PROFIT PLANNING AND CONTROL
OF
CHHIMEK BIKAS BANK LTD.

Submitted By :

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THAKUR RAM MULTIPLE CAMPUS, BIRGUNJ

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RECOMMENDATION

This is to certify that the thesis

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Entitled
"Profit Planning and Control of Chhimek Bikas Bank"
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"Profit Planning and Control of Chhimek Bikas Bank" and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of Master's Degree in Business Studies (M. B. S.)

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DECLARATION

I here by declare that the work reported to this thesis entitled **"Profit Planning and Control of Chhimek Bikas Bank"** submitted to Thakur Ram Multiple Campus, Faculty of Management, Tribhuvan University is my original work done in the format of partial fulfillment of the requirement for the Master's Degree in Business Studies (MBS) under the supervision of **Mr. Rajeshwar Prasad Acharya** Reader of Thakur Ram Multiple Campus, Birgunj.

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Mr. Brijesh Kumar Parit

LIST OF ABBREVIATIONS

CBB	**:**	**Chhimek Bikas Bank Ltd.**
C. V.	**:**	**Coefficient of Variation**
F. Y.	**:**	**Fiscal Years**
GDP	**:**	**Gross Domestic Products**
Govt.	**:**	**Government**
LLP	**:**	**Loan Loss Provision**
ROA	**:**	**Return on Assets**
Rs.	**:**	**Rupees**
S. D.	**:**	**Standard Deviation**
PPC	**:**	**Profit Planning & Control**
GBES	**:**	**Grameen Banking Financial System**
GBB	**:**	**Grameen Bikas Bank**
NSSC	**:**	**Neighbourhood Society Service Centre**
NRB	**:**	**Nepal Rastra Bank**
MFLS	**:**	**Micro Finance Institutions**

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INTRODUCTION

Financial position plays a vital role for overall development of country. The other function of production system can not be operated properly if financial position is not strong. The rural sector needs commercialization, diversification and modernization to uplift the living standard of the people in our country Nepal. Sustained assistance to enable them to stand on their own feet. They need assistance, exclusively targeted at then, for social development, asset creation and skill development. A properly designed and effectively implemented financial system would help the rural poor to some extent, through provision of credit, credit created productive assets as well as increase employment and income.

Credit is the main pole of finance to improve the economic condition of man, society and nation. The credit would be classified in two parts : Non organizational Credit and Organizational Credit. In present age, organizational credit is considered in credit environment.

A new recent discipline in branch of accounting is developed naming "Profit Planning and Control" Profit Planning and Control (PPC) is one of the comprehensive approaches that have been developed to facilitate effective performance of the management processes. It is a systematic and formalized approach for performing significant phase of management planning and control function. It is a managerial process that includes projection planning, organizing, staffing, leading and controlling. Therefore, the fundamental concept of PPC is that which includes all activities and tasks, which must be carried out for achieving maximum result.

Income (Profit) generation is the top indicator of the economic development of any business organization. From the commercial point of view. It is only them possible by the great knowledge and experience of well and systematic management thus; management is the process of planning, organizing communication and control.

A successful profit planning and control depends so many factors.

The essentials for successful budgeting (PPC) are as follows :

i. Adoption of Accounting System
ii. Assignment of Authority and Responsibility.
iii. Supports of Top Management.
iv. Clear and Realistic Goals.
v. Time Line
vi. Budget Education
vii. Flexibility
viii. Realistic Expectations
ix. Full Participation
x. Effective Communication
xi. Creation of Responsibility Centre
xii. Follow Up
xiii. Individual and Group Re-organization

Economic development of all country has been began through certain stages. In developing countries, when rural financing is no been strong. Over all financing condition would be bad. So rural financing is necessary to improve financial environment of country.

This research study is with reference to micro-financing concern Chhimek Bikas Bank Ltd. It is one of the important micro-financing companies in Nepal. It produces and services as loan products, saving products security fund, disciplined member welfare fund for poor and deprived women. CBB Ltd. produces and services in twenty - three of our country.

1.1 CHARACTERISTICS OF NEPALESE ECONOMY

Nepal is a small country with an area of 1,47,181 Square Kilometers. It is located between 80'4" E to 88' E longitude and between 27'22' to 20'27' N latitude. It is about 885 kilometers long from east to west and 193 kilometers wide from north to south on an average. It has the shape of an elongated rectangle. Nepal is a landlocked country. It has no coastal boarder and is surrounded on all sides by foreign landmass. It's nearest access to the sea is only through India and Bangladesh named Fulbari Banglaband Marga about 500 km. from boarder.

Nepal can be divides into three geographical regions from north to south: Mountain, Hill and Terai. Mountainous area covers an area of 22,081 square kilometers about 15 percent of the total area of the country. It consists of high and high Himalayan valleys. The hill region covers and area of 1,00,080 square kilometers, about 68 percent of the total area of country. It includes lower hills of the Siwalik range above the foothills followed by high Mahabharat hills up in the north. The Terai region covers only an area of 25,020 square kilometers, about 17% of the total area of the country. It consists of proper Terai belt Bhaba belt and Bhitri Madesh. Most of the land of country generally in mountain and hill is now useless only Terai is almost fertile and have vital agricultural importance. The Terai region is considered as the most productive area of the country as a whole and thus called the Granary on Nepal. The climate of mountain hand hill area is temperate and Terai is tropical. Although Nepal is small in size, it has remarkable geographical diversity.

Nepal is divided into five developed regions: a) Eastern development region, b) Central development region, c) Western development region, d) Mid-western development region and e) Far-western development region. For administrative purposes. Nepal has been divided into fourteen zones and seventy-five districts.

Nepal is one of the least developed among developing countries of the world. A prove into the nature and condition of Nepalese economy reveals following characteristics.

1.1.1 DEPENDENCE OF FOREIGN AID

Nepal's dependence of foreign aid is increasing. Foreign aid disbursement to Nepal from bilateral and multi-lateral sources which was equal to Rs. 382.9 million during the first plan period mounted to Rs. 478.3 million during the second plan period, Rs. 919.8 million during the third plan period, Rs. 1509.1 million during the fourth plan period, Rs. 4240.9 million during the fifth plan period, Rs. 10585.2 million during the sixth plan period, Rs. 23978.4 million during the seventh plan period. Nepal received a foreign aid disbursement of Rs. 23191.6 million during Non-plan years and Rs. 46331.2 million during the eighth plan period. Thus Nepal has so far figures for various plan periods reveal Nepal's mounting dependence of foreign aid.

Although the ration of domestic savings to gross domestic product decreased from 134 percent to 12.1 percent of during the 1993-97 periods, periods, the ratio of investment to gross domestic product increased from 218 percent to 25.1 percent during the same period. The gap was financed by foreign aid. Thus the increasing dependence of foreign aid is conspicuously evident.

1.1.2 UNUTILIZATION OF RESOURCES

Nepal doesn't have large mineral deposits. But the country's forest and water resources are substantial land resources and human resources are also important. Forests have not been used and exploited on sustained yield basis. Efforts have not also been made to ensure the utilization of forest along scientific lines for industrial processing purpose.

Because of the reckless and rampant destruction of forests, the area under forest had decreased from 50% by now with adverse effect on geo-physical stability. Nepal's water resources are adequate to provide irrigation facilities to 2.65 million hectare and to generate not less than 83 thousand megha watt of hydropower. But so far less than 30% of irrigation potential and one percent of hydropower potential have been exploited. Water delivery has proved to be from behind the state capacity.

Although land resources have prove to be substantial, productivity has remained low because of poor technology. Human resources also remain unexploded at low skill level.

1.1.3 LACK OF INFRASTRUCTURE

Infrastructure is the prerequisite for economic development. But Nepal has only 11456 kilometers of roads including 4914 kilometers of fair weather roads, which is extremely inadequate for transportation purposed, especially in view of the mountainous nature of Nepalese terrain. There are no river navigation facilities. There is only one railway, Janakpur- Jayanagar railway, and 52 km in length and only one ropeway system, Hetauda-Kathmandu ropeway, covering a length of 42 kilometers. The inadequacy of social and institutional infrastructure is also conspicuous. About 240 thousand technical personnel are estimated to be necessary for current development purposes. But availability does not exceed 25 thousand.

1.1.4 RAPID POPULATION GROWTH

Another characteristics of Nepalese economy, is the rapid growth of population. During 1940, the rate of population growth didn't exceed 1.16 percent per year. But the rate of increased to about 2.66 percent per year during the 1971-81 decade. Although the 1991 census revealed the annual population growth rate to be 2.08 percent during the 1981-91 period, it is observed to be "unrealistically low" as compared to the growth rate during the previous decade. Nepal's population doubled in a period of sixty years fro 5.6 million in the year 1911 to 11.5 million in the year 1961 to 18.49 million in the year 1991. This can be attributed to the rising of population growth. If the existing growth trends continue Nepal's population will double in a shorter period in year to come .... Now population growth rate is 2.61% and population is 2.32 millions.

1.1.5 LACK OF INDUSTRIES

Nepal's industrial sector is still in its infancy. Contribution of industrial sector to national income is only 6.4 percent. Employment in organized sector hardly exceeds one percent of total employment. This reveals the primary nature of Nepalese economy.

1.1.6 EXTREME DISPARITY

There is extreme disparity in the distribution of wealth and income. Land is the major assert and the major source of income in Nepal. But about 44 percent of the country's households have aces to only 11.78 percent of total earrings from land, whereas 48.85 percent of total earnings from land is appropriated by only 10.85 percent of households.

There is disparity in the people enjoy 54.09 percent of total income, but 45.42 percent people have only 12 percent of total income. In urban areas, 17 percent people enjoy 55.65 percent of income, but 28.75 percent people have only 8.63 percent of total income.

There is disparity in the distribution of land. In the mountains 66.66 percent of landowners have 20.04 percent of land and 0.29 percent of landowners have 15.03 percent of land, in the hills, 51.85 percent of landowners occupy 10.51 percent of land and 0.25 percent of landowners occupy 7.51 percent of land. In the Terai plains 45.65 percent of landowner hold 205 percent of land, whereas 1.23 percent of landowners hold 16.66 percent of land,

Nepalese economy is becoming increasingly dualistic in nature. Disparity in the distribution of wealth and income is increasing correspondingly.

1.1.7 LACK OF SAVING AND CAPITAL

The rate of saving and capital formation has remained very low the ratio of total domestic saving to gross domestic product was only 12.1 percent in 1997. When we take one of the facts that the rate was 13.4 percent in 1993, the decline becomes conspicuous. The low rate of saving has resulted in low rate of capital formation, low investment and low income.

1.1.8 ADVERSE BALANCE

Nepal has tremendous deficit in its trade with foreign countries. The deficit amounted to Rs. 21138.3 million during the year 1992-93. It is increasing rapidly because of Nepal's inability to generate adequate exportable surplus and raising import requirements. The deficit was increase from Rs. 6263.2 million in 1985-96 to Rs. 12048.4 million in 1988-89, Rs. 21138.3 million in 1992-93 and Rs. 56885.5 million in 1995-96. Nepal has to depends on capital inflows including foreign aid to meet this deficit.

1.1.9 UNEMPLOYMENT

The volume of disguised unemployment and open unemployment has prove to be challenging. According to NPC survey of 1984, the volume of disguised unemployment is 25 percent in urban areas and 41 percent in rural areas, and the volume of open unemployment is 4.4 percent is urban areas and 5.08 percent is rural areas. According to as estimates of eighth plan, the number of people in want of employment in increasing a the rate of 200 thousand per year and about 650 thousand people are remaining unemployment at present the pan further estimates that about one million jobs are necessary to created in view of the existing level of under employment in country.

1.1.10 WIDESPREAD POVERTY

Nepalese people are very poor. About 47% percent of the total population of Nepal is steeped in absolute poverty, according to National Planning Commission. According to Word Bank/UNDP study, poverty incidence is estimated to be around 70 percent. But the fact is that poverty is widespread in the country.

Regarding food intake, the minimum calorie requirement is regarded to be about 2256 calories per capital. But the existing level is only about 20.47 calories per capital protein intake is negligible and minerals and vitamins are almost inaccessible. Malnutrition and diseases resulting from malnutrition are rampant. Per capital availability is only 0.80 pair of shoes and 0.67 piece of dhoti in the Terai. A minimum of 11 meters of clothing material is estimated to be necessary per capital. But over 45 percent of the people are unable to fulfill even this minimum requirement.

Thus Nepalese people are underfed and underfed and underclass and are steeped in extreme poverty.

1.1.11 LOW INCOME LEVEL

Per capital income is very low and inadequate in Nepal. It has not exceeding US $ 180 equivalent per year, where as the corresponding figure for the other countries is US $ for India, US $ 400 for Pakistan, US $ 500 for Sri Lanka, US $ 540 for Indonesia, US $ 310 for China, US $ 860 for Thailand and US $ 660 for the Philippines. Nepal has the lowest per capital income level, even lower than that of Bhutan and Bangladesh. This accounts for the inability of Nepalese people to fulfill ever their basic needs.

1.2 POVERTY : AN OVERVIEW

Most of Nepalese people are completely depends on agriculture but it is based on traditional technology. Therefore rural sectors where mostly available agriculture occupation can't be reliable for maintain minimum subsistence of living.

Poverty is commonly undertaken but the concept of poverty is not clear defined as we used it frequently. There are two distinct problems in theorizing the concept first, the definition of poverty itself and secondly the specification of poverty line. Most of the economists and social scientists have defined poverty and poverty line with different views according to the different stages of development in countries. According to Mr. Oscar, poverty as "On the face of it, poverty is a situation syndrome. In which threw followings are combined: consumption, malnutrition, precarious, housing conditions, low education level, bad sanitary conditions either unstable participation in the production system or redistribution to its more primitive start, attitudes or discouragement and anomie, little particular scale of values different in some extent from than hold by the rest of society." The term, poverty is defined by Mr. Fuffin and Mr. Gregory as "Poverty can be either absolute for relative. An absolute definition of VDC might be a country in, which per capital income is less than required to purchase the basic essential of food. Clothing shelter and education however, national poverty exits just as strongly in a relative sense. If the citizens of the country know that their standard of living in only a small fraction of that of other countries. They are poor even if they are poor even if they can afford the basic necessities of life." According to this relative definition of poverty LDC can become developed only if it can narrow the gap between it and the more affluent countries.

Regarding the concept of the term Mr. Thompson defines that in the mid of 1960, 840 million people in developing countries were seriously undernourished 1. In order to explain the cause poverty Mr. Byrn and Stone say "The causes of poverty mean any and varied. Poor families lend to have little education, few earners and more children than do middle of upper class families. The characteristics of the poor are not necessarily the causes of poverty." Thus, poverty problem, especially in less developed country, in concerned with the socio-cultural institution rather than economical condition. MM Paudel has fairly well pointed out that "In a less developed country people have been laugh in the vicious circle of poverty due to the prevalent socio-cultural institutions. In order to fulfill social obligations and observe religions ceremonies from cradle to grave, people spend extravagantly, with already low income levels. They either deserve of borrow. Since savings are negligible, the channels of borrowing are much greater. The high level of indebtedness is both the cause and effect of poverty. Besides, illiteracy, ignorance, fatalism, conservatism born out of sectarian and religions prevented people from adopting modern ideas and techniques whereby they could increase their incoming keep the wolf of poverty out to their doors. Besides the cause of poverty is due to the social system which imposes the burden upon alba-bodied beggars. With the same manner of fault, the education system has also caused the increment in poverty." From this statement the cause of poverty with reference to underdeveloped countries have been made clear and beyond dispute.

In the discussing of the poverty the reference of poverty line generally occurs. The question arises what is the poverty line? Poverty line is that standard of life under which a living is not supposed as acceptable. The two worst fell into this definition living standard and acceptable level should be e-explained. Living standard denotes the life style in which all the things which are supposed as necessary for life are included for own consumption. So many things fall in the necessity but only flooding clothing, sheltering, education, health etc are included in basic necessity. Which level should be supposed as acceptable level. It is more complex question than the former, geographical situation, culture customs, neighbours, social environment etc. help in determining the acceptable level but it is difficult to be analogy.

Per capital daily income is often taken as the major measuring root for determining the poverty line. In the eighth plan, the income of Rs. 6 per capital daily of Rs. 180 per capital monthly or Rs. 2160 per capital annually is supposed as poverty line. Not only the income level is sufficient but also the price index is necessarily required for correct measurement of poverty.

Poverty as: There are basically two approaches to a study of poverty. The absolute approach considers a family or an individual to be poor if its income is insufficient to allow it to attain some standard of living. The relative approach considers a family to be poor it its income is significantly below the average level. It is concerned with inequality.

Mr. Machral clearly and fairly spreads out the term 'Poverty' with reference to absolute poverty such as, "absolute poverty is a condition of life so limited by maturation, illiteracy, disease, high infant morality and low life expectancy as to be beneath any rationalistic of human decency". By this definition the meaning of absolute poverty has been made clear above any dispute. This vivid picture of illiterate, hungry, matron poverty stricken and survival orientated people is applicable to Nepal.

These definition, there are two types of poverty approaches, absolute poverty approach and relative approach. Regarding the measurement of the extent of poverty. The people and households which are not able to fulfill their essential basic requirements, like foods, clothes, shelter, health, education, etc. due to their low per capital income an be categorized as those, who fall below the poverty line in terms of absolute poverty and those people or household which have low income in comparison to the estimated average income can be categorized as those who fall below the poverty line in terms of relative poverty. Similarly, if people are dying of hunger on account of their low per capital purchasing power, this is the absolute approach to poverty and if so one is hungry in society but some as compared with other are deprived of the are essentials this is the relative approach to poverty. Poverty is deeply rooted in low developed countries. the incomes of many people in LDCs are so small that they live in condition of permanent poverty, for example, it has been estimated.

1.3 CONCEPT OF RURAL DEVELOPMENT

The word 'Rural' can be defined areas, which is characterized by non-urban style of like occupational structure. Socially it connotes greater inter-dependence among people, more deeply rooted community life and a slow moving rhythm of life built around nature and natural phenomenon and occupationally it is highly dependent on crop farming, animal enterprises, their crops and related activities.

In order to understand the rural areas and their problems, they have to be seen from two perspectives. Any change in the rural areas requires structural change internally and the social, economic and other changes in the external relations. This implies two things: firstly, rural development cannot be achieved in full unless, the internal economy and policy undergoes a change, secondly, rural development forms a part of the total development process of the nation including that of urban areas, so that the terms of trade between rural and urban areas are as equitable as possible. Rural development, therefore, consists of two major components the internal and the external, each of which must mutually support the other for harmonious ends.

Development means quantitative as well as qualitative change. I the same sequence of thinking, rural development is a rear concept. It is a complete term, which integrates a verity of elements of human life and activities we may broadly classify the numerous elements into the following board dimension:

i. Natural
ii. Technological
iii. Economic
iv. Social

Rural development means desired changes in all these components. Rural development thus means development of the rural areas in such a way that each component of rural life changes in a desired direction and in sympathy with other components. Further more, rural development means structural changes in human welfare which is the prime goal of all development is secured at the earliest and that the society is able to absorb change necessary in the field of technology, man-environment relationship population growth etc.

1.4 HISTORICAL BACKGROUND OF ORGANIZATIONAL CREDIT

For overall development of country, financial position play vital role. If financial position is not strong the other functions of production system can't properly be operand. In our country, the rural sector needs modernization, diversification and commercialization of production and distribution system. Even among the rural people the poorest of the poor would need more sustained assistance to enable them to stand on their own feet. Construction of rural physical infrastructure would provide some assistance temporally, but that cannot provide sustained employment and income. The need assistance, exclusively targeted at than, for social development, asset creation, skill development, technology transfer marketing and longer employment. A properly designed and effectively implemented financial system could help the rural poor some extent, through provision of credit, credit created productive assets as well as increase employment and income.

Credit is the main pole of finance to improve the economic condition of man, society and nation. The credit would be classified in two parts: Non-organizational Credit & Organizational Credit. In present age, organizational credit is considered in credit environment. Here, we are discussing the historical background of organizational credit.

In Nepal, the history of organizational credit is not so long it was started from the establishment of Nepal Rastra Bank in 193. Since then gradually financial market in Nepal is growing progressively. Now there are above 500 branches of commercial banks and above 600 branches of development banks are operating in Nepal. Beside this, there is non-banking institutions such as three insurance companies and staff provident fund similarly a public investment fund for the development of capital market has been established various financial co-operative organization are established in different place.

For development of organizational credit and to make economically strong of rural and worthless people Nepal Rastra Bank is operating its function id different priority sectors. Since 1974s per directives of Nepal Rastra Bank, the two commercial Banks, Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB) have started their priority sector lending activities. Since 1981, the priority sector lending activities has been called the Intensive Banking Programs (IBP). The Agricultural Development Bank of Nepal (ADB/N) on the other hand, has initiated another innovative programs such as productive credit project (SFDP) since 1965/76. Other two credit programs such as productive credit project of Rural Women (ACRW) and Micro Credit Project for Women (MCPW) have also be initiated to cater to the growing credit needs of rural women. Especially too poorest of the poor.

In stead of the efforts made by these institutions, the credit investment is still very low in comparison to its demand. The large proportion of credit is being invested in Nepal through unorganized sectors. But it is the demand of nation that more credit should be invested for all round development of disadvantaged people through organizational with simpler and liberal policy.

Some complains have come in light through survey that the banking procedure to take credit is very complex. The poor can't avail credit without collateral securities etc. based on the previous experience on lending through financial institutions. Grameen Banks has been felt very much essential s an alternative source of financial organization in Nepal to provide poor people with credit facilities. Grameen Bank Provides credit to the member on group liabilities without collateral securities. Training I compulsory before taking loan by a member/borrower. Creating awareness, initiating disciplinary financial system through weekly repayment mobilizing resources to develop self-reliant activities etc. are its usual programs. Initially it is proposed to be the regional banks in hop of the prospect than it will utilize resources and skill for making them productive by supplying capital and promote sustainable development, creating various opportunities like employment and other social service.

1.5 WHY RURAL FINANCING ?

When rural financing is no been strong, overall financing condition would be bad in developing countries. So, rural financing is necessary to improve financial environment of country.

Commercial banks occupy a unique position among financial institutions. This uniqueness of commercial bank arises on account of the fat that among the various financial institutions banks along have the ability to create money in the form of credit and there by provided the economy with additional purchasing power and liquid invisible resources. Traditionally, however, a commercial banks has been considered basically as a business institution that aims a maximizing its own profit while undertaking its activities, its service to society being incidental to the basic objective of maximizing its own profit. This orthodox view on the nature of a bank has undergone a change in recent year and the banking system of a country is now being considered as constituting essentially and fundamentally the financial infrastructure of economy rather than as a more agglomeration of profit seeking business institutions. A well-developed commercial banking system is, therefore, one of the basic requirements of the rapid economic development of an underdeveloped country. Consequently, the functioning of commercial banks in a presently developing economy like, India should be motivated by social objectives rather than maximizing private profit of banks, therefore, have dynamic role to play in a presently developing economy like India.

1.6 NEED FOR RURAL BANKING

A case for a rapid expansion of rural banking in the country can be out on the following grounds.

i. <u>To provide Institutional Credit of Rural Areas</u> :

Secondly, expansion of Rural Banking in the Country arises on account of the need if the rural areas for an adequate elastic and cheap institutional source of credit.

ii. To mobilize Rural Saving :

Rural Banking is also necessary order to generate and mobilize the savings of the agricultural and other rural sectors of the economy for productive investment in the Non-agricultural sectors of the economy.

iii. To Induce Rapid Economy Development :

It should be also be noted that the urban industrial sector and the rural agricultural sector of an economy are not clear-cut competing sectors, on the contrary, they are complementary to each other. The development of one sector encourages as well as sustains the development of the other sector through supplying each others import requirements and by providing market for each other's products. It is possible to bring about a rapid development of an economy only when a strong link is developed between two sectors of the economy.

iv. The Promotional Role :

The promotional role which the banks can play as financial and investment advisers to their customers is equally important in bringing about rapid economic development of the rural areas in the country. Agriculturists and other rural entrepreneurs can take advantage of the advisory service with the banks. With their expert staff undertake and manage their undertakings on sound lines. This is one aspect of the non-financial promotional role, which the banks should play in promoting rural development. The presence of banks and their increasing and contact with their rural clients. They will induce a sense of financial discipline among them. It will promote the practice of cost profit calculation among the agriculturists and other village entrepreneurs and business men and these changes in the alludes of the rural people will be conductive to the economical use of scarce resources for productive purpose.

v. To Integrate the Money Market :

A characteristic feature of the Indian money market has been its traditional dichotomy, with the modern sector and the indigenous sector as its two parts.

vi. To Correct Imbalance :

As it has been pointed out above a characteristic feature of the India commercial banking system in 1969 was the existence of marked regional, local and spectral imbalances in the availability of banking facilities in the country and in the distribution of bank credit with all their adverse effects on the rapid and balanced development of the country's economy.

1.7 THE CONCEPT OF RURAL BANKING

It is now necessary and also appropriate to define the concept of rural banking. Two distinct approaches to the concept of rural banking can be adopted first, the geographical approach and second the functional approaches:

i. The Geographical Approach :

The geographical approach to the concept of "Rural Banking" is to define a rural bank as a bank or branch of a bank situated in a rural area and rural banking transactions undertaken by such a bank and confined to a rural area.

ii. The Functional Approach :

The second approach to the concept of rural banking is the functional approach according to which rural banking can be defined as financing and provision of other banking services to agriculture and other rural activities like cottage and small-scale industries, rural artisans retail trade and other self-employment programs in the rural areas. It may be noted, in this connection that the regional rural banks functioning in the country at the present area developed on this functional basis in order to provide financial assistance to certain well defined target group in the rural areas.

1.8 CONCEPTUAL FRAMEWORK OF GRAMEEN BANKING FINANCIAL SYSTEM (FBFS)

i. Background :

Banks and financial institutions have been involved in rural financing programs for more than two decade. Since early seventy commercial banks priority sector lending and Agricultural Development Bank, Small Farmers Development Program is directed toward this end. Although rural financing programs are in operation for more than two decade, they have not been effective because the rural handcuff poor are wither deprived from the credit facilities profited by these institutions or they have not able to utilize the service directed toward them. These programs were not specifically targeted, delivery mechanism were in compatible with the conditions and needs of the poor, the programs didn't lead to the creation of strong grass-roots organizations of the poor and financial resources were given at highly subsides rates. Against this background, Grameen Banking Financial System (GBFS) of Bangladesh was introduced in 1992 A. D. Though the establishment of Grameen Banks and Non-government Organizations (NGO)

ii. Historical Perspective :

Dr. Muhummad Yunus, a professor of economic first started the Grammen Bank, which was established in 1983, in 1976 as a research project. He had a strong belief the rural poor's lack of aces to credit is their biggest constraint and with the credit support, they can productively employed in income generating activities. The spectacular success of the Grammen Bank Model of Bangladesh in alleviating poverty of rural masses has led to its replicated in other part of the world including the USA. This model is being replicated in Nepal since 1993 by five Grameen Bikas Banks (GBBs) and two NGOs. The five GBBs have been established, on each in Easter, Central, Western, Mid-western and Far Western Development Region of Nepal. These five GBBs and two NGOs have been following the Grameen Banking Financial System (GBFS) and providing credits to the poorest of the poor moment of the rural areas.

1.8.1 POLICY GUIDELINES

The philosophy of economics is entirely different from those disadvantage people who are leading a clear stricken life.

CBB with its objectives, policies and programs strongly believes that poverty can be removed from the nation provided that mobilizing productively the inherent skill of human being with the help of credit through collective effort.

1.8.2 MANAGEMENT OF CREDIT

Loan is disbursed without collateral securities through unit office. Banking procedure is easy which directly approaches to rural poor. Banking procedures are simple regarding disbursement, repay, group saving supervision, preparation of monthly statement etc.

i. Credit Without Collateral Securities :

Group is considered to be backbone of the bank. All type of credit is disbursed from unit office on the basis of group liabilities.

ii. Credit Disbursement and Repayment Place :

The place, where members usually gather, is used or banking transaction : Members involve in participatory exercise for banking transaction i.e. loan disbursement, repayment saving etc.

iii. Credit Ceiling and Interest Rate :

The volume of credit will be based on the local demand. Interest will be charged ultimately on month installment. Members could receive loan for alternative business if the previous project would not give them returns an intended.

iv. Provision of Compulsory Group Training to Receive Loan :

Training is considered as an entry point of the program. Training is must for the group members to get credit. It is conducted for a fixed time period. Hierarchical one level a high personnel is authorized to take group recognition test to the members. Every member has to get through this test to be eligible member to receive loan. Those, who fail in the test, have to under go the same training again.

v. Priority of Women :

Above 50% of the total participants will be from women to undertake credit program. But till now unmarried girls and male are not allowed in group of members in CBBs of Nepal.

vi. Grassroots (Rural) based Banking Financial System :

When Grameen Bank starts to establish a new branch, its banks workers undertake a campaign among the potential borrower to confirm them about the bank and to motivate them to organize themselves into group of like five minded members, each group electing one amongst them as their group leader. Every five such group them form a center which service as the basic operating unit of CBB. It is at the openly and to accept monthly repayments, and compulsory saving deposits. While the loan are made to individual member, the group as a whole is expected to be responsible for the regular repayments of loans of all their members. This form of grassroots Banking Financial System not only remotes solidarity and participation amongst the members at the group and unit level, but also promotes mutual support and peer pressure to ensure that the loans are properly utilized and repayments made promptly. Growing the facilitates are processing of loans and reduces transaction cots. Thereby contributing to the banks viability and sustainability.

vii. Regular and Group Saving :

Borrowers are obliged to deposit 8% of the credit amount in group fund saving. Based this, they could utilize this group fund for their emergency needs whenever they encounter problem.

viii Concept of Group and Centre :

Beneficiaries are organized into group. Each group comprises of 5 members minimum 2 to maximum five groups are federated to form a unit. Unit is gathering a disadvantage people; overall banking services are delivered though this center.

1.8.3 HISTORICAL BACKGROUND OF CBB :

Chhemek Bikas Bank is a micro finance development banks. It provides micro finance services to the poor, the marginalized and the deprived, with main focus on woman giving below the poverty line. It is registered with the Company Registrar's Office in December 2001 under Company Act 2053. It obtained license in January 2002 from Nepal Rastra Bank as per development bank act 2052. It got banking model from NSSC (Neigh boyhood Society Service Center) when the government applied intermediary act. The bank started its micro credit program with the technical support of NSSC. NSSC has played a vital role in the establishment of CBB.

The introduction of the financial Intermediary Act in 1998 created a problem for the organization as the collection of savings/deposit from members was not allowed under the act at that time. A plan was therefore made for establishing a development bank. Thus, as an initiative of NSSC and with the help from different commercial banks and porters, Chhimek Bikas Bank was established. Now CBB is operated in twenty three approved districts by NRB :

Capital Structure

Authorized Capital	:	12,00,00,000.00
Issued Capital	:	6,00,00,000.00
Paid up Capital	:	5,10,00,000.00

Ownership of Share

Organization Sector	:	53.91%
Private Sector	:	16.09%
Public Shareholders	:	30%

The bank has operated 45 branches in the twenty three districts of Nepal. The Central Office is situated in Hetauda, Makwanpur.

1.8.4 PRODUCTS AND SERVICES OF CBB

i. Loan Products :

a) General Loan : Rs. 3,000.00 to 21,000.00
b) Discipline Loan : Rs. 3,000.00 to 60,000.00
c) Micro Enterprise Loan : 61,000.00 to 1,50,000.00
d) Unit House Loan : 10,000.00 to 1,50,000.00
e) Foreign Employment : 61,000.00 to 1,00,000.00

ii. Saving Production :

The bank has offered four types of saving products. The banks pays interest @ 8% in daily balance method to all kinds of saving. They are followings.

a) Monthly Saving
b) Disaster Saving
c) Optional Saving
d) Unit Fund
e) Pension Saving

iii. Security Fund :

a) Animal Security Fund : 5% Premium of Loan
b) Member Security Fun : 1% of Loan Amount

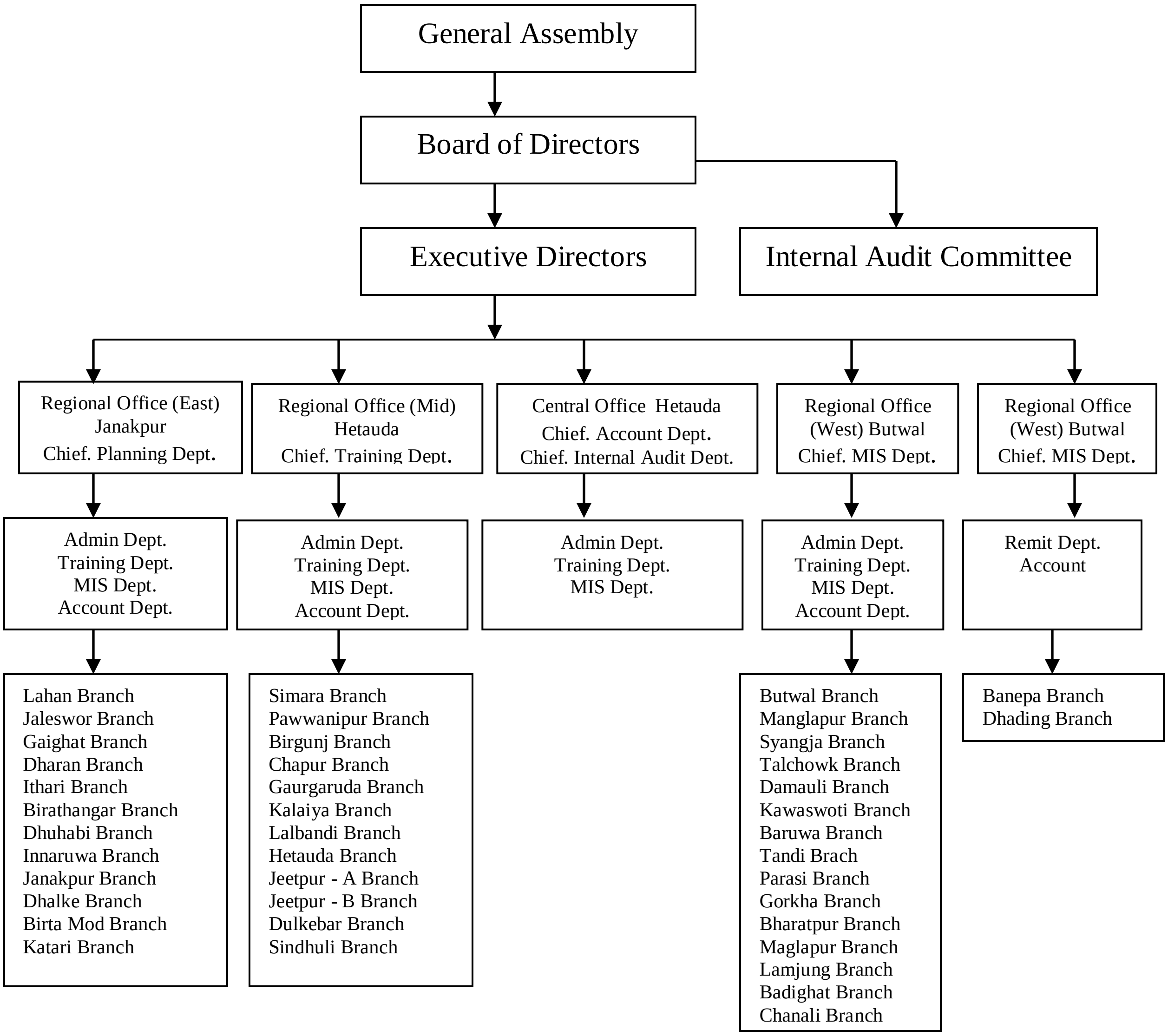
iv. Discipline Member Welfare Fund :

Every disciplined unit can get 250 rupees monthly. The above mentioned products and services are the most important for poor and deprived rural woman to improve socio-economic condition of the poor, the landless, assets less through the micro finance service.

1.8.5 ORGANIZATION STRUCTURE OF CBB

CHHIMEK BIKAS BANK LTD.

Organization Structure



1.8.6 DEVELOPMENT BANKS INVOLVED IN NEPAL BY PROVIDING MICRO FINANCING SERVICE

a) Swablamban Bikas Bank, Janakpur
b) Nirdhan Uthan Bikas Bank, Rupandehi
c) Deprose Development Bank, Narayangadh
d) Chhimek Bikas Bank, Hetauda
e) Grameen Bikas Bank (Govt. Sector) : Five Development Regional Bank

1.9 STATEMENT OF PROBLEM

In the present study, we have taken the micro finance company cbb established in 2058, continuing its operations since 2058/8/25. The main problems of micro finance company like CBB are stated below :

a) Lack of Capital : The second major problem is the lack of capital to operate its transactions successfully and independently.

b) Environment : Unsuitable environment also causes the different problems. Government policy also affects micro finance organizations to promote their future plans.

c) Income Tax Act : For micro finance company, income tax will be affordable for the uplift of the poorest of the poor. It also helps to increase the independent of any organization. The first problem is high rate of income tax for micro finance company like CBB.

d) Literacy : The low percent of literacy takes our more time and increase the expenses. This also the problem.

So, the successful operation of an organization whatever the nature of it's largely depends upon the planning system that is has adopted. Profit plan is one of he most important managerial devices that play a vital role for the effective formulation and implementation of strategic as well as tactical plans of an organization. PPC system requires the effective coordination between various functional budgets requires the effective coordination between various functional budgets of CBB like loan portfolio plan, cash budget, projected profit plan, capital expenditure plan and other business plans for PPC. Organization cannot fulfill its predetermined goals and objectives without efficient and proper planning. The basic issues of profits planning and control have been discussed in this research payer. The planning and control have been discussed in this research payer. The main fields of this CBB are in Terai area oriented for the poor and deprived people only.

1.10 OBJECTIVES OF THE STUDY

This research study is conducted in order to accomplish the outputs on the following terms :

a. To study of cost volume profit analysis and cash flow statement.
b. To study of projection plan (Budgeting Plan)
c. To point out unfavourable factors in profit plan & control.
d. To recommend suggestion for improvement.

1.11 SIGNIFICANCE OF THE STUDY

The powerful instrument for poverty alleviation is micro finance in developing countries across the world. Micro financial programs have been started in the country nearly three deadest ago but still a large number of the poor families are far from micro financial services. There is direct of indirect involvement of government in most of the implemented programs in the country but performance is poor, keeping in view the encouraging experiences of micro finance programs in other countries, the Nepal Rastra Bank (NRB) as a central bank has been making its efforts in crating environment to the private sector to the micro finance industry.

Non-governmental organization and a few private development banks have already been registered as micro finance institutions (MFLs). It provides financial services to low income and poor people their footstep in easy was and sustained manner and without collateral. Micro finance impacts not only on poverty but also impacts on welfare work at village or local level. So, micro finance company plays a vital role for the development of country.

1.12 LIMITATION OF THE STUDY

In this dynamic highly competitive and Global Business environment every thing existing here are of limit character. Limit character. Likewise this research study is not out to these limitations. So, this study could not give the expected results in the lack of real information. This study is concerned only with the problems facing by CBB in course of profit planning and control. The main focus limitation are :

a. This study is for the partial fulfillment of M. B. S. course. So, it may not be useful for other aspects.
b. Data are of limited years.
c. It is on the ground of only CBB.
d. The subject is only profit planning and control of CBB.

1.13 HYPOTHESIS FORMULATION

Proposal 1 :- Improvement of loan portfolio can increase the profit of CBB.

a) Null Hypothesis (H_O) :- There is no relation between sales and profit.

b) Alternative Hypothesis (H_1) :- If loan portfolio is increased, then profit of CBB will improve.

Proposal 2 :- Incremental of the number of members can increase the income from investment of CBB.

a) Null Hypothesis (H_O) :- There is no relation between the numbers of member and income from investment.

b) Alternative Hypothesis (H_1) :- If the number of members are increased, then income from investment will increase.

1.14 METHODOLOGY

Natural of Sources of Data :- Both primary and secondary sources of data will be in this study but mostly time scores data from secondary source will be used.

Kinds of Research :- Descriptive research will be applied as the research design for the study.

1.15 STUDY PLAN

This thesis work has five chapters, which are as follows:

1. INTRODUCTION

Financial position plays a vital role for overall development of country. The other function of production system can not be operated properly if financial position is not strong. Credit is the main pole of finance to improve the economic condition of man, society and nation. A successful profit planning and control depends so many factors: Adoption of Accounting System, Assignment of Authority and Responsibility, Supports of Top Management, Clear and Realistic Goals, Time Line, Budget Education, Flexibility, Realistic Expectations, Full Participation, Effective Communication, Creation of Responsibility Centre, Follow Up, Individual and Group Re-organization, etc.

2. REVIEW OF LITERATURE

Normally all of the available literature on profit planning is based in two direct first it is based towards profit planning and control and second it is based towards Chhimek Bikas Bank Ltd. The literature mainly relates to various aspects of profit planning and control. More of them were concerned with CBB. Different concepts on views of the different authors and writers about profit planning and control will be reviewed in this study for their related studies as for as possible.

3. RESEARCH METHODOLOGY

This chapter further attempts to explain the nature and sources of data, the list of selected company, the method of data analysis and utilization of statistical tools.

4. DATA PRESENTATION AND ANALYSIS

Under this chapter, the data collected through various have been presented in a number of tables as they are required by the research objectives. This data has been interpreted and analyzed with the help of various analytical tools and techniques.

5. SUMMARIES, CONCLUSION & RECOMMENDATION

Finally summary, conclusion and recommendation of the study are presented in chapter five. It also focuses on the major finding along with the other empirical evidence.

CHAPTER - 2
REVIEW OF LITERATURE

2.1 THEORETICAL CONCEPTS

2.1.1 PROFIT

The paramount consideration in profit without it there can not be any business. "Usually profits do not just 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" [1]. 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 profits are the valid test of the individual firms performance.[2]

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

No company ca survive long without profit, for profit is the ultimate measure of its effectiveness and in a capitalists society there is not future for a private enterprise which always incurs losses. The survival measure of the effective performance of a business is profit, which really is measure of how well a business performs economically. Profit is a signal for the allocation of resources of a business in view of the heavy investment, which is necessary for the success of the most enterprises. Profit in the accounting sense tends to become a long-range objectives measures not only the success of a product but also for the development of the market for it. [3]

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 first essence of management and all the functions are perform within the framework of planning.

Better planning is one of the frontiers of 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 plan to its activities is in advance carryout the plan and institute appropriate technique of observation and reporting to insure that deviation from plans are properly analyze and handled"[3] "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 assumptions regarding the future, this is forecasting."[4]

[1] Rechard M. Lynch and R. Willionmson" Accounting for management" (Tata Mcgraw Hill Publishing Co. Ltd., New Delhi, Third Edition). p99

[2] Rechard M. Lynch and R. Williamson" p99-100

[3] Roginald L. Jones & George H. Trentin, "Budgeting key to Planning and control" (DB taraporevala sons & Co. Ltd. Bombay, first edition, 1970)p, 13-14

[4] William L. Dejon, "Principals of Management: Text and Case" The Benjameis Cunning Publishing Co. Inc, California, 1978, p10

"As an inherent aspect of management, planning is 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."[5] Management has to have a plan of action as means of protection profit. Planning cannot of course guarantee, profit in all circumstances, but it can provide safeguards.[6] Better planning is one of the printers of better management.

Management planning and control begins with the establishment of the fundamental objectives of the organization and continues, as the process by which necessary resources are provided and employed efficiently towards achievement of the goals.[7] 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 the comprehensive framework within which this process is carried out. Such a system encompasses all aspects of an organization 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 firm acquires experience in formalized 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 the one can determine what he is going to do and how he is going to do it.

Planning is a 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 course and effect likely to result in the future and respectively, exploit or combat them as the case may be.

Planning does not eliminate risk, it minimize it. It cannot predict the future with accuracy or prevent mistakes, but it can reduce the number and magnitude of surprises and can provide contingency plants for the occurrence of both favourable and unfavourable situations.

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5 Melville C. Branch, "The Corporate Planning Process". (DB taraporevala sons & Co. Ltd., Bombay, 2nd edition, 1970) p13-14

6 TC Mc Alpine, "The Basic art of Budgeting. (Business Books Ltd. First Edition 1976)

7 Rechard M. Lynch and R. Williomson, Op. Cit, P.139

2.1.3 STRATEGIC, LONG RANGE, TACTICAL AND CORPORATE PLANNING

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 its time perspective and complete in its 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 factors, certainly all major factors the can influence the success of the business. It is concerted with policies objectives organization, methods and procurers and the other considerations that stem for them, e.g. standards of performance and controlling"[8]

Corporate planning determine long range goals 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 term goals, they can not be obtained without a forecast whose propose is to anticipate the future based on factors from the forecasts one knows that one has to aim achieve, that is the formulated the objective and them determines the means, which must be orchestrated in order to achieve objectives. Corporate therefore seems to be the technique for action now for ensuring the goal.[9]

S. Bhattarcharya makes a fair distention between corporate planning and tactical planning (Operational Planning) could be on the basis of following attributes.[10]

- Corporate planning is comprehensive and embraces long an short terms where as technical planning is fragmentary and tends to concentrate on short term basis.
- 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 time table based.
- 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 mote than ideas.

According to the period covered by the planning can be broadly divided into tow 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 follow.

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

[8] Richard M. Lynch and Robert W. Williams, op. Cit, p.140
[9] Stantaon L. R. "Long Range Corporate Planning" (UK the production engineer) quoted in Bhattarcharya, p22
[10] S. Bhattacharya, Corporate Planning selected concept", N. Delhi Moha Primalani Oxford and IBH Pub, Co. 1981

Since the description for each of the three dimensions is in relative term, there are some arbitrary distinctions. Generally, strategic planning is view as planning beyond one year, deals with the broad sub-division 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 ban be enhanced by continuous management action. It presupposes that an entity can be 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 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" to the future 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 projection 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. Ti must be revised as condition change and new information becomes available.[11]

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. Its should be realized that too mush 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. This sub-division means that there is a subset of planning decisions for each manager of the entity from the highest to the lowest management levels. [12]

The task of planning the enterprise activities involves the identification of relevant variable i.e. controllable and non-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 unfavourable effects. For non-controllable variables are necessary. In many situations, the non-controllable variables significantly influences the controllable variables, ignoring them an thus render planning meaningless.[13]

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[11] Lbid.p. 12-13
[12] Glen A. Welsh, Ronald W. Hilton & Paul N. Gordon Op. Cit, p33
[13] I. M. Pandet, "Financial Management" (Vikash Publishing House Pvt. Ltd., New Delhi), 4th Edition 1988, p.554

"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 reponsibility."[14]

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 happen to us in the future, in forecasting we define situation and recognize problems and opportunities. In planning we develops our objectives in practical detail and we correspondingly develops 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 that forecasting provide the maximum help to planners when certainty exists, forecasting does not require, when there is ignorance, the most than forecasting can do provide some clues about future possibilities in many organizations the major purpose of forecasting is to reduce uncertainly 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 values, unless they can be effectively applied in the organization planning process. A simple definition might be that a forecast is a prediction of future events condition for situation, where as a plan includes a program of intended future action and desired result. A forecast is not a plan rather it is a statement of future condition about a particular subject. A forecast should always sate the assumptions upon which it is based and it is only input into the development of plants.

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".[15] Comprehensive profit planning and control is a new term in the literature of business. Thought 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, business budgeting and simply budgeting. The profit planning and control model involves:

i. The development and application of broad and long range objectives for the enterprise.
ii. The specification enterprise goals.
iii. Development of a strategic long-range profit plans in broad terms.
iv. Specification of a tactical short-range profit plans detailed by assigned responsibility (division, department and project)
v. A system of periodic performance reports detailed by assigned responsibility and
vi. Development of follow-up procedures.

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[14] Glen A welsh, Op Cit, p15

[15] Glen A Welsch Op. Cit., p.3

[16] Young Dang John, "Profit Planning through volume cost analysis", I. Sc. p.3

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." [16]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 statements, including balance sheets, income statement and working capital/cash projection 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 development and acceptance of 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 system in the enterprise in the following respects.

i. Accounting provides inputs of historical data, which are particularly of analytical purpose in the development of enterprise plan.
ii. The financial component of a profit plan generally is structured in an accounting format.
iii. 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 broad concept of profit planning and control entails an integration of numerous managerial approaches and technique that can be exploited, the foundation for profit planning and control the is that the management must have absolute confidence in its ability to establish realistic adjectives and to devise efficient strategies to attain those objectives for the enterprises.

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

a) PPC requires major planning decisions by management.
b) PPC entails pervasive management control activities and
c) PPC recognized many of the critical behavioral implication through out the organization."[17]

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[17]Glen A Welsch, Ronald W. Hilton and Paul N. Gordon Op. Cit., p.31

2.1.6 PROFIT PLANNING AND PLANNING

Profit planning is the final process in a comprehensive planning network. Business planning does not operate with in any determined time limit but is conditioned by the particular requirements of a company's profit planning, strategic profit plan monitors strategic planning to ensure that it meets the financial requirement of management in terms of sales. Profitability and growth, the annual profit plan is change 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:

Entity Objective

(Broad & Long Range)

Economic	Owner
Customer	Societal
Employer	Output

Entity Goal

Product Lines	Profitability
Service Lines	Return on Investment

Profit Plans
Structured & Qualified

Strategic/Long Range Profit Plan	Tactical/Short Range Profit Plan
• Broad Responsibilities • Long Term Quantified	• Detailed • Quantified • Responsibility at all levels

2.1.7 LONG RANGE VS SHORT RANGE PROFIT PLANS

"Two concurrent profit plans typically are developed one 'strategic' (Long Range) and on 'Tactical' (Short Range). The strategic profit plan is broad and it usually encompass three or more years in the future. The tactical profit plans 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."[18] 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 year into the future) includes the objectives, broad goal, 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 plan.

"It is possible for a firm to develop these two profit plans for all aspects of the operation centrally. However we have expressed the prevailing view the meaningful participation in the planning process generates positive behavioural effect. Therefore these two steps envision that upon receipt of the planning premises and procedural instruction each manager in large of a major responsibility center will immediately initiate activities within his own functional sphere to develop strategic and tactical profit plan.[19]

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 log term conditions. The total planning concept generally embraces the following sub-divisions. :

- Strategic long term 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 suffers from 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 management.
6. Attaining managerial flexibility in application of the system.
7. Maintaining effective follow up procedures and adopting the budgeting system whenever the circumstances changes.

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[18] Lbid. P.34

[19] Glen A Wish Op. Cit. p.67

Management must consider the following limitations in using the profit planning and control system as a device to solve managerial problems.[20]

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 basic 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 qualitative expression of all relevant data. So there can be the tendency to attach some short of rigidity or finality of them. But rigidness 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 compete 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 in not automatic**
   A skillfully prepared PPC will not itself improved the management of an enterprise unless. It is properly implemented. For the success of PPC, it is essentials that it is understand 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 to much time and cost.

7. **Proper evaluation**
   For finding out of the deficiencies proper evaluation should be made. On the absence for proper evaluation budgeting will hide inefficiencies. So there should be continuous evaluation of the actual performance, standard also should re-examined regularly.

8. **Lower mark and productivity**
   Be setting unrealistic targets and used PPC as a pressure tactic, it will lower morale and productivity.

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[20] Glen Welsh Ronald Hilton & Paul N. Gordon Op. Cit. P. 60

2.2 PRINCIPLE AND PURPOSE OF PROFIT PLANNING AND CONTROL

A comprehensive profit planning and controlling is a systematic and formulize approach for stating and communication the firms expectation 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 PPC is to assists in systematic planning and in control the operations of the enterprise. In act it is the best sauce of communication and an important tool in hand of management.[21]

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

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.

To provide a coordinated plan of action, which is designed to achieve the estimates reflected in the budget.

To provide a comparison of actual results with 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 plan.

To provide a guide for management deism in adjusting plans and objectives as uncontrollable conditions change.

To provide read basis or 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 budget. But before going to this process we have the 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 he 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, labours policy, capital expenditure, working capital management and issue of share and debentures. On the basis of key factor current performance and to management policy, a series of functional budgets is formulated in terms of quantities and money values.".[22]

Every business organization has to carry three major functions, VBIC 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 the includes sales budget, material consumption's budget, materials purchase budget, direct labours budget, overhead budget (Manufacturing, administrative, selling and distribution). Plant utilization budget etc. process of preparing functional budget as follow:

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[21] Issac Wayne Keller & William L. Ferrana, Op. Cit, p.389

[22] P./V. Rathan "Budgeting" (Himalayan Publishing House, 1999) p. 11

- Demand estimation
- Analysis of sales budget

- Preparation of sales budget
- Preparation of other functional budget and finance budget.

After preparing the functional budget the combine result of this budget may be into 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 onset of mainly two statements in the case of service sector.

2.4 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 rescues are utilized to accomplish those plans. In any organizing you can well expect of find that.[23]

1. 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. (eg. Units sold or produces)
2. Budgets contain an element of management commitment : Managers agree to accent the responsibility for attaining the budgeted objectives.
3. Budgets are based on proposals : Those propose are usually reviewed and approved by some one in higher authority than the person is or unit to which the budgets apply.
4. Budgets can be changed only under specific conditions : Budget are plans that can modified only after a feral review and approval be higher authority.

A budget can be regarded as primarily a plan of goal or objective and we know of no better divination 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.

2.5 BUDGETING AS TOOLS FOR PROFIT PLANNING AND CONTROL

"Budgeting has long been recognized as the accepted procedure for profit planning an many of the most successful companies have applied it to good effect over a period of year." [24] 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 operation and a basis for evaluation actual results. Budgets as tools of management are an integral part of the broader system of planning and control.

[23] Robert Anthony and John Deardern "Management Control System" (Home wood III, 1980) P. 368-369

[24] TC Mc Alpine, Op, Cit, p.2

"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 influences 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 for the interest of business, management must plant to make profit and the accepted basis of this is the annual budget, properly supported by long term strategic planning and operation planning."[25]

Profit planning is heart of management and budgeting is sole appropriate technique or 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 budgeting 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. [26]

"Budgeting means deciding or estimating in advance the course of action to achieve a particular target or objectives in a gives period of time along with the numerical expression of the inputs required and the outputs expected".[27] 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, communication, motivating and authorizing actions.[28]

"A budget is a realistic statement of income and cost objective for a year. It is a plan against which the ensuring actual performance is compared to achieve control by detecting and correcting off standards performance.[29] " 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".[30]

Thus the primary purpose of budgeting is profit planning an 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 budgets the ideal project. There is the further aspect that the performance of companies is judged by the annual accounts and if 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 translating 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.[31]

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[25] Ibid, p.26

[26] My Khan and PK Jain "Management Accounting" (Tata Mc graw hill, 1991)p.296-269

[27] Gp Jakhtiya, "Budgeting and Budgetary Control" (Tata Mc Graw Hill, 1990), P.1

[29] Lawrence M. Mathews, "Practical Poerating Budgeting" Mc Graw Hill Book Co. 1977 p. 3

[30] Richard M. Lynch & Robert W. Williams, Op. Cit. P. 142

[31] TS Mc Alpine Op. Cit, p. 125

2.6 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". [32] "Whether or not a profit lower management personal accepts plan will be reflection of the degree to which top management accepts, the budget program is vital part of the companies activities and 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 personal 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 attitude 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 is the organization will be either". [33]

Budget place managers in the spot light. The natural reaction to restriction to criticism and to control is resistance and self-define. The job of education an selling is overwhelmingly important here. Too many department heads thing that budgets represents a penny pinching, negative brand of managerial pressure. To them the word budget is about as popular as say, lack off stricken for pay decrease. Ideally company personal 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 sweet 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 techniques in it self is free of emotion, its administration however is often packed with trouble. The budgets 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".[34]

"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 rigid and inflexible manner was the greatest single complaint of persons whose performance was being evaluated, through the budget process. In light of the factor management should remember that the purpose of the budget are the 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."[35]

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32 Charles T. Horngren, Op. Cit, p. 125

33 Ray G, Garrission Management Accounting Concept, control, decision making (IRW in business Publication Inc. Fifth Edition, 1988) p. 326

34 Charles T. Horngreen, Op. Cit, p. 126

2.7 FUNDAMENTAL DISTINCTIONS OF PROFIT PLANNING & CONTROL

Will established and a well understood profit planning and control lead 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 completing such schedule and counties computation and checks of such schedules.
2. The techniques of profit planning and control :
   Techniques are special approaches and methods of developing information of managerial use in the decision making process. Those approaches like forecasting lose volume, a frequent application operation research, (approached in resolving the lose-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 points, 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.
   1. Managerial involvement and commitment
   2. Organizational accounting
   3. Full communication
   4. Realistic expectation
   5. Timeliness
   6. Flexible application
   7. Individual and group recognition
   8. Follow-up

2.8 AN OUTLINE OF THE FUNDAMENTAL CONCEPT OF PPC

Welch, Hilton and Gordon viewed that the fundamental concept of PPC includes underlying activities or tasks that must generally carried out to attain maximum usefulness from PPC. An outline of the fundamental concepts usually identified with PPC is given below. [36]

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

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[35] Glenn A Welsh, Op. Cit, p.29-30

[36] Glenn A Welch, Ronald W. Hilton and Paul N. Gordon, Op, p.31-32

2.8.1 TIME DIMENSION IN PPC[37]

The problem of the manager in one hand is to accomplish the planned activities in a given time and on the other hand is to accomplish the plan itself. Phasing of the planning is of two types, one of them is (a) Timing of planning horizon & (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 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 define 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. From the viewpoint of time dimension, as manager should maintain clear but distinction between historical and futuristic consideration. Because the result derived from historical activities should be considered as platform for deciding future plan. For futuristic activities also plan can be of two types: periodic and project plan, classifying managerial into the two categories focuses on the characteristics of managerial planning and differing related needs. Project planning meets the specific requirement for an enterprise with tin certain time limits. For example: installation of plant and machinery, construction of plan building forecasting of sales are the project plans which competes with the accomplishment have said activities. But on the other hand, the periodic plan denotes the plan for 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 nee evaluation on the basis of calendar year month and days, for periodic plan, 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 range and strategic of long range. For the concept of comprehensive PPC systematic approach be applied to integrate tactical plan with strategically plan.

2.8.2 FLEXIBLE PLACATION [38]

Profit planning and control programs 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

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[37] Ibid p.40-44

[38] Ibid 45-46

are involved and hence the 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 favourable 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 an adjustment or the same.

To, cost control also, the principle of flexibility is flexibility is especially important. Expenses and cost budgets must not be used and interpreted rigid. The budget must not prevent the making off rational decisions in resects to expenses merely because expenditure was not expected. Variable expenses budgets are frequently employed to meet one of the problems 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.

2.8.3 INDIVIDUAL AND GROUP RECOGNITION/BEHAVIORAL VIEW-POINT [39]

Behavioral aspect of human being are the field of study of the psychologist, educators and speculations which has to be considered by an efficient manager. A good and dynamic leadership can resolve these problems by integration all the groups efforts for betterment of the organization.

This fact also has been considered under comprehensive profit planning and controls approach and a focus has been given to resole 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 intensity their personnel interest and organization interest and goal have to be identified accordingly. More than monetary benefit personnel satisfaction form 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 for 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 effects 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 a means of pressure and were found very negative in result. Till now some of the manager use to put 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.

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[39] Ibid p. 46-48

Another aspect of behavior recognition is the individual recognition of the world should be carefully done. The system of recognizing the efficient work if a manager 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 established 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.

2.8.4 FOLLOW UP [40]

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

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

2.8.5 MANAGEMENT CONTROL USING PPC [41]

Control may be defined simply as the action necessary to assure that objectives plans 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 the measurement in what is commonly is referred to as performance reports. This measurement and report extends to all areas of operations and to all responsibility center in the enterprise. From this points of view methodology involve reporting (1) actual results, (2) planned results and (3) the different between the two variance.

2.8.6 ACTIVITY COSTING [42]

Responsibility accounting system generally accumulates costs by department, and product-costing systems associates cost with unit of product or service. Organization also frequently find it useful to associates costs well activities. By decomposing an organization production process into a discrete set of activities and them 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 cost and benefits of continuing the activities. Moreover by systematically identifying the activities throughout the organization, managers can identify redundant activities. Some of different places in the company. An activity cost analysis can assist manages in eliminating redundant activities, eliminating activities that are not cost-benefit and achieving grater coordination among the activities that remain.

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40 Ibid p. 49

41 Ibid p. 16-19

42 Glen A Welsh Ronald W. Hilton & Paul N. Gorden, Op. Cit. p. 42-43

2.8.7 ZERO BASE BUDGETING [43]

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 activities, where as in ZBB, a manager is required to justify no only the new proposal but also the on going activities.

2.8.8 APPLICATION OF THE EXPECTATION PRINCIPLE [44]

Measurement of actual performance against planned objectives, goals and standards and the reporting of that measurement is performance reports. This type of reporting represents an effective application of the well organized management, exception principle. The exception principal holds that the manager should concentrate primarily on the exception organization usual items that appear in daily, weekly and monthly reports, whereby 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 and to take corrective action comparison with the actual result of period is in sufficient for the following reasons:

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

2.8.9 COORDINATION USING PPC [45]

Coordination is the synchronization of individual actions with the result that each sub-division 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 reconciliation of difference in effort policies and allocation of resource. When a department head is permitted to expand activities of company, than the lack of coordination can be emphasis and his department which has a negatively effect for other departments. Sales, department and production department closely retaliated ales should not to sell than production department can provide and vice-versa.

Fundamentally, coordination is attained through effective performance of the management function, coordination involves the interpersonal relationships of people 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.

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43 ibid p. 42-44

44 Ibid p. 49

45 Ibid p. 49

2.9 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 retain steps which are as follow.[46]

Commitments by the management to the proud concept of PPC and a sophisticated understanding of tits implementation and operations.

Evaluation of the organizational structure and assignment of managerial responsibilities and implementation of change demand necessary for effective planning and control.

- Evolution and recognition of the accounting system to ensure that it is a tailored to the organizational responsibilities.
- A policy determination must be mast in respect to the time dimension to be used for PC purpose.
- Development of budget educating 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.

2.10 THE PROFIT PLANNING AND CONTROL PROCESS

Overview of the PC Process[47]

Management functions	Sequential phase of the process	Primary Responsibility
Planning	1) External relevant variables : Identify and evaluate	Executive Management
	2) Broad objectives of the business :Develop organization revise.	
	3) Specific enterprise goals : Development consistent with object and goals.	
	4) Enterprise strategies : Specify major thrusts to attain the object and goals.	
	5) Executive management planning institution : Specify planning promises for managers (based on items 1-4 above)	
	6) Project plans : Develops & evaluates for each project	
Leading	7) Strategic profit plan : Develop for upcoming year	Middle Management
	8) Strategic profit plan : Develop for upcoming year	
	9) Implementation of profit plans : Implement throughout the year	All management level
Controlling	10) Performance reports : Prepare monthly reports by responsibility	
	11) Follow-up : Provide feedback, take corrective action	

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46 Ibid p. 49

47 Ibid, p. 73

2.11 COMPONENTS OF PPC PROGRAM

A PPC program should have its entire component that is required to fulfill the objectives and goals.
A PPC program for a particularly year are outlines as follows: [48]

A. The Substantive Plan
   Broad objectives of the enterprise
   Specific enterprise goals
   Specific enterprise goals
   Enterprises strategies
   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/mechanize 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 Budgets : 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 report

2.12 PROCESS OF PPC

Profit planning and control process outline 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 ear. The following eleven steps are the sequential phases of the PPC process. [49]

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[48] Ibid p. 49

[49] Ibid p.73-78

1. **Identification & 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) valuating 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 the potential favorable impacts and to minimize their potential unfavorable impacts of the organization. By relevant variable we obviously imply those that with have a direct and significant impact on the enterprise. Planning must necessary start with an objectives and realistic understanding of he 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 unworthily because the capacity of the enterprise for the future activates 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 specify the broad objectives of the enterprise. The statement of broad objectives should express the mission, vision and ethnical character of the enterprise. It purpose is to provide enterprise identify, continuity of the purpose and definition. The purpose of the statement of objectives can be surmised as follows:[50]

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

The statement of broad objectives normally should no 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 general 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 major product service lines, growth trends, production goal profit margin and ROI. There specific goals enlarge measure quantified and expressed (specified) for each major sub-division 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 as appraised to more hopes organization guesses.

50 Adapted from Steward Thompson, "Management creeds and Philosophies", p. 9

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 way 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 basis 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, make effectiveness, productivity improvement, internal strengths, financial and physical resources, public acceptance and proud and service quality.

The executive management must be involved continuously in the development of new strategy in the adopting of current on going 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 deeded 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 predict plans are developed the executive management should provide with the certain instruction and guideline to the lower level management in order to develop the lower leveled management in order to develop the profit plant of other responsibility enters. It is simply a combination 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 separated unit. The project once approved by the top management them 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 activates.

In adding to any on going projects, management should encourage continuing basis project proposals from any source tithing the enterprise. Consistent with this approach during the formal planning cycle, management must evaluate an decide upon the plan status of each project in process and select any new projects to be initiated during time dimension coverage by the up coming 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 congruently. 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 caused unfavourable behavioural effects. Assuming participatory planning and receipt of the executive management instructions, the managers of each responsibility center will immediately initiate activate within his organization her responsibility center to develop a strategic and teacher profit plan. Certain formula and procedural instructions should be provided by 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 coy 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 plans and to use members of his or he staff and line people in this meeting. From these discussion 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 from 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 at all levels requires the enterprise objectives, goal strategies and the policies be keenly appreciated and understood by subordinates. Comprehensive PPC may aid in perform in 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 origination exceeded in all major respects if these principles are flowed then various executives and supervisor clearly understand their responsibilities and the expected leveled 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 to executives to discuss implementation and action in conformance with the objectives and goals as specified in the profit plans. Similar conference is conduced at all management level. These conferences are conducted at all management level. These conferences 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 report, a clear distribution must be made between external and internal financial reports. Interest reports further classified by (I) statistical report (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 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 formulated budget. It is completely separate from the profit plan but it is used to complement it. Flexible expenses give realistic information about expenses that make it possible to compute budget amount 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 expense factor and variable expense rate.

In case 0 fixed expense the variable rate is zero. The constant factor is zero, and in the case of variable expense there is value of 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 despoiled, they are the basis for effective follow up actions. The performance variations are effects (the results). The managements must determine the underling causes. Analysis to determine the underling causes of both favourable and unfavourable performance should be given immediate priority. In the unfavourable performance after identifying the basis causes is opposed to the result 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.

2.13 BUDGETING FOR SHORT-RANGE MASTER BUDGET IN SERVICE SECTOR

A. Administrative Expenses Budget

Administrative expenses include operational costs. They are occurred in the responsibility center that provide supervision of and service to all function of the enterprise, rather than in the performance of any one function. Because a large position 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 storing 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 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 economic condition is helpful. Because most of administrative expenses are fixed and an analysis of the historical record 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 asset). 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 expenditure 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 revenue organization to achieve future cost wrought. [51] Capital budgeting is the making of long term planning decisions for investments and their financing.[52] 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 flows, the elation of project based upon acceptance criterion, and finally continual revaluation of investment projects after their acceptance.[53] The investment decisions are commonly known as capital budgeting. Capital budgeting means planning for capital expenditure in acquisition of capital assets such as new building, new machinery of 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 a available funds.[54]

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[51] Ibid, p.316-317

[52] CT Hangmen, Op. Cit., p.428

[53] Jaes C. Van Hornen, "Financial Management and Policy" Prentice Hall of India, Eight Edition, New Delhi, 1976 p.60

[54] P. V. Rathmand, Op. Cit, Pp. 154

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 expenditure 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. [55]

a) Potentially large anticipated benefit
b) Relatively high degree of risk
c) A reacting 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 debarment manage."[56]

"There are three stages of capital budgeting proposal generation, analysis and implementation."[57]

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."[58]

Component (Activity)

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

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55 J. Osteryoing "Capital Budgeting" Long term asset selection, Columns, Onion, grid, 1974 p.4

56 Glen A welsh, Ronald W. Hilton and Paul Gordon, Op, Cit, p.460

57 Glen V. Henderson, Grog I Rannoposh, James Edward "An Introduction to financial management. p.119

58 Glen A Walsh, Ronald W. Hilton and Paul Gordon, Op. Cit, p.401

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 completing 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) depreciable assets and
c) Non-depreciable assets such as lands capital expenditures decision situation may be divided into three types : i) Certainty, ii) Risk and c) Uncertainty

"The essence of 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. [59]

2.14 EVALUATION OF INVESTMENT DECISIONS

Traditionally there are several method used to measure the capital investment decision. Welch, Walton and Gordon described the basic approaches used to measure such decisions.[60]

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 ash flow method 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 in flows with the present value of the initial net cash const 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 :

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59 James C. Van Hornfren, O. Cit. p. 127

60 Glen A. Welsh, Ronald W. Hilton and Paul Gordon Op. Cit, p. 402

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

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 out-flows (Cash Cost) of the investment in the project.

Formula

$$C = \frac{A_1 + A_2 + A_3 + \ldots\ldots\ldots\ldots A_n}{(1+r) + (1+r)^2 + (1+r)^3 + \ldots\ldots\ldots\ldots (1+r)^n}$$

Where,
C = Initial Cash Outlays
R = Rate of Interest
n = Number of Years of Project
A_1, A_2, A_3, A_n etc = Expected future cash inflow t 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 a recoup a cash investment from the annual net cash inflows from the investment. The formula is :

$$\text{Payback Period in year} = \frac{NetCashInvestment}{AnnualNetCashInf.LoworganizationNetCashSaving}$$

The project, which gives 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 profile to the investment in projects. The formula is

$$\text{Average cash return on total cash} = \frac{AverageAnnualNetCashInvestment}{CashoutFlowofInvestment}$$

This project, which given the highest rate of return over the minimum required of return, is acceptable.

2.15 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 form the previously completed budget such as the sales, materials, labour, overhead and capital expenditure budget. Thus preparing the cash plan organization budget primarily involves two activities (a) combining all the planed 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 established 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 for (ii) the need of investment planning to put excess cash profitable use. The cash budgets focus 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 shorting b 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 continuous monitoring of the cash position.

Preparation of the cash budget should be the responsibility of the company treasurer. [61] 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. [62] 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 receipt 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 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 each position and for strategic long range planning.

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[61] P. V. Rathmnam, Op. Cit, p. 275

[62] Ibid. p. 466

"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 objective the management should focus on.

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

2.16 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 statement of financial position, income and cash flows are prepared in order to determine the implications of the company's plans for its future prepared in order financial condition. When the company prepares its planned income statement, the planned cash flows them 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 managers to help develop plans for each responsibility center. 68 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.

2.17 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 area of special management significant in this regard. 1. Organizing for budgetary control. 2. Characteristics of effective budgetary control system.

2.17.1 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 budget director. In addition to the budget department, which serves as formal staff unit an organization may have 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".[63]

2.17.2 CHARACTERISTICS OF EFFECTIVE BUDGETARY CONTROL SYSTEM

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

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

2.17.3 PERFORMANCE REPORTS

"Performance reporting i and 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 astatine".[64] 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 standee format. Such reports are designed to facilitate internal control b 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 in point both efficient and inefficient performance. These reports serve to motivate managers to perform in conformably with exacted actions. Moreover they signal upper management when operational are not proceeding according to the plans.

"The main objectives reports in the communication f 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 behavioural problems because in efficiencies as well as efficiencies of individual are pin pointed and reported. Therefore retain criteria must be developed in designing performance reports i.e. performance reports should be" [65]

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.

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[63] Ibid. p.486

[64] Glen A Welsch, Op. Cit. p.487

[65] Glen A Welsch, Op. Cit. p.440

4. Adapted to implement the management by exception principle.
5. Simple understandable and report only essential information.
6. Accurate and designed to pin point 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."[66] "The extent to which the various managers utilize their performance reports depends upon many factor, some behavioural and some technical. One important factor is the extent to which the performance reports is 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 other than the report maker. Titles and heading 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 non-essential information. Performance report should be standardized. Report must be kept relevant". [67] Minimizing the time gap between the decision and report another important aspects of performance report. If an unfavourable situation continues before correction, the greater the financial loss 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 favourable unfavourable variances 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 is numerous method of expressing variance. The expression of variance as absolute amounts is not always satisfactory because n absolute amount tending 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".[68]

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

The performance reports should (i) include all significant aspect of operation (ii) be consisted with the assigned responsibilities and (iii) implementation the management by exception principle.

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66 Ibid, p.491
67 Ibid, p.497
68 Ibid, p. 502

2.17.4 BUDGET VARIANCES

The difference between standard costs and actual cost is variance. Variances are deemed favourable or unfavourable depending on whether they reflect performance above or below standard. Variables are analyzed according to their cause and the person responsible.[69] 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 dad to the uncontrollable. This distinction of variance is extremely important.

Variance analysis is an important tool that can increase the usefulness of periodic performance reports. Rather then 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 result 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 mad to determine the underlying cause. There are numerous ways to investigate variances to determine the underlying cause."[70]

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. Social 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:

Investigations of variance between actual results of current period and actual results of prior period. The prior period is considered as the base.

Investigation of variances between actual results and standard costs. The standard cost is used as the base.

Investigation f the variances between actual results and planned or budget goals reflected in the profit plans. The planned or budget goals are used the base.

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69 R. M. Lynch and R. W. Williamson, Op, Cit, p.508

70 Glenn A Welsch, Ronald W. Hilton and Paul N. Gorden, Op.5.570

2.18 REVIEW OF RESEARCH WORK

2.18.1 REGARDING PROFIT PLANNING

Few researches have been made in the areas of profit planning in Nepalese context in the fulfillment of Master Degree of Business Studies. Of those research done in the past, this study is that is based on Micro Financial Instantiation 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 bikes banks. (Micro Financial Institution)

REVIEW OF THESIS

Uma Devi Karki [71] 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 Mrs. 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 recommendation. 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 very year in both the banks and the provision for bad debt is higher is 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 show that RBB is more dependent in interest income than HBL.
4. Return of paid up capital is always negative in RBB. Net profit is also negative in RBB.
5. Ration of loan and advances to customers deposits show 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 HBL.
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 HBL.
8. Interest coverage ratio of both banks is more than I except in the FY 1995-96 of RBB. It shows that interest paying capacity of both the banks is sound but the ration of HBL is higher that the ratio of RBB. It means HBL is more strong to pay interest liability.
9. No proper planning strategy seems to be developed although HBL is operating at profit put R is running with heavy cumulative loss.
10. As the accounting system of RBB is careless that is 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, an attempt is made to analyze on the basis of data published.
13. Government seems less conscious in the present situation of RBB.

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[71] Uma Devi Karki "A comparative study on Profit Planning of Rastriya Banijya Bank and Himalayan Bank Ltd." submitted to central department of Management, T.U. Kirtipur, 2000

Mrs. 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 banks should plan of profit by linking its activities with income generation 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 it 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 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 the they can run the bank easily in future. Both banks should try for proper image building from international perspective.
10. Proper profit panning 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.

2.18.2 REVIEW OF JOURNALS

For better consequences of every commercial bank, **Dr. Mnohar Krishna Shrestha**[72] has given some suggestion. The more honestly one applies these concept, the better change it brings in life of the banks. His views 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 film who has overdue loans for two or more year.
2. Strong reservation should be applied in restructuring portfolio relating to overdue loans.
3. All credits even overdrafts should be given a maturity data 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 have proper check and balance.
5. An estimate of personal wealth and income must be considered while granting credit to individuals.

[72] Dr. Manohar Krishna Shrstha "Commercial banks comparative performance evolution", (Karmachari Sanchaya Kosh Publication, 2047 B.S)

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 cobber from the beginning. For bad loans a less stringent provisioning should be adopted depending upon consideration of customer situation and value of guarantees. An 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 - 3
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 basis objectives other sub-objectives are also formulated and the research mythology 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 CBB Ltd. Therefore the study is closely related with the various functional budgets and other accounting statements, these information and data are presented in a 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 CBB of the total population of commercial banks in Nepal, CB has been randomly chosen for the case study.

3.4 PERIOD COVERED

This study paper covers a time period of six 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 2060/061 to FY 2065/066. Both budgeted and actual have been takes 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 dialoguers with the at least ten executives and other staffs of CBB Ltd.

Secondary data have been taken from published financial statement of CBB such as audited profit and loss statements, cash flow statement and balance sheet publication of CBB Bank Ltd. In the web site, publication in bankers reviews article, 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 analyses 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 CBB other variables are also used where as necessary.

3.8 RESEARCH QUESTIONS

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 he 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 - 4
DATA PRESENTATION AND ANALYSIS

4.1 SCENARIO OF CBB LTD.

Chhimek Bikas Bank Ltd. is a micro finance development bank. It provides microfinance services to the poor, the marginalized and the deprived, with the main focus on woman living below the poverty line. It was registered with the Company Registrar's Office in December 2001 under Company Act 2053 in the class "Gha". It obtained license in January 2002 from Nepal Rastra Bank as per Development Bank Act 2052. It got banking model from NSSC (Neighbourhood Society Service Center) when the government applied intermediary act. The bank started its micro credit program with the technical support of NSSC. NSSC had played a vital role in the establishment of Chhimek Bikas Bank.

The introduction of the Financial Intermediary Act in 1998 created a problem for the organization, as the collection of saving/deposits from members was not allowed under the act at that time. A plan was therefore made for establishing a development bank. Thus, as an initiative of NSSC, and with the help from different commercial banks and promoters, Chhimek Bikas Bank was established. The Central Office is located in Hetauda. The bank has been providing its services to the members in 23 district having 45 branches.

4.1.1 SHAREHOLDING PATTERN

Authorized Capital	:	Rs. 12,00,00,000.00
Issued Capital	:	Rs. 6,00,00,000.00
Paid Up Capital	:	Rs. 5,10,00,000.00

SHARE OWNERSHIP

S. no.	Shareholder's Name	Number of Share	Percentage
1	NSSC	91,358	17.91%
2	Nabil Bank Ltd.	61,200	12%
3	Himalayan Bank Ltd.	61,200	12%
4	Bank of Kathmandu Ltd.	61,200	12%
5	Private Promoter Shareholder	82,042	16.09%
6	Public	1,53,000	30%
	Total	**5,10,000**	**100%**

4.1.2 PERFORMANCE HIGHLIGHTS

The overall performance of the bank remained quite satisfactory during the FY - 2065/066. The process achieved by the bank during the period is manifest in the key performance indicators summarized below.

Table No. 1

S. no.	Particulars	FY-2060/061	FY-2061/062	FY-2062/063	FY-2063/064	FY-2064/065	FY-2065/066
1	Paid up capital	10,000,000	10,000,000	10,000,000	30,000,000	51,000,000	51,000,000
2	General Reserve	279,233	1,392,817	3,958,895	6,639,910	10,652,888	16,821,891
3	Deposits	21,735,095	39,609,926	69,434,928	106,004,806	263,032,329	416,397,979
4	Loan & Advance	150,180,647	204,330,230	273,327,315	325,308,222	560,330,740	803,951,185
5	Investment (Loan Portfolio)	74,815,400	117,485,742	201,687,704	280,554,764	564,748,561	894,178,166
6	Financial Income	17,349,382	29,443,512	49,342,241	65,247,507	114,441,795	162,893,268
7	Financial Exp.	6,691,214	9,192,408	13,270,975	17,776,466	32,864,087	55,323,517
8	Operating Profit	4,218,477	10,386,196	21,636,929	23,693,069	37,493,180	47,453,463
9	Net Profit After Tax	1,106,065	5,567,917	12,830,390	13,405,076	20,064,888	26,595,018

The above table shows that the growth of the bank's total deposits has been increasing in overall but in comparison with previous year, deposits has increased by 58.31% than FY 2064/065. Similarly, in the prevalent not so favourable climate for credit development, total disbursement under banks loan & advances reached the level of Rs. 803,951,185. Registering a moderate growth of 43.48% over the previous year. The growth of 43.48% in credit dissemination while the growth in deposits was contained at 58.31% which indicates a much better management of the available resources.

In keeping with the guidelines of Nepal Rastra Bank, the bank is consistently increasing its exposures to the deprived sectors of the economy. During the FY 2065/066 the bank's lending to the deprived sector or investment (Loan Portfolio) reached the level of Rs. 894,178,166, registering growth of 58.33% in Loan Portfolio FY 2065/066 to the deprived sectors has been maintained as performance guidelines of Nepal Rastra Bank. One of the most redeeming features of the performance has been the increase in the Financial Income by 42.34% in FY 2065/066. This was made possible due to the marked emphasis laid by the bank on recovering unrealized interest. In comparison, the Financial Expenses has been grown by 68.34% only due to low cost deposits and loan loss. The bank's Operating Profit & Net Profit increased by 26.56% and 32.54% respectively in the FY 2065/066. The growth in profit remained subdued owing to the slow credit take off, tardy growth in micro enterprises business.

4.2 BRIEF OVERVIEW

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

- To identify the profit planning process adopted by CBB.
- 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. CBB prepares only short-range profit plan which covers a time span of one year. The accounting or fiscal year of CBB beings from 16th July to 15th July (1st Shrawan to 30 Ashadh) of the following year.

Since CBB only prepares short-range profit plans, the study will be focused of short-term profit plans only.

To analyze the financial trend and estimate the possible future trend of CBB study has covered a period of 6 years from FY 2060/061 to 2065/066. Two years represents the technique, process and other procedures of preparing the budgets. Various functional budget of FY 2060/061 to 2065/066 are the based 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 ANALYSIS OF BUDGETED AND ACTUAL PERFORMANCE

4.3.1 REVENUE AND EXPENDITURE BUDGET OF CBB

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

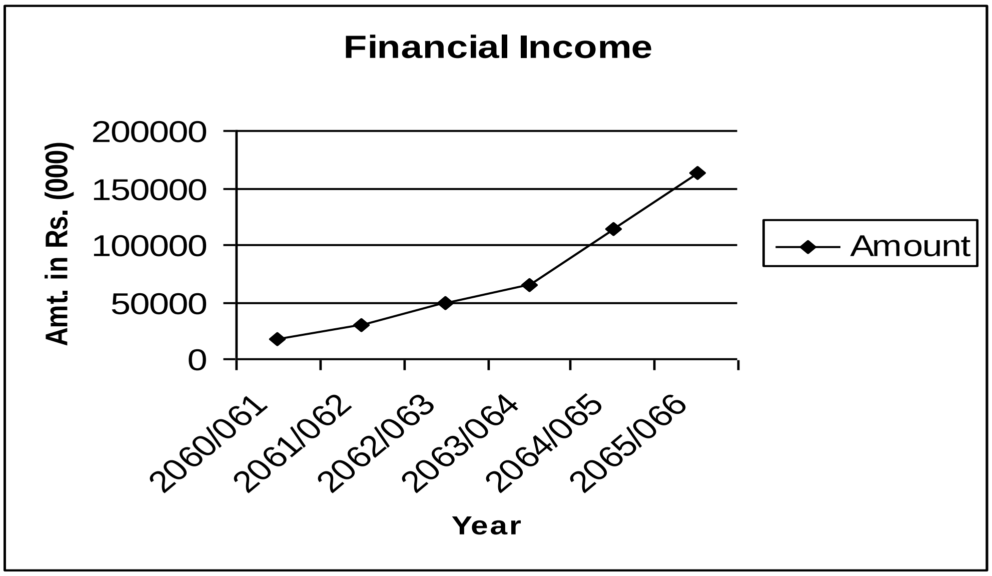
4.3.1.1 TOTAL FINANCIAL INCOME (TOTAL REVENUE) FROM LOAN INVESTMENT

CBB's main source of income is interest income on its investment in different sectors. Financial income includes interest income from loan investment, fees income, other income and miscellaneous income. Financial income or total revenue of CBB as follows:

Table No. 2

Year	Amount	Amt. (in 000's)	% (Change)
2060/061	17,349,382	17,349	62.04
2061/062	29,443,512	29,444	69.71
2062/063	49,342,241	49,342	67.58
2063/064	65,247,507	65,248	32.23
2064/065	114,441,795	114,441	75.39
2065/066	162,893,268	162,893	42.33

Chart No. 1



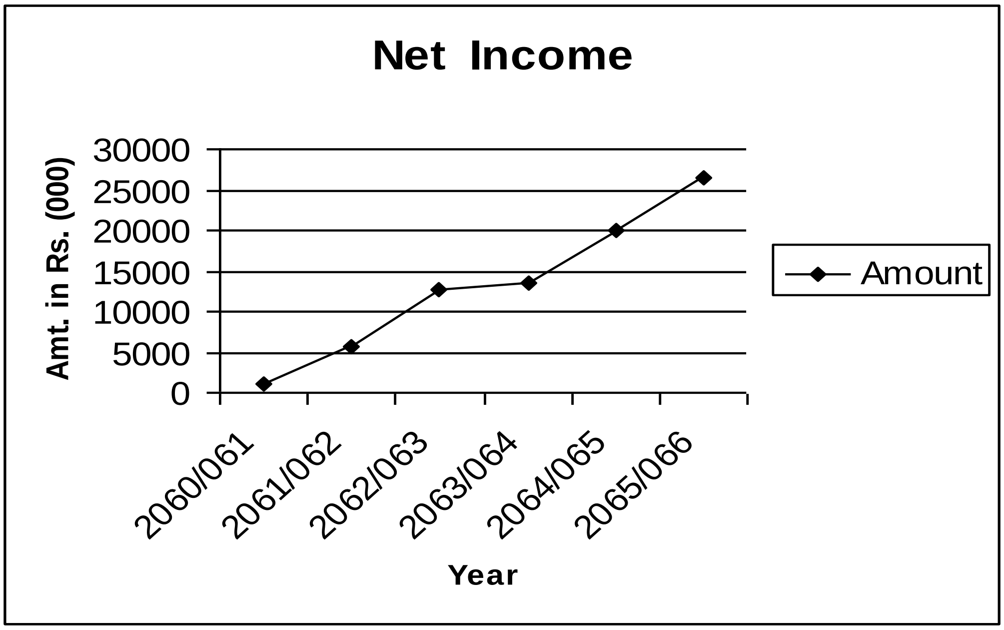
Total financial income of the bank from the last six years if seen to be positively moving upwards. The above graph of the total financial income or total revenue show the positive trend of the total revenue. The bank recorded total revenue or total financial income of Rs. 162,893,268 than Rs. 114,441,795 in the previous year 2064/065 which is almost increased by 42.33%.

4.3.1.2 NET INCOME (NET PROFIT) OF CBB

Table No. 3

Year	Amount	Amt. (in 000's)	% (Change)
2060/061	1,106,065	1106	289.63
2061/062	5,567,917	5568	403.40
2062/063	12,830,390	12830	130.43
2063/064	13,405,076	13405	4.48
2064/065	20,064,888	20,064	49.68
2065/066	26,595,018	26,595	32.54

Chart No. 2



The table and chart shows that Net Profit is in highly increasing trend. In fiscal year 2065/066, net profit of CBB is Rs. 26,595,018 which is less increased by 32.54% than the FY 2064/065 of amount Rs. 20,064,888 which is almost increased by 49.68%. It indicates that the profitability of the bank is in very good condition.

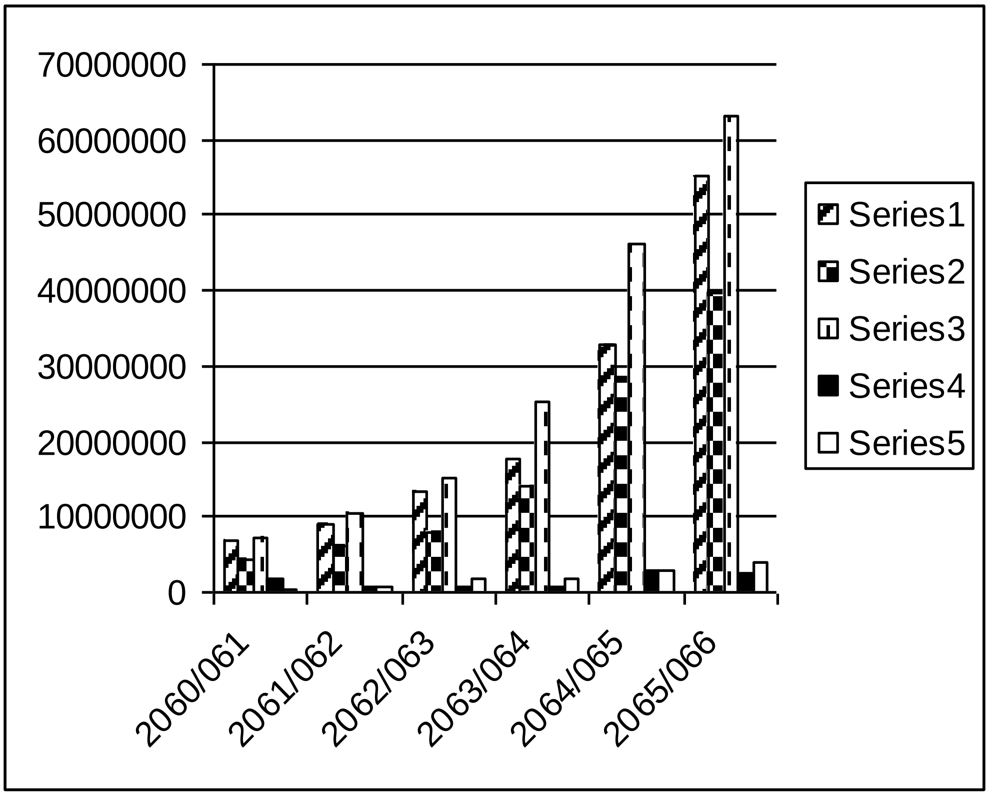
4.3.2 EXPENDITURE OF CBB

CBB's interest expenses are playing major role in expenses. The bank is generating expenditure from different sources. Interest is major source in addition, employee's expenses and operating expenses, staff bonus, providing for losses and income tax. Six years period analysis of total expenditure of CBB from FY 2060/061 to 2065/066 is as follows:

Table No. 4

Expenditure/Year	2060/061	2061/062	2062/063	2063/064	2064/065	2065/066
Total Interest Exp. (Financial Exp.)	6,691,214	9,192,408	13,270,975	17,776,466	32,864,087	55,323,517
Personnel Exp.	4,296,271	6,109,212	7,995,800	13,918,229	28,505,704	39,758,088
Operating Exp.	7,068,103	10,518,855	15,310,861	25,145,106	46,268,566	63,222,271
Loan Loss Provision	1,699,355	774,325	741,357	873,656	3,013,864	2,555,309
Staff Bonus	189,071	814,357	1,819,913	1,950,207	2,935,934	3,799,288

Chart No. 3



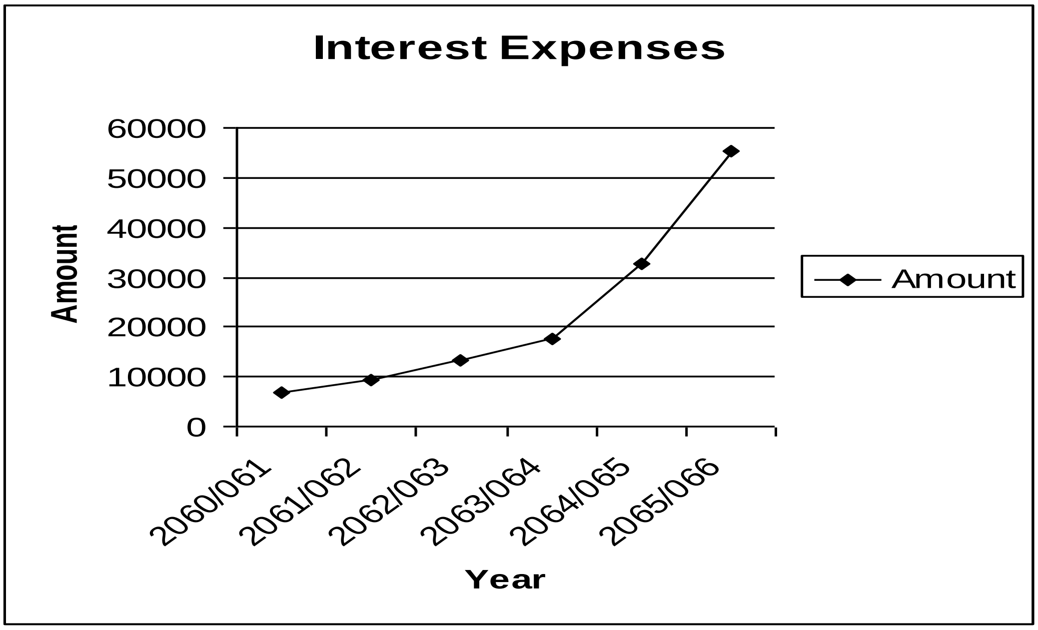
Above table shows total interest expenses includes interest on saving, interest on loan and borrowing, is in increasing trend from first to last year. In fiscal year 2060/061 bank had to bear interest expenses to Rs. 6,691,214. In FY 2065/066, it is reached to Rs. 55,393,517. It is cleared that interest expenses, personnel expenses & operating expenses are the major expenses and other loan loss provision, staff bonus are the minor expenses. Personnel expenses is in increasing trend in all year. In FY 2060/061 it is Rs. 4,296,271 and increased by year in FY 2065/066 it is reached to Rs. 39,758,088. Operating expenses is second major expenses of the bank and it is also in increasing situation. In FY 2060/061 the amount of operating expenses if Rs. 7,068,103 and in FY 2065/066 is also Rs. 63,222,271. Bank has provided amount for loan loss in FY 2060/061 and 2065/066 are Rs. 1,699,355 and Rs. 2,555,309 respectively. Bank provided staff bonus in FY 2060/061 to FY 2065/066 which is upward in trend. Overall analysis of expenses it indicates that in FY 2065/066 all expenses was increased than previous year.

4.3.2.1 Interest Expenses (Financial Expenses) of CBB

Table No. 5

Year	Amount	Amt. (in 000's	% (Change)
2060/061	6,691,214	6,691	46.61
2061/062	9,192,408	9,192	37.38
2062/063	13,270,975	13,271	44.37
2063/064	17,776,466	17,776	33.95
2064/065	32,864,087	32,864	84.87
2065/066	55,323,517	55,323	68.34

Chart No. 4



CBB's financial expenses is one of the major expenses to be met. Above table and chart show that interest expenses on deposits, loans & borrowing is in increasing trend. In FY 2060/061 it is of Rs. 6,691 thousand and in next year it is increased to Rs. 9,192 thousand means expenses increased by 37.38% and volume of deposits, loan and investment also increased suddenly in the bank. In FY 2062/063 interest expenses reached to Rs. 13,271 thousand and in FY 2063/064 it is reached to Rs. 17,776 thousand. Similarly interest expenses is increased in FY 2063/064 by 33.95% amount to be Rs. 17,776 thousand which is more increased than FY 2063/064. But in FY 2065/066, interest expenses are less increased by 68.34%.

By the above data presentation, we can say that deposits, loans, borrowings nd investment condition of the bank are strong year by year.

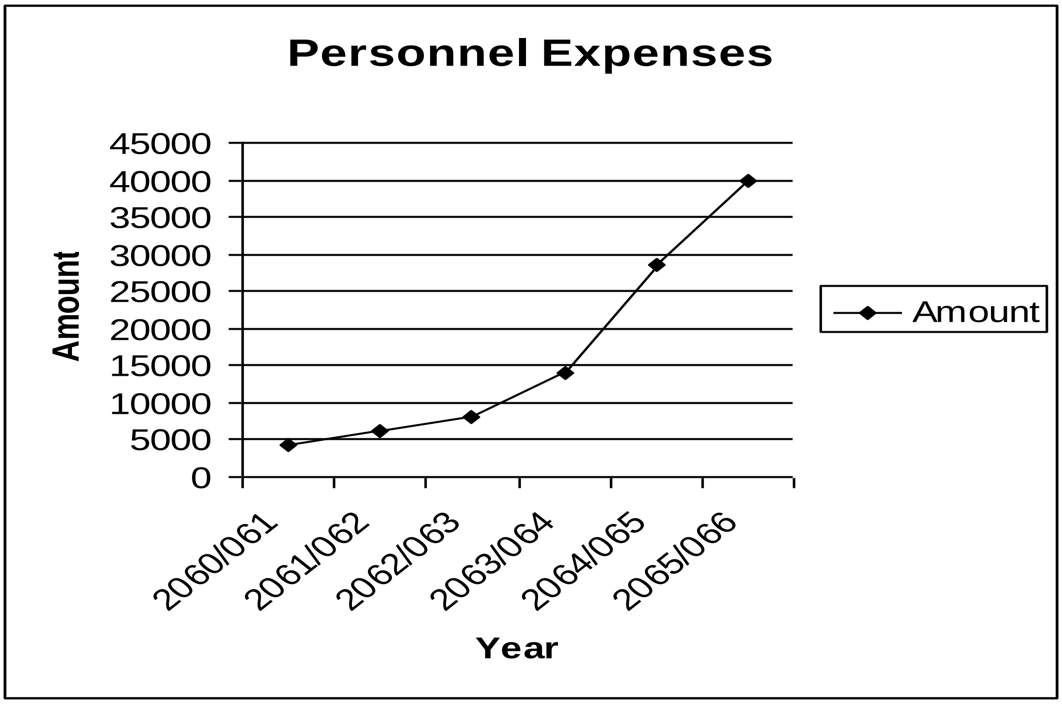
4.3.2.2 EXPENDITURE OF PERSONNEL OF CBB

The main expenditure source is employee expenses (Personnel Expenses), it includes salary, allowance, provident fund, training expenses etc.

Table No. 6

Year	Amount	Amt. (in 000's)	% (Change)
2060/061	4,296,271	4,296	54.33
2061/062	6,109,212	6,109	42.20
2062/063	7,995,800	7,996	30.88
2063/064	13,918,229	13,918	74.07
2064/065	28,505,704	28,505	104.81
2065/066	39,758,088	39,758	39.47

Chart No. 5



Above table and chart shows that employee expenses of the bank is in increasing trend. In FY 2060/061 total employee expenditure is Rs. 4,296 thousand only and in FY 2061/062. But it is increased by 42.20% and reached Rs. 2,784 thousand. In FY 2062/063 total employee expenses is Rs. 7,996 thousand which is 30.88% with comparing previous. Then in FY 2063/064 it reached to Rs. 13,918 thousand and in FY 2064/065 it is Rs. 28,505 thousand. But in current year 2065/066 employee expenses of the bank is less increased by 39.47% to Rs. 39,758 thousand than previous year.

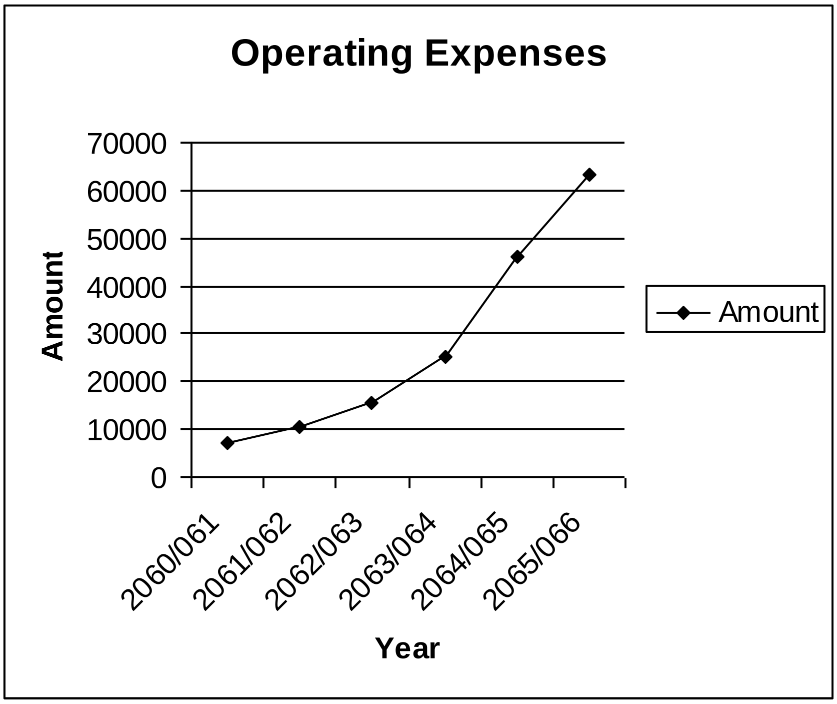
4.3.2.3 OPERATING EXPENSES OF CBB

Operating expenses are also other major expenses of the bank. Following table presented the data of the operating expenses of CBB for six year.

Table No. 7

Year	Amount	Amt. (in 000's)	% (Change)
2060/061	7,068,103	7,068	54.54
2061/062	10,518,855	10,519	48.82
2062/063	15,310,861	15,311	45.56
2063/064	25,145,106	25,145	64.23
2064/065	46,268,566	46,268	84.01
2065/066	63,222,271	63,222	36.64

Chart No. 6



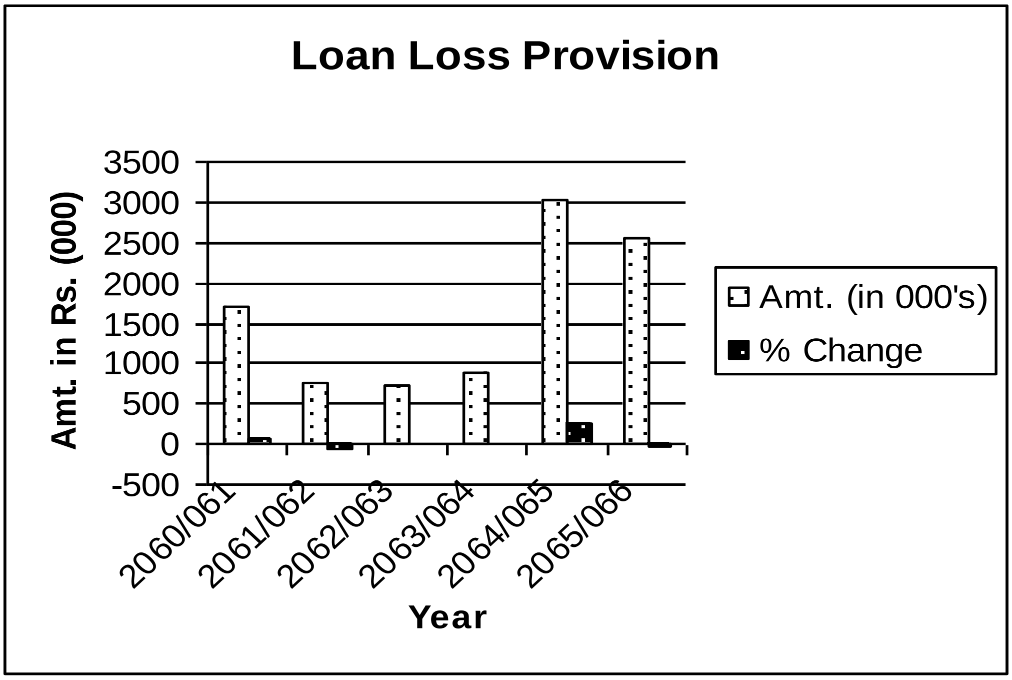
Above table and chart show that operating expenses of the bank is in increasing trend in first six year. In FY 2060/061 total operating expenditure of the bank is Rs. 7,068 thousand and in FY 2061/062 it is increased by 48.82% and reached to Rs. 10,519 thousand. In FY 2062/063 it is became Rs. 15,311 thousand, which is increased by 45.56%. In FY 2063/064 it is reached to Rs. 25,145 thousand by 64.23% and similarly in FY 2064/065 it is less increased than FY 2063/064. But in current FY 2065/066 operating expenditure of the bank is less increased than previous year.

4.3.2.4 LOAN LOSS PROVISION OF CBB

Table No. 8

Year	Amount	Amt. (in 000's)	% (Change)
2060/061	1,699,355,	1,699	56.78
2061/062	774,325,	774	(54.43)
2062/063	741,357	741	(4.26)
2063/064	873,656	874	17.85
2064/065	3,013,864	3,014	244.97
2065/066	2,555,309	2,555	(15.21)

Chart No. 7



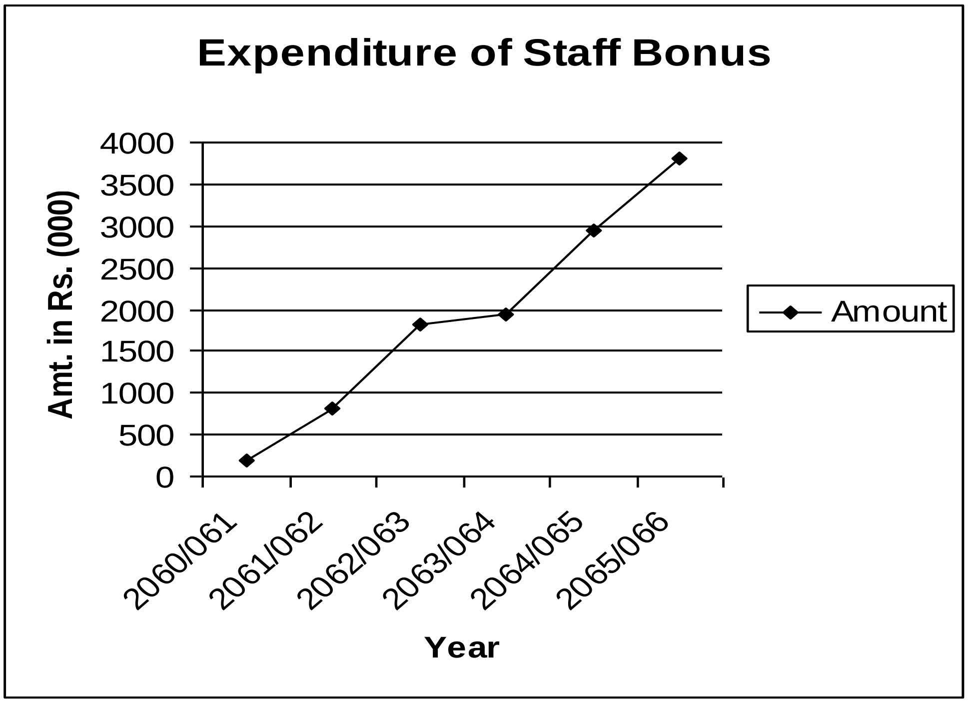
Every bank had to separate certain amount as provision for loan loss in case bank fails to recovery of loan. It is vital for every financial institution. The provision for loan loss had decreased in FY 2061/062 and FY 2062/063 that shows the bank had been able to invest in quite safe sector with higher chances of return back or repayment. In FY 2065/066 the provision made was Rs. 2555 thousand only which is maximum loan loss provision is in fluctuation condition. Above table and chat cleared that the loan loss provision is in fluctuation by year to year.

4.3.2.5 EXPENDITURE OF STAFF BONUS

Table No. 9

Year	Amount	Amt. (in 000's)	% (Change)
2060/061	189,071	189	289.63
2061/062	814,357	814	330.71
2062/063	1,819,913	1,820	123.48
2063/064	1,950,207	1,950	7.16
2064/065	2,935,934	2,936	50.54
2065/066	3,799,288	3,799	29.41

Chart No. 8



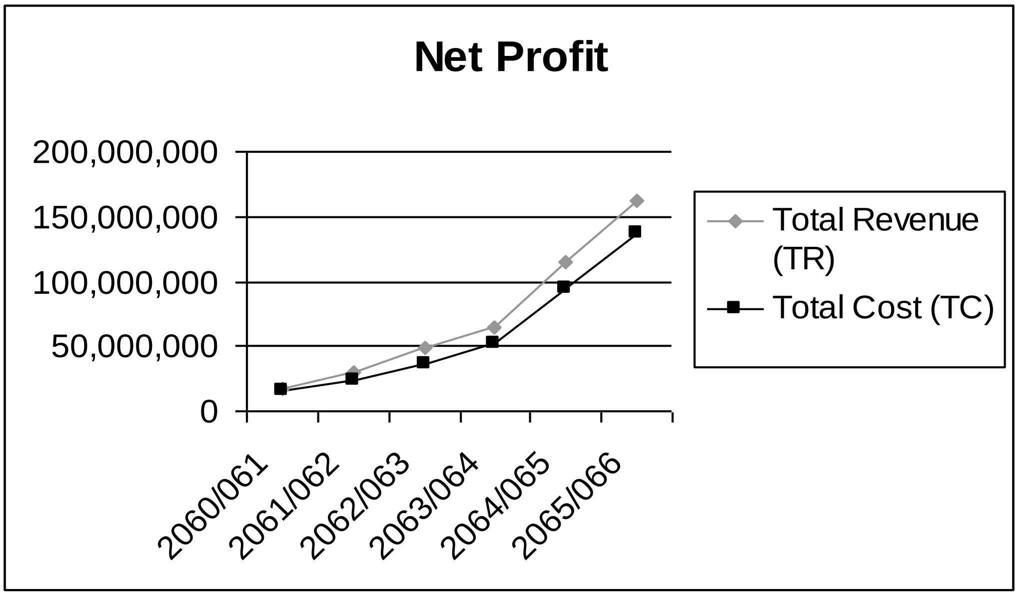
Bonus is a motivated factor for employees in every organization. It helps to increase efficiency of the employees. It has been seen from the above table and chart that, the staff bonus expenditure is in increasing trend. In FY 2060/061 it became Rs. 189071 only but in the year of 2061/062 it became Rs. 814,357l Also it is increased in the year 2062/063 to Rs. 1,819,913. In FY 2063/064 it became Rs. 1,950,207 and in last year 2064/065 it became Rs. 2,935,934 which is the maximum but in FY 2065/066 it is slightly increased to Rs. 3,799,288 than the previous year.

4.3.2.6 REVENUE AND EXPENDITURE OF CBB

Table No. 10

Year	Total Revenue (TR)	Total Cost (TC)	Profit (TC-TR)
2060/061	17,349,382	16,243,317	1,106,065
2061/062	29,443,512	23,875,595	5,567,917
2062/063	49,342,241	36,511,851	12,830,390
2063/064	65,247,507	51,842,431	13,405,076
2064/065	114,441,795	94,376,907	20,064,888
2065/066	162,893,268	136,298,250	26,595,018

Chart No. 9



Above table and chart presents Net Profit is equal to Total Revenue minus Total Cost so that the revenue chart is moving higher and higher than that of expenditure. There is steady growth in expenditure where as quite satisfactory growth in profit. Net Profit is the gap between TR and TC. It is smoothly in increasing trend. So the bank is able to maintain quite low expenditure, so that there is a gap increasing in between revenue and expenditure.

4.3.3 CORRELATION ANALYSIS BETWEEN LOAN PORTFOLIO AND INTEREST INCOME

Correlation coefficient shows the significance relationship between two variables within certain time period. The formula for the calculation of Karl Person's correlation coefficient (r) is:

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

Table No. 11

Fiscal Year	Loan Portfolio (X)	Interest Exp. (Y)	$x=(X-\bar{X})$	$y=(Y-\bar{Y})$	x^2	y^2	x.y
2060/061	74,815	17,349	(280763)	(55771)	78,827,862,169	3,110,404,441	15,58,433273
2061/062	117,486	29,444	(238092)	(43676)	56,687,800,464	1,907,592,976	10,398,906,192
2062/063	201,688	49,342	(153891)	(23777)	23,682,439,881	565,345,729	3,659,066,307
2063/064	280,555	65,248	(75024)	(7871)	5,628,600,576	61,952,641	590,513,904
2064/065	564,748	114,442	209,170	41,322	43,752,088,900	1,707,507,684	8,643,322,740
2065/066	894,178	162,893	538,600	89,773	290,089,960,000	8,059,191,529	48,351,737,800
N=6	∑X=2,133,470	∑Y=438,718	∑x=0	∑y=0	$\sum x^2$=498,668,751,990	$\sum y^2$=15,411,995,000	∑x.y=87,301,980,216

$$\bar{X} = \frac{\sum X}{N} \qquad \bar{Y} = \frac{\sum Y}{N}$$

$$= \frac{2133470}{6} \qquad = \frac{438718}{6}$$

= 355578.33 = 73119.67

= 355578 (aprox.) = 73120 (aprox.)

Now,

$$r = \frac{\sum x.y}{\sqrt{x^2 y^2}} = \frac{87,301,980,216}{\sqrt{498,668,751,990 X 15,411,995,000}} = 0.9958$$

Where,

X = Value of Loan Portfolio

Y = Value of Interest Income

r = Pearson's Correlation Coefficient

The correlation coefficient of the variance as loan portfolio and interest income is 0.9958 which is shows that is a positive relation in loan portfolio and interest income.

Now,

Calculation of Probable Error (P.E.) :

$$\text{P. E.} = 0.6745 \frac{\left[1 - r^2\right]}{\sqrt{N}}$$

$$= \frac{0.6745\left[1 - (0.9958)^2\right]}{\sqrt{6}}$$

$$= \frac{0.6745\left[1 - 0.99161764\right]}{2.4495}$$

$$= 0.002308$$

Probable Error is not greater than correlation coefficient hence we can say that there is positive relation between Loan Portfolio & Interest Income.

An attempt has been made to calculate the Break Even Point of CBB Ltd.

Summarized results are from appendix 1.

1. Base year 2065/066
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
    b) Provision for staff bonus
    c) Loan Loss Provision
    d) Provision for income tax
5. The following costs are treated as Fixed Costs:
    a) Staff Expenditure
    b) Operating Expenses

Now,

Calculation of BEP

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

And,

PV Ratio = 1- VC/TR

$$= 1 - \frac{73{,}075{,}979}{1{,}62{,}893{,}267}$$

$$= 1 - 0.44861$$

$$= 0.55139$$

Hence, BEP in Rs. = $\dfrac{\text{Fixed Cost}}{\text{PV Ratio}}$

$= \dfrac{63,222,271}{0.55139}$

= 114,659,807.033

And, VC Ratio = 1 - PV Ratio
= 1 - 0.55139
= 0.44861

From the above analysis we came to know that Break Even Point of CBB Ltd is Rs. 114,659,807.033 only.

4.3.4 TREND ANALYSIS OF LOAN & ADVANCE OF CBB LTD.

Now, an attempt of finding out the trend of loan and advance is made.

The following table presents the budgeted loan and advance or borrowings in Nepalese Rupees from the fiscal year 2064/065 to 2065/066.

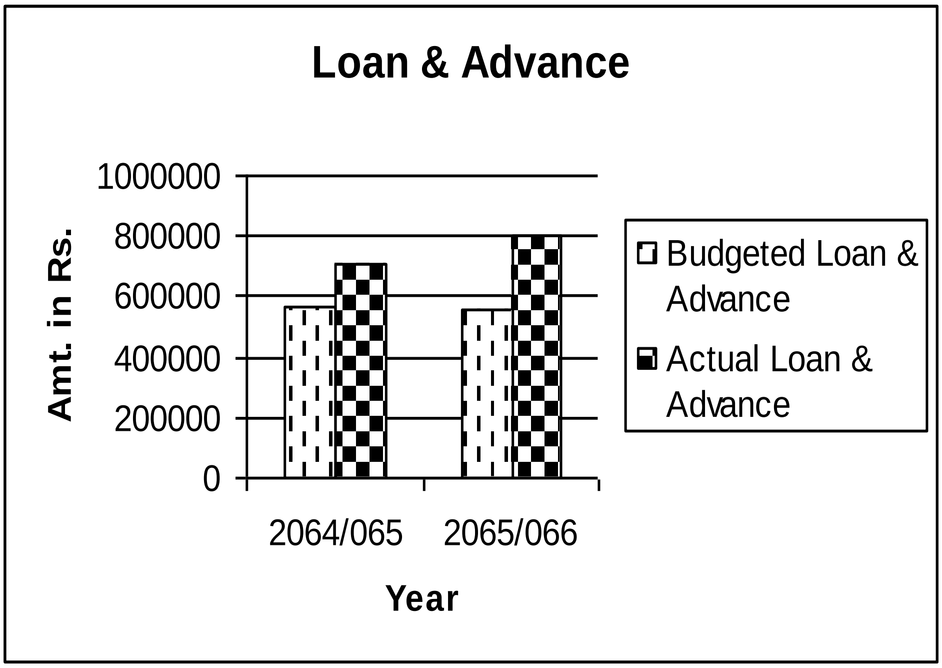
Budgeted and Actual Loan and Advance
Table No. 12
(Amount in 000's)

Year	Budgeted Loan & Advance	Actual Loan & Advance	Achievement
2064/065	565,530	560,330	99.08%
2065/066	703,501	803,951	114.28%

Bank is able to achieve almost 100% of the projected loan and advances. This indicates that the bank is successful enough to meet the projected achievement. Also the achievement percentage in both time is almost 100% which shows that the bank is able to find the new field and area of financing. In FY 2065/066 actual loan and advance is increased by 114.28% than the previous year 2064/065.

The above loan and advance is shown in the chart below:

Chart No. 10



To find out the variability of actual and budgeted loan and advance of different years arithmetic mean, standard deviation and coefficient of variance should be calculated. The detail calculations of these variables are presented in appendix 2.

Table No. 13

	Budgeted Loan & Advance	**Actual Loan & Advance**
Mean($\bar{x}$)	634,515.5 (000)	682,140.5 (000)
S. D. (σ)	86985.5	121810.5
	13.17%	17.86%

The above analysis shows that coefficient of variance is lower in budgeted loan and advance than the actual loan and advances which shows that the actual loan and advance have more consistency than that of budgeted loan and advance.

Now, an attempt has been made to find out the trend analysis of loan and advance by using least square method:

Table No. 14
(Amt. in Rs. 00000's)

Year (X)	Y (00000)	X^2	Y^2	X.Y
2060/061=1	1502	1	4256004	1502
2061/062=2	2043	4	4173849	4086
2062/063=3	2733	9	7469289	0199
2063/064=4	3253	16	10582009	13012
2064/065=5	5603	25	31393609	28015
2065/066=6	6040	36	36481600	36240
N = 21	21174	91	92356360	91054

Regression equation of Y on X is given by
Y = a + bx .... (1)

Σ Y = na + bΣx
or = 21174 = 6a + 21b ....(i)
or $\Sigma xy = a\Sigma x + b\Sigma x^2$
91054 = 21a +91b ....(ii)

Multiplying in equation (i) by 21 and equation (ii) by 6 and subtracting equation (ii) from (i)

$444654 = \cancel{126a} + 441b$
$546324 = \cancel{126a} + 546b$
$- \quad - \quad -$
$-101670 = -105b$

$$\therefore b = \frac{101670}{105} = 968.2857$$

Putting the value of b in equation (i)

21174 = 6a + 21b
21174 = 6a + 21 (968.2857)
21174 = 6a + 20333.9997
21174 - 20333.9997 = 6a

840.0003 = 6a
$\therefore$ a = 140

The loan and advance for the year 2066/067 calculated as follows :
N(X) = 7 for the year 2066/067
Y = a + bx
= 140 + 968.2857 (7)
= 140 + 6777.9999
= 6917.9999
= 6918 (00000)

So, the total loan and advance of CBB Ltd. should be 6917.999 (00000) in coming year 2066/067 as according to trend analysis.

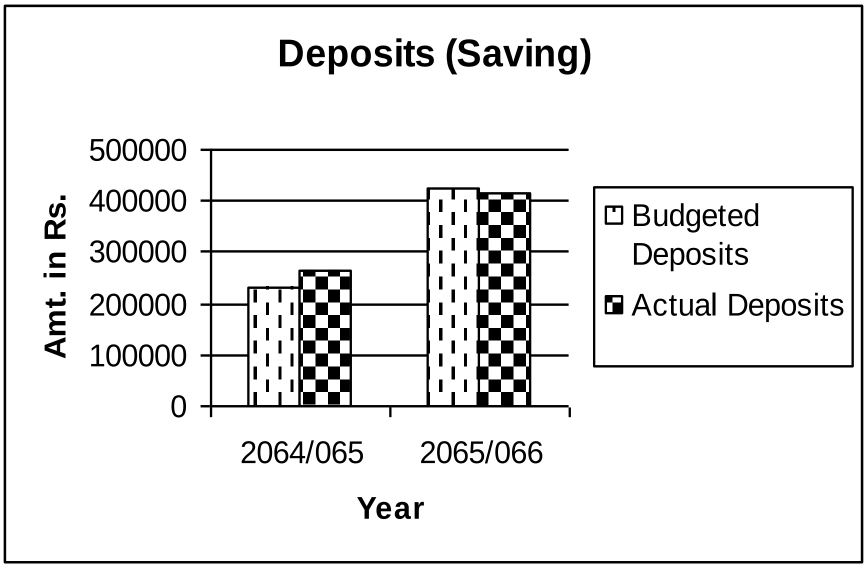
4.3.5 TREND ANALYSIS OF DEPOSITS (SAVINGS)

Table No. 15
(Amt. in 000's)

Year	Budgeted Deposits	Actual Deposits	Achievement
2064/065	230,436	263,032	114.15%
2065/066	424,656	416,398	98.06%

The bank had almost increased its budgeted deposits than the actual deposits of the year 2064/065 but in FY 2065/066 the bank could not obtained the cent percent or more than the budgeted deposits or savings. So, the bank too succeeded in obtaining the targeted results in FY 2064/065. Bank should increase actual deposits than the budgeted.

Chart No. 11



To find out the variability of actual and budgeted deposits of different years arithmetic mean, standard deviation and coefficient of variance should be calculated. The detail calculations of these variables are presented in appendix 3.

Table No. 16

	Budgeted Deposits	Actual Deposit
Mean	327546	339715
S. D. (σ)	97110	76683
C. V.	29.65%	22.57%

The above analysis shows that C. V. is lower in Actual Deposit than the Budgeted Deposits which shows Actual Deposits less consistency than that of Budgeted Deposits.

Now, trend analysis method is used to find out the deposits of CBB Ltd. for the year 2065/066.

Table No. 12
(Amt. in Rs. 00000's)

Year (X)	Y (00000)	X^2	Y^2	X.Y
2060/061=1	217	1	47,089	217
2061/062=2	396	4	15,6816	792
2062/063=3	694	9	481,636	2082
2063/064=4	1060	16	1,123,600	4240
2064/065=5	2630	25	6,916,900	13150
2065/066=6	4163	36	17,330,569	24978
N = 21	9160	91	26,056,610	45459

Regression equation of Y on X is given by

$Y = a + bx$

$\Sigma Y = na + b\Sigma x$

or $9160 = 6a + 21b$ ....(i)

$\Sigma xy = a\Sigma x + b\Sigma x^2$

or $45459 = 21a + 91b$ ....(ii)

Multiplying in equation (i) by 21 and equation (ii) by 6 and subtracting equation (ii) from (i)

$$\begin{array}{rcl} 192360 & = & \cancel{126a} + 441b \\ 272754 & = & \cancel{126a} + 546b \\ - & & - \qquad - \\ \hline -80394 & = & -105b \end{array}$$

$$\therefore\ b = \frac{80394}{105} = 765.6571$$

Putting the value of b in equation (i)

$9160 = 6a + 21\ (765.6571)$

$9160 = 6a + 16078.7991$

$9160 - 16078.7991 = 69$

or $- 6918.7991 = 6a$

$$\therefore\ - a = \frac{6918.7991}{6} = -1153.1331$$

The total deposit for the year 2066/067 calculated as follows :
N(X) = 7 for the year 2066/067
Y = a + bx
= -1153.1331 + 765.6571 (7)
= - 1153.1331 + 5359.5997
= 4206.4666 (00000)

The total deposit CBB Ltd should be 4206.466 (00000) in coming year 2066/067 as according to trend analysis.

4.3.6 BUDGETED AND ACTUAL INTEREST INCOME

Table No. 18

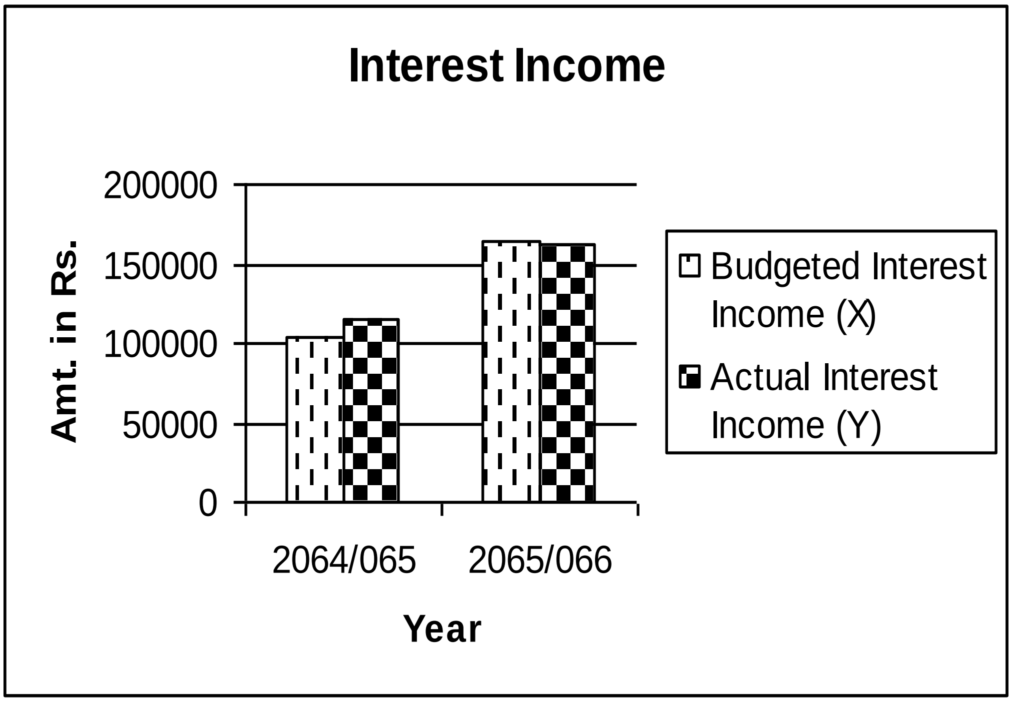
(Amt. in 000's)

Year	Budgeted Interest Income	Actual Interest Income	Achievement
2064/065	104,264	114,442,	109.76%
2065/066	164,840	162,893	98.82%

The above table shows that actual financial income for the year 2064/065 is found to be more exceeding than the bank had achieved in the FY 2065/066 achievements in the year 2065/066 is 98.82% which is less than the year 2064/065 but it is very fruitful for the organization.

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

Chart No. 12



To find out the variability of actual and budgeted financial income of the different years arithmetic mean, standard deviation and coefficient of variance should be calculated. The details calculation of these variables is presented in appendix - 4.
Summarized results from appendix - 4

Table No. 19

	Budgeted Interest Income	Actual Interest Income
Mean($\bar{x}$)	134552	138667.5
S. D. (σ)	30288	24225.5
C. V.	22.51%	17.47%

The above analysis shows that coefficient of variance is lower in actual interest income than the budgeted interest income which shows that the actual interest income have consistency than that of budgeted interest income.

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

Table No. 20
(Amt. in Rs. 00000's)

Year (X)	Y (00000)	X^2	Y^2	X.Y
2060/061=1	173	1	29929	173
2061/062=2	294	4	86436	588
2062/063=3	493	9	243049	1479
2063/064=4	652	16	425104	2608
2064/065=5	1144	25	1308736	5720
2065/066=6	1629	36	2653641	9774
ΣN = 21	**4385**	**91**	**4746895**	**20342**

Regression equation of Y on X is given by
$Y = a + bx$

$\Sigma Y = na + b\Sigma x$
$7385 = 6a + 21b$ .... (i)
$\Sigma xy = a\Sigma x + b\Sigma x^2$
or, $20342 = 21a + 91b$ .... (ii)
Multiplying in equation (i) by 21 and equation (ii) by 6 and subtracting equation (ii) from (i)

$$\begin{aligned} 92085 &= \cancel{126a} + 441b \\ 122052 &= \cancel{126a} + 546b \\ - \quad &\quad - \quad\quad - \\ \hline -29967 &= -105b \end{aligned}$$

$$\therefore b = \frac{29967}{105} = 285.4$$

Putting the value of b in equation (i)
$4385 = 6a + 21b$
$4385 = 6a + 285.4 \times 21$
$4385 = 6a + 5993.4$
$4385 = 6a + 5993.4$
$4385 - 5993.4 = 6a$
$-1608.4 = 6a$

$$\therefore -a = \frac{1608.4}{6} = -268.0666$$

The total interest income for the year 2064/065 calculated as follows :

N (X) = 7 for the year 2066/067

Y = a + bx
= -268.0666 + 285.4 (7)
= -268.0666 + 1997.8
= 1729.7334 (00000)

The total interest income of CBB Ltd. should be 1729.7334 (00000) in coming year 2066/067 as according to trend analysis.

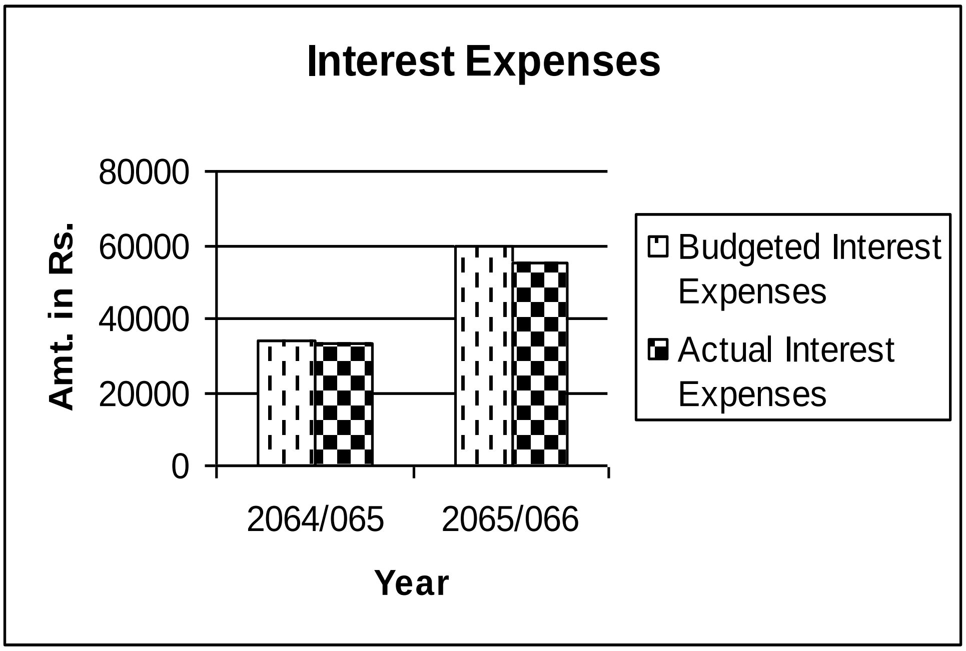
4.3.7 BUDGETED & ACTUAL INTEREST EXPENSES

Table No. 21

Year	Budgeted Interest Expenses	Actual Interest Expenses	Achievement (%)
2065/065	33890	32864	96.97%
2065/066	59846	55323	92.44%

The bank had achieved the actual interest expenses less than budgeted interest expenses in the year 2064/065 and 2065/066 respectively.

Chart No. 13



The above chart presents the analysis of budgeted and actual interest expenses of bank.

To find out the variability of actual and budgeted financial expenses of the different years arithmetic mean, standard deviation and coefficient of variance should be calculated. The details calculation of these variables is presented in appendix - 5.

Table No. 22

	Budgeted Interest Expenses	Actual Interest Expenses
Mean($\bar{x}$)	46868	44093.5
S. D. (σ)	12978	11229.5
C. V.	27.7%	25.47%

The above analysis shows that C. V. is lower in actual interest expenses than the budgeted interest expenses which shows actual interest expenses less consistency than that of budgeted interest expenses.

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

Table No. 23
(Amt. in Rs. 00000's)

Year (X)	Y (00000)	X^2	Y^2	X.Y
2060/061=1	67	1	4489	67
2061/062=2	92	4	8464	184
2062/063=3	133	9	17689	399
2063/064=4	178	16	31684	712
2064/065=5	328	25	107584	1640
2065/066=6	553	36	305809	3318
N = 21	**1351**	**91**	**475719**	**6320**

Regression equation of Y on X is given by

$$Y = a + bx$$

$\Sigma Y = na + b\Sigma x$

1351 = 6a + 21b .... (i)

$\Sigma XY = a\Sigma x + b\Sigma x^2$

6320 = 21a + 91b ....(ii)

Multiplying in equation (i) by 21 and equation (ii) by 6 and subtracting equation (ii) from (i)

$$\begin{array}{l} 28371 = \cancel{126a} + 441b \\ 37920 = \cancel{126a} + 546b \\ - \quad\quad\quad - \quad\quad\quad - \\ \hline -9549 = -105b \end{array}$$

$$\therefore b = \frac{9549}{105} = 90.9428$$

Putting the value of b in equation (i)

1357 = 6a + 21b

or, 1357 = 6a + 21 (90.9428)

or, 1357 = 6a + 1909.7988

or, 1357 - 1909.7988 = 6a

or, - 558.7988 = 6a

$$\therefore -a = \frac{558.7988}{6} = -93.1331$$

The total interest expenses for the year 2066/067 calculated as follows :
N (X) = 7 for the year 2066/067

Y = a + bx
= -93.1331 + 636.5996
= -93.1331 + 636.5996
= 543.4665 (00000)

The total interest expenses of CBB Ltd. should be 543.4665 (00000) in coming year 2066/067 as according to trend analysis.

The strength and weakness position of any micro-financial bank can not be judged from the basis of the single parameter. Therefore we can not find out the actual performance of the bank only with the help of amount the bank had earned from interest, loan and advance, total deposits collected and others. The major parameter is to find out the strength as well as weakness of the bank are total capital employed, total assets held, total deposits mobilized etc.

Were as performance can be measured with operating profit ratio, return to shareholder's equity, earning per share, bank's advance deposits, operating profits, etc.

ANALYSIS USING FINANCIAL TOOLS

Financial analysis covers wide range of business position; it helps to compute strength or weakness in various sectors. Although this study is mainly focused on some specific components, financial analysis is made covering those sectors, which include revenue, expenditure, investment, etc.

INTEREST COVERAGE RATIO

Bank is that financial institution which is involved in collecting the deposits from the public in small amount and investing the deposits to the needful persons. While performing this bank will earn the interest from the depositors. Interest is received as income on investment made loan and advances, government securities etc. interest is paid to deposits liabilities expect on the current deposit liabilities. Which means higher volume of deposit comes with higher interest obligation. Therefore the bank should be in position to meet it interest obligation at all times. So the capability to meet the interest obligation should be monitored from time to time.

The table below presents the interest coverage ratio of CBB Ltd. for the past six year.

EBIT = Total Net Profit + Income Tax + Interest Expenses

Table No. 24

Fiscal Year	EBIT	Interest Expenses	Interest Coverage Ratio
2060/061	8,392,853	6,691,214	1.25
2061/062	17,335,975	9,192,408	1.89
2062/063	31,470,110	13,270,975	2.37
2063/064	37,278,538	17,776,466	2.10
2064/065	62,223,431	32,864,087	1.89
2065/066	93,316,400	55,323,517	1.69

Interest Coverage Ratio = EBIT / Interest Expenses

From the analysis of interest coverage ratio, strength of meeting the interest coverage ratio of CBB Ltd. is found to be always more than one that means CBB Ltd. has enough capacity to meet the interest obligation, it has to meet in every year.

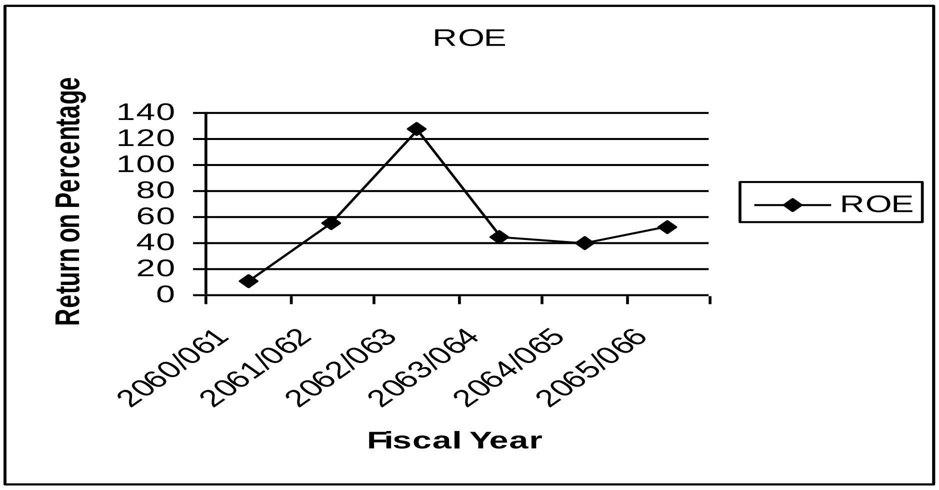
RETURN TO SHAREHOLDER'S EQUITY (ROE)

Return to shareholder's equity can be termed as the percentage of return on shareholders equity or funds which includes net profit, revenue and surplus and retained earnings.

Table No. 25

Fiscal Year	Net Profit	Shareholder's Equity	ROE
2060/061	1,106,065	10,000,000	11.06
2061/062	5,567,917	10,000,000	55.68
2062/063	12,830,390	10,000,000	128.30
2063/064	13,105,076	30,000,000	44.68
2064/065	20,064,888	51,000,000	39.34
2065/066	26,595,018	51,000,000	52.15

Return to Shareholder's Equity can be shown in chart.
Chart No. 14



Analysis of return on equity shows that it is higher than normal rate of deposit. From the FY 2060/061 the net profit is increasing trend and it able to maintain return on shareholders equity.

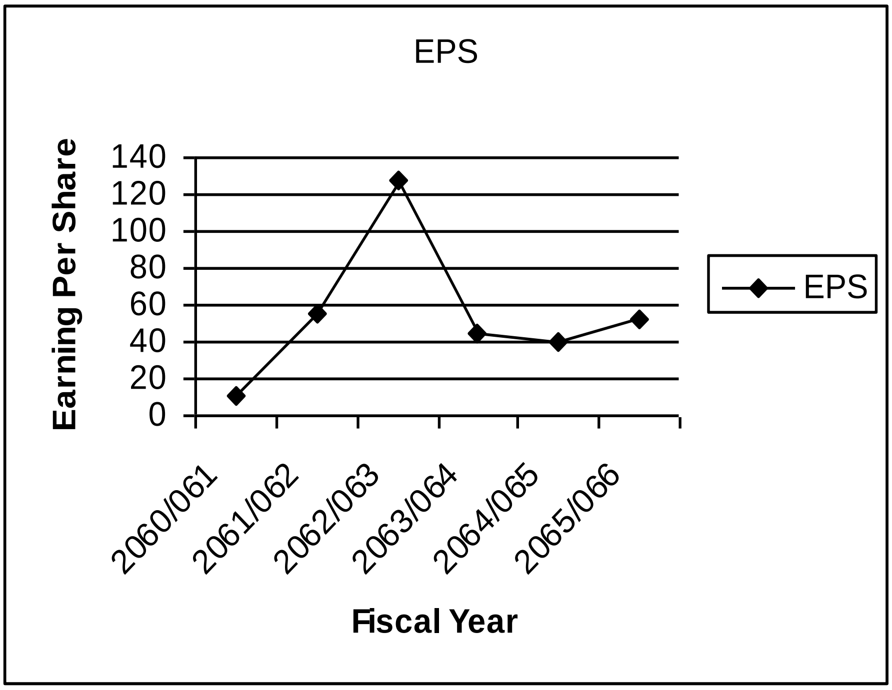
EARNING PER SHARE

Earning per share in this case is the net amount earned for every NPR 100 invested in shares, which is fully paid up i.e. NPR 100

Table No. 26

Fiscal Year	Net Profit	No. of Shares	EPS
2060/061	1,106,065	100,000	11.06
2061/062	5,567,917	100,000	55.68
2062/063	12,830,390	100,000	128.30
2063/064	13,405,076	300,000	44.68
2064/065	20,064,888	510,000	39.34
2065/066	26,595,018	510,000	52.15

Earning Per Share can be shown in chart.
Chart No. 15



From the analysis of EPS, we can say that it is in increasing trend in the beginning but in FY 2064/065 EPS is falling down. Overall it is cleared that the bank is able to make the good EPS also.

RATIO ANALYSIS

Table No. 27

Particulars	2060/061	2061/062	2062/063	2063/064	2064/065	2065/066
Yield on Portfolio (%)	18	19.43	19.31	19.34	21.70	18.27
Operating Self Sufficiency (%)	106.90	123.32	135.14	125.86	121.26	119.51
Financial Self Sufficiency (%)	80.22	92.27	104.31	98.60	100.10	99.82
Operating Expenses Ratio (%)	26.68	24.83	22.88	21.50	22.33	18.68
Financial Expenses Ratio (%)	11.13	9.56	8.32	7.37	7.78	7.58
Return on Equity (ROE) (%)	11.06	55.68	128.30	44.68	39.34	52.15
Return on Assets (ROA) (%)	4.14	5.58	6.93	6.25	5.75	3.35

The above table of ratio analysis presents the analysis of yield on portfolio of CBB Ltd was increasing but from the FY 2061/062 to FY 2063/064 it was constant by 19% in three years. Operating self sufficiency ratio of any bank or institution presents the operating capacity of the bank in any condition. So, the operating self sufficiency (OSS) of CBB Ltd. is in increasing trend and also it is not less than 100%. Therefore the capacity of operation of CBB Ltd. is very good.

The financial self sufficiency ratio of any bank clears the capacity of financial resource mobilization or the availability of financial resources. So, the bank had earned from FY 2060/061 to 2065/066, 80.22% to 99.82% respectively. Therefore CBB Ltd. had at least 80% capacity of financial resources. But in FY 2064/065, 100.10% capacity of financial resources is very good condition also in FY 2065/066, it was 99.82.

Both operating expenses and financial expenses ratio are in decreasing trend. Therefore, expenses are decreasing. Return on assets and Return on Equity are in increasing trend but in FY 2065/066 it was decreased because of capital formulation.

CHAPTER - 5

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 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 products or services. 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. The user of profit planning must have full knowledge about these limitations. Such limitations are listed bellows:

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

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

Business budgets are estimated or forecasted 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 short-term profit plan and second is long-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 a tactical profit plan covering the time period of one 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 the functional budget as a tool of profit planning is not a new concept. It is well recognized and widely applied technique of profit planning is not a new concept. It is well recognized and widely applied technique of profit planning.

CBB Ltd. has been taken in this study. This study has tried to analyze and examine the practice, procedure and technique of preparing various functional budgets. It has also tried to answer certain questions stated in the statement of problem. The basic objective of this study is to examine how far the functional budgets are used s tool for profit planning and control process. For the fulfillment of these objectives various functional budgets are analyzed in detail. These data have 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 CBB Ltd., this study conducts the following :

1. The bank is facing competition from increasing number of micro-financial institutions in these years. These had led to substantial decrease in interest rates in the market thus attributing to lower yield.
2. The profit budget is extremely ambitious. It is not based on scientific method or past trend analysis but based on a specific target put forward by the governing board.
3. The plans are prepared form top level and later it is communicated to the lower.
4. Budgets are prepared just to fulfill the formalities but these are not used effectively for the profit planning process.
5. CBB Ltd. has not been able to utilize all capacity. Average 83% capacity is only utilization.
6. The company renders its service from 45 branches.
7. Different statistical tools show the positive relationship between budgeted deposit and actual deposit. Straight line trend shows the increasing deposit collection figure for future.
8. CBB does not prepare long term strategic profit plan. It only prepares short-term profit plan which is usually referred as budget. Time period of this budget covers one fiscal year.
9. The budget is not based on past performance but on targeted growth, which is very optimistic in both the budgeted years.
10. CBB Ltd. has not made any in-depth analysis its strength and weakness.

A. STRENGTH

- Extensive network of Branches Company in Nepal of its parent company NSSC.
- Highly experience expatriates staff at the top level with extensive exposure in micro-financing activities.
- Members have to be the partner of this Bank and habitat them to deposits at small & small volume.
- Huge volume of business origination from NSSC.
- To contribution in national revenue.
- Any where money transfers facilities in national level.
- High quality services.

B. WEAKNESS

- Inadequate coordination between departments.
- Limited domestic market.
- Lack of corporate belongingness.

- Unnecessary interference of the governing broad in the functioning organization.
- Inadequate autonomy in the credit decision making to the credit department.
- Lack of clear cut mission & goal of the company.

11. The main security is the unit of the members in CBB Ltd.
12. CBB has been able to maintain a minimum level of coordination between the department and staffs.
13. Its mission and objectives have not been clearly defined and delegated to the lower levels.

CBB Ltd. one of the micro-financial development banks of Nepal has crossed six years of operation. In these six years, CBB Ltd. had been passed from experience of sweet and bitter banking results. From the starting period it has been continuously growing upward. The major advantage that CBB Ltd. has got in these years it is able to grab the huge portion of remittance business. As the bank is established with the micro-financial bank.

The bank had been able to record an operating profit of Rs. 47,453,463. The profit after tax had climbed up by 32.55% in the sixth year. The bank is getting more popular among the customers or members by day to day.

The bank's profit is increasing due to its efficiency in increasing loan and advances which had grown up by 43.48% than previous year and had reached to Rs. 803,951,185. The bank had been able to grow in deposits by 58.31% than the previous year and had reached to Rs. 416,397,979. Investment or loan portfolio of the bank also had been increased to Rs. 894,178,166. Experiencing growth from Rs. 201,687,704 which is increased by 39.10%. The loan loss provision had been increased by 15.21% in FY 2065/066.

Moreover the bank had been able to increased incomes to Rs. 162,893,268 from 104,441,795 which is increased by 42.34% and the net profit would be increased by 32.55%. Although, the bank is increasing its staff each year the bank's total expenditure had been increased. The bank had been earned ROE by 11.06% from 52.15% which had increased in FY 2065/066 because of capitalization. The bank had also earned the EPS to Rs. 39.31 to Rs. 52.15 in FY 2064/065 to FY 2065/066 respectively. Return on assets of bank is also decreased from 5.75 to 3.35.

In conclusion, we can say that the bank's economic condition is very good to operate in different market by different ways.

5.3 RECOMMENDATION

CBB Ltd. needs to develop long rang profit plan. Also CBB 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. After the detail analysis of profit planning and control system of CBB Ltd. following points can be recommended to profit plan:

1. The bank should develop specific schemes or programs to face the competitions. Positive aspect of the company should be high lightened.
2. The bank should analysis the loan demand before loan disbursement. And also the realization of loan utilization should be appropriate.
3. The bank is facing the problem of under capitalization by which fund is affected, so to enhance the fund capacity the necessary financial arrangement should be overviewed.
4. CBB Ltd. 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.

5. The objective and mission statement of the bank should be clearly stated and communicated to the middle level of staffs which should be implemented in day to day operation of the company.
6. The system of periodic performance reports should be strictly followed to be conscious towards poor performance and to take corrective action timely.
7. Variance analysis should be implemented. Variance should be controlled in time. Relevant offers and subordinates should be made responsible and accountable for controllable unfavourable variances.
8. Cost Volume Profit relationship should be considered while pricing the services.
9. There are high overhead expenses. Therefore cost control program should be introduced to control the high overhead cost.
10. Finally, a systematic approach should be made towards comprehensive profit planning. This can be contributed towards the increase in profitability of the bank.

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APPENDIX

APPENDIX - 1

Name of Respondent :
Position .... Department...
Tenor of Service ....

Would you please answer the following question properly ?

1. The specific goals target and achievement for FY 2065/066
   a) Growth Objective
   b) Return on net capital employed
   c) Volume to loan out flow
   d) Deposit target
   e) Others
2. Main cause$ of achievement (Low/High)
3. Is there a practice of preparing a long rang plan? If yes what is the period covered by the plan ?
4. What is the period covered by the short range plan ?
5. Who is responsible for the budgets ?
6. On what basis budgets are prepared ?
7. Are the revenue achievements are satisfactory ? If not why ?
8. What kinds of promotional and marketing Medias are used ?
9. How the employees are paid ?
10. How does Bank evaluate the performance of the Bank ?
11. What are the strengths and weakness of the Bank ?
12. What are the main steps are taken immediately to improve the performance of the Bank ?
13. Is the P/L A/C of CBB of FY 2065/066 satisfactory ?
14. What are the major reasons behind decrease in the Net Profits ?
15. What are the major income sources of a bank ?

The following topics are treated as variable cost for FY 2065/066

Particulars	Amount
Interest Expenses	55,323,517
Loan Loss Provision	2,555,309
Provision for Bonus	3,799,288
Provision for Income Tax	11,397,865
Variable Cost (V. C.)	73,075,979

The following are treated as fixed cost for FY 2065/066

Particulars	Amount
Staff Expenditure	39,758,088
Operating Expenses	23,464,183
Fixed Cost	63,222,271

APPENDIX - 2

Calculation of Mean, Standard Deviation & Coefficient of Variance of Loan & Advance

Fiscal Year	X	Y	$x=(X-\bar{X})$	$y=(Y-\bar{Y})$	x^2	y^2
2064/065	565,530	560,330	(68,985.5)	121,810.5	4,758,999,201.25	14,837,797,910.2
2065/066	703,501	803,951	(68,985.5)	121,810.5	4,758,999,201.25	14,837,797,910.2
N=2	$\sum X$=1,269,031	$\sum Y$=1,364,281	$\sum x$=0	$\sum y$=0	$\sum x^2$=9,517,998,420.5	$\sum y^2$=29,675,595,820.4

Suppose, X is the value of Budgeted Loan & Advance & Y is the value of Actual Loan and Advance.

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

$$\bar{X} = \mathbf{634,575.5\ (000)}$$

Again,

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

$$\bar{Y} = 682,140.5\ (000)$$

Coefficient of Variance = (σ/ $\bar{X}$ * 100

For Budgeted Loan & Advance (X)

$$\sigma = \sqrt{\frac{\sum X^2}{N}} = 86985.5$$

Coefficient of Variance = 13.71%

For Actual Loan & Advance (Y)

$$\sigma = \sqrt{\frac{\sum Y^2}{N}} = 121810.5$$

Coefficient of Variance = 17.86%

APPENDIX - 3

Calculation of mean, standard Deviation & Coefficient of Deposits

Fiscal Year	Budget Deposits (X)	Actual Deposits (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2
2064/065	230,436	263,032	(97110)	(76683)	9430352100	5880282489
2065/066	424,656	416398	97110	76683	9430352100	5880282489
N = 2	$\sum X$=655092	$\sum Y$=679430	$\sum x$=0	$\sum y$=0	$\sum x^2$=18860704200	$\sum y^2$=1176056497

Suppose X is the value of Budgeted Deposits & Y is the value of Actual Deposits.

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{655092}{2} = 327546$$

Again,

$$\bar{Y} = \frac{\sum Y}{N} = \frac{679430}{2} = 339715$$

Coefficient Variance (C.V.) = $(\sigma / \bar{X} * 100$

For Budgeted Deposited (X)

$$\sigma = \sqrt{\frac{\sum X^2}{N}} = 97110$$

Coefficient of Variance = 29.65%

For Actual Deposits (Y)

$$\sigma = \sqrt{\frac{\sum Y^2}{N}} = 76683$$

Coefficient of Variance = 22.57%

APPENDIX - 4

Calculation of Mean, Standard Deviation & Coefficient of Variance of Interest Income

Fiscal Year	Budget Deposits (X)	Actual Deposits (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2
2064/065	104,264	114,442	(30288)	(242255)	917362944	586874850.25
2065/066	164,840	162,893	(30288)	(242255)	917362944	586874850.25
N = 2	$\sum X$=110,843	$\sum Y$=277335	$\sum x$=0	$\sum y$=0	$\sum x^2$=1834725888	$\sum y^2$=1173749700.5

Suppose X is the value of Budgeted Interest Income & Y is the value of Actual Interest.

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = 134552$$

Again,

$$\bar{Y} = \frac{\sum Y}{N} = 138667.5$$

Coefficient Variance (C.V.) = $(\sigma / \bar{X} * 100$

For Budgeted Loan & Advance (X)

$$\sigma = \sqrt{\frac{\sum X^2}{N}} = 30288$$

Coefficient of Variance = 22.51%

For Actual Loan & Advance (Y)

$$\sigma = \sqrt{\frac{\sum Y^2}{N}} = 24225.5$$

Coefficient of Variance = 17.47%

APPENDIX - 5

Calculation of mean, standard Deviation & Coefficient of Deposits

Fiscal Year	Budget Deposits (X)	Actual Deposits (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2
2064/065	33890	32864	(12978)	11229.5	168428484	126101670.25
2065/066	59846	55323	12978	112295	168428484	126101670.25
N = 2	$\sum X$=93736	$\sum Y$=88187	$\sum x$=0	$\sum y$=0	$\sum x^2$=336856968	$\sum y^2$=252203340.5

Suppose X is the value of Budgeted Interest Expenses & Y is the value of Actual Interest Expenses.

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = 46868$$

Again,

$$\bar{Y} = \frac{\sum Y}{N} = 44093.5$$

Coefficient Variance (C.V.) = $(\sigma / \bar{X} * 100$

For Budgeted Interest Expenses (X)

$$\sigma = \sqrt{\frac{\sum X^2}{N}} = 12978$$

Coefficient of Variance = 227.7%

For Actual Deposits (Y)

$$\sigma = \sqrt{\frac{\sum Y^2}{N}} = 11229.5$$

Coefficient of Variance = 25.47%

APPENDIX - 6

CHHIMEK BIKAS BANK LTD. (BITTIYA SANSTHA)
Central Office, Hetauda (Makawanpur)

CASH FLOW STATEMENT
For the period Shrawan 1st 2065 to Ashad 31st 2066

Last Year Amt. (Rs.)	Particular	This Year Amt. (Rs.)
180,251,302.97	**A. Cash Receipt from Operation (a+b+c)**	**106,898,784.90**
114,371,795.14	**1. Cash Received**	162,893,267.93
103,811,861.07	1.1 Interest Income	150,058,482.19
4,113,738.73	1.2 Commission & Discount Income	5,099,903.52
-	1.3 Income from foreign exchange transaction	-
-	1.4 Income from Bad Debt	-
6,446,195.34	1.5 Other Income	7,734,882.22
(94,306,907.37)	**2. Cash Payment**	**(136,305,143.61)**
(32,864,087.41)	2.1 Interest Payment	(55,323,516.64)
(30,826,991.00)	2.2 Personnel Expenses	(43,003,308.00)
(15,441,575.07)	2.3 Office Operating Expenses	(20,218,962.66)
(9,294,455.58)	2.4 Income Tax Payment	(11,397,864.80)
(5,879,798.31)	2.5 Other Expenses	6,361,491.51)
20,064,887.77	**a) Cash Inflow From Working Capital (1-2)**	**26,588,124.32**
(251,612,188.83)	**b) Increase (Decrease) in Working Assets.**	**(320,112,064.57)**
-	1. Increase (Decrease) in received Demand & Short Information.	-
40,100,000.00	2. Increase (Decrease) in Other Short Term Investment.	28,950,000.00
(281,179,933.03	3. Increase (Decrease) in Loan & Bills Purchase.	(326,874,295.80)
(10,532,255.80)	4. Increase (Decrease) in Other Assets.	(22,187,768.77)
411,798,604.03	**c) Increase (Decrease) in Working Capital**	**400,422,725.15**
157,027,522.50	1. Increase (Decrease) in Savings Liabilities.	153,365,650.00
-	2. Increase (Decrease) in Certificate of Deposits.	-
235,022,518.37	3. Increase (Decrease) in Short-term Loan & Advance.	243,620,444.48
19,748,563.16	4. Increase (Decrease) in Other Liabilities	3,436,630.67
(8,736,951.91)	**B. Cash Outflow in Investment Transaction**	**(35,742,989.32)**
-	1. Increase (Decrease) IN Long-term Investment.	-
(8,736,951.91)	2. Increase (Decrease) in Fixed Assets.	(35,742,989.32
-	3. Interest Income from Long-term Investment.	-
-	4. Dividend Income	-
(10,351,807.00)	**C. Cash Outflow from Financial Source**	**(5,100,000.00)**
-	1. Increase (Decrease) in Long-term Loan (Bond, Debentures)	-
-	2. Increase (Decrease) in Share Capital	12,000,000.00
(10,351,807.00)	3. Increase (Decrease) in Other Liabilities.	(17,100,000.00)
-	4. Increase (Decrease) in Subsidies/Re-loan from NRB.	-
-	**D. Difference in Cash & Bank Balance from Exchange Rate.**	-
161,162,544.06	**E. Cash flow from overall Activities.**	**66,055,795.58**
93,442,163.90	**F. Operating Cash & Bank Balance**	**254,604,707.96**
254,604,707.96	**G. Closing Cash & Bank Balance**	**320,660,503.54**

APPENDIX - 7

Chhimek Bikas Bank Ltd. (Bittiya Sanstha)

Central Office, Hetauda (Makawnpur)

Major Financial Highlights of Previous Years

INCOME STATEMENT

Particulars	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	2065/066
Financial Income	17,349,382	29,443,512	49,342,241	65,247,507	114,441,795	162,893,268
Financial Exp.	6,691,214	9,192,408	13,270,975	17,776,466	32,864,087	55,323,517
Financial Margin	**10,658,168**	**20,251,104**	**36,071,267**	**47,471,041**	**81,577,708**	**107,569,751**
Personnel Exp.	4,296,271	6,109,212	7,995,800	13,917,229	28,505,704	39,758,088
Off. Operating Exp.	2,143,420	3,755,696	6,438,538	9,859,743	15,578,824	20,358,200
Operating Profit	**4,218,477**	**10,386,196**	**21,636,929**	**23,693,069**	**37,493,180**	**47,453,463**
Loan Loss Provision	1,699,355	774,325	741,357	873,656	3,013,864	2,555,309
Depreciation	628,412	653,947	876,523	1,367,134	2,184,038	3,105,983
Net Profit (Before Bonus)	**1,890,710**	**8,957,924**	**20,019,048**	**21,452,279**	**32,295,278**	**41,792,171**
Staff Bonus Provision	189,071	814,357	1,819,913	1,950,207	2,935,934	3,799,288
Net Profit (Before Tax)	**1,701,639**	**8,143,567**	**18,199,135**	**19,502,072**	**29,359,343**	**37,992,883**
Tax Provision	595,574	2,575,650	5,368,745	6,096,996	9,294,456	11,397,865
Net Profit (After Tax)	**1,106,065**	**5,567,917**	**12,830,390**	**13,405,076**	**20,064,888**	**26,595,018**

APPENDIX - 8

CHHIMEK BIKAS BANK LTD. (BITTIYA SANSTHA)

Central Office, Hetauda (Makawanpur)

Major Financial Highlights of Previous Year

BALANCE SHEET

Particulars	Fiscal Year					
	2060/061	**2061/062**	**2062/063**	**2063/064**	**2064/065**	**2065/066**
Saving Deposits	21,735,095	39,609,926	69,434,928	106,004,806	263,032,329	416,397,979
Loan & Advance	150,180,647	204,330,230	273,327,315	325,308,222	560,330,740	803,951,185
Other Liabilities & Provision	4,967,007	4,598,933	7,584,179	9,628,077	29,376,641	1,130,044,455
Paid up Capital	10,000,000	10,000,000	10,000,000	30,000,000	51,000,000	51,000,000
General Reserve	279,233	1,392,817	3,958,895	6,639,910	10,652,888	16,821,891
Other Reserve Fund	-	-	-	21,000,000	-	12,850,000
Undistributed Profit	1,116,933	4,571,267	11,835,579	21,240,123	5,940,227	9,259,347
Total Capital & Liabilities	**188,278,916**	**264,503,173**	**376,140,896**	**498,821,139**	**920,332,823**	**2,439,474,857**
Cash & Bank Balance	17,739,075	14,758,808	62,515,165	93,442,164	254,604,708	320,660,504
Loan & Advance	74,815,400	117,485,742	201,687,704	280,554,764	564,748,561	894,178,166
Loan Loss Provision	(3,214,342)	(3,988,667)	(4,695,024)	(5,533,680)	(8,547,544)	(11,102,853)
Short Term Investment	94,200,000	129,000,000	102,400,000	11,900,000	70,800,000	41,850,000
Net Fixed Assets	2,346,647	2,512,413	8,458,495	9,323,506	18,060,458	53,421,621
Other Current Assets	2,392,136	4,734,877	5,774,556	10,134,385	20,666,640	1,140,467,419
Total Assets	**188,278,916**	**264,503,173**	**376,140,896**	**498,821,139**	**920,332,823**	**2,439,474,857**