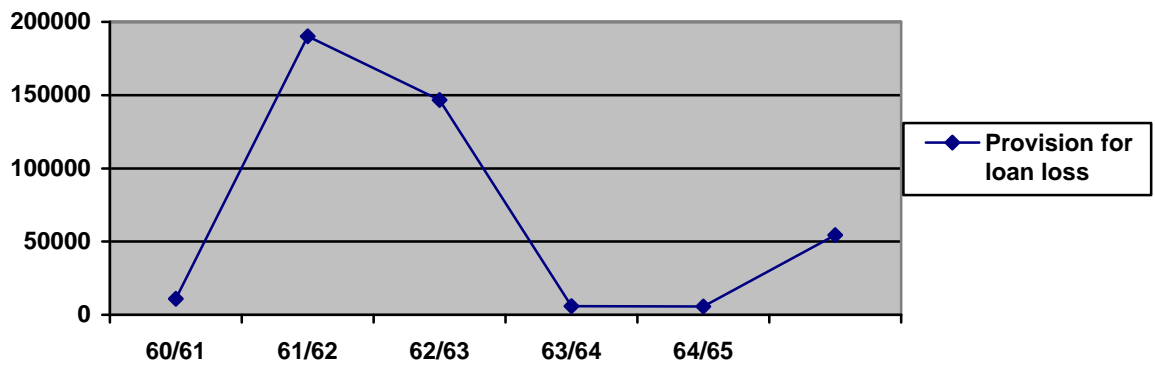
Operating Expenses of Nepal SBI has been growth steadily upward. The operating expenses of year 64/65 show to be Rs. 15239 thousands which is only 16.55% of the total expenditure.

Table No. 4.12

Provision for loan loss	
Year	Amount in 000's
2060/61	10955
2061/62	190269
2062/63	146656
2063/64	5937
2064/65	5746
Total	56329

Chart No. 4.9

Provision for loan loss



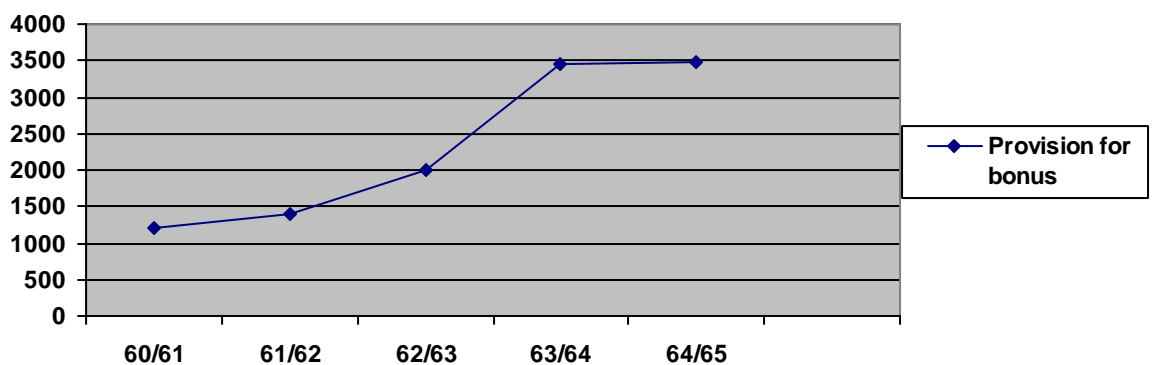
Every bank had to separate certain amount as provision for loan loss in case the bank fails to recovery of loan. It is vital for every financial institutions. The provision for loan loss had decreased in recent years than in year 2064/65 which shows that the bank had been able to invest in quite safe sector with higher chances of return bank or repayment. In year 2064/2065 the provision made was 5746 thousands only.

Table No. 4.13

Provision for bonus	
Year	Amount in 000's
2060/61	1217
2061/62	1391
2062/63	1997
2063/64	3445
2064/65	3480
Total	11530

Chart No. 4.10

Provision for bonus



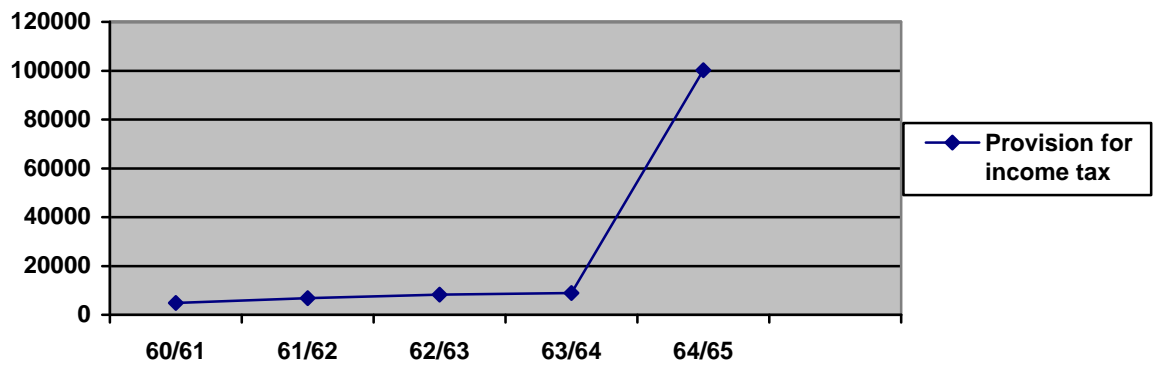
Bonus is a motivating factor for employees in every organization. It helps to increase efficiency of the employees. It has been seen from above table that, the provision for bonus had a huge fall in 2060/61 but ten afterwards it has moved upward. In year 64/65 the provision for bonus had been made about 3480 thousand only.

Table No. 4.14

Provision for Income Tax	
Year	Amount in 000's
2060/61	4867
2061/62	6780
2062/63	8276
2063/64	8968
2064/65	100262
Total	129153

Chart No. 4.11

Provision for Income Tax



Income tax is to be paid to the government for maintaining tax reserve the bank is maintaining a reserve of about 100262 thousands. Higher amount of provision made for tax shows that the bank is able to make high amount of profit year by year.

Deposit Ratio

Table No. 4.15

Fiscal Year	Current		Saving		Fixed		Demand		Call		Total
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	
2060-061	1426374	32.57	786711	17.96	2100219	47.95	7646	0.17	0.00	13.5	4535735
2061-062	951005	20.97	902759	19.90	2420298	53.36	192129	4.24	59070	1.53	6558817
2062-063	2359993	35.00	1060146	16.16	2929351	44.66	199309	3.03	10018	0.15	5531431
2063-064	1086697	19.64	1274695	23.04	3132677	56.63	26335	0.47	11027	0.19	6475177
2064-065	1300072	20.00	1633028	25.21	3337575	51.54	187686	2.89	16816	0.25	36220559
Total	8941210	2.36	6829589	16.73	19397424	56.02	860622	2.59	122170	1.21	59321719

From the above table deposit, it shows that the percentage of fixed deposit has been over 50% out of all deposits entertained by the bank. Similarly saving accounts comprises almost 28% of total deposits bank had to bear interest expenses. On current account and other bank had to bear no interest expenses and the percentage of these non-interest bearing deposits comprises only 16% of the total deposits.

The following are the interest rate for the above deposit

Table No. 4.16

		% p.a.
Saving	Local Currency	6.25
	Foreign Currency	0.75
Fixed Deposit	Local Currency	
	Less than 1 month	3.75
	1 month to 3 month	7.0
	3 month to 6 month	5.50
	6 months to 1 year	7 to 8
	1 years to 2 year	8 to 9
	2 years to 3 years	9 to 10
	3 years and above	10 to 11.5
	Foreign currency	
	6 months to 1 year	0.65
1 years and above	0.75	
Call Deposit	Local Currency	10
	Foreign Currency	0.75

4.3.1 Correlation Analysis (*r*): Correlation coefficient shows the significance relationship between two variables within certain time period. The formula for the calculation of Carl Pearson's Correlation coefficient (*r*) is :

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

Table No. 4.17

Fy	X	Y	X-X	Y-Y	X ²	Y ²	XY
2060/61	67393	4935	-30334.8	-2229.2	920200091	4963332.67	67622336.16
2061/62	82414	5783	-15313.8	-1381.2	234512470.2	1907713.44	21151420.56
2062/63	100650	7087	2922.2	-77.2	8533252.84	5959.84	-225593.84
2063/64	110720	8311	12992.2	1146.8	168737260.8	1315150.24	14893454.96
2064/65	127462	9705	29734.2	2540.8	884122649.6	6455664.64	75548655.36
N=S	488639	35821	0.00	0.00	221610572.7	14647820.8	178930273.2

Where,

- X= Value of Loan and Advances,
- Y= Values of Interest Income
- r= Pearson's Correlation Coefficient

Also $X = \frac{\sum x}{N}$

$$X = \frac{\sum x}{N}$$

$$X = \frac{488639}{5} = 97727.80$$

$$\text{And } Y = \frac{\sum y}{N}$$

$$= \frac{35821}{5} = 7164.2$$

$$\text{Now, } r = \frac{\sum xy}{\sqrt{x^2 y^2}}$$

$$= \frac{178930273.2}{\sqrt{2216105724 \times 14647820.8}}$$

$$= \frac{178930273.2}{180169696.5}$$

$$= 0.993$$

The correlation coefficient of the variables as loans and advances and interest income is 0.993 which shows that there is a positive relation in between loans and advances. 0.993

Now Calculation of Probable Error :

$$\text{PE} = 0.6745 \times \frac{1 - 0.993^2}{\sqrt{5}}$$

$$= 0.6745 \times \frac{1 - 0.386049}{2.24}$$

$$= 0.6745 \times \frac{0.613951}{2.24}$$

$$= 0.6745 \times 0.27409$$

$$= 0.18$$

Probable error is not greater than correlation coefficient hence we can say that there is positive relation in between loans and advances and interest income.

An attempt has been made to calculate the Break Even Point of Nepal SBI Bank Ltd.

Summarized result are from appendix 1

1. Base year is 2064 /65
2. Activity base is selected in terms of Revenue.
3. Variable cost volume ratio and fixed cost are constant.
4. The following costs are treated as variable costs :

(a) Interest Expenses.	Rs.	454917.00
(b) Provision for loan loss	Rs.	57463.00
(c) Provision for bonus	Rs.	34803.00
(d) Provision for income tax.	R.	100262.00
5. The following costs are treated as fixed costs :

(a) Staff expenditure.	Rs.	74890.00
(b) Operating Expenses.	R.	152379.00
6. Amount are in thousand (000's)
Where, Total revenue Rs. 247770.00

Now calculation of Break Even Point.

$$\text{BEP} = \frac{\text{Fixed Cost}}{\text{PV Ratio}}$$

$$\text{And PV Raito} = \frac{1 - \text{variable cost}}{\text{Total Re venue}}$$

$$\text{BEP} = 1 - \frac{647445}{2477707}$$

$$= 1 - 0.26$$

$$= 0.74$$

$$\begin{aligned}\text{Hence BEP} &= \text{Rs. } \frac{227269}{0.74} \\ &= \text{NRP } 307120\end{aligned}$$

$$\text{and variable cost ratio} = 1 - \frac{1-VC}{TR}$$

$$= 1 - 1 \frac{647445}{2477707}$$

$$= 0.26$$

From the above analysis we came to know that the Break even Pont of Nepal SBI Bank Ltd. is Rs. 307120 only.

Loans Advances and Overdraft

Now an attempt of finding out the trend of loans and advances, overdraft is made. The following table present the budgeted loans and advances and overdraft in Nepalese Rupees from the fiscal year 2063/64 to 2064/65

Budgeted and actual loans and advances.

Table No. 4.18

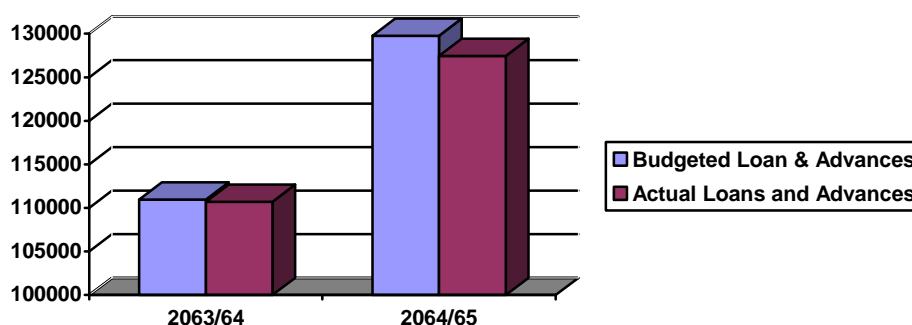
Year	Budgeted Loan & Advances	Actual Loans and Advances	Achievement.
2063/64	110955	110720	99.78
2064/65	129765	127462	98.23

Budgeted loans and advances had been increased than actual loans and advances each year and the bank is able to achieve almost 100% of the targeted loans and advances. This indicates that the bank is successful enough to meet the targeted achievement. Also the achievement percentage is both times almost 100% which shows that the bank is able to find the new field and areas of financing.

The above loans and advances is shown in the chart below.

Chart No. 4.12

Chart showing Budget and Actual Loans and Advances.



To find out the variability of actual and budgeted loans and advances of different years arithmetic mean, standard deviation and coefficient of variation should be calculated. The detail calculation of these variables are presented in appendix. 1

Summarized result from appendix

Table no 4.19

	Budgeted Loans and Advances	Actual loans and advances.
Mean(x)	120360	119091
S.D. (σ)	9405	8371
C.V.	7.81%	7.03%

The above analysis shows that coefficient of variation is lower in actual loans and advances than that of budgeted loans and advances which shows that the actual loans and advances have consistency than that of budgeted loans and advances.

Now an attempt has been made of find out the trend analysis of loans and advances by using trend analysis method by least square. :

Here the total no of years in even hence base year is taken as mean of 2061/62 and 262/63

Table No. 4.20

Year	(Y) Loans and advances	x= 2 (year-2062/063)	x ²	xy
2060/61	67393	-2	4	-134786
2061/62	82414	-1	1	-82414
2062/63	100650	0	0	0
2063/64	110720	1	1	110720
2064/65	127462	2	4	254924
Total	488639	0	10	148444

$$Y_c = a + bx$$

$$\begin{aligned} \text{Now } a &= \frac{\sum y}{N} \\ &= \frac{488639}{5} \\ &= 97727.8 \end{aligned}$$

$$\begin{aligned} \text{and } b &= \frac{\sum xy}{\sum x^2} \\ &= \frac{148444}{10} \\ &= 14844.4 \end{aligned}$$

Now substitution the value of x and y

We've

$$Y_c = 97727.8 + 14844.4$$

Now total advances for the year 2064/65 is calculated as follows

$N = 3$ for year 2065/66

$$Y_c = 97727.8 + 14844.4 \times 3$$

$$= 97727.8 + 44533.2$$

$$= 142261$$

Thus the total loans and advances of Nepal SBI Bank Ltd. should be Rs. 142261 coming year 2065/66 as according to trend analysis.

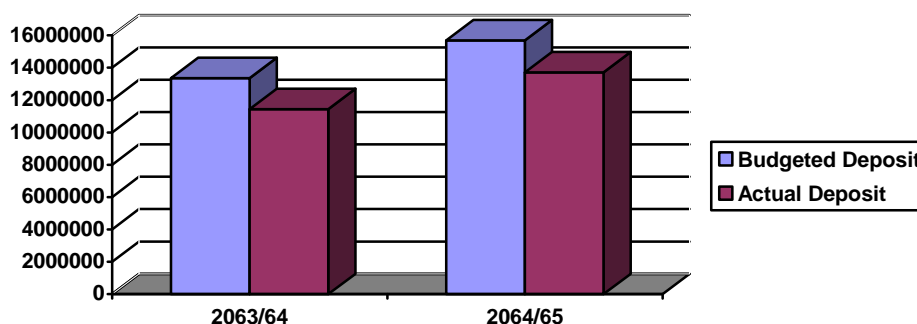
Budged and Actual Deposit.

Table No. 4.21

Year	Budged Deposit	Actual Deposit	Achievement
2063/64	13358405	11445286	85.68%
2064/65	15692515	13715395	62.87%

The bank had its budgeted deposit is Rs. 13358405 and actual deposit is Rs. 11347301 in year 2063/64 and in year 2064/65 its budgeted deposit is 15692515 and actual deposit is 13715395 in both year. It was short fall in deposit and bank try to meet the targeted result.

Chart No. 4.13



Now trend analysis method is used to find out the deposits of Nepal SBI Bank for the year 2064/65

Tale No. 4.22

Year	Y	X=year 2062/63	X ²	XY
2060/61	7198327	-2	4	-14396654
2061/62	8654774	-1	1	-8654774
2063/63	11002041	0	0	0
2063/64	11445286	1	1	11445286
2064/65	13715395	2	1	13715395
Total	52015823	0.00	10.00	2109253

$$Ac = a + bx$$

$$\text{Now } a = \frac{\sum y}{N}$$

$$= \frac{52015823}{5}$$

$$= 10403164.64$$

$$\text{and } b = \frac{\sum xy}{\sum x^2}$$

$$= \frac{2109253}{10}$$

$$= 210925.3$$

Now substituting the value of x and y

We've

$$Y_c = 10403164.64 + 210925.3x$$

Now total deposit for the year 2065/66 is calculated follow : $N = 3$

$$Y_c = 10403164.64 + 210925.3 \times 3$$

$$= 10403164.64 + 632775.9$$

$$= 11035940.54$$

Thus the total deposit of Nepal SBI Bank Ltd. will be Rs. 11035940.54 in coming year 2064/65

Budgeted and Actual Interest Income

Table No. 4.23i

Year	Budgeted Interest Income	Actual Interest Income	Achievement
2063/64	8009	8311	103.78
2064/65	8905	9705	108.98

The above table shows that actual interest income for the year 63/64 is found to be very good in year 2063/64, and in year 2064/65 the bank had targeted 15% growth in interest income which the bank had easily obtained. The achievement in year 2002/03 is 108.98% which is very fruitful for the organization.

To find out the variability of actual and budgeted interest income of different years arithmetic mean, standard deviation and coefficient of variation should be actuated. The detail calculation of these variables are presented in appendix 2

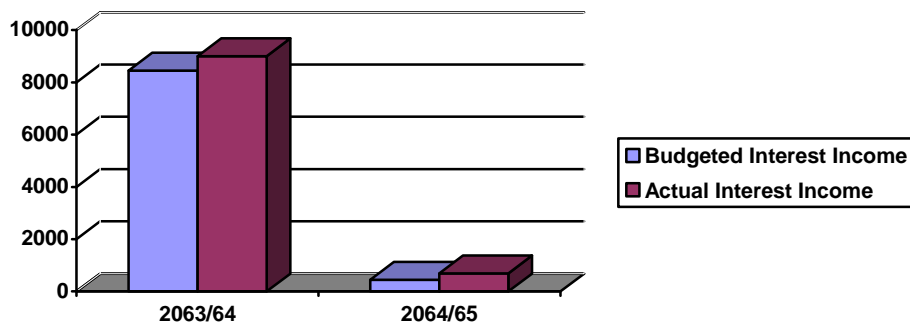
Summarized result from appendix 3

Table No. 4.23ii

	Budgeted Interest Income	Actual Interest Income
Mean (\bar{x})	8457	9008
S.D. (σ)	448	697
C.V.	5.30%	7.74%

The budgeted and actual interest income is shown in the chart as below :

Chart No. 4.14



Now an attempt has been made to find out the trend analysis of interest incomes by using trend analysis method by least square :

Table No. - 4.24

Year	(Y) Interest income	x= year 2062/63	X ²	XY
2060/61	4935	-2	4	-9870
2061/62	5783	-1	1	-5783
2063/63	7087	0	0	0
2063/64	8311	1	1	8311
2064/65	9705	2	4	19410
Total	358212	0	10	12068

$$Ac = a+bx$$

$$\text{Now } a = \frac{\sum y}{N}$$

$$= \frac{35821}{5}$$

$$= 7164.2$$

$$\text{and } b = \frac{\sum xy}{\sum x^2}$$

$$= \frac{12068}{10}$$

$$= 1206.8$$

Now substituting the value of x and y

We've

$$Y_c = 7164.2 + 1206.8x$$

Now total interest income for the year 2065/66 is calculated as follows

$$\begin{aligned} Y_c &= 7164.2 + 1206.8 \times 3 \\ &= 7164.2 + 3620.4 \\ &= 10784.6 \end{aligned}$$

Thus the total interest income of Nepal SBI Bank Ltd. will be Rs. 10784.6 in coming year 2065/66

Budgeted and Actual Interest Expenses

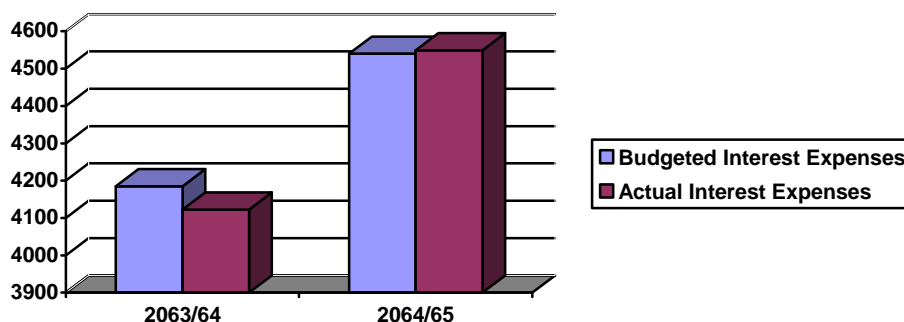
Table No. 4.25

Year	Budgeted Interest Expenses	Actual Interest Expenses	Achievement
2063/64	4185	4122	98.50
2064/65	4540	4549	100.10

The bank had targeted almost 8% growth in interest expenses in year 2063/64 which was less achieved which means the cost on interest had been decreased in Nepal SBI Bank Ltd. So, in year 2064/65 it has targeted only growth of 1% on interest expenses which seemed to be highly accurate for the bank. As the above table shows that actual interest expenses is less in year 2063/64 and more in 2064/65

Chart No 4.15

Chart Showing Budgeted and Actual Interest expenses.



Now trend analysis method is used to find out the interest expenses of Nepal SBI Bank for the year 2064/05

Table No. 4.26

Year	Y	x= year 2062/63	X ²	XY
2060/61	2559	-2	4	-5118
2061/62	2584	-1	1	-2584
2063/63	3347	0	0	0
2063/64	4122	1	1	4122
2064/65	4559	2	4	9118
Total	17171	0.00	10.00	5538

$$Ac = a+bx$$

$$\text{Now } a = \frac{\sum y}{N}$$

$$= \frac{17171}{5}$$

$$= 3434.2$$

$$\text{and } b = \frac{\sum xy}{\sum x^2}$$

$$= \frac{5538}{10}$$

$$= 553.8$$

Now substituting the value of x and y

We've

$$Yc = 3434.2+553.8x$$

Now total interest income for the year 2065/66 is calculated as follows

$$Yc = 3434.2+553.8x3$$

$$= 3434.2+51661.4$$

$$= 8095.6$$

Thus the total interest expenses of Nepal SBI Bank Ltd. will be Rs. 5095.6 in coming year 2065/66

The strength and weakness position of any commercial bank can't be judged from the basis of the single parameter. i.e. we can't find out the actual performance of the bank only with the help of amount the bank had earned fro interest loans and advances, total deposit collected and others. The major parameter to find out the strengths as well as weakness of the bank are total capital employed, total assets held, total deposit mobilized etc. whereas performance can be measured with operating profit ratio, return to shareholder's equity, earning performance share, interest coverage ratio, growth in bank's advances, deposits operating profit etc.

CHAPTER -V

SUMMARY CONCLUSION AND RECOMMENDATION

4.1 SUMMARY

The paramount consideration in business is profit and without it the very existence of the business is not possible. “Usually profit do not just happen, profit are managed”. A business firm is an organization designed to make profit and profit are the primary measures of its success. Social criteria of business performance usually relate to quality of product or service. Profit Planning and Control is one of the most important management tools used to plan and control business operations. Budgeting has long been recognized as the accepted procedure for profit planning. The primary purpose of budgeting is Profit Planning and Control. It is also said as the key to the productive financial planning and control. Effectiveness of business operation fully depends upon as to what extent the management follows proper planning and business budget are prepared with the consideration of profit planning. Even though profit planning and control is an important tool for the management, it has some limitations too. The user of profit planning must have full knowledge about these limitations Such limitations are listed below:

- a. It is based on estimates.
- b. It has danger of rigidity.
- c. it should be applied for long period.
- d. Its execution is not automatic.
- e. It is not a substitute for management.
- f The installation of it is costly.
- g. It should be continuously evaluated.
- h. Chances of lower morale and productivity.

The application of profit planning and control also has some problem in related fields Such problems should be solved by proper and effective management. Some usual problems that arise in the application of profit planning can be listed below:

- a. Developing management sophistication in its application.
- b. Developing a realistic objectives and standard.
- c. Adequate communication of the attitudes, policies and guidelines by higher levels of management.
- d. Attaining managerial flexibility in the application of the system.
- e. Updating the system to harmonize with the changing environment within which the management operates.

Business budgets are estimates or forecasts for a future period. It is a quantitative expression of the plans of management. Profit plans can be broadly divided into two groups according to time dimension of profit plan. The first is the long-term profit plan and the second is the short-term profit plan. Long term profit plan is also called strategic plan and it covers the time span of 5 to 10 years: Short term profit plan is tactical profit plan covering the time period of 6ne fiscal year.

Mere preparation of plans is not sufficient for the successful operation of the business. An effective implementation and continuous follow' up system is very important in this regard. Continuous revision of functional plan or budget according to recent events that effects the operation of business is necessary to activate the desired goal. Use of functional budget as a tool of profit planning is not a new concept. It is well recognized and widely applied techniques of profit planning.

Nepal SB! Bank Ltd. has been taken in this study. This study has tried to analyze and examine the practice. procedure and techniques of preparing various functional budgets. It has also tried to answer certain question stated in the statement of problem.. The basic objectives of this study is to examine how far the functional budgets are used as tool for profit planning and control process. For fulfillment of these objectives various functional budgets are analyzed in etail. These datahave been analyzed with the help of various statistical and financial tools. Descriptive approach has equally used to analyze the quantitative data where ever necessary. Data have been collected from both sources primary and secondary.

5.2 CONCLUSION

After analyzing in detail the budgeting practice in respect to profit planning in Nepal SB!, this study conduct the following:

1. Nepal SBI doesnoc prepare long term strategic profit plan. It only prepares short term profit plan which is usually reffered as budget. Time period of this budget covers one fiscal year.
2. The budget is not based on past performance but on targeted growth. which is very optimistic in both the budgeted years.
3. Nepal SB! has not made any in-depth analysis of its strength and weakness.

a) Strength

- Highly experience expatriates staff at the top level with extensive exposure in international banking environment.
- Huge volume of business origination form successful businessman of Indian origin.
- Extensive network of branches company in India of its parent company State Bank o India.
- Very friendly and cordial ties between Nepal and India in all aspects.
- Increasing volume in cross border trade between India and Nepal.

b) Weakness

- Lack of clear cut mission and coals of the company.
 - Inadequate coordination between departments.
 - Lack of corporate belongingness.
 - Inadequate autonomy in the credit decision making to the credit department.
 - Unnecessary interference of the governing board in the functioning organization.
4. Its mission and objectives have not been clearly defined and delegated to the lowest Levels.
 5. The bank has not been able to maintain a minimum level of coordination bet\’ the departments and staffs.

6. The profit budget is extremely ambitious. It is not based on scientific method past trend analysis but based on a specific target put forward by the governing board.
7. The bank is facing competition on increasing number of financial institution' these years. These had led to substantial decrease in interest rates in the market thus attributing to lower yield.
8. Budgets are prepared just to fulfils the formalities but these are not used effectively for the profit planning process.

Nepal SBI Bank Ltd. one of the joint venture banks of Nepal has crossed ten years of operation. In theses ten years of operation, Nepal SBI Bank Ltd. had been passed from experience of sweet and bitter banking results. From the starting period it has len continuously growing upward. The major advantage that Nepal SBI Bank Ltd. h; got in these years is it is able to grab the huge portion of remittance business. As the bank is established with the joint investment of State Bank of India, it has got arrange with most of the Indian Bank i.e State Bank of India. which resulted in fast remittance through draft, traveller's cheque and also swift to the different branches of Static Bank of India.

The bank had been able to record an operating profit of Rs. 6.98 crore (on provisional basis). The bank is slowly gaining momentum in earning profit after it heavily faced a loss due to draft forgery of about 1.80 million. The profit after tax had climbed up by almost 20% in the fifth financial year. While the report had been prepared the bank had published and un audited report in which the bank had recorded a profit of Rs. 267.70 million . which shows that the bank is getting popular among the customers day by day.

The bank's profit is increasing due to its efficiency in increasing loans and advances including bills purchased, which had grown up by 1.30% than previous year and had reached to Rs. 127462.16 millions in 2064/65. The bank had been able to grow in deposit with low cost rather than in previous years. It has reached to Rs. 13715.00 millions from Rs. 11445.00 in this year. Investment of The bank also had been

increased to Rs. 3120.82 million experiencing growth from Rs: 2692.27 million. Moreover the bank had been able to increase incomes and also total expenditure had been curtailed by the bank which is very good sign for the bank. Although the bank is increasing its staffs each year the banks total expenditure had been decreased.

5.3 RECOMMENDATIONS

Nepal SBI Bank Ltd. as its parent company State bank of India had to develop its banking transactions. The bank need to develop long range profit plan. Also Nepal SBI Bank Ltd.'s banking service needs to be restructured. Being one of the largest bank having many branches it should be able to develop its information technology. The bank must be able to increase its internet banking services, ATM services, any branch services and online banking services. The bank should be able to get knowledge from newly established Kumari Bank Ltd.. Nepal Bangladesh Bank Ltd. which are able to made a revolutionary any branch banking (ABB) in which any customer can perform banking transactions from any of the branches present inside the country. Nepal SBI Bank's thought towards these types of services is seem to be very far. The governing management of Nepal SBL Bank Ltd. seems to be lucrative towards the profit only whereas the major subjects to be discussed are the different types to services to be provided to the customers. Internet banking, issue of SB1 Cards and any bran banking are the major steps to be followed by NSBL. Some of the recommendation to Nepal SBI Bank Ltd. are pointed out as follows:

1. Nepal SBI should have an in-depth analysis of the banks strength and weakness. It should try and overcome its weakness by using its expertise opinion on risk analysis and loan recovery' methods from its parent company State Bank of India.
2. The objectives and mission statement of the company should be clearly stated and communicated to the middle level of staffs which should be implemented in day to day operation of the company.
3. The company should develop specific schemes to face the competition. Positive aspect of the company should be highlightened.

4. Effective programs should be initiated to improve the productivity of the staffs. Incentives at par with other commercial banks should be introduced to the staffs to increase their morale.
5. The system of periodic performance reports should be strictly followed to be conscious towards poor predominance and to take corrective action timely.
6. Variance analysis should be implemented Variance should be categorized as favorable and unfavorable and cause of unfavorable variance should be diagnosed timely. Controllable unfavorable variance should be controlled in time. Relevant officers and subordinates should be made responsible and accountable for controllable unfavorable variances.
7. Finally, a systematic approach should be made towards comprehensive profit planning. This can be contribute towards the increase in profitability of the company.

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APPENDIX - I

Questionnaire

Name

Position

Tenor of Service

Department

Would you please answer the following questions properly ?

1. The specific goals targets and achievement for FY 2064-2065
2. Growth
3. Return in the capital employed.
4. Volume to join out flow.
5. Deposit
6. Others
7. Main case of achievement (low/ high)
8. Is there a practice of preparing a long range plan ? If yes what is the period covered by the plan ?
9. What is the period covered by the short range plan ?
10. Who is responsible for preparing the budgets ?
11. On what basis budgets are prepared ?
12. Are the revenue achievements are satisfactory / If not why ?
13. What kinds of promotional and marketing medias are used ?
14. How the employees are paid ?
15. How do Bank evaluate the performance of the Bank ?
16. What are the strengths and weakness of the Bank ?
17. What major steps are taken immediately to improve the performance of the bank?
18. Is the P/L A/c of NSBL of year 2062/063 satisfactory ?
19. What are the major income source of a bank?
20. Which incomes are straighting up ?
21. Why interest income raised up this year ?
22. What is major reason behind decrease in the income from commission and discount ?
23. What actually is exchange fluctuating income ?

24. What is trading income? Why it has declined in tenth year ?
25. What is revaluation income ? Why revaluation income null in the year 2002/03?
26. Why non operating income of the bank is negative? What special fee is to be beared by NSBL ?
27. If a Bank has its CAR as 17% or per what is its effect in the P/L account of the bank.

Appendix - 1

The following topics are treated as Variable cost for FY 2064/05

Interest Expenses	454917
Provision for loan loss	57463
Provision for bonus	34803
Provision for Income Tax	100262
	647445

The following are treated as fixed costs for year 2064/065 (Rs. in thousand)

Staff Expenditure	74890
Operating Expenses	152379
	227269

Appendix - 2

Fy	X	Y	u = x-x	v = y-y	u ²	v ²
2063/64	110955	110720	-9405	-8371	88454025	70073641
2064/65	129765	127462	9405	8371	88454025	70073641
Total	240720	238182	0	0	176908050	140147282

Suppose x is the budgeted loans and advances and
 y is the actual loans and advances.

$$\text{Mean } x = \frac{\sum x}{N}$$

$$\text{Coefficient of variation} = \frac{\dagger}{x} 100$$

For Budgeted loan and advances (x)

$$\text{Mean } \bar{X} = \frac{240724}{2}$$

$$= 120360$$

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{176908050}{2}} = 9405$$

Coefficient of variation (C.V.)

$$\frac{9405}{120360} \times 100$$
$$= 7.81\%$$

For Actual loans and advances (\bar{Y})

$$\text{Mean, } x = \frac{\sum x}{N}$$

$$\text{coefficient of variation} = \frac{\dagger}{x} \times 100$$

$$\text{standard deviation } (\sigma) = \sqrt{\frac{\sum y^2}{N}}$$

$$= \sqrt{\frac{401408}{2}}$$

$$= \sqrt{200704}$$

$$= 448$$

$$\text{coefficient of Variation (C.V.)} = \frac{448}{8457} \times 100$$

5.30%

for Actual interest income

$$\text{Loan } x = \frac{\sum x}{N}$$

$$\text{Coefficient of rational} = \frac{\dagger}{x} \times 100$$

for actual interest income (x)

$$\text{Mean } y = \frac{18016}{2} = 9008$$

Appendix - 3

Calculation of mean standard deviation and coefficient of variation of Interest Incomes:

year	X	Y	u = x-x	v = y-y	u ²	v ²
2063/64	8009	8311	-445	-697	200704	485809
2064/65	8905	9705	448	697	200704	485809
Total	16914	18016			401408	971618

Suppose x is the budgeted interest
 y is the actual interest income.

$$\text{Mean } x = \frac{\sum x}{N}$$

$$\text{Coefficient of variation} = \frac{\dagger}{n} \times 100$$

For budgeted interest income (x)

$$\text{Mean } x = \frac{16914}{2} = 8457$$

For actual loans and advance (y)

$$\begin{aligned} \text{Mean } \bar{y} &= \frac{238182}{2} \\ &= 119091 \end{aligned}$$

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{v^2}{N}}$$

$$= \frac{\sqrt{140147282}}{2}$$

$$= 8371$$

$$\text{coefficient of variation (C.V.)} = \frac{8371}{119091}$$

$$= 7.03\%$$