CHAPTER-I
INTRODUCTION

1.1 Background of the Study

The speedy development of any country in this modern era is depends upon to some extent with financial activities of the country .Financial activities play a role of catalyst in the process of economic development of the country. In Nepal financial sectors [banks, finance companies etc.] plays a vital role in the economic development of the country. Nepal is surrounded by India to East, West and South, and China to the north. Nepal is located between the latitude 26º 22' North to 32º 77' south and longitude 80º 4' East and 88º 12' West. The average length being 885 km from East to West and average breadth is about 193 km from North to South and the total area is 1,47,181 sq.km. The current state of Nepalese economy is characterized by unutilized natural sources, miserable agriculture, deficit trade, mass poverty, illiteracy and so forth. Agriculture is the main occupation of almost village people but no scientific methods of agriculture have yet been implemented. It is one of the richest countries in the world in terms of natural resources. The natural resources available here have remained reasons unutilized due to various reason like poor economy, migration of skilled manpower, unstable government and so on.

The profit planning and control mechanism is being widely practiced in manufacturing industries but it is relatively new in non-manufacturing and service industries. However this concept is equally applicable to any kind of business concern for the best utilization of the scarce resources and effectively and efficiently achieving goal.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects in this sector, which deals in the process of channelizing the available resources in the needed sectors. Commercial banks are the intermediary between the deficit and surplus of financial resources. Commercial banks facilitates in overall development of the economy with major thrust in industrial development. Commercial banks came into existence mainly with the objective of collecting the idle funds, mobilizing them in to productive sector and causing an overall economic development with effective planning.

Capital is one of the most important components for an organization. Every organization started with zero position and only come in to existence when the promoters, owners or shareholders finance on it as capital. They should have enough capital to run business. Hence, commercial banks are one of the major financer for business house. After the restoration of multiparty democracy several commercial banks made a way to business in Nepal. At present, commercial bank holds a large share of economic activities of the country. Commercial banks induced the savers to hold their savings in the form of deposits, bringing the scattered resources in to the organized banking sector which can be allocated to the different economic activities.

As like in the other profit oriented business organization a commercial bank has also to make reasonable profit for its survival. Most of the commercial banks are formed as a company with joint stock and the shares being traded at stock exchanges. Therefore profit made by them has also remained as one of the vital parameter for measurement of the efficiency of these banks.

1.2 Evolution of Commercial Banks

The Latin words 'Bancus", Italian 'Banca', French 'Banque' are the original form of the modern bank. According to some authors the word 'bank' is derived from all of above words the meaning of all words to a bench. This refers that early bankers transact their money lending activities on benches in the market exhibiting the cons of different countries in different denominations for the purpose of changing and or lending money. Some writers are of the opinion that the word 'Bank' came from the German word 'Banc' meaning joint stock fund (Varshney, 1993: 145). Money lenders in the streets of major cities of Europe used benches for accepting and payment of valuable and coins. When they were unable to meet their liabilities, the depositors used to break their benches. The term 'bankruptcy' is derived therefore. Banking is as old as is the authentic history and origins of the modern commercial banking are traceable in ancient times. In ancient Greece, around 2000 A.D. the famous temples of Ephesus, Delphi and Olympia were used as depositors for people's surplus fund and these temples were the centers for money lending transaction. The priest of these temples acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. Later, however, for new centuries, banking as an organized system of money lending receded because of the religious belief that the charging of interest was immoral. However, the banking as we know today, made its first beginning around the middle of 12th century in Italy. The bank of Venice, founded in 1157 A.D. m was the first public banking institution. Following this, in 14th century, the bank of Barcelona and bank of Genoa were established in 1401 A.D. (www.bankinginnepal.com).

The ancient Hindu scripture refer to the money lending activities in the Vedic period in India. During the Ramayana and Mahabharata eras, banking had become a full-fledged business activity and during the Smriti period, the business of banking was carried on by members of Vanish community. Manu, the great law giver of the time speaks of the earning of interest as the business of Vishyas. The bankers in the Smite period performed most of those functions which the banks in modern times performs such as the accepting of deposit, granting loan, acting as the treasurer, grating loans to the king in times of grave crises and banker to the state and issuing and managing currency of the country (Vanish, 1996: 183). In Nepal goldsmiths, merchants and money lenders were the ancient bankers of Nepal like other countries. TejarathAdda established during the Prime ministerRanoddip Singh B.S. 1933, was the first step towards the A institutional development banking in Nepal. TejarathAdda did not collect deposits form public but gave loans to employees and public. Banking in modern senses started with the beginning of Nepal Bank Limited (NBL) on B.S. 1994. NBL had heroic accountability of attracting people toward banking sector from the dominant money lenders net and of increasing banking services. Nepal Rastra Bank (NRB) was established on B.S. 2013-01-14 as a central bank under the NRB act 2012 B.S. the government had responsibility of stretching banking services to the corner of the country and also managing financial system in the appropriate system. NRB has been working as the government's bank and has contributed to the growth of financial sector. The major confront before NRB today is to make sure the health of financial institution. Accordingly, NRB has been trying to change them and has introduced as shot of prudential measures to safe guard the interest of the public. NRB is yet to do a lot to prove themselves and efficient supervisor. NRB really requires strengthening their policy making, supervision and examination device. Government set up Rastriya Banijya Bank (RBB) in B.S. 2022 as a fully government owned commercial bank. The first private financial institution, Nepal Bank Limited, was established in 1937 with the only other major commercial financial institution, Nepal Industrial Development Corporation, established in 1957 initially as the industrial development board, but converted in 1959 to its present form. IT should be noted that technically the first legal financial institution in Nepal was the establishment of the TejarathAdda in 1877, however it faced problems catering to the general needs of the population as it had the sole objective of providing credit only, with no deposits mobilized (NRB, 1996). The growth of financial sector in Nepal is much better compared to the other sectors in the country. The decade long conflict has had its toll on every sector including the financial sector. Despite the conflict and political insurgency, financial sector continued growing. Nepalese financial sector is comprised of organized and unorganized sector. The Nepalese organized financial sector is composed of banking sector and non-banking sector. Besides commercial banks, there are sizeable numbers of development banks, finance companies, micro-credit development banks, cooperative, NGOs and postal saving offices that undertake limited banking and financial services. Non-bank financial sector comprises funds, trusts and thrifts like, employee provident fund, citizen investment trusts, and mutual fund. Nepalese banking system has now a wide geographic reach and institutional diversification. Although, Nepalese financial sector is dynamic, a lot of scope for development of this sector exists. This is because the banking and non-banking sectors have not been able to capture all the potentialities of business till this time. It is evident form the rural credit survey report that the majority of the rural credit is supplied by the unorganized sector at a very high cost- perhaps being at two or three time of the formal sector- suggesting that the financial sector is still in the path of gradual development. Overdue loans and inefficiency of the older and the larger of commercial banks have aggravated and have been made to compete with the new trim banks with no rural operations. Also, the commercial banks, domestic or joint venture have shown little innovation and positive attitude in identifying new areas of saving and investment opportunities. Following table reflects the present development of commercial banking institutions in Nepal.

S.N.	Names	Head Office	Establishment
1	Nepal Bank Limited	Kathmandu	1937/11/15
2	Rastriya Banijya Bank	Kathmandu	1966/01/23
3	Agriculture Development Bank Ltd.	Kathmandu	1968/01/02
4	NABIL Bank Limited	Kathmandu	1984/07/16

5	Nepal Investment Bank Limited	Kathmandu	1986/02/27
6	Standard Chartered Bank Nepal Limited.	Kathmandu	1987/01/30
7	Himalayan Bank Limited	Kathmandu	1993/01/18
8	Nepal SBI Bank Limited	Kathmandu	1993/07/07
9	Nepal Bangladesh Bank Limited	Kathmandu	1994/06/05
10	Everest Bank Limited	Kathmandu	1994/10/18
11	Bank of Kathmandu Limited	Kathmandu	1995/03/12
12	Nepal Credit and Commerce Bank Limited	Rupendehi	1996/10/14
13	Lumbini Bank Limited	Narayangadh, Chitwan	1998/07/17
14	Nepal Industrial & Commercial Bank Limited	Biaratnagar, Morang	1998/07/21
15	Machhapuchchhre Bank Limited	Pokhara, Kaski	2000/10/03
16	Kumari Bank Limited	Kathmandu	2001/04/03
17	Laxmi Bank Limited	Birgunj, Parsa	2002/04/03
18	Siddhartha Bank Limited	Kathmandu	2002/12/24
19	Global Bank Ltd.	Birgunj, Parsa	2007/01/02
20	Citizens Bank International Ltd.	Kathmandu	2007/06/21
21	Prime commercial Bank Ltd	Kathmandu	2007/09/24
22	Sunrise Bank Ltd.	Kathmandu	2007/10/12
23	Bank of Asia Nepal Ltd.	Kathmandu	2007/10/12
24	Development Credit Bank Ltd.	Kathmandu	2008/05/25
25	NMB Bank Ltd.	Kathmandu	2008/06/05
26	KIST Bank Ltd.	Kathmandu	2009/05/07
27	Janata Bank Ltd.	Kathmandu	2010/04/05
28	Mega Bank Ltd.	Kathmandu	2010/09/17
29	Nepal Trust and Commerz Bank Ltd.	Kathmandu	2010/09/17
30	Civil Bank Limited	Kathmandu	2011
31	Century Bank Ltd.	Kathmandu	2011

(Sources: NRB, Mid-July, 2010).

1.3 Commercial Bank as a concept

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

Meaning of Bank in oxford Dictionary says an establishment for keeping money and valuable safety, the money being paid out on the customer's order (by means of cheques)(Horn by, 1992:71).

The Random House Dictionary of an English language defines the bank as 'an institution for receiving money and in some cases issuing notes and translating other financial business'(stein and urdang Laurence1985:115-116).

Banks refer to an institution and which perform the activities related with money and credit. Banks have been traditionally regarded as merely the purveyor of money, but creator or manufacturer of money in the system (vanish,maclead) in this book theory of credit has defined the bank not only as an institution, that borrows and lend money but also the institution for creating credit (maclead, 1983:111).

In the option of Sayers, Banks are the institutions whose debts usually are referred to as bank deposit and are commonly acceptable in final settlement of other people's debt as the debt (sayers, 1967). He has taken the bank deposit as the debt owe by bank and that particular depositor can set off his liability with his creditor by the deposit in the bank to the extent of his deposit amount.

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

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

- Should not establish with a specified objective of co-operative, agricultural, industrial or cony of such kind of specific purpose.
- Should accept customer deposit.
- Should advance loans and make investment.
- Perform commercial transactions.

The same Act has provided for the modalities of establishing a commercial bank as per which, a commercial bank can be established under the Company Act as a limited liability company only with the recommendations of Nepal Rastra Bank, the central bank of Nepal (commercial Bank ,2031).

From the various definition made and opinion produced regarding commercial banking, we can conclude that a commercial bank is set up to collect scattered funds and employ them to productive sector of economy.

1.4 Role of commercial Banks in the Development of economy

Commercial Banks play an important role in facilitating the affairs of the economy in various ways. The operations of commercial Banks record the economic pulse of the country. The size and composition of their transaction reflect the economic happening in the country. Commercial Banks have played a vital role in giving the direction in economic growth over the time by financing the requirement of industries and trade in the country. By encouraging thrift among the people, banks have fostered the process of capital formation in the country. In the content of deposit mobilization, commercial banks induce the savers to hold their savings in the form of bank deposits thus help bringing the scattered resources in to the organized banking sector which can be allocated to the different economic activities. In his way they help in country's capital assets formation. Through their advances, banks also help the creation of income out of which further saving by the community and further growth potentials emerge for the good of the economy. In a planned economy banks make the entire planned productive process possible by providing funds to the public sector, joint sector or, private sector for any type of organization. All employment income distribution and other objectives of the plan as far as possible subsumed into the production plan which banks finance (vaish,1996:265).

The importance of commercial banks in directing the economic activities in the system is immense. Not only in the highly developed economies where the commercial and industrial activities are paralyzed in the absence of banks, even in the developing countries' economy are most of the economic activities particularly of organized sectors bank based. There, in a nutshell it can be said that the growth of the economy is tied up with the growth of the commercial banks in the economy.

1.5 Functions of Commercial Bank

Commercial Banks are directly related with the people, institutions. The commercial bank is an important bank. Its activities very attractive for people. Although these banks are truly inspired the objective of gaining profit-these commercial banks are established to accelerate common peoples economic welfare to make available loan to the agriculture, industry and commerce and to provide the banking service to public and the state.

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

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

In the book 'Banking law of Practice written by Gulshan & Gulshan has quoted H.P. Sheldon's opinion as "The function of receiving money from his customers and repaying it by honoring their cheques as and when required is the function, above all function, which distinguish a banking business from any other kind of business."

Similarly the same book has also quoted sir John Paget's saying as "No person or body or corporate, or otherwise, Cannot be a banker who does not (i) take deposit account (ii) take current account. (iii) Issue and pay cheques drawn on himself and (iv) Collect cheques for his customer" (Gulshan & Gulshan 1994).

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

Commercial bank performance a variety of functions, which can be divided as: (i) accepting deposits

(ii) Advancing loans

(iii) Credit creation

(iv) Financing foreign trade

(v) Agency services and

(vi) Miscellaneous services.

1.6 Introduction of Nabil bank

Nabil Bank limited formerly known as Nepal Arab Bank limited was incorporated on 29 baisakh 2041 (11 may 1984) as the first foreign joint venture bank in Nepal with the authorized capital of RS.100 million and called up share capital of Rs 30 million . It commenced its operation from 12 July, 1984 with the technical service assistance and 50% shares of Dubai Bank limited (Acquired in April 1985 by Emirates Bank international limited, Dubai) and remaining 50% shared among Nepal industrial development corporation 10% Rastriya Bema Sansthan 9.67% Nepal stock exchange limited 0.33% and Nepalese general public 30% authorized capital issued capital and paid up capital mid July 2010 were16,000,000 ordinary shares of 100 each,14,491,240 ordinary shares of 100 each,14,491,240 ordinary shares of 100 each, respectively. Nabil Provides a full range of commercial banking services through its 47 points of representation across the kingdom and over 170 reputed correspondent banks. cross the globe. The head office of the bank is located at Kamaladi, Kathmandu. Besides the head office the bank has 31 number of branches within the country.

Nabil as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Operations of the bank including day-to-day operations and risk management are equipped with modern technology which includes **ATMs,credit cards**, **state-of-art,** world-renowned software from Infosys Technologies System Bangalore India Internet banking system and Telebanking system.

1.6.1 ATMs location

Inside Kathmandu valley

1.Kantipath 01	13.Soltee Hotel	25.Kausaltar Branch
2.Thamel Supermarket	14.Kumaripati	26.Chabahil Branch
3.Phora Durbar	15.Thamel Nursing chowk	27.Maitidevi Branch
4.Bhaktapur	16.Nabil center Tindhara	28.Balaju Branch
5.Bakerycafe Thamel	17.Newroad Branch	29.Kuleshwor Branch
6.Newroad,2	18.Boudha Classic	30.Satdobato Branch
7. Us Embassy	19.Lalitpur Branch	31.Dhapashi Branch
8.Kalimati	20.Maharajgunj Branch	32.Anamnagar Branch
9.Yingyang Thames	21.WTC Tripureshwor	33.Gwarko Branch
10.Bakerycafe Baneshwor	22.Baneshwor Branch	34.Attarkhel Branch
11.Kamaladi Branch	23.Halchowk Branch	
12.Ncell	24.Thamel Branch	

(Source: www.Nabilbank.com)

Outside Kathmandu valley

1.Birgunj Branch	11.Bhairahawa Branch	21.Dhangadi Branch
2.Birgunj-I	12.Nepalgunj Branch	22.Attaria
3.Power House Birgunj	13.Dharan Branch	23.Mahendranagar Branch
4.Biratnagar Branch	14.Birtamod Branch	24.Charikot Branch
5.Itahari Branch	15.Damak Branch	25.Khandbari Branch
6.Butwal Branch	16.Hetauda Branch	26.Dhulikhel Branch
7.Bhalwadi Branch	17.Narayanghat Branch	27Gorkha Branch
8.Pokhara Chiplrdhunga	18.Tulsipur Branch	28.Besisahar Branch
9.Pokhara Lakeside	19.Ghorahi Branch	29.Chandragadi Branch
10.Pokhara Branch	20.Baglung Branch	

(Source:www.Nabilbank.com).

1.6.2 Banking Product &Services

Nabil Bank has been providing full-fledged commercial banking services to the clients. The facilities provided by the bank are as follow:

- Deposits
- Loans & advances
- Export finance
- Import finance
- Bank guarantees
- Remittances
- Bill purchase
- Swift facility for remittances and letter of credit
- Lockers
- Tele banking

1.6.3 Technology

From its inception the bank has been providing the services with latest technologies and computerized equipment. The bank is providing. Tele banking facilities, which enables the clients to get the information as well as statements through fax whenever required simply by dialing a phone. The bank is using world .renowned software from informs technologies system, Bangalore, India. The bank has also obtained a membership of SWIFT which has enables it to transmit messages of remittances, letter of credit etc. to other member banks in no time.

1.7 Statement of the problem

The profit planning and control tool is a newly developed concept as a crucial way in the business organization. The concept of profit planning has not even familiarized in the most of the business concern. By proper profit planning a business can be managed more effectively and efficiently.

Every financial institutions, as a commercial bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. Major activities of a commercial bank comprise mobilization of resources which generates income. The different interest income over the interest cost which is popularly called as interest margin can be considered as the contribution margin in the profit of the bank. The bank attempts to compensate the other operational expenses by generating other income out of non-fund based business activities of the bank.

The present study aims to analyze and examines the application of PPC tool in the commercial banks taking a case of Nabil Bank. In this ground the study deals with the following issues for the purpose of this study.

- How properly the collected fund has been used?
- What is the profitability position of NABIL Bank?
- What is the trend position of banks in terms of deposits collection and net profit?
- What is the effect of investment decision on profitability position of the bank?
- Is there a significant relationship between loan and advances and deposit and in between deposit and investment?

1.8 Objectives of the study

The basic objective of the study is to analysis the profit planning policy of commercial banks with reference to NABIL. The Specific objectives of the study are:

- To identify the investment priority sectors of Nabil Bank ltd.
- To assess the impact of investment on profitability.
- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial bank.
- To provide suggestions and possible guidelines to improve investment policy and its problems.
- To study the growth of the business of the bank over the period.

1.9 Focus of the Study

This research study has focused on evaluating the use of different types of functional budgets and corporate planning system for the effective implementation of profit planning in Nabil. This study has designed to describe the purpose of the different kind of budget used, how they have applied and finally settled and how they assist in policy making and in financial control. The study is intended to clarify the purpose of different budgets and to identify the person responsible for different items in the problems.

Generally two types of profit-planning practices are used in an organization; they are strategic long-range profit plan and tactical short-range profit plan. Long-range profit covers the horizon of two years of more and short-range profit plan made generally for coming year. Both of these plans are equally important for the successful operations of the organization but this study is designed so us to give more consideration in short range planning.

For the purpose of analyzing the short range planning of Nabil Bank Limited following plan has been specially analyzed. The process and techniques of preparing them responsibility to prepare them their drawback and other relevant facts as well as role in profit planning has been discussed in detailed.

a) Loan disbursement plan (Loan disbursement plan has been analyzed by the category of loans).

b) Fund collection plan (This budget contains the money collection by different types of account loan taken from NRB and other bank and financial companies).

c) The expenses budget (Nabil prepares many expenses budget are following employee salary and allowance, operations and maintenance vehicles, over time overhead)

d) Capital expenditure budget

e) Cash flow budget

f) Cost volume profit relationship

1.10 Significance of the study

Profit is the life blood of the any organization because the continuity or survival of the each and every organization is depends upon the earning capacity of that organization. This study is concerned with the profit planning in the commercial bank. It attempts to examine and analyze the applicability of profit planning system in the bank. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization with the help of the best utilization of resources.

Profit planning is a part of an overall process and is and area in which finance function plays major role. It is now an important responsibility of financial manager while activities of those require an accounting background. It's also need knowledge of business principles, economic statistics and mathematics. Hence profit planning represents on overall plan of preparation for a definite period of time.

Profit planning is crucial for management. Profit is the most important indicators for judging managerial efficiency and does not just happened for this every organization has to manage. Various functional budgets are the basic tools for proper planning of profit and control. Therefore, this study will be useful for those who want to know the profit planning tools and also for next researcher as reference.

1.11 Limitation of study

The study confines only profit planning aspect of the Nabil bank Ltd. So, the limitation of this study are

1. This study focuses on profit planning and control and its application in the Nabil
Bank.
2. Only profit planning aspect of Nabil Bank has been analyzed.
3. This study covers the related data of the banks from FY 2062/063 to 2066/2067
4. The study is mostly based on secondary source of data.

1.12 Organization of the study

Chapter I- Introduction

This chapter includes background of the study evolution of CB, CB as a concept, role of CB, function of CB, introduction and profile of Nabil bank ltd, statement of problem, objective of study, significance of study and limitation of the study.

Chapter II- Review of literature

This chapter will be describes towards the review of literature of related studies. It contains conceptual review and major studies related with this research.

Chapter III- Research methodology

This chapter includes the research design, data collection procedures and the tools and techniques to be employed for the analysis of the data.

Chapter IV- Data presentation and analysis

This part of the study includes presentation and analysis of financial figures of bank. This presentation and analysis helps to come to the ultimate conclusion of the study. The financial figures of the individual institutions as well as of the industry as a whole are dissected and analyzed in detail to arrive at the conclusion. The analysis is made on the basis of various tools and techniques like ratio analysis, comparisons and trend analysis. This part also contains the list of major findings derived from the analysis.

Chapter V – Summary, Conclusions and Recommendations:

This Chapter wills states Summary, Conclusions and Recommendations of this study.

CHAPTER-II
REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. It is an integral and mandatory process in research work (Joshi, 2003:25). It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of study. It also has to find out the lacuna in the earlier research work and to stops duplication of the previous work. Literature here means the related printing materials about the subject matter of the research work. It may be various forms like book, booklet, thesis reports etc.

2.1 Conceptual Framework

2.1.1 Profit Planning as a Concept

Profit planning can be defined as the set of steps that are taken by firms to achieve the desired level of profit. Planning is accomplished through the preparation of a number of budgets, which, when brought through, from an integrated business plan known as master budget. The master budget is an essential management tool that communicates management's plan throughout the organization, allocates resources, and coordinates activities (www.emraldinsight.com).

"Oxford dictionary defines profit as financial gain or amount of money gained in business especially the difference between the amounts earned and the amount spent. Likewise, advantage or benefits gained from something as called profit" (Hornby and Cowie, 1992: 63).

Generally, profit is the amount of money which is available after paying the costs of producing and selling the goods and services. But the different economists and scholars have the different opinion in term of profit usually profit does not happen itself; profit is managed when management makes plans is known as profit planning. Profit planning is the part of overall process of organizations. Usually, profit does not just happen, profit is managed when management makes plans, and it is known as profit planning (Lynch and Williamson, 1992: 99).

Some statement about profit by economists are chalk out as, Schumpeter opines that an enterprises earn profit as reward for introducing innovation. J.M. Keynes holds the view that profit results from the favorable movement of general prices levels. In the view of Mrs. Joan Robinson and chamberlain the greater the degree of monopoly power the greater will be the profit made by the entrepreneur. Similarly "profit is the reward for risk locking in business" (Joshi, 1993: 70).

The accounting concept of company profit is a concept of net business income. Profit is thus, the surplus income that remains after paying expenses and providing for that part of capital that has been consumed in producing revenue. It is the ultimate objectives of management to maximize profit over the long term consistent with its social responsibility. A business from is organized mainly with a motive of making profit and it is the primary measure of business success. Profit is the ultimate yardsticks of management's net in the interest of the consumer. Social criteria of business performance productions, rate of progress and behavior of prices. "Profit is a signal for allocation of resources and a yardstick for judging managerial efficiency" (Lynch and Williamson, 1992: 99). In fact earning is the primary objective of a business.

2.1.2 Concept of Profit

Profit is the basic elements of profit plan so that the concept of profit planning may not be completed and meaningful in absence of the clear-cut well defined idea of profit.Oxford dictionary defines profit as a (a) financial gain and amount of money gained in business especially the difference between the amount earned and the amount spent (b) Advantage or benefits gained from something (Hornby and cowie,1992:63).According to some theories, profits are the factor payment for talking the risk for agreeing to take what is left over after contractual outlays have been made. In the second type of profit theory they viewed as a wage for the service of innovation. Profits in this theory are tied to dynamic development. Profit around which all enterprises activities directly or indirectly revolve play the significant role for judging the managerial efficiency. In absence of profit nobody can think about the long-term survivability of the enterprises.

2.1.3 Concept of planning

The meaning of planning is the decision about how to do something in the future planning opens the expenses for action. It is the method of thinking of work.

According to Roy-A Gentles, "The planning process, both short and long term, is the most crucial component of the whole system. It is both the foundation and the bond for the other elements because it is through the planning process that we determine what we are going to do now we are going to do and who is going to do it. It operates as the brain center of the organization and like the brain in both reasons and communicates" (Gentles, 1984: 32).

Planning is essential to get the target. It reduces the potential crisis and helps to take the preventive way. Formal planning indicates the responsibility of management and provides an alternative to grouping without direction. It is a rational way, a systematic way of perceiving how business, individual or any other organization will get where it should be examining future alternative course of action open to any organization Planning is the first function of management. It is performed continuously because the passages of time demand both re-planning and making new plans. Moreover, current feedback often necessary nearly planned action to

a) Correct performance deficiencies

b) Establishing enterprises objectives and goals

c) Developing premises about the environment of the entity

d) Making decision about course of action

e) Evaluating performance feedback for re-planning

2.1.4 Types of planning

There are three types of planning i.e. long term planning, medium term planning and short term planning. It can be corporate planning or tactical planning. The types of planning depend upon the time period covered by it.

2.1.4.1 Long range planning

Long range planning is such type of planning which covers a period of five to ten years depending upon the size and nature of enterprises. Long range planning is most important basically for broad and long living enterprises. Peter Drucker says that long range planning decisions systematically and with the best, possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions and measuring the results of those decisions against the expectation through organized, systematic feedback" (Drucker, 1950: 338).

The objectives of long range planning given by George R. Tery are as follows: (Tery, 1964: 12).

- To provide a clear picture of whether the enterprises is handed
- To keep enterprise strong
- To focus on long range opportunities
- To evaluate management personnel
- To expenditure new financing

2.1.4.2 Medium Term Planning

Medium term planning is such type of planning which covers two or three years of period. This type of planning is to establish interim objective between long range goals and for use in the development of annual program and budget. In these causes, target with specific results and definite time tables must be developed. It is used mainly to determine the allocation of resources among competing activities and revised long ranged plans in view of more recent developments. Medium range planning after takes form of budgeting in which each divisions, department or units is allocated certain resources during the coming year. Medium term planning most correctly predicts general levels of economic activities. Since that affects such factors as revenues profit, costs and expenditures. More detail is involved in it than with short range but less than for long-range plans. While resources allocation in important final approval will only be required for the short-range and a consideration of alternatives is still possible (Tery, 1964: 21).

2.1.4.3 Short Range Planning

The short range planning is such a planning which is within one year of period. The short range planning is selected to confirm to fiscal quarters or one year. Because of the practice needed for conforming plans to accounting periods, short range planning concerned with limited time period. Usually it covers one year time period. It is used by the management as substantial part of long range and medium range plan.

2.1.5 Rule of forecasting in planning

Forecasting is an integral part of decision making activities of management. An organization establishes goals and objectives seek to predict the environmental factors. The need for forecasting is increasing as management attempts to decrease its dependence on change and become more scientific in dealing with its environment. Since each area of organization is related to others. A good or bad forecast can affect the entire organization. Planning or budgeting is not nearly forecasting although forecasts from the basis of budgeting. Forecasting is the estimate of the future environment within the company will operate. Budgeting or planning on the other hand involves the determination of what should be done, how the goals may be reached and what individual or units are to assume responsibility and be held accountable.

Forecasting is indispensable in planning. Forecast is statement of expected future conditions definite statements of what will actually happen are patently impossible. Expectation depends upon the assumptions made. If the assumptions are possible the forecast has a better chance of being useful forecasting assumptions and techniques vary with the kind of planning needed.

The short-term forecasting is needed in budget making. A budget set for the following year will be much useful. It is regarded to sales levels, which will eventuate rather than current sales level. As budget distributed according to current sales may establish policy as to lines of emphasis, but will obviously require successive adjustment if sales levels changes (Bratt, 1985:246).

2.1.6 Planning Vs. Forecasting

Planning and forecasting often are confusing of being the same. But they are not same, although related. The notion that planning and forecasting are different functions deserves special mentions here. Forecasting is generally used to predict what will happen, given a set of circumstances assumptions. Planning on the other hand, involves the use of forecast to help to make good decisions about most attractive alternatives for the organization. Thus a forecast seeks to describe what will happen, where as a plan is based on the notion that by taking certain action how the decision maker can affect subsequent events in a given situation and thus influence the final results, in the direction desired. Generally speaking forecasting and forecast are inputs to the planning process.

2.1.7 Purpose of Profit Planning

The purpose of profit planning is:

a) To state the firms expectations in clear and facilitate for attainability.

b) To provide a realistic estimate of income and expenses for a period

c) To provide a co-ordinate plan of action which is designed to achieve the estimates reflected in the budget.

d) To provide a comparison of actual results with these budgeted and an analysis and interpretation of deviation by areas of responsibility to indicate course of action and lead to improvement in procedures in building future plans.

e) To provide a guide for management decision in adjusting plans and objectives an uncontrollable condition changes. ((Jssae and William, 1966:38).

2.1.8 Long range and short range profit plan

There are two types of plans developed; one strategic (long-range) and another tactical (short-range). The former profit plan takes a time horizon of 5 to 20 years and the later for short period. The long range planning is a picture of more summary data. A part of this plan is more or less informal as presented by tentative commitments made by the executive committee in the organizational planning seasons. The formal portion of long-range profit plan includes the following component detailed by each year.

- Income statement
- Balance sheet
- Personnel requirements
- Capital Expenditure
- Research plan and
- Long range market penetration plan

Thus the long range profit covers all the key areas of anticipated activity; sales, expenses, research and development, capital expenditure, cash, profit and return on investment. The short range tactical profit plan shows the primarily annual results, the detail by months, responsibility and products. In an organization these annual summaries should be prepared to provide a general understanding of the profit plan and to provide an overall view of the comprehensive short range profit plan.

It is possible for the firms to develop these two profit plans for all aspects of the operations(Welsch, et.all, 2001:524). Assuming participatory planning and receipt of the executive instruments, the manager of each responsibility center will immediately initiate activities within his or her responsibility Centre to develop strategic profit plan and tactical profit plan. Certain format and normally the financial function should establish the general format, amount of detail and other relevant procedural and format requirements essentially for aggregation of the plan. All these activities must be coordinating among the centers in conformity with the organization structure (Welsch, et.al, 2001:523).

The preparation of long-range profit planning in addition to short- range profit planning is also viewed as a total planning concept of business. Long range planning is essential to maintain the annual profit at improving level. The ultimate measure of the success of a business in generally based on growth in the volume of sales, increasing return on capital investment, efficient organization and these are all long term consideration.

2.1.9 Budgeting and Budget

Budgeting is a forward planning and involves the preparation in advance for the quantitative as well as financial statement in indicate the intention of the management in respect of the various aspects of the business. A budget is a comprehensive and co-ordinate plan expressed in financial term for the operation and source of an enterprise for some specific period in the future (Pandey, 1991:98).

As regards the term 'Budget' it can be visualized as the end result of the budgeting. If Budgeting is the procedure for preparing plan in respect of future financial requirements, the plan when presented in written from is called budget. Budgeting in facts is a managerial technique and a business budget is such a written plan in which all aspects of business operations with respect to a definite future period are included. It is a formal statement of policy, plan, objectives and goals established by the top level management in respect of future period (Gupta, 1981:136).

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

Budget is defined as a comprehensive and coordinated plan, expressed in financial terms for the operations and resources of enterprises for some specified period in the future (Fregmen, 1976:256). According to his definition the essential elements of a budget are:

- Plan
- Operations and Resources
- Financial terms
- Specified future period comprehensiveness
- Co-operation

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

2.1.10 Budgeting; as a device (tool) of profit plan

Budgeting as a tool of planning and control is closely related to the broader system of planning and control in an organization planning involves the specification of the basis objectives that will guide it. In operational terms, it involves the step of setting objectives, specifying goals, formulating strategies and expressing budgets. A budget is a comprehensive and coordinated plan expressed in financial terms for the operations and resources or an enterprise for some specified period in future (khan and jain,1993:158).

A budget is a quantitative expression of a plan of action and aid to coordination and implementation. Budget may be formulated for the organization, as a whole or for any submit. Budgeting includes sales, production, distribution and financial aspects of an organization. budget programs are designed to carry out a variety of functions, Planning evaluating performance coordinating activities, implementing plans, communicating, motivating and authorizing actions" (Horngeen, 1983: 123). A budget is a written plan for the future. The managers of firms who use budgets are forced to plan ahead. A firm without financial goals may find it difficult to make proper decision.

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

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

2.1.11 Essential of an Effective budgeting

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

1. **Sound forecasting**

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

2. **An Adequate and planned Accounting system**

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

3. **Efficient Organization with Definite lines of Responsibility**

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

4. Formation of budget committee

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

5. Clearly Defined Business Policies

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

6. Availability of Statistical Information

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

7. Support of Top management

If a budget program is to be made successful, the sympathy of each member of the management team, it should start preferably from top level (chairman). The enthusiasm for budget operation as well as direction for it should initiate and come from top.

8. Appropriate Reporting system

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

9. **Motivational Approach**

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

2.1.12 Fundamental of Profit Planning and Control

The concept of PPC was originally established with the function of an account. At its origin, the function of PPC was designed to the accountant. But in modern day PPC is given much more importance and is regarded as a way of management and in more important sense is regarded as a basic technique of decision-making. The major fundamentals are mentioned as below: (Gupta, 1992)

i) **Managerial Involvement and Commitment:-**Managerial involvement entails managerial support, confidence, and participation and performance orientation. In order to engage competently in comprehensive PPC, all level of management, especially top management

1) Understand the nature and characteristics of PPC.

2) Be convinced that this particular approach to managing is to devote the effort required to make it operative

3. Support the program in all its planning process as performance commitments. For a comprehensive PPC program each member of management, starting from the president, the impetus and direction must came from the very top.

ii) **Organizational Adaptation:** A PPC program must rest upon sound organizational structure for the enterprise and a clear cut designation of lines of authorities and responsibilities. The purpose of organizational structure and the assignment of authority is to establish a framework within which enterprises objectives may be attained in a coordinated and effective way on a continuing basis. This scope and interrelationship of the responsibilities of each individual manager and specified to increase the management and operational efficiency, particularly all enterprises, except perhaps the very smallest ones, should be structurally disaggregated into organizational subunits. The manager of each subunit would be assigned specific authority and responsibility for the operational activities of that subunit. These subunits are further classified in respect to the extent of responsibility as follows.

- Cost center
- Profit center
- Investment center

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

iv) Full Communication: communication can be defined as an interchange of thought or information to bring about a mutual understanding between two or more parties, communication from working together. Although the management gives least importance to communication, it is most important thing for any organizational observation and control. Most of the organization faces lot of problems due to bad communication system.

Communication is needed for both the forward and backward process which is most important for operation of any organization. Role of communication can be justified in all aspect of management. It is needed either for decision making or for supervision or for evaluation flows of information must be adequate in all side. For PPC, effective communication means development of well-defined objective, specification of goals, development of profit plans and reporting and flow up activities related to performance evaluation for each responsibility center. Communication for effective planning and control requires same understanding of responsibilities and goods in both the executives and subordinates.

V) **Realistic Expectation:**PPC must be based on realistic approach or estimation. Management must use realistic assumption and must not take either irrational optimism or unnecessary conservatism. Perfection on setting goals or objectives of the future sales, production levels, costs, capital expenditures, cash flow and so on determines the success of PPC program. So, for PPC purpose, a realistic approach reared with time dimension and external and internal environment that will prevail during the time span should be considered. This is called realistic expectation.

Before preparing comprehensive PPC program, management has to take a good care that the goal or objective which is going to be determined neither should be to low nor should be too high but should be attainable with high level of efficiency. This is because goals set very low will destroy motivation as it does not require efforts and goal set high will discourage the implementer as it would not be attained with existing capacity of the units, but the goals which will be of challenging nature, will be of real value and will keep the organization alert which is the main objective of the realistic expectation.

i) **Flexible Application:**PPC program or any other management techniques should not dominate management slowly. Any of such techniques of management must not be flexible or rigid. These are the techniques or means, which is not only the end of the management itself because the main end or aim of the management is to use the resources in the most effective way and earn high return on investment and for this purpose PPC or other techniques are used as means only.

ii) **Timeless:**Whether an individual or an entity remains idle or busy, time passes at the same rate. The problem of the manager in one hand is to accomplish the planned activities in a given time and on the other hand is to prepare the plan itself. Phasing of the planning is of two types

a. Timing of planning horizons

b. Timing of planning activities

C. planning and control

2.1.13 Profit Planning and Control Process

Profit planning and control has its own process from preparing plans to implementation and feedback. A PPC program includes more than traditional idea of a periodic or master budget rather it encompasses the application of a number of related management concept through a variety of approaches techniques and sequential steps. The process of PPC is listed below:

i) Identification and evaluation of external variables.
ii) Development of broad objectives of the enterprises.
iii) Development of the specific goals of the enterprises.
iv) Development and evaluation of company strategic.
v) Executive management planning instruction.
vi) Preparation and evaluation of project plan.
vii) Development and approval of strategic and tactical profit plans.
viii) Implementation of profit plans.
ix) Use of flexible expenses budget.
x) Follow up.

2.1.14 Basic Assumptions and limitations of profit plan

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

1. Profit plan is based on estimates.
2. A PPC program must be continually adapted to fit changing circumstances.
3. Execution of a profit plan will not occur automatically the profit plan is not a substitute for management.

   The profit plan should be regarded not as a master but as a servant. It is not one of the best tools yet devised for advancing the affairs of a company and the individuals in their various spheres of managerial activity. It is not assumed that any profit plan is perfect. The most important consideration is to make sure, by intelligent use of profit plans that all possible attainable benefits are derived from the plans as rendered and to re-plan when there are compelling business reasons.(welch,et.al, 2001:265).

2.1.15. Development of profit plan

2.1.15.1 Sales Plans

The starting point in preparing profit plan is the sales plan, which displays the projected sales in units and rupees. The sales planning process is an essential part of profit plan and control because it provides for the basic management decision about marketing and based on these decisions, it is an organized approach for developing a comprehensive sales plan. If sales plan is not realistic and relevant, most profit plans are also not realistic. Therefore, if the management believes that a realistic sales plan cannot be developed there is little justification for PPC similarly if it is really impossible to assess the future revenue potential of a business; there would be little or no incentive to investors and prospective investors. Hence, the sales plan is both ends and means of PPC.

The sales plan is the foundation for periodic planning in the firm because practically all other enterprises planning are built on it. The primary source of cash is sales, the need of capital additions, the plan to expenses, the manpower requirement production level, and other important operational aspects depend on the volume of sales. A comprehensive sales plan includes two separate but related plans, the strategic and tactical sales plans. A comprehensive sales plan incorporates such management decisions as objectives, goals, strategies and premise. Both long term and short-term plans must be developed in harmony with comprehensive profit plan.

The primary purposes of sales plane are: (Welsch, 1986: 24).

- To reduce under certainty about future revenue.
- To incorporate management judgment and decisions into the planning process.
- To provide necessary information for developing other elements of comprehensive profit plan.
- To facilitate management control of sales activities.

2.1.15.2 Sales Forecasting and Sales Planning

Although sales planning and sales forecasting are usually used synonymously, they have distinctly different purpose. A forecast is not a plan rather is it a statement of a future condition about the particular subject based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input for the development of sales plan. The management of the company may accept, modify or reject the forecast. In contrast, a sales plan incorporates the management decisions that based on the forecast, other inputs and management judgment about such related items as sales volume, prices, sales, efforts production and financing.

It is important to make a distinction between the sales forecast and the sales plan primarily because the internal technical staff should not be expected or permitted to make the fundamental management decision and judgments implicit in every sales plan. The major difference between sales forecast and sales budget can be attributed as:

i) The sales forecast is merely the initial estimate of future sales, whereas plan sales are the projection approved by the budget committee that describes expected sales in units and rupees.

ii) Sales forecast is a merely well-educated estimate of future expected demand of a specific product where as sales budget is the quantitative expression of business plan and policies to be pursued in future.

iii) A sale plan provides standard for comparison with the result actually achieved, thus it is an important control device of management, whereas forecasting represents merely a probable events over which no control can be exercised.

iv) Sales plan beings where and when sales forecast end. sales forecast is the input to sales plan; sales plan is the foundation to PPC

2.1.15.3 Strategic and Tactical Sales Plan

Strategic sales plan: - Strategic sales plan is the long range sales plan of enterprises. Usually it is of 5 to 10 years. It is broad and general. It is usually developed by year and annual amount. It is prepared by considering future market potentials, popular changes, state of economy, industry projections company objectives and long-term strategies because they affect in such areas as pricing, development of new product line, innovation of product, expansion or distribution channel, cost pattern etc.

Tactical sales plan: - Tactical sales plan in a short-range sales plan. It is developed for a short period of time usually a year. Initially by quarters and by months for the first quarters. The tactical sales plan includes a detailed plan for each major product and for grouping of minor products. Tactical sales plan are usually developed in terms of physical units and in sales rupees (Ojha and Gautam, 2065).

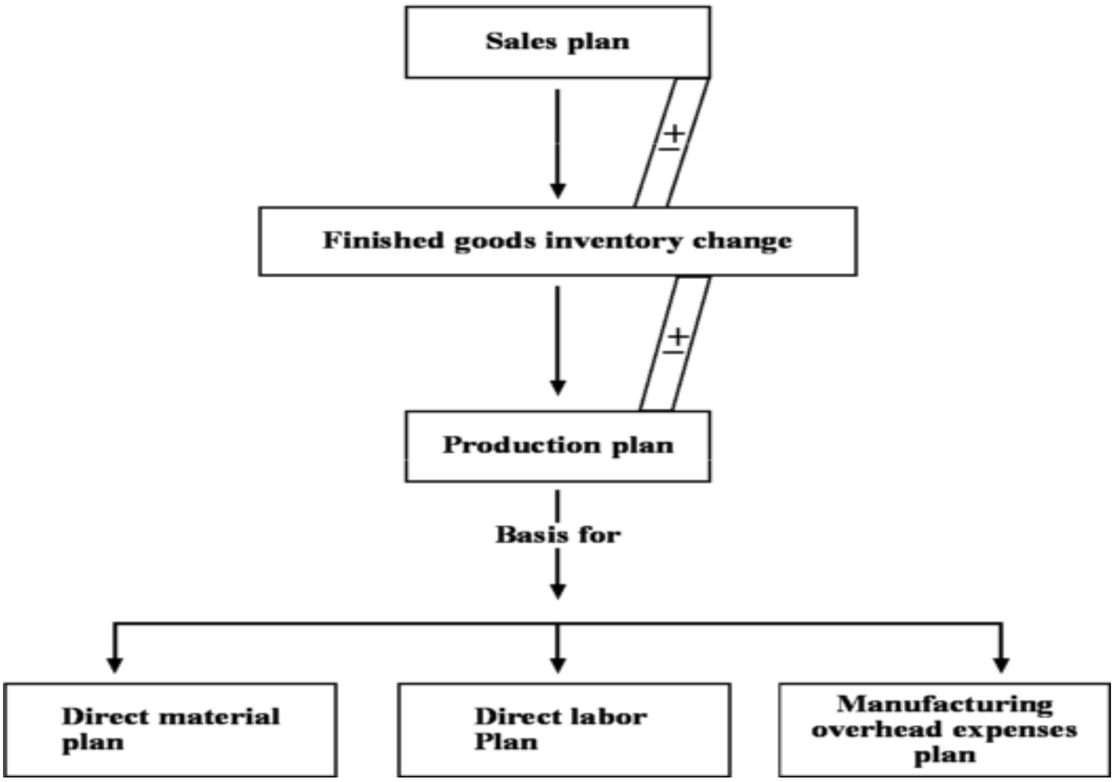
2.1.15.4 Production Plan

A next step in the manufacturing enterprises after a tentative approval of sales plan is the preparation of a production plan. The production plan is an important tool of planning, coordination and control in a manufacturing organization. Development of a production plan requires the conversion of sales plan into production program. It interlinks the activities such as materials planning, labor planning, overhead planning etc.

The production plan specifies the planed volume of each product to be produced for each time period throughout the planning period. This entails the development of policies about efficient production levels, use of productive facilities and inventory levels. The quantities specified in the marketing plan. Adjusted to confirm to production and inventory policies, give the volume of goods that must be manufactured. It can be presented in equation:

Sales volume ± finished goods inventory Change = production requiremen

Fig: Planning production



(Source: Ojha and Gautam, 2065).

2.1.15.5 Material Budget

After the sales and production has been estimated, the next steps are to prepare material purchase budget. When the production budget is completed then the requirement of raw materials and components are used in the process of material budget. Based on the production budgets, the qualities of each material are determined and this determination of material usage solved the problem of when and how much to purchase of material. A purchase budgets gives the details of materials purchase to be made in the budget period. The function of purchase budget is to plan purchase, so that firm will never run out of inventory, such purchase plan should be made in such a way that inventory of raw material are kept as low as possible without losing the planned product because the higher inventory the higher cost will occur, while preparing the materials plan there should be serious consideration to coordinate among the following items.

a) Production requirements for material and components parts.

b) Raw requirements and parts inventory levels.

c) Purchase of raw materials.

To ensure that the appropriate amount of raw materials and component parts, the tactical short term profit plan should include.

a) A detailed budget that specifics the quantity and cost of such materials and parts

b) A related budget of material and parts purchase.

This materials and purchase budget while usually requires the following four sub-budget.

a) Materials and parts budget:- This specified the planned quantities of each raw materials and part required for planed production by time, product and responsibility center.

b) Material and parts purchase budget:- This specifies the quantities and timing of each materials and components part needed to purchase, the estimated cost and required delivery date.

c) Materials and parts inventory budget:- This specifies the planned level of raw materials and raw materials and parts inventory in term of quantities and cost.

d) Costs of materials and part use budget:- This specifies the planed cost of materials and parts that will be used in the productive process.

The materials and purchase budget and it's sub budgets should be designed in such a way that the related activities and cost will be budgeted in term of responsibilities centers.

2.1.15.6 Consideration in Materials and Parts Inventory Policies

This budget specifies the planned level of raw material and parts inventory in term of quantities and cost. The different in units between the material and parts of budget and purchased budget is accounted for the change in materials and part inventory levels. The timing of purchasing will depend on inventory policies. The primary consideration in setting inventory policies for materials and parts are:

- Timing and quantity of manufacturing needs by the factory.
- Availability of materials and parts.

- Lead time. (order and delivery)
- Storage facilities involved.
- Capital requirement for finance inventory.
- Cost of storage.
- Expected change in the cost of raw materials and parts.
- Protection against storages.
- Risks involved in inventories.
- Opportunities costs. (inadequate inventory)

In developing the inventory policy with respect to purchase and maintain the level of inventory, the basic two questions should be answered. The first is how much to purchase to a time and second when to purchase? How much to purchase at a time is determined by a well-known, approach, called economic order quantity (EOQ).

EOQ can be calculated by using following formula.

$$EOQ = \sqrt{\frac{2AO}{C}}$$

Where,

A= Annual requirements units

O= Average annual costs of placing an order

C= Annual caring cost

The second questions when to purchase is determined by reorder point. Re order points is the time when a purchase is made. The re-order points is reached when inventory level is equal to the time to re-order.

2.1.15.7 Cost of Materials Used Budget

This budget reports the estimated cost of the materials planned for in the materials budget. The quantity of materials and parts required for planned production is specified in the materials and parts budgets. Quantity and unit cost data are available to develop the budgeted cost of materials to be used, if the purchase budget anticipates a constant unit cost. Alternatively, when a changing unit price is planned for raw materials and parts, the related inventory budget must be developed by utilizing a selected inventory such as LIFO, FIFO, moving average and weighted average.

2.1.15.8 Direct labor cost Budget/ Plan

Labor costs, in a broad sense, are composed of all expenditures incurred for employees; top executives, middle management personnel, staff officers, supervisor, foreman, skilled workers and unskilled workers. It is necessary to consider separately the different types of labor costs. Labor is generally classified as direct and indirect labor. Direct labor comprises all the workers who were directly on specific productive output. Hence, as with direct material costs, direct labor costs are directly traceable to output. The labor who work or support productions indirectly are classified as indirect labor. Indirect labor last is a part of manufacturing overhead budget.

The direct labor budget is also developed form the production budget. Firstly, direct labor requirement must be computed so that the company will know whether sufficient labor is available to meet production needs. By knowing in advance, the company can develop a plan to adjust the labor force as the situation may require. Direct labor requirements can be computed by multiplying product to be produced in each period by the number of direct labor-hours required to produce a unit. Many different types of labor may be involved. If so, then the computation should be made of the type of labor needed. The direct labor hours resulting from these computations can then be multiplied by the direct labor cost per hour to obtain the budgeted total direct labor cost (Ojha and Gautam, 2065).

2.1.15.9 Components of Direct Labor Budget/Plan

Basically, there are three components of direct labor budget.

1. Direct Labor Hour Budget: - Direct labor hour budget estimates the total direct labor hours required for each product by time and responsibility. It is computed as: Total direct labor hours required = Planed production x Standard time required per unit of outputs
2. Manpower Budget: - Manpower budget estimates the number of each kind of manpower by department and time: Number of labor = Total hours required ÷working hours per person per month.Working hours per person per month = Normal working hours per person per day x Working days in a month

3. Direct Labor Cost Budget: - Direct labor cost budget estimates the total direct labor costs by product, time and responsibility. To get direct labor costs budget, first estimates the average wages rate by department. Then multiplication of the standard time per unit of product by the average wage rates gives the labor cost per unit of production for the department. The multiplication of departments, cost centers, or operations total units by the unit labor lost rate gives the total direct labor costs for each product.

2.1.15.10 Overhead Expenses budget

The next step in the tactical profit plan, the expenses budget is necessary to maintain the expenses level in reasonable. There are three board categories of expenses, manufacturing overhead, distribution expenses and general administrative expenses and for this three separate sub-budget are prepared.

"Expenses planning should not focus on decreasing expenses but rather on better utilization of limited resources. Expenses planning and control should focus in the relationship between expenditures and the benefits derived from these expenditures. The desired benefit should be viewed as goals and sufficient resources must be planned to support the operation activities essential for their accomplishment."

The expense of planning the knowledge of cost behavior is important cost behavior is the response of a cost to different volume of output. There are three distinct categories of expenses when they are viewed in relation to change in output.

a) Fixed Expenses:- Constant in total directly with change in output, constant per unit.
b) Some Variable Expenses:- Neither fixed nor variable change in the same direction of output lout but not proportionately

The expenses budget should be in total for each responsibility centers and by interim time periods. The expenses can be divided into three sub budget.

a. Planning Manufacturing Overhead

Manufacturing overhead is that part of total production cost, not directly identifiable with specific products. It consists of a) indirect material b) indirect labor c) All other miscellaneous factory expenses such as taxes, insurance, depreciation, supplies, utilizes and repairs. Manufacturing expenses include many dissimilar expenses, which can cause problem in the allocation of these costs to products.

Two types of responsibility centers: production and services are common in most manufacturing firms. Production department work directly on the products manufactured. Service department do not work on the products directly but rather furnish services to the production department and to other service departments

For budgeting purposes, manufacturing overhead involves the following two problems.

i) Control of manufacturing or factory overhead.

ii) Allocation of manufacturing or factory overhead to product manufactured.

b. Planning Administrative Expenses

Administrative expenses include these expenses other than manufacturing and distribution. They are incurred in the responsibility centers that provides supervision of and service to all function of the enterprises rather than in the performance of only one function. Because long portion of administrative expenses are fixed rather than variable, general administrative expenses are generally determined by top management therefore, there is strong tendency to overlook their magnitude of effect on profits. Each administrative expense should be directly identified with a responsibility center and the concerned manager should be responsible for planning and controlling expenses. It is advisable on specific plans and programs.

c. Planning Distribution (Selling) Expenses

Distribution expenses in clued all cost related to selling, distribution and delivery of product to customers. The two primary aspects of planning distribution expenses are:

Planning and coordination: - Marketing executives are directly responsible for planning the optimum economic balance between a) Sales budgets b) The advertising budget c) The distribution expenses budget. PPC views them as three separate problems.

Control of Distribution Expenses: - Distribution includes a) Head office expenses and b) field expenses. From the planning and control point of view, these expenses must by planed by responsibility center. These expenses are not product costs. They are not allocated to special products. So, separate distribution expenses plan should be developed for each responsibility center.

2.1.15.11 Capital Expenditure Budget

The investment decision of a firm are often referred to as capital budgeting. A capital budgeting decision may be defined as the firms decision to invest its current funds most efficiently in long term assets in anticipation of an expected flow of benefits over a series of years. Capital budgeting is the making of long term planning decisions for investment and their financial capital budgeting then consists in planning the development of available capital for the purpose of maximizing the long term profitability of them firm. A capital expenditure is the use of funds to obtain operational assets that will help earn future revenue or reduce future costs.

Thus capital budgeting is the process of planning and controlling the strategic and tactical expenditures for expansion and contraction of investments in operating assets. Capital expenditure includes such fixed assets as properly plan, equipment, and patents. Typically, capital expenditure projects involve large amount of cash. Capital expenditure involves two major planning and controlling phase. a) Investment b) Expenses. Capital expenditure budget is the formal plan for the expenditure of money to purchase fixed assets. It is an internal corporate document that lists the allocated investment projects for a given fiscal period. Capital budgeting involves the generating of investment proposals, the evaluation of cash flow, the selection of project based on acceptance criterion and finally continual evaluation of investment project after their acceptance.

Thus, capital budgeting involves the following steps.

a) Consideration of investment proposal including alternatives.

b) Application of profit, cash flows and analysis of cost benefit of the project.

c) Estimation of available funds and utilization of funds.

d) Maximization of profit with the utilization of available funds.

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

There are three stages of capital budgeting proposal generation, analysis and implementation. The important steps involved in capital budgeting process are a) Project generation b) Project evaluation c) Project selection and d) Project execution. The process for planning and controlling capital expenditure as suggested by Welsh, HiltowGordanare:-

i) Identify and generate capital additions project and other needs.
ii) Develop and define capital additions proposal.
iii) Analyze the evaluate all capital additions proposals and alternative.
iv) Make capital expenditure decisions to accept the best alternative and the assignment of project designation to select the alternative.
v) Develop the capital expenditure budget.
vi) Establish control of capital expenditure during the budget year by using periodic and special performance report by responsibility centers.
vii) Conduct past completion audit and follow-up evaluation of the actual results from capital expenditure in periods after completion.

Capital Expenditure Decision

The crucial capital expenditure decisions are the choices of management form the completing capital expenditure alternatively such decisions most focus on two over rising problems.

a) Investment Decision:- Selecting the best alternatives based on their economic worth to the competitive investment world.
b) Financing Decisions: - Determination the amounts and source of funds needed pay for the selected alternatives. This cash constraint may necessarily limit the project cash proposals that can be initiated.

Numerous methods are available for measuring economic value or investment worth of the contemplated proposals. Some common and widely used methods are listed under:

A) Discounted cash flow method
    i) Net present value (NPV)
    ii) Internal rate of return (IRR)
    iii) Profitability index (PI)
B) Traditional/ simple method

i) payback period (PBP)

ii) Average rate of return (ARR)

A) Discounted cash flow method

Under this method of investment evaluation basically two sub methods are contemplated.

i) Net present value (NPV):- This method compares the present value of the net cash inflows with the present value of the initial net cash cost of capital expenditure project. The difference of these two figures gives the net present value. The net cash inflows are discounted to present value by using a target or minimum rate of return. Mathematically, it is calculated by,

$$\text{NPV} = \sum_{E=0}^{n} \frac{At}{(1+k)^2} - A_0$$

Where, K= Cost of capital

T=No. of years

A=Expected cash flow

The decision about acceptance or rejection of the project depends upon the positively or negatively of NPV.

ii) Internal Rate of Return (IRR)

The IRR is the rate that will discount all the future net cash inflows that their discounted sum will exactly equal the initial outflows of the investment project. The formula is:

$$A^0 = \frac{A1}{(1+r)^1} + \frac{A2}{(1+r)^2} + \ldots\ldots\ldots\ldots\ldots \frac{An}{(1+r)^n}$$

Where,

R = IRR

A= Expected cash inflows in future.

The proposal will be accepted if IRR is more than the normal rate of return.

iii) Profitability Index (PI):- The profitability index is simply a ratio of total present value of cash inflows to initial cash outlay. Mathematically, it can be expressed as:

$$P.I = \frac{\text{P.V of future cash inflows}}{\text{P.V of cash outflows.}}$$

For acceptance of the proposal P.I must be greater than one.

B) Traditional Method

i) Payback Method

This method considers the number of years within which the cash inflow will recover the initial investment, mathematically,

$$\text{PBP} = \frac{\text{Net cash investment}}{\text{Annual cash inflow}}$$

The alternatives project having shorter payback period will be accepted.

ii) Average return on total investment method.

This method yields the ratio of average annual cash inflows to the total investment.

Both above method of evaluation are frequently used. However, discounted cash flow method is superior since is value of money:

$$\text{ARR} = \frac{\text{Average annual net cash inflow}}{\text{Cash outflow of the investment}} \times 100\ \%$$

After analyzing the above four method of measuring capital investment, the decision criteria can be summarized as follows:-

Methods		Basis of Selection
NPV	→	Higher the NPV
IRR	→	Higher than cost of capital
PBP	→	Lower the PBP
ARR	→	Higher the ARR

2.1.15.12 Cash Budget

a. Concept and Preparation

Cash budget is the most important tools of cash management. It is an integral part of cash planning. The cash budget is plan of future cash receipt and payment. The statement showing the estimate cash income and cash expenditure over a projected time period is known as cash budget. The forecast of cash flows are made on the basis of past behavior of cash flows as modified and adjusted to likely changes during the coming period.

For an estimation closing balance of cash, receipt of cash and payment of cash budgets has to prepare. The cash budget focuses exclusively on the amount and timing of cash inflow and outflow. The primary purposes of cash budget are: (Ojha and Gautam, 2065).

a) To give probable cash position at the end of each period as a result of planed operations.

b) To identify cash excess on shortage by time.

c) To establish the need for financing and or the availability of idle cash for investment

d) To coordinate cash with total working capital, sales revenue, expenses, investments and liabilities.

e) To establish a sound basis for continuous monitoring of the cash position.

b. Approaches to develop cash budget

The primary approaches used to develop cash budget are:

1. Cash receipts and disbursements approach.
2. Financial accounting approach.

1. Cash receipts and disbursements approaches:- This method is also known as direct or cash amount method. This method is based on a detailed analysis of increase and decrease in the budgeted cash account that would reflect all cash inflows and outflows from such budgets as sales expenses and capital expenditures. It is simple to develop and appropriate when a detailed profit

plan is used. This approach is not appropriate for the more general long term profit plan. This approach usually involves following three steps.

Step 1:- Estimate cash flow arising from transactions such as cash sales, collections of accounts and notes receivable, interest received on investment, sales of capital assets and miscellaneous income sources.

Step 2:- Estimate cash outflow for materials direct labors, expenses, capital additions, retirements of debts and dividends to shareholders.

Step 3:- Determine interim finance needs. For this, first cash inflows and outflows must be compared to assess the planed cash position throughout the period.

2.1.15.13 Financial accounting approach

This approach is also known as indirect or income statement approach. The starting point in this approach is the planed net income shown in the budgeted net income statements. Basically, planned net income is converted form an accrual basis to a cash basis. Next the other cash sources and requirement are identified. This approach requires less supporting detail and provides less detail about the cash inflows and outflows. it is useful for making long range cash projection. This approach requires the following procedures.

Step 1:- Start with net income in the budgeted income statement.

Step 2:- Convert an accrual basis net income to a cash basis by making adjustments.

Step 3: - Show the inflows and outflows, not directly related to the income statement. Such as proceeds from issue of shares or debenture, sales of fixed assets, dividend payments, retirement of debt, acquisition of assets and so on.

2.1.15.14 Alternative in Developing the Profit Plan

The clerical and mechanical parts of the profit plan development might suggest that once the sales plan is completed, this can be followed by a series of simple clerical activities that result in the production, inventory purchase. This views is misleading because it ignores, the fundamental importance of decision making, policy formulation and consideration of alternatives action through the planning process. The development of decisional inputs and preparation of sub budget by the manager of each responsibility center is the heart of comprehensive PPC programs.

Numerous situations have been cited to show management, in the process of developing the profit plan is faced with alternative decisions.

Some illustrations are:

i) Sales price: Management must set pricing policies and estimate the quantities of goods that can be sold at given prices.

ii) General advertising policies;- Limitation of advertising expenditure local vs. national, product vs. institutional advertising.

iii) Sales mix:- Sales mix refers to the relative sales emphasis given to the various products sold by the company.

iv) Sales territory and sales forces explosions or contraction.

v) Balance between production and inventory level.

vi) Research and development expenditure.

vii) Capital expenditure

viii) Testing of alternative decisions.

If the profit is satisfactory, preparation of profit plan can be continue. If the profit plan is unsatisfactory, management should examine the alternative decisions.

2.1.16 Implementation of the profit plan

The development of an annual profit plan ends with the planed income statement, the balance sheet and the planed statement of changes in financial position. These three statements summarize and integrate the details of plans developed by management for the period. They also report the primary impacts of detailed plans and the financial characteristics of the firm, before

Distribution the completed profit plan, it is generally desirable to recast contain budget schedules. So that the technical accounting mechanic is avoid as much as possible. Timely completion of the planning budget suggests the need for a budget calendar.(welch,et.al, 2001:235)

The final test of whether the efforts and cost in developing a profit plan are worthwhile is its usefulness to management. The plan should be developed with the conviction that the enterprises are going to meet or exceed all major objectives.

Participation enhances communication. If this principle is to be effective, the various executives and supervisors should have a clear understanding of their responsibilities. The copies of the complete profit plan be prepared and distributed to the member of executive management. The guiding principle in establishing the distribution policy might be to provide one copy to each member of the management team according to his\her overall responsibilities, while taking in to account the problem of security. After distribution of the profit plan a series of profit plans conferences should be held. The top executives discuss comprehensively the plans expectations and steps in implementation. At this top level meeting the importance of action, flexibility and continuous control may well be emphasized. In essence, each manager has to realize that the budget is a tool for his or her use. Conferences should be a held so as to convey the profit plan to each level of management.

The manager of each responsibility center obtains an approved profit plan for this center and it becomes the basis for current operations and excerpts considerable coordinating and controlling effects. Performance must be measured and reported to management. Execution of the plan is assured through control procedure must be established so that accomplishment, or failure is immediately known. On this basis action can be taken to correct or minimize and undesirable effects. Short term performance reporting is essential.

A budget program viewed and administrated in a sophisticated way does not hamper or restrict management, instead, it provide definite goals around which day today and mouth to mouth decisions are made. Flexibility in the use and application of both the profit plan and variable budgets also should be considered in detail. Flexibility in budget application is essential and it increase the probabilities of achieving or bettering the objectives (Welsch,et.al, 2001:238)

2.1.17 Performance reports

Management devotes and contributes its considerable effort and timely in resource planning. So the achievement of planed profit is essential the evaluation of how efficiently and how effectively goals and targets have been achieved through control activities. Control is the process of obtaining conformity of actual performance, with planed course of action. Control is related with the reporting of evaluated result. So, it is the most important part of comprehensive PPC.

Performance report is a controlling tool of comprehensive PPC. It is prepared periodically and monthly or quarterly basis and it submitted to concerned persons and departments though authorized channels. Performance reports are internal management tool and designed to facilitate internal control by the management performance reports are comparison between actual results and budgeted targets. They show the reality about performance weather they are favorable or unfavorable. Another important aspect of performance report is to minimize the time gap between the decision and report. The firm may have to suffer a great loss if unfavorable variance between planed and actual performance, immediate corrective action should be taken as already stated, the main purpose of performance report is to show variances, such variances should be expressed in amount as well as percentages of the planned figure. Statistical control tool should be used to determine the significance of variance. Monthly performance report should show the performance for the period being reported and cumulative variance to date by each responsibility center (Gupta, 1992).

2.1.18 Analysis of Budget Variance

Generally, variance is the difference between two contemplated consumptions. It shows the gap between budget or planed goals and actual results. Performance report just indicates these variances and possible through the techniques of variance analysis. As such, variance analysis is the determination of reasons for a reported variance whether it is favorable or unfavorable. If the variance is significant, a painstaking managerial attention required to locate the underlying causes. Management can apply a number of approaches are:

i) Conferences with mangers of responsibility centers, supervisor and other employees involved in the particular responsibility centers.
ii) Analysis of the work situation including the flow of work, coordination of activities, effectiveness of supervision and other prevailing circumstances.
iii) Direct investigation by line managers.
iv) Internal audits
v) Special studies
vi) Investigation by staff groups.
vii) Variance analysis

Variance analysis is a sequential job that follows the steps like:

- Setting standard
- Measurement of performance.
- Analyzing variance.
- Taking corrective actions.

2.3 Review of Previous Studies

Scientific research must be based on past events. The previous studies can never be ignored because they provide important information for the upcoming study. Research works are continuing in nature. This continuity in research is insured by linking the present study with the past research studies.

The review of literature is an important aspect in research work. In fact the review of literature is the review of past research. Review of literature become starts form the selection of suitable research topic, which helps to find out the errors of past research and also feedback for the future research works. The main objectives of review of literature are to draw the framework of research which will have to do.

Power plays the significant role for the sustainable development of an economy that drives the society towards the path of modernization. Nepal is very rich country in hydropower sector. The review of literature is an essential aspect in this field. Some of the notable review of literature mentioned at below has become relevance of the present study.

Kunwar, (2010)has conducted a research entitled "Profit Planning in Public Utility Enterprises of Nepal: A Case Study of Nepal Electricity Authority." This was an analytical and descriptive survey study concentrated on financial accounting practices only and identifying the only short listed areas was concerned with financial accounting only.

Kumar has used secondary data in his study. To analyze the collected data he has used some financial and statistical tools like mean, standard deviation, correlation, regression, trend line, percentage ratio analysis, C.V.P analysis, flexible budget, productivity measurement and variance analysis to present the data in systematic manner.

The main objectives of this study were to evaluate the profit planning of Nepal Electricity Authority(NEA) and its effectiveness.

Kunwar in his study stated these major findings which are as follows:

- Achievement of authority for actual sales was more variable than budgeted sales and actual production is also more variable than planned production.
- Overhead were not classified systematically and creates problem to analyze its expenses properly.
- NEA has no proper record of manufacturing and it has no proper practice of segregating cost into fixed, variable and semi variable.
- NEA was suffering from idle cash and bank balance.
- Return on sales ratio, return on net worth, fixed assets turnover ratio, capital turnover ratio, total assets turnover ratio were not perfectly satisfactory though quick ratio seems better.

a. Goals and objectives were not clear cut of the authority.
b. NEA is paying a large amount of interest every year and it was suffering from high fixed costs.

Khatiwada,M (2010) has conducted a research entitled "Profit planning in commercial banks: A case study of Himalayan Bank Limited." For this purpose of the study he used the data. The major concern of Mr. Khatiwada is to study the profit planning in commercial banks by taking a case study of Himalayan Bank Ltd.

His objectives and some of the major findings are as follows:

The focus of the current profit planning adopted and its effectiveness in Himalayan Bank Limited (HBL)

- To study the variance of budged and actual achievements.
- To analyze the growth of the business of the bank over the period.
- To provide suggestion and recommendations for improvement of the overall profitability of the bank.

Major findings:

- Profit planning and control system of HBL is very effective.
- Budgeted is always lower than actual performance since it means forecasting system of HBL is not good.

- The relationship between budgeted and actual figures is positively correlated.
- The major income source is interest margin the trend of interest margin.

The return on assets and return on capital is satisfactory of HBL it shows the good earning capacity of the bank.

Tiwari, (2010) has submitted the thesis on topic “Financial performance Analysis as a tool for profit planning (with reference to Everest bank limited, Nabil bank limited, Bank of Kathmandu limited)”

His Major objectives:

- To find out the relationships between total investment, loan and advances, deposit, net profit and outside assets.
- To identify the investment priority sectors of commercial banks.
- To assess the impact of investment on profitability.
- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial banks.
- To provide suggestions and possible guidelines to improve investment policy and its problems.

His Majors Findings:

- The current ratio of EBL shows the fluctuating trend during the study period. The ratio ranges from lowest 0.94 in 2005/06 to highest 2.38 in 2006/07 an average ratio of 1.334.
- The cash bank balances to total deposit ratio of EBL has fluctuating trend. The main ratio of this bank is higher than NABIL and BOK which indicates that its liquidity position is better to serve its customers deposits withdrawal demands.
- The mean ratio of cash and bank balance to current assets of EBL is higher than NABIL and BOK. It states that liquidity position of EBL is better in this regard.

Thapa,Hembahadur(2010) has conducted a research entitled “Profit Planning and Control (PPC) of Grand Hotel Pvt. Ltd.” The main objective of his study is to find out the relationship between sales (income from service and facilities) budget and profit of the company and to identify how far the different functional budgets are being applied as tools for profit planning in the company.

To achieve the targeted objective of the research, Thapa has fully based on secondary data. To analyze the data he has used some financial and statistical tools like mean, standard deviation, correlation, regression, trend line, percentage ratio analysis, C.V.P analysis, flexible budget, productivity measurement and variance analysis to present the data in systematic manner.

Thapa has stated following major findings in his study:

- There is a positive correlation between sales target and sales achievement. However sales achievement in respect to sales and yet to be achieved.
- Inventory turnover of the company are quite satisfactory. Inventory turnover are found to be fluctuating over the past 6 years.
- The gross profit margin shows the decreasing trend which signifies the increasing trend of cost of goods sold.
- Percentage of NP on sales has declined for the year 2005/06. The net profit has not been able to go along with sales.
- Operating expenses are in increasing trend which has affected the profit margin. The operating expenses occupy more than 50% of gross profit.
- Percentage of financial expenses on Net profit before provision increased to 72.82%.
- GHPL has adopted cost plus pricing strategy. The price is found to be cheaper than other hotels.
- Sales revenue was found to be very high than BEP which is good for the company.
- There was very high degree positive correlation between profits, cost and sales i.e. 0.9454.

Ranabhat, (2010) has conducted a research on "Profit Planning of Nepal Investment Bank Limited" .The major concern of Mr. Ranabhat is to study the profit planning in Commercial Bank by taking a case study of Nepal Investment Bank. His major objectives and some of major findings are as follows:

His objectives were:

- To analyze the effectiveness of the profit and cost expenses plan practices of Investment Bank Limited.
- To analyses the profit trends and determine the variables .
- To enumerate the variances between budgeted and actual performance.
- To analyses revenue trends on the basis of interest and other revenues.
- To provide appropriate recommendation to improve the situation.

Major Findings:

- Bank is operating 34 branches and planning to increase couple of branches more soon. Bank has planning to open branches in Danged, Birtamode, Mahendranagar and in Baneshor.
- Bank has to plan open 50 branches by 2010.
- 289 staffs were sent for seminars and trainings including 18 staffs trained abroad.
- Profit is increasing every year. Interest income is the highest contributor in the total profit. The aggregate contribution of interest income is about 80% for the study years.
- To provide suggestion and recommendations for improvement of the overall profitability of the bank.

Manandhar,(2010) has conducted a research entitled "Profit Planning of Kumari Bank Ltd." His main objectives was to examine the main approaches of profit planning and to test the extent of achievement of planning of KBL.

His major findings were as follows:

- Kumari Bank Ltd. lacks active and organized planning department of undertake innovative products research, launch and development work.
- Advance training to the personnel is lacking to provide best service and to survive for a long-term in highly competitive market.
- Management is not free to operate the bank. Intervention of NRB and ministry of finance regarding personnel places and other matters has paralyzed the effective of the bank.
- There is lack of systematic profit planning and controlling system.

- The analysis of the position of deposit in KBL shows that the deposit which are raised by the bank is not fully utilized. In fact this also reflects the lack of definite policy of the KBL.

2.3 Research Gap

Most of the past research studies were about profit planning system is basically related to profit planning system of manufacturing organization or production oriented activities and comparative study of joint venture banks. The researcher could not find only one study so far that has been related to profit planning system of a commercial bank. All dissertations have pointed out there is no proper planning and controlling system and recommend for the effective implementation of profit planning and controlling system in the concerned institutions.

This study is shall be a new one in this field as no study has been made so far in the profit planning and controlling of particularly Nabil Bank. This study has tried to indicate the role of budgets for effective formulation and implementation of profit planning system as well as to see how far the bank is practicing. This study has analyzed the financial position of Nabil Bank by applying the tools of ratio analysis and other mathematical and statistical tools. Finally it concludes the various finding of research and recommendation to Nabil Bank. Above chapter two gives the detailed study about the conceptual framework of profit and profit planning, the applicability of profit and profit planning, in the bank with a specific reference to Nabil Bank. The forth coming chapter includes the research.

CHAPTER–III
RESEARCH METHODOLOGY

3.1 Introduction

Research refers to looking for something more out of systematic investigation. Research is a systematic and organized effort to investigate a specific problems that needs a solution. This process of investigation involves a series of well thought out activities of gathering recording analyzing and interpreting the data with the purpose of finding answers to the problem. Thus, the entire process by which we attempt to solve problem or search the answers to questions is called research (wolf and Panta, 2005:89).

3.2 Research Design

The study is a case study in nature. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. Recommendation is another important aspect of design strategy. The research design allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives. A research design is the arrangement of conditions for the collection and analysis of data in a manner to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation imagines obtaining answers to research questions and controlling various things (Sharma, 2063). This study is an examination and evaluation of budget process in profit planning program of Nabil Bank limited. Various functional budgets and other related accounting information and statement of bank are the materials to analyze and evaluate the profit planning system of the bank. Descriptive as well as analytical research designs have been adopted in this research. This is a case study research.

3.3 Population and Sample

Under the study of profit planning and control, the total number of commercial banks including domestic and joint venture banks operating in the Nepal is the population. At present there are thirty one licensed commercial banks are running in Nepal. All thirty one licensed Nepalese CBs will consider as the total population out of them this study is concerned with one commercial bank i.e. Nabil Bank Limited has been chosen randomly for the case study purpose.

3.4 Period Covered

This study covers a time period of five years i.e. from2062/063 to 2066/067. Data are taken from the annual report and articles related with Nabil Bank Limited and the analysis is basically made on the basis of these 5 years data.

3.5 Data collection procedures and sources of data

This study has mostly based on secondary data. Secondary data have been collected from the annual published accounting and financial statement of Nabil Bank Limited. Similarly other necessary data have collected from publication of the Nepal Rastra Bank, website, newspapers and related publications

3.6 Research Variables

Loans/Advances overdrafts and Bill discounted (LDO), customer deposits, total resources, total capital employed interest expenses, other expenses, interest income, other income etc. of the banks are the research variables of this study.

3.7Analysis of Data

Analysis is very careful study of available facts so that one can understand and drew conclusion from them on the basis of established principles and sound logic (cotteetal: 1988: 29) This study mostly based the analysis of secondary data with the help of different statistical tools. Therefore the data have been collected accordingly and managed, analyzed and presented in suitable tables, formats, diagrams, graphs and charts. Such presentations have been interpreted and explained wherever necessary.

Financial, mathematical and statistical tools are used to analyze the presented data, which includes ratio analysis, percentage, regression analysis, correlation, mean, standard deviation, coefficient of variance, percentile increment etc.

3.8 Financial Tools:

In this research study various financial tools are employed for the analysis. There are various ratios but in this study some selected ratios among them are used.

3.8.1Liquidity Ratio:

Liquidity ratio is employed to measure the company's ability to meet short-term obligations. These ratios provide insight into the present cash solvency in the event of adverse financial condition. This ratio is used to measure the company's short-term obligations with short-term resources available at a given point of time. Current ratio, cash and bank balance to current assets ratio, cash and bank balance to total deposit ratio and loan and advance to current assets ratio are used to analyses for liquidity position of the bank.

3.8.2 Assets Management Ratio:

Assets management ratio measures the proportion of various assets and liabilities in balance sheet. Commercial bank should manage its assets and liabilities properly to earn profit. Assets management ratio measures its efficiency in performing assets. Following are the various assets management ratio, which measures the lending strength and effective use of assets.

3.8.3 Profitability Ratio:

This ratio shows the profitability conditions of the bank. Profit is essential for the survival of bank so it is regarded as the engine that drives the banking business and indicates economic progress. Profitability ratios are calculating to measure the management ability regarding how well they have utilized their funds. Lending is one of the major functions of commercial bank so following are the various types of ratio, which should the contribution of loan and advances in profit and help to be investor whether to invest in particular firm or not.

3.9 Statistical Tools

Statistical tools are the mathematical techniques used to facilitate the analysis and interpretation of numerical data. Following statistical tools have been used in this study: (Sthapit, 2064).

3.9.1 Arithmetic Mean average

The central valuesthat represent the characteristics of the whole distribution or the values around which all items of the distribution tend to concentrate are called average. Arithmetic mean or arithmetic average is one of the important statistical measures of average. The arithmetic mean of a given set of observation is their sum divided by the number of observations. The mean is the arithmetic average of a variable. Arithmetic Mean of a series is given by

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

3.9.2. Standard Deviation(σ)

Standard deviation (S.D.) is the most popular and the most useful measure of dispersion. It indicates the ranges and size of deviance from the middle or mean. It measures the absolute dispersion. Higher the value of standard deviation higher is the variability and vice versa. It is the positive square root of average sum of squares of deviations of observations from the arithmetic mean of the distribution.

It can be calculated as follows:

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (X - \overline{X})^2}{N}}$$

3.9.3 Coefficient of Variation (C.V)

The percentage measure of coefficient of standard deviation is called coefficient of variation. The less is the C.V the more is the uniformity and consistency and vice versa. Standard deviation gives an absolute measure of dispersion. Hence where the mean value of the variable is not equal it is not appropriate to compare two pairs of variables based in S.D. only. The coefficient of variation measures the relative measures of dispersion, hence capable to compare two variables independently in terms of their variability.

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

3.9.4. Coefficient of correlation (r)

Correlation refers to the degree of relationship between two variables. Correlation coefficient determines the association between the dependent variable and independent variable. If between the variables, increase or decrease in one cause increase or decrease in another, then such variables are correlated variables. “Correlation may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated when the change in the value of one is accompanied by the change of another variable." There are different techniques of calculating correlation coefficient. Among various techniques we have used Karl Pearson coefficient of correlation.

It is calculated as follows:

$$\text{Correlation Coefficient (r)} = \frac{\sum xy}{N\sigma_x \sigma_y}$$

Where,

$x = X - \overline{X}$ $\quad\quad$ $y = Y - \overline{Y}$

σ_x = Standard Deviation of Series X

σ_y = Standard Deviation of Series Y

N = No. of pairs of observation

On simplification of the equation of r, we obtain the following formula for computing r.

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

The Karl Pearson Coefficient of correlation always falls between –1 to +1. The value of correlation in minus signifies, the negative correlation and in plus signifies the positive correlation. If,

r = 0, There is no relationship between the variables

r< 0, There is negative relationship between the variables

r> 0, There is positive relationship between the variables

r = +1, the relationship is perfectly positive.

r = -1, the relationship is perfectly negative.

The reliability of the correlation coefficient is judged with the help of probable error (P.E). It is calculated as follows:

$$\text{Probable Error (P.E.)} = \frac{0.6745(1 - r^2)}{\sqrt{N}}$$

Where, r = correlation coefficient

N= No. of pairs of observation.

If r> 6 P.E, then the correlation coefficient is significant and reliable.

If r < P.E, then the correlation coefficient is insignificant and there is no evidence of correlation.

3.9.5 Multiple bar- diagrams and Graphs

Diagrams and graphs are visual aids which give a bird’s eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more than sets of data. Diagrams are in different types. Out of these various types of diagram one of the most important form of diagrammatic presentation of data is multiple bar diagram which is used in cases where multiple characteristics of the same set of data have to be presented and compared.

3.9.6 Percentage

Percentage is one of the most useful tools for the comparison of two quantities or variables. Simply, the word percentage means per hundred. In other words, the fraction with 100 as its denominator is known as a percentage and the numerator of this fraction is known as rate of percent.

3.9.7 Regression Analysis

Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and to make estimation or prediction of one variable on the basis of the other variables. In other words, regression is that statistical tool. With the help of which the unknown value of one variable can be estimated on the basis of known value of the other variable.

So this study will be fruitful to those interested person, scholars, students, teachers, civil society, stakeholders, businessmen and government for academically as well as policy perspectives.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

This chapter implies the presentation and analysis of data collected from various secondary sources. The chapter has been divided into two main sections. The first section of the chapter includes the presentation and analysis of data while the second section includes major findings of the study.

4.1 Financial Analysis of Nabil Bank

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the P/L account and balance sheet. Here relevant ratio is calculated and appropriate interpretations are made. Analysis of financial ratio shows the performance of the bank.

4.1.1 Liquidity Ratio

Commercial Banks must maintain its satisfactory liquidity position to satisfy the credit needs of the commercial to meet demands for deposits, withdrawals, pay nation by obligation in time and convert non-cash assets into cash to fulfill immediate needs without loss of bank and consequent impact on long run profit.

(i) Current Ratio

It is the relationship between current assets and current liabilities. Current assets are those assets, which are held for their conversion into cash normally within a year. Current liabilities are those obligations to be paid normally within a year or immediately. Current assets consist of cash and bank balance, money at call or short terms notice, loan and advances, investment in government securities and other miscellaneous current assets. Current liabilities consist of deposits, loan and advances, bills payable, Tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

Table: 4.1

Current Ratio

Year	2062/063	2063/064	2064/065	2065/066	2066/067
Ratio(times)	1.08	1.21	1.27	1.18	1.37

(Source: Appendix 1)

Table 4.1 shows that the current ratio from the year 2062/063 to 2064/065 is in increasing trend but in the year 2065/066 it slightly decreases due to increase in current liabilities. The current ratio is maintained in the year 2066/067 which is 1.37. Its shows that current asset is greater than current liabilities.

(ii) Cash and Bank Balance to Current Assets Ratio

This ratio measures the proportion of most liquid assets i.e. cash and bank balance among the total current assets of bank. Higher ratio indicates the bank's ability to meet the daily cash requirement of their customers' deposit. Bank has to balance the cash and bank balance to adequate cash for the customers demand against deposit when required and less interest is required to be paid against the cash deposit.

Table: 4.2

Cash and Bank Balance to Current Assets Ratio

Year	2062/063	2063/064	2064/065	2065/066	2066/067
Ratio(times)	3.48	6.13	8.57	9.39	3.08

(Source: Appendix 2)

The above table 4.2 shows that the cash in bank balance to current assets ratio was in increasing trend till the fiscal 2065/066. But due to drastic fall in the amount of cash and bank balance and slightly rise in the level of current assets, the ratio significantly decrease in the fiscal year 2066/067. This shows that the current assets were held in any other form rather than cash and bank balance.

(iii) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are assets that constitute the banks first line of defense and consist of cash and hand foreign cash on hand cheques and other cash items balance with demotic banks and balance help aboard. This ratio measures the promotion of most liquid assets i.e. cash and balance among the total current asset of bank. Higher ratio shows the bank ability to meet the demand for cash.

The table below shows cash and bank balances to total deposit ratio of Nabil Bank Limited.

Table: 4.3

Cash and Bank Balance to Total Deposit Ratio

Year	2062/063	2063/064	2064/065	2065/066	2066/067
Ratio (%)	3.26	6.00	8.37	9.03	3.02

(Source: appendix 3)

Table 4.3 shows that cash and bank balance to total deposit ratio was also in increasing trend till the fiscal year 2065/066. Like cash and bank balance to current assets ratio, this ratio also noticeably decreases due to the excess decrease in the bank and cash balance and increase in deposit.

(iv)Loans and Advances to Current Assets Ratio

Loan and advances include short and long term loan overdrafts and cash credit. Commercial banks should not keep its all collected funds as cash and banks' balance in order to invest as loan and advances to the customers. If sufficient loan and advances cannot be granted, it should pay interest on those un-utilized deposits funds. Even high loan and advances may also effects to keep the bank in most liquid position because they can only be collected at the times of maturity. Thus, a bank must maintain its loan and advances on proper way.

Table: 4.4

Loans and Advances to Current Assets Ratio

Year	2062/063	2063/064	2064/065	2065/066	2066/067
Ratio (%)	71.31	69.67	69.81	77.96	72.57

(Source: Appendix4)

This ratio kept fluctuating throughout the different fiscal year, since too much high or too much low value of this ratio may be harmful for this organization. So in the year 2066/067 it is decreased from 77.96% to 72.57% which may force the organization to pay high interest.

4.1.2 Asset Management Ratio

Commercial bank must be managed its assets very well to satisfy its customers to earn high profit and for its own existence. It measures the efficiency of the bank.

(a)Loans and Advances to Total Deposits Ratio

This ratio measures how successfully the banks are able to mobilize the total deposit on loan and advances for profit generating purpose. Higher the ratio indicates the better mobilization of total deposits, but too high is not better from its liquidity point of view. This Table: 4.5 reflect the percentage of loan and advances to total deposit ratios position of Nabil.

Table: 4.5

Loans and Advances to Total Deposits Ratio

Year	2062/063	2063/064	2064/065	2065/066	2066/067
Ratio (%)	66.79	68.13	68.18	74.97	71.17

(Source: Appendix5)

This ratio was also remarkably in increasing trend up to the fiscal year 2065/066. But in the fiscal 2066/067 it decreased by nearly 3% which shows that bank was not able to mobilized the total deposit as on previous year. Decrease in this ratio may hamper the profit of the bank where it helps in maintaining the amount of liquid assets.

Relationship between Deposit and Loan and Advances

It measures the intensity or magnitudes or degree of relationship between the two variables. In the analysis, deposit is independent variable (X) and loan and advances are dependent variable(Y). The objectives of computing coefficient of correlation (r) between the two variables are to justify whether deposit is significantly used as loan and advances or not. The table: 4.6 show the value of 'r', r^2.P.Er and 6.P.Er between deposit and loan and advance of Nabil Bank.

Table: 4.6

Correlation between Deposit and loan and Advances

r	r^2	PEr	6P.Er
0.9959	0.9918	0.0024	0.0148

(Source: Appendix13)

Table shows that coefficient of correlation between deposit and loan and advance is 0.9959. It shows that positive relationship between two variables. The coefficient of determination r^2 is 0.9918, which means 99.18% of the variations in the dependent variable ((loan and advance) has been explained by the independent variable (deposit).similarly consider the value of 'r' and comparing it with 6P.Er (i.e. 0.0148). we can find it is greater than value of 6P.Er which reveals the value of 'r' is significant or there is significant relationship between deposit and loan and advance.

b) Total Investment to Total Deposit Ratio

The commercial banks must mobilize its deposit fund by investing in different securities issued by government and other financial and non-financial sectors. This ratio measures the extent to which the banks are capable to mobilize their deposits on investment in various securities. This ratio is computed by dividing total investment by total deposit ratio.

Table: 4.7

Total Investment to Total Deposit Ratio

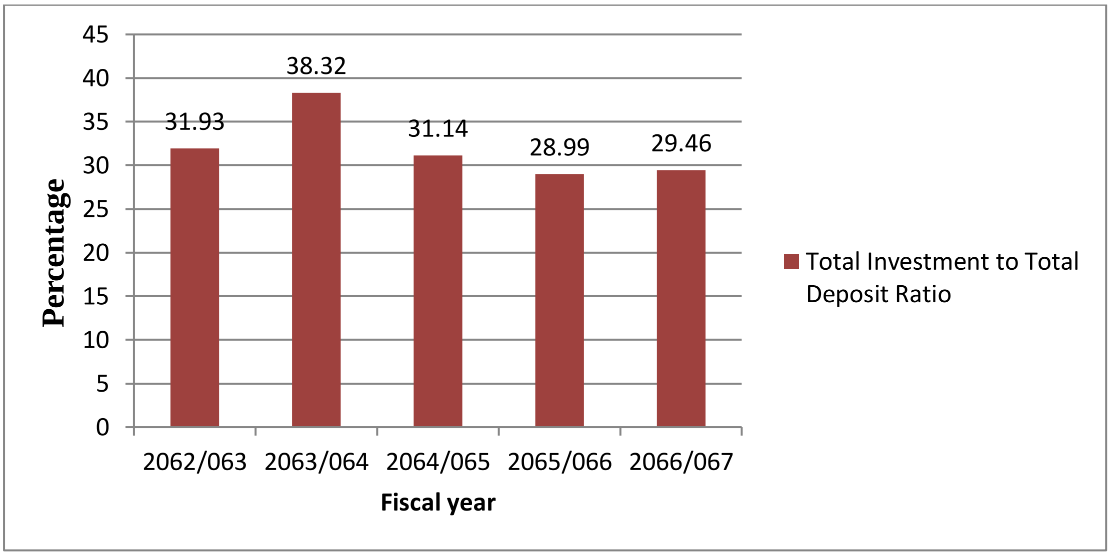
Year	2062/063	2063/064	2064/065	2065/066	2066/067
Ratio (%)	31.93	38.32	31.14	28.99	29.46

(Source: Appendix6)

From the table:4.7 it is found that total investment to total deposit ratio of bank is in either increasing or decreasing trend or in fluctuating trend during the study period of 2062/063 to 2066/067. This ratio is better if there homogeneous.

Figure: 4.1

Total Investment to Total Deposit Ratio



Relationship between deposit and total investment

Coefficient of correlation between deposit and total investment measure the degree of relationship between deposit and total investment. Deposit is independent variables (X) and total investment is dependent variable (Y). The purpose of computing it is to find out whether deposit is significantly used as investment or not.

Table: 4.8

Coefficient of Correlation Deposit and Total Investment

Correlation coefficient (r)	r^2	P.Er	6P.Er
0.967	0.935	0.01961	0.118

(Source: Appendix 13)

From the Table: 4.8 show the coefficient of correlation between deposit and total investment of Nabil Bank is 0.967. It is show the positive relationship between two variables i.e. deposits independent (x) and total investment dependent (y) moreover, when consider the value of coefficient of determination r^2 it is 0.935 and it means 93.5% of the variations in the dependent variable is explained by the independent variable. Similarly considering the value of r and comparing with 6P.Er. It is greater than 6P.Er which reveals that the value is significant.

4.1.3 Profitability Ratio

Profitability ratios are useful to measure the efficiency of operation of a firm in term of profit. Profit is the indicator of the financial performance of any firm. Commercial banks acquire profit by providing different kinds. Higher the profitability ratio shows the efficiency of the management. The following profitability ratios are related to study under this heading.

(a)Return on Loan and Advance Ratio

Return on loan and advance ratio measures the earning capacity of banks on its total deposits mobilized on loan and advances. Mostly loan advances included loan, cash credit, and overdraft, bills purchased and discounted. In other words return on loan and advance ratio indicates how efficiently the banks have employed its resources in the firm of loan and advances.

Table: 4.9

Return on loan and advances ratio

Year	2062/063	2063/64	2064/065	2066/067
Ratio (%)	4.92	4.24	3.43	3.46

(Source: Appendix9)

The table: 4.9 show that ratio of return on loan and advance is decreasing trend. It is unfavorable for organization. It indicates that return on loan and advance has not been so effective.

(b)Return on Total Working Fund Ratio

It is also known as return on assets. This ratio measures the profit earning capacity by mobilizing available resources (total assets). The bank has to earn satisfactory return on assets or working funds are well manage and are efficiently utilized, maximizing taxes within the legal options available will also improve the return or return will be higher. Net profit includes the profit that is left to the internal equities after all charge and expenses cost. The table below shows the return on assets of Nabil.

Table: 4.10

Return on Total working Fund Ratio

Year	2062/063	2063/064	2064/065	2065/066	2066/067
Ratio (%)	2.85	2.47	2.01	2.35	2.19

(*Source: Appendix 7)*

The table 4.10 shows that return on total working fund ratio of bank is in fluctuating trend. Bank has able to maintain a net profit during the study period. It has lower ratio in year 2062/063 and high ratio in year 2066/067.

(C) Total Interest Earned to Total outside Assets Ratio

It measures the interest earning capacity of the banks through efficient utilization of all the outside assets. Higher the ratio indicates better use of outside assets of a commercial bank. Total outside assets includes loan and advances, investment on government securities, share and debentures and other all types of investment. The table below exhibits total interest earned to total outside assets ratio of Nabil.

Table: 4.11

Total Interest Earned to Total outside Assets Ratio

Year	2062/063	2063/064	2064/065	2065/066	2066/067
Ratio (%)	7.15	6.36	6.20	6.97	8.44

The table: 4.11 show that the ratio of Nabil Bank is in decreasing trend in year 2062/063 to 2064/065. But year 2065/066 to 2066/067 the ratio is increasing trend, it is satisfactory for bank high ratio is the indicators of high earning power of the bank on its total working fund.

(d) Total Interest Earned to Total Working Fund Ratio

This ratio is calculated to fund out the percentages of interest earned to total assets. It reflects the extent to which the banks are success in mobilizing their total assets to gain higher income as interest. Higher ratio indicated higher earning power of the banks of its total working fund. The table below shows the interest earned to total working fund ratio of Nabil.

Table: 4.12

Total Interest Earned to Total working Fund Ratio

Year	2062/063	2063/064	2064/065	2065/066	2066/067
Ratio (%)	6.27	5.86	5.38	6.38	7.81

(Source: Appendix 8)

The table: 4.12 shows the interest Earned to total working capital is fluctuating and increasing trend. The ratio is low i.e. 5.38 percent in the Year 2064/065 and high i.e. 7.81 percent in the year 2066/067. It means that organization is bearing more expensive interest.

(e) Total Interest Paid to Total Working Fund Ratio:

This ratio is calculated to find out the proportion of interest paid against the total working fund. Higher ratio indicated the higher interest expenses on to working fund and vice-versa.

Table: 4.13

Total Interest Paid to Total Working Fund Ratio

Year	2062/063	2063/064	2064/065	2065/066	2066/067
Ratio (%)	1.60	2.04	2.04	2.63	3.71

(*Source: Appendix 10)*

The table: 4.13 shows the interest paid to total working capital is increasing trend. Year 2062/063 is 1.60% and 2066/067 is 3.71%. It means that organization is bearing more expensive to interest.

4.2.1 Deposit Collection

Customer Deposit is the major important of source of resource mobilization of the Bank. The contribution of customers deposit to total resources is high. Deposit is collected from various sectors such as the general public, business entities NGO's, Schools, and Trusts and other individuals and institutions, which qualify to open an account in the Bank.

Deposits are collected on customer's account, which are opened as per the Bank's policy. The customer's deposit account is of two types:

i) Interest Free Deposits Accounts

1. Current Deposit A/C
2. Margin Deposits A/C
3. Other Deposits A/C

ii) Interest Bearing Deposits Accounts

1. Saving Deposit A/C
2. Call Deposit A/C
3. Fixed Deposit A/C

4.2.2 Deposit Collection Budget of Nabil Bank

The following table shows the budgeted amount of deposit collection which has been find out following the time series approach was adopted to ascertain the budgeted figure for Deposit collection from F/Y 2062/063 to F/Y 2066/067. Realizing its significance the bank has started to prepare budget statement from current year. The actual amount of deposit and achievement of it on the budgeted amount is given in the table.

Table: 4.14

Status of Budgeted and Actual Deposit Collection

(Rs. In millions)

Fiscal year	Budgeted Deposit	Actual Deposit	Achievement
2062/063	20,114.00	19,347.40	96.18%
2063/064	22,348.00	23342.29	104.44%
2064/065	28,253.00	31915.04	112.96%
2065/066	35,184.00	37348.25	106.15%
2066/067	42,250.00	46410.7	109.15%

(Source: Annual Reports 2062/063 to 2066/067)

The Table: 4.14 shows the actual deposit collected with compare to the budgeted deposit collection. As per the calculation, the bank was successfully able to collect the deposit from the fiscal year 2063/064 to 2066/067. As compare to last year, bank was able to make the collection of deposit which increased from 106.15% to 109.15%.

Figure: 4.2

Bar diagram of budgeted and actual deposit collection of Nabil Bank

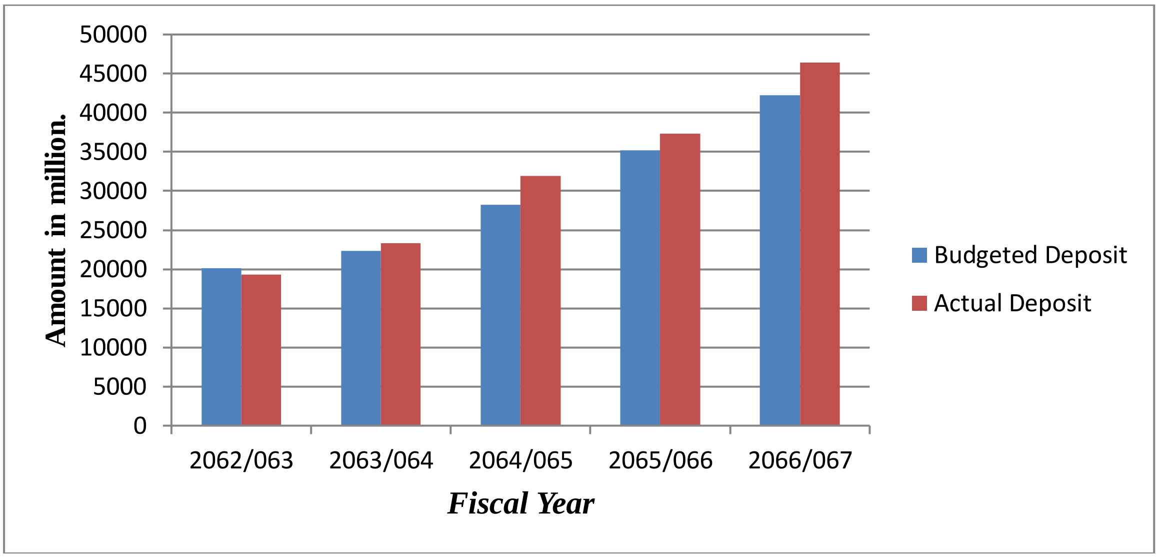


Table: 4.15

Summary of the Deposit collection budget and achievement

Statistical tools	Budgeted deposit Rs(X)in million	Actual deposit Rs. (Y) in million
Mean ($\overline{X}$)	29,648.2	31,672.74
Standard deviation (σ)	8,189.51	9,703.49
C.V.	0.2762	0.3064

(Source: Appendix 11)

The above table shows budgeted deposits are less variable then actual deposit. Since the coefficient of variance of actual deposit is greater than the budgeted deposit is actual deposit is more variable. On the other hand budgeted deposits are less variable. A greater coefficient of variation is said to be more heterogeneous. Here Nabil bank's actual deposit is the nature of more variable then budgeted deposit.

A statistical tool correlation co-efficient can be used to analyze the relationship between budgeted deposits and actual deposits. There should be positive co-relation between budgeted deposits and actual deposits. Karl person's coefficient correlation was used to find correlation between actual deposits and budgeted deposits. For this purpose budgeted deposits assuming to be independent variable was assigned 'X' and actual deposit assuming to be dependent variable was assigned 'Y'. The Karl Pearson's correlation coefficient between actual deposits and budgeted deposits is 0.9961 which reveals that there is a high degree of positive relationship between two variables. The coefficient of determination ‘r^2’ is 0.9922 which means 99.22 percent of the variations in the independent variable (budgeted deposit) has been explained by the dependent variable (actual deposit).

The following table shows the data of actual deposit mobilized by the bank at the end of each fiscal year. The table shows the amount of deposits is increased every year considerably.

Table: 4.16

Growth Ratio in Deposit Amount

(Rs. In Millions)

Fiscal year	Deposit amount	Growth in Rs	Growth in %
2062/063	19,347.40	4760.8	32.63
2063/064	23342.29	3994.89	20.64
2064/065	31915.04	8572.75	36.72
2065/066	37348.25	5433.21	17.02
2066/067	46410.7	9062.45	24.26

(Source: Annual report of Nabil Bank 2062/063 to 2066/067)

4.2.3 Resources other than Customer Deposits

Resources other than customer deposit contribute in an average 20% on total resources of the bank. This was calculated on the basis of the Capital Fund (The Net Worth). The following table shows the budgeted and actual figures of the resources under this category over the period of study. Since the budgeted figure for resources mobilization other than Deposit (RMOD) from fiscal year 2062/063 to 2066/067 could not be available so, this study has assumed the budgeted amount for the corresponding years using time series.

Table No. 4.17

Status of Budgeted and Actual Resources other than Deposit

(Rs. In millions)

Fiscal year	Budgeted amount	Actual amount	Growth rate
2062/063	3095.58	3182.08	102%
2063/064	3734.58	3925.90	105%
2064/065	4787.25	4972.60	103%
2065/066	5602.20	5503.25	98%
2066/067	5722.20	5619.18	98%

(Source: annual report2062/063 to 2066/067)

Above table shows the achievements that the bank perused with its budgeted estimations. According to the calculation, bank was able progress more than expected in the earlier years but in the year 2065/066 and 2066/067 it was slightly less than the budgeted due to decrease in other source of resources. The resources mobilized from the sources other than customer deposit is shown in the scattered and Bar Diagram pattern:

Figure: 4.3
Bar Diagram of Actual Resources other than Deposits

(Rs. in millions)

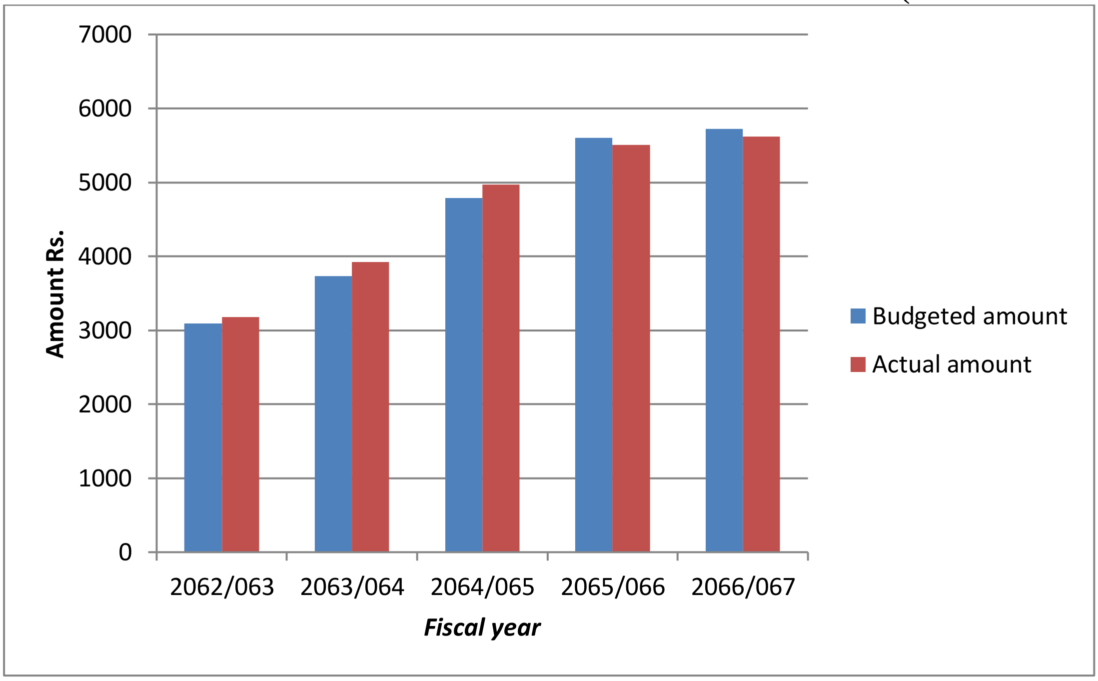
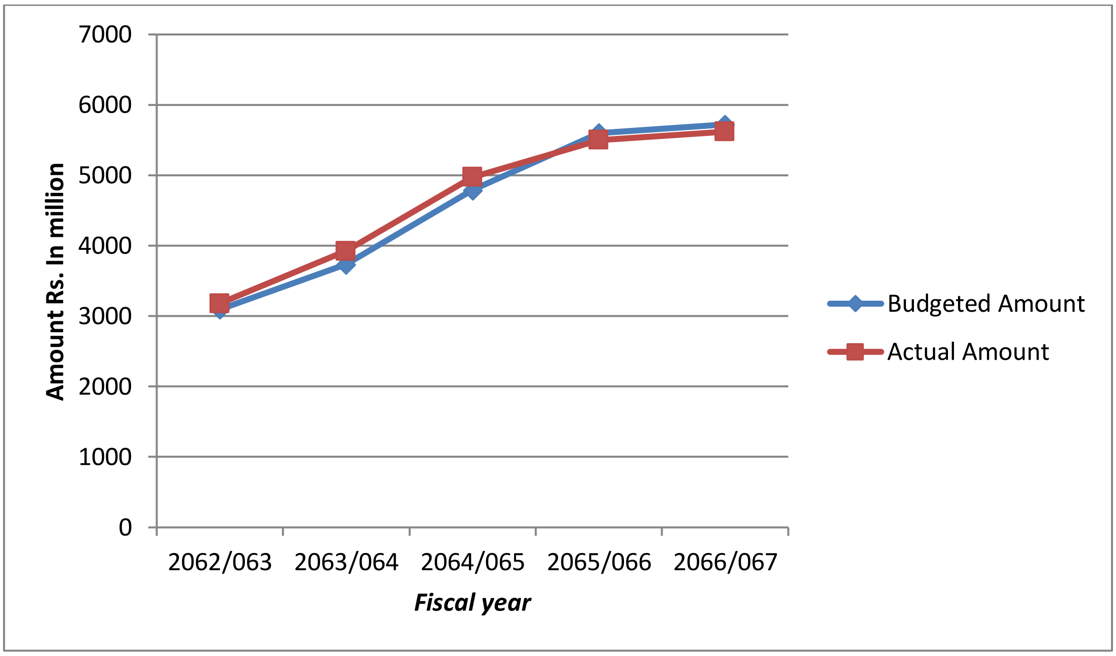


Figure: 4.4

Scatter Diagram of Actual Resources other than Deposits



4.2.3.1 LDO budget of Nabil Bank

The following table shows the budgeted amount resources allocation and achievement. Since the budgeted figure of LDO from the FY 2062/063 to FY 2066/067 was not available, time series model was used to find the budgeted amount of resource deployment.

Table: 4.18

Status of Budgeted and Actual Deployment for LDO

(Rs. in millions)

FY	Budgeted amount	Actual amount	Achievement
2062/063	14,080	13,287	94
2063/064	15,644	14,378	91
2064/065	19,777	20,182	102
2065/066	24,629	25,015	101
2066/067	30,418	32,269	106

(Source: Annual report of Nabil bank)

The above table showed that the achievement on deployment of LDO is in fluctuating trend. It stated from 94% and it has reached to 106% in fiscal year 2066/067.

Figure: 4.5

Bar Diagram of Actual Deployment for LDO

(Rs. In millions)

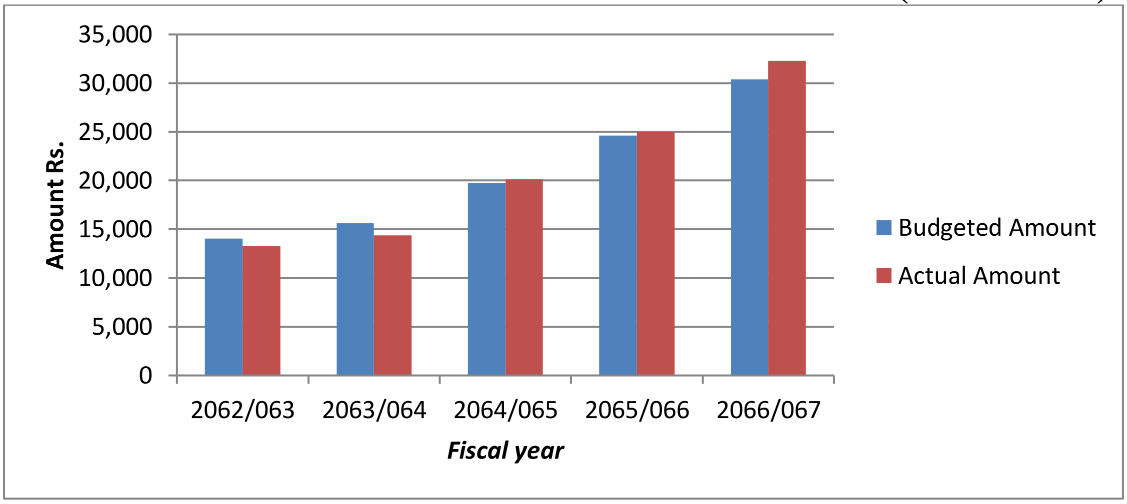
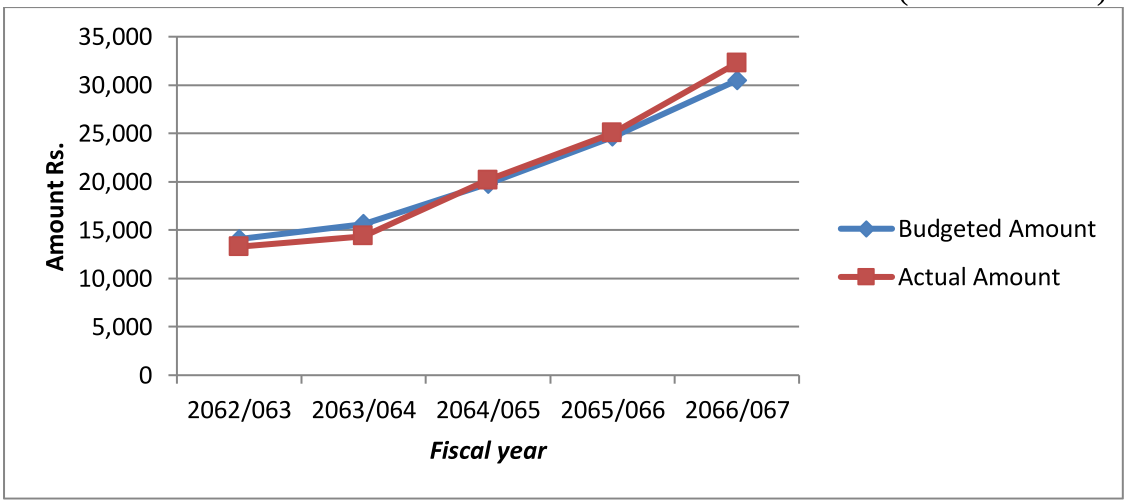


Figure 4.6

Scatter Diagram of Actual Deployment for LDO

(Rs. In millions)



This statistical tool comprising arithmetic mean, standard deviation and coefficient of variation to find the relationship between the budgeted LDO with that of actual for different years. The details of calculation are available in appendix.

Table 4.19

Summary of the LDO budget and achievement

Statistical tool	Budgeted LDO in Rs (x)	Actual LDO in Rs. (y)
Mean($\overline{X}$)	20,776.4	21,026.2
Standard deviation(σ)	5,789.4	7,030.19
CV	0.2786	0.3344

(Source: Appendix 12)

The above table shows that actual LDO were more variable than targeted LDO. Since the coefficient of variations of actual LDO was greater than that of targeted LDO. On the other hand budgeted LDO were more consistent and homogeneous than actual LDO. A greater coefficient of variation said to be more heterogeneous. Here NB Bank`s actual LDO were the nature of more variability than budgeted LDO.

The Karl Pearson's correlation coefficient between actual LDO and budgeted LDO is 0988 which reveals that there is a high degree of positive relationship between two variables. The coefficient of determination 'r^2' is 0.9761 which means 97.61 percent of the variations in the dependent variable (budgeted LDO) has been explained by the independent variable (actual LDO).

Since r was greater than six times of the probable error 0.0148 the value of r was more significant. So it is no doubtful that actual LDO would go on the same direction that of budgeted LDO.

Table 4.20

Growth of LDO of Nabil Bank.

(Rs. In millions)

FY	LDO	Growth in Amount	Growth (%)
2062/063	13,287	3,087	30.26
2063/064	14,378	1,091	8.21
2064/065	20,182	5804	40.36
2065/066	25,015	4,833	23.94
2066/067	32,269	7,254	28.99

(source: annual report of Nabil bank)

4.3 Statistical Tools

(I) Trend Analysis of Total Deposit

Under this topic an efforts has been made to calculate the trend values of deposits of Nabil for five years from mid July 2062/063 to 2066/067 and forecast for next five years from the mid July 2071/072.

Table: 4.21

Trend Analysis of Total Deposit

(Rs. In millions)

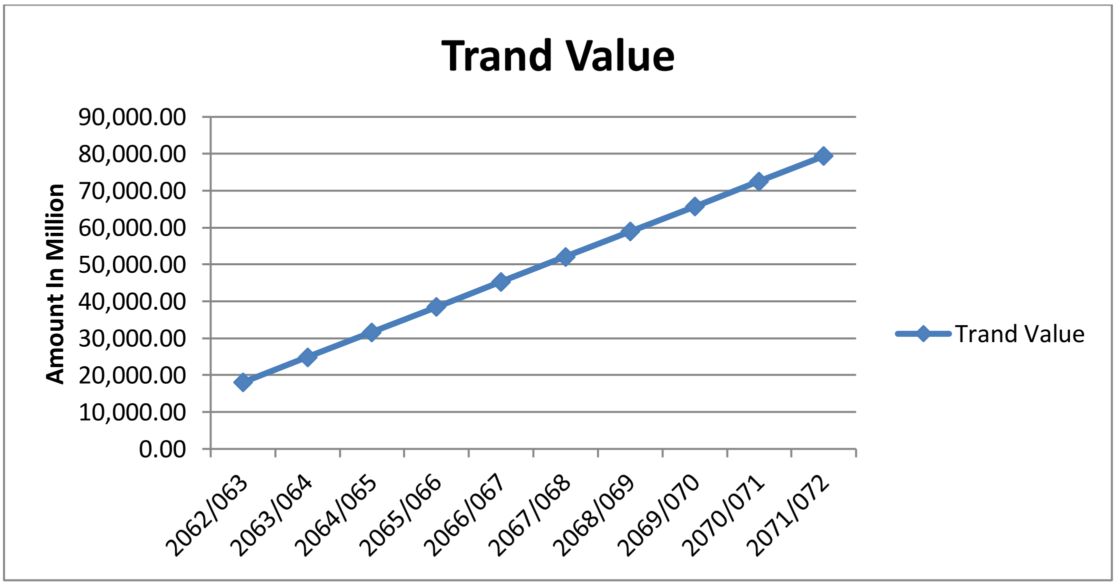
FY	Trend Value	% Change
2062/063	18,046.226	-
2063/064	24,859.483	37.75
2064/065	31,672.74	27.41
2065/066	38,485.99	21.51
2066/067	45,299.254	17.70
2067/068	52,112.511	15.04
2068/069	58,925.768	13.07
2069/070	65,739.025	11.56
2070/071	72,552.282	10.36
2071/072	79,365.539	9.39

(Source: Appendix 14)

The table 4.21 shows the trend value of total deposit from 2062/063 to 2071/072 of Nabil Bank. Total deposits of Nabil Bank are in increasing trend. If all other things remain the same total deposits of Nabil Bank will be highest deposit, under the study period. By analyzing the above trend value, it is found that the total deposit position collection of Nabil is better or effective position.

Figure: 4.7

Trend Value of Total Deposit of Nabil Bank



(II) Trend Analysis of Total Investment

In this topic an effort has been made to calculate the trend values of total investment from the mid July 2062/063 to 2066/067 have been calculated and forecasted from July 2068/069 to 2071/072. The table 4.7 shows the trend values of total investment from mid July 2062/063 to 2071/072 of the Nabil Bank.

Table: 4.22

Trend Values of Total Investment of Nabil Bank

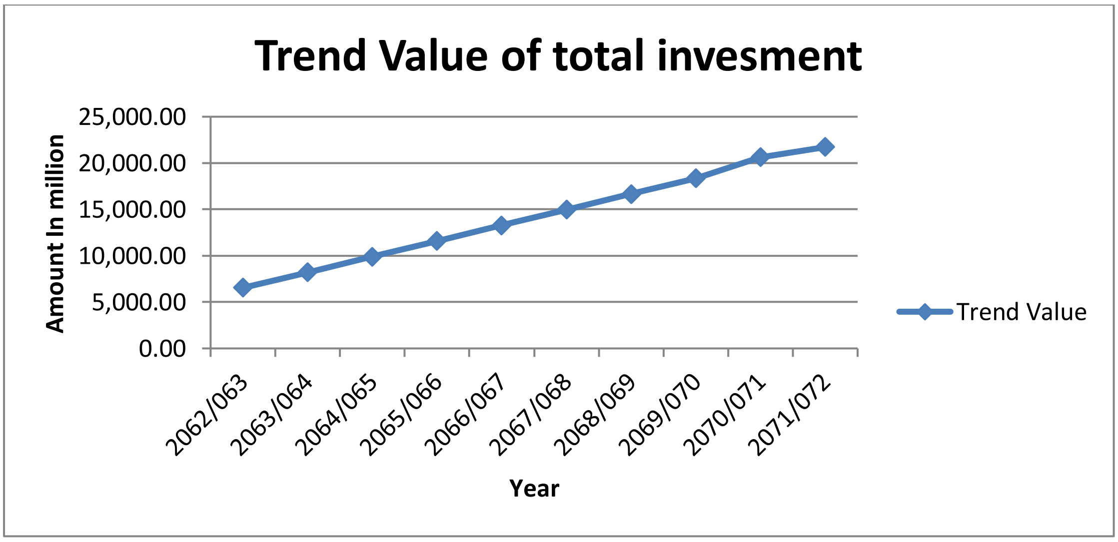
(Rs. In millions)

FY	Trend Value	% Change
2062/063	6538.996	-
2063/064	8225.596	25.79
2064/065	9912.196	20.50
2065/066	11,598.796	17.01
2066/067	13,285.396	14.54
2067/068	14,971.996	12.69
2068/069	16,658.596	11.27
2069/070	18,345.196	10.12
2070/071	20,631.796	12.46
2071/072	21,718.396	5.27

(Source: Appendix 15)

Figure 4.8

Trend Value of Total Investment



(III) Trend Analysis of Net Profit

Under this topic an effort had been made to analyze net profit of Nabil and from the mid July 2062/063 to 2066/067. And forecast from the mid July 2068/069 to 2071/072. The table 4.22 shows the trend values of net profit for ten years from mid July 2062/063to 2071/072 of Nabil Bank.

Table 4.23
Trend Value of Net Profit

(Rs. In millions)

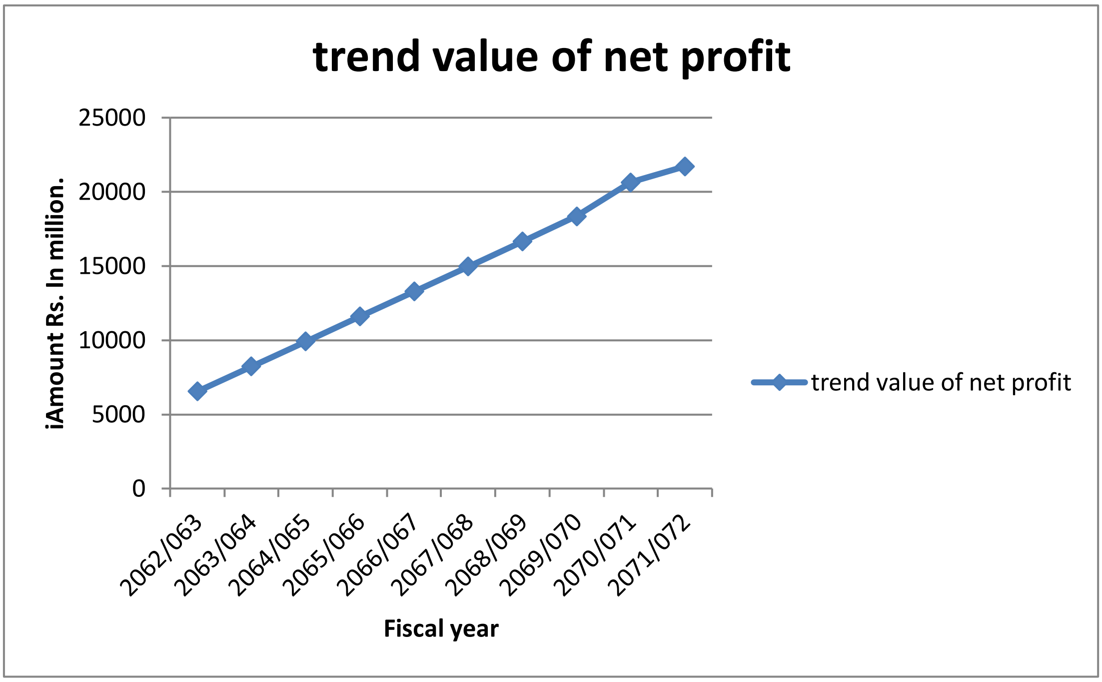
FY	Trend Values	% change
2062/063	572.238	-
2063/064	708.707	23.85
2064/065	845.176	19.26
2065/066	981.645	16.15
2066/067	1118.114	13.90
2067/068	1254.583	12.21
2068/069	1391.052	10.84
2069/070	1527.521	9.81
2070/071	1663.99	8.93
2071/072	1800.459	8.20

(Source: Appendix 16)

The table shows that net profit is in increasing trend along with the decrease in percentage of changes. This calculation shows that the amount of total profit earned by the bank increasing year by year but not in same proportion. As the Proportionate increment in net profit is in decreasing trend.

Figure: 4.9

Trend Value of Net Profit



4.4 Major Findings of the Study

On the basis of different analysis the following major findings have been drawn:

i. The current ratio of Nabil Bank shows the fluctuating trend during the study period. The ratio ranges from lowest 1.08 in FY2062/63 to highest 1.37 in FY 2066/67 and in average current ratio is 1.22 for the period. In general, the current ratio of NABIL banks over the five year period indicates that it has been able to meet its short-term obligations and has satisfactory liquidity position.

ii. The cash and bank balance to current assets ratio of Nabil Bank is in increasing trend from FY 2062/63 to FY 2065/66. It states that liquidity position of Nabil bank is better in this regard. Nabil is in better position in maintaining its cash and bank balance to meet its daily requirement to make the payment on customers deposit and withdraw. But in recent years, it has drastically fallen to 3.08 which imply that, its liquidity position is in danger.

iii. The cash and bank balance to deposit ratio of Nabil Bank has fluctuating trend. This ratio is satisfactory, which indicates that its liquidity position is better to serve its customers deposit withdrawal demands

iv. The average loan and advance to total deposit ratio is 69.85 percent during the study period which indicates better mobilization of total deposit.

v. The Karl Pearson's correlation coefficient between deposit and loan and advance is 0.9959 which reveals that there is a high degree of positive relationship between these two variables. The coefficient of determination 'r^2' is 0.9918 which means 99.18% of the variations in the dependent variable (loan and advance) have been explained by the independent variable (deposit).

vi. The average total investment to total deposit ratio is 31.97 percent during the study period which means in total deposit of Rs.100, approximately Rs.32 is invested in securities or other investment opportunity.

vii. The Karl Pearson's correlation coefficient between total investment to total deposit ratio is 0.967 which reveals that there is a high degree of positive relationship between two variables. The coefficient of determination 'r^2' is 0.935 which means 93.5% of the variations in the dependent variable (loan and advance) have been explained by the independent variable (deposit).

viii. Return on loan and advance ratio of Nabil bank is in alternating trend. In average the ratio is 3.95 percent throughout the study period. This ratio states that the earning capacity of the bank from loan and advance is satisfactory.

ix. Return on asset ratio is in increasing trend which indicates the efficiency of the management in generating profit through utilization of total assets.

x. The average total interest earned to total outside asset ratio is 7.03 percent which shows average use of outside asset.

xi. The bank is able to meet budgeted deposit every year except FY2062/63 by 3.82 percent.

xii. Deposit mobilized by the bank was found to be considerably growing every year.

xiii. The Karl Pearson's correlation coefficient between budgeted deposit and actual deposit is 0.9961 which indicates that there is a high degree of positive relationship between these two variables.

xiv. The data analysis of actual deposit and budgeted deposit by coefficient of variance indicates that budgeted deposit is found to be less variable than the actual budget.

xv. The volume of deposit in NABIL is increasing year by year with an average growth rate of 26.25%.

xvi. The data analysis of LDO and deposit with the help of Karl Pearson's co-efficient of correlation showed that the deposit and the LDO were perfectly correlated.

xvii. The data analysis of actual LDO and budgeted LDO with the help of coefficient of variance showed that actual LDO was more variable than the budgeted LDO.

xviii. Other expenses of the bank were also in increasing trend every year.

xix. Interest income amount of the bank was the highest among other income items in the total Revenue.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Commercial banks are major financial institutions, which occupy quite an important place in the framework of every economy because they provide capital for the development of industry, trade and business and other resources deflect sectors investing the savings collected as deposit. Commercial banks, by playing active role have changed the economic structure of the world. Commercial banks have its own role and contribution in the economic development; it maintains economic confidence of various segments and extends credit to people. The banking sector has to play developmental role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economy development, formulation of sound investment policies and planned effort pushed forward the force of economic growth.

As like in the other business organization, a commercial bank also has to make reasonable profit for its survival. Most of the commercial banks are formed as a company with joint stock and the shares being traded at stock exchanges. Therefore profit made by them has also remained as one of the vital parameter for measurement of the efficiency of these banks. Profit helps to increase its capital base to make it stronger and more sustainable for facing any future threat that may come up. A profit earning organization can better feed to their employees, thereby enhancing the morale of the employees and motivate them for better performance.

The main objective of this study is to analyze the profit planning policy of NABIL bank. It has tried to answer the questions stated in the statement of problem. To conduct this research work various literature has been reviewed i.e. from books, articles, journals and thesis which provided in depth knowledge about the subject matter of the study.

The study is mostly based on secondary data and as per need informal communication with the staff of NABIL Bank. The secondary data has been collected from the annual report of the bank, magazines, journals, various published reports and unpublished Master’s degree thesis, websites of bank and Nepal Stock Exchange.

The relevant collected data has been analyzed and presented by using various financial and statistical tools. Financial tools such as liquidity ratio, profitability ratio; asset management ratio etc. has been used. Statistical tools such as mean, standard deviation, coefficient of correlation, coefficient of variance etc. have been used. The collected data has been presented with the help of table, chart and diagram.

NABIL is one of the well-established commercial bank in Nepal. NABIL is able to maintain its position as a market leader in the banking sector and there is ongoing effort and commitment in enhancing its financial position.

5.2 Conclusions

Profit planning and controlling system of NABIL is very effective because it has generated more profit year after year. There is variance in budgeted and actual performance but it has always achieved almost budgeted figure. Analysis concludes that growth of bank is significant. NABIL is increasing its internal fund by increasing capital. NABIL is almost able to meet its targeted deposit collection, deployment of LDO. The relationship between budgeted and actual figures is positively correlated. The average cost of deposit (CDO) of bank is normal it means the bank is able to collect cost free deposit. The major income source is interest margin, the trend of interest margin is in increasing trend every year. The liquidity position of NABIL is better i.e. bank has maintained the cash and bank balance to meet the current obligations. The correlation coefficient between deposit and loan and advance is 0.9959 which indicates a high and positive relationship between these two variables. The average loan and advance to total deposit ratio for five year period is 69.84 percent which reveals bank is able to mobilize the amount of deposit that the bank has collected. Loans and Advances to current assets ratio in average are good which indicate that bank is safe position from the liquidity point of view. The total interest earned to total outside assets ratio is 8.44 percent in the FY 2066/067 which indicates average use of outside assets of the bank.

Therefore it is concluded that NABIL bank is performing well above the industry standard but also has the highest performance among the entire player in the Joint Venture Bank Industry in Nepal. In conclusion, NABIL bank past and present earning generating potential is assessed as high in every parameters of profitability in comparison to the industry as well as other Joint Venture Banks in the country.

5.3 Recommendations

On the basis of analysis and findings of the study the following recommendations can be drawn.

- Nepal's accession to the WTO would permit international banks to operate in Nepal so NABIL need to make their business plan and strategy accordingly which can convert challenges in to opportunities.
- The size of Nepal banking market is increasing day by day. The increase in number of financial institutions indicates the increasing competition in financial market. To monitor with proper regulation this even more, the government had to bring new strategies. Moreover, foreign banks are allowed to operate in Nepal from 2011 A.D. there will be more challenges for Nepalese financial institutions. The central bank of Nepal (NRB) should make some policies toward the banking sectors to comfort and able to compete with this ever increasing financial institutions.
- NABIL should be conscious about the factors affecting the business like Global economic crisis, existing abnormal situation, political uncertainty, power cut etc. and give more attention to improve technological resources.
- NABIL should have in depth analysis of its strength and weakness. It should try to overcome its weaknesses by using the strengths.
- Bank should operate on purely commercial basis, so every manager of the bank should understand role of budget like sales budget, production budget, cash budget and labor budget etc.
- Every business concerns have one another obligation i.e. corporate social responsibility so it is better if NABIL involves more in social activities in the coming year.
- NABIL has not invested more funds in government securities than that of other banks. Investment on government securities i.e. Treasury bill, Development bond, Saving certificates are free of risk and highly liquid in nature. So NABIL is recommended to invest its fund in Government securities instead of keeping them idle because "something is better than nothing"
- People in rural area of Nepal are still out of banking services. NABIL is suggested to take bold steps to expand and upgrade its network to reach such

area and provide its products and services like loan disbursement, deposit collection, investment etc. so that people are benefitted that enhances the Goodwill of NABIL.

- The bank needs to put more focus on the non-fund consuming business activities like LC, Bank guarantee, foreign exchange and other. It supports in the overall profitability of the bank.
- The bank expenses grow as the volume of activities increases so it can’t be avoided but can be controlled. The bank can minimize those expense using standard costing, CVP analysis, ratio analysis, cost reengineering etc. therefore by lowering the other expenses the bank can enhance its profit.
- Participation of lower level management should be encouraged in Profit Planning and control. Similarly there should be proper communication to all level of management about the tactical and strategies plan of the organization.
- There should be proper coordination and interaction between various department of the organization in regard to formulation and implementation of the plan.
- The global economic crisis also effects to Nepalese financial sectors too, so it is suggested to make some policies to be safe from this crisis.

BIBLIOGRAPHY

Books:

Drucker, Peter (1950). *Long Range Planning: Management Science.* India: Oxford Publication Pvt. Ltd. India.*English* (3rd Edition). Calcutta: Oxford University Press.

George R. Tery (1964). *Principle of Management.* New York: Weley Publishing Co. Ltd.

Goet, Joginder, Bhattarai Ishwor and Gautam Akshay (2063). *Budgeting: Profit Planning and Control.* Kathmandu: Asmita Books Publisher

Gulshan S.S & Gulshan K Kapoor (1994). *Banking Law & Practice*. New Delhi: Chand& Company Limited.

Gupta S.C (1981). *Fundamentals of Statistics*. New Delhi: Himalayan Publication House.

Gupta. S.P (1992). *Management Accounting Budgeting,* Business Budget & Budgetary Control. New Delhi: Agra Shahitya Bhawan.

Hornby A.S & Cowie A.P (1992). *Oxford Advance Learner's Dictionary of Current*

Joshi P.R (2002). *Research Methodology*. Kathmandu: Buddha Academic Publishers.

Joshi, Shyam (1993). *Managerial Economics.* Kathmandu: Taleju Publication. Kathmandu: Buddha Academic Publishers &Distribution Pvt.Ltd. *Language*, New York: Random House Inc.

Lynch R.M & Williams R.W (1989). *Accounting for Management*. New Delhi: Tata McGraw Hill Publishing Co. New Age International Pvt. Ltd Publishers.

Ojha, K.P. and Gautam, C.M. (2065). *Profit Planning and Control*. Kathmandu: Asmita Publications.

Pandey I.M (1991). *Financial Management, (*5th Revised Edition). New York: Vikash Publishing House.

Roy, A. Gentles (1984). *Integration of Management Techniques Raises their Effectives.* Prentice Hall of India Pvt. Ltd.

Stein Jess & Urdang Laurence (1985). *The Random House Dictionary of English*

Sthapit A.B.,Gautam H.,Joshi P.R & Dangol R.M(2003). *Statistical Methods.*

Vaish M.C (1996). *Money Banking Trade & Public Finance* (3rd Edition). NewDelhi:

Wolf, Howard K. Pant. P.R. (1999). *Social Science Research and Thesis Writing,* (Second Edition). Kathmandu, Buddha Academic Enterprises Pvt. Ltd.

Previous Research Works:

Khatiwada M.(2010). "*Profit Planning in Commercial Banks: A Case Study of Himalayan Bank Limited."* An unpublished thesis submitted to Shanker Dev Campus, Putalisadak.

Kunwar, (2010). *Profit Planning in Public Utility Enterprises of Nepal: A Case Study* central *of Nepal Electricity Authority*. An unpublished thesis submitted to central department of management T.U. Kritipur.

Manandhar, Ram (2010). "*Profit Planning of Kumari Bank Ltd."* An unpublished thesis submitted to central department of management T.U. Kritipur.

planning*(With reference to Everest bank limited, Nabil bank limited, Bank of Kathmandu limited)."* An unpublished thesis submitted to Shanker Dev Campus, Putalisadak.

Ranabhat,(2010). "*Profit Planning of Nepal Investment Bank Limited."* An unpublished thesis submitted to central department of management T.U. Kirtipur.

Thapa, Hem Bahadur (2010). "*Profit Planning and Control of Grand Pvt. Ltd."* An unpublished thesis Submitted to central department of management T.U. Kirtipur, Kathmandu.

Tiwari Mohan, (2010). " *Financial performance analysis as a tools for profit*

Websites:

http://www.bankinginnepal.com.np.

http://www.google.com.np.

http://www.nabil bank.com

http://www.nrb.com.

Appendix:1

Calculation of current Assets of Nabil Bank Limited

(Rs. In million.)

Fiscal year	2062/063	2063/064	2064/065	2065/066	2066/067
Cash and Bank Bal.	630.00	1,399.83	2,671.14	3,372.51	1400.09
Invest.in Govt. Sec.	2,301.46	4,808.35	4,646.88	3,706.10	7,941.56
Money at call and short Notice	1,734.90	563.53	1,952.36	552.89	3,118.14
Loan and Advance Net	12,922.54	15,545.78	21,365.05	27,589.93	32,268.87
Other current assets	532.42	509.37	533.26	694.41	789.24
Total current Assets	18,121.56	22,826.86	31,168.69	35,915.84	45,517.9

Calculation of Current Liabilities of Nabil Bank Limited

(Rs. In million.)

Fiscal year	2062/063	2063/064	2064/065	2065/066	2066/067
Total Deposit (Except FD)	15,898.31	17,907.096	23,450.96	29,037.55	31,699.54
Bills payable	92.54	83.51	238.42	463.14	425.44
Proposed and unclaimed dividends	435.08	509.42	437.37	361.33	434.74
Mis. Other Liabilities	372.15	378.55	465.94	502.90	644.80
Total current Liabilities	16,798.08	18,878.576	24,592.69	30,364.92	33,204.52

Calculation of Current Ratio

$$\text{Current ratio} = \frac{Current\ \ assets}{Current\ \ liabilities}$$

(Rs.In million.)

Fiscal year	Current assets	Current liabilities	Ratio
2062/063	18,121.56	16,798.08	1.08
2063/064	22,826.86	18,878.576	1.21
2064/065	31,168.69	24,592.69	1.27
2065/066	35,915.84	30,364.92	1.18
2066/067	45,517.9	33,204.52	1.37

Appendix:2

Cash and bank balance to current assets = $\frac{\text{cash and bank balance}}{\text{Current assets}}$

(Rs. In million.)

Fiscal year	Cash and bank balance	Current assets	Ratio(%)
2062/063	630.29	18,121.56	3.48%
2063/064	1,399.82	22,826.86	6.13%
2064/065	2,671.14	31,168.69	8.57%
2065/066	3,372.51	35,915.84	9.39%
2066/067	1,400.09	45,517.9	3.08%

Source :Annual report of Nabil Bank Limited.2062/063 to 2066/067

Appendix:3

Cash and bank balance to deposit ratio = $\frac{\text{cash and bank balance}}{\text{Deposit}}$

(Rs. In million.)

Fical year	Cash and bank balance	Deposit	Ratio
2062/063	630.29	19,347.40	3.26%
2063/064	1,399.82	23,342.29	6.00%
2064/065	2,671.14	31,915.05	8.37%
2065/066	3,372.51	37,348.26	9.03%
2066/067	1,400.098	46,410.7	3.017%

Source :Annual report of Nabil Bank Limited.2062/063 to 2066/067

Appendix:4

Loan and advance to current assets ratio = $\frac{\text{loan and advance}}{\text{Current assets}}$

(Rs. in million.)

Fical year	Loan and advance	Currents assets	Ratio(%)
2062/063	12,922.50	18,121.56	71.31%
2063/064	15,903.00	22,826.86	69.67%
2064/065	21,759.50	31,168.69	69.81%
2065/066	27,999.00	35,915.84	77.96%
2066/067	33,031.00	45,517.9	72.57%

Source :Annual report of Nabil Bank Limited.2062/063 to 2066/067

Appendix:5

Loan and advance to deposit ratio = $\frac{\text{loan and advance}}{\text{Deposit}}$

(Rs.in million.)

Fiscal year	Loan and advance	Deposit	Ratio(%)
2062/063	12,922.50	19,347.40	66.79%
2063/064	15,903.00	23,342.29	68.13%
2064/065	21,759.50	31,915.05	68.18%
2065/066	27,999.00	37,348.26	74.97%
2066/067	33,031.00	46,410.7	71.17%

Source :Annual report of Nabil Bank Limited.2062/063 to 2066/067

Appendix:6

Investment to deposit ratio = $\frac{\text{Investment}}{\text{deposit}}$

(Rs. In million.)

Fiscal year	Investment	Deposit	Ratio(%)
2062/063	6178.53	19347.40	31.93%
2063/064	8945.31	23342.29	38.32%
2064/065	9939.77	31915.05	31.14%
2065/066	10826.37	37348.26	28.99%
2066/067	13671.00	46410.7	29.46%

Source :Annual report of Nabil Bank Limited.2062/063 to 2066/067

Appendix:7

Return to working fund ratio = $\frac{\text{Net profit}}{\text{Working fund}}$

(Rs. in million.)

Fiscal year	Net profit	Working fund	Ratio (%)
2062/063	635.96	22,330.33	2.85%
2063/064	673.96	27,253.39	2.47%
2064/065	746.47	37,132.76	2.01%
2065/066	1,031.05	43,867.40	2.35%
2066/067	1,139.1	52079.73	2.19%

(Source :Annual report of Nabil Bank Limited.2062/063 to 2066/067)

Appendix:8

Interest earned to working fund ratio = $\frac{\text{Interest earned}}{\text{Working fund}}$

(Rs. In million.)

Fiscal year	Interest earned	Working fund	Ratio(%)
2062/063	1,399.98	22,330.33	6.27%
2063/064	1,587.76	27,253.39	5.86%
2064/065	1,998.70	37,132.76	5.38%
2065/066	2,798.48	43,867.40	6.38%
2066/067	4,070.00	52079.73	7.81%

(Source :Annual report of Nabil Bank Limited.2062/063 to 2066/067)

Appendix:9

Return on loan and advance ratio = $\frac{\text{Net profit}}{\text{Loan and advance}}$

(Rs. in million.)

Fiscal year	Net profit	Loan and advance	Ratio(%)
2062/063	635.30	12922.50	4.92%
2063/064	673.96	15903.00	4.24%
2064/065	746.47	21759.50	3.43%
2065/066	1031.05	27999.00	3.68%
2066/067	1139.1	33031.00	3.45%

(Source :Annual report of Nabil Bank Limited.2062/063 to 2066/067)

Appendix:10

Interest paid to working fund ratio = $\frac{\text{Interest expenses}}{\text{Working fund}}$

(Rs. In million.)

Fiscal year	Interest paid	Working fund	Ratio(%)
2062/063	357.20	22,330.33	1.60%
2063/064	555.71	27,253.39	2.04%
2064/065	758.43	37,132.76	2.04%
2065/066	1153.28	43,867.40	2.63%
2066/067	1934.5	52,079.73	3.71%

(Source :Annual report of Nabil Bank Limited.2062/063 to 2066/067)

Appendix 11

Calculation of correlation coefficient of budgeted and actual deposit

(Rs. In million.)

FY	Budgeted Deposit (x)	$x=(X-\overline{X})$	$(X-\overline{X})^2$
2062/063	20,114	(9,534.2)	90,900,969.64
2063/064	22,348	(7,300.2)	53,292,920.04
2064/065	28,345	(1,303.2)	1,698,330.24
2065/066	35,184	5,535.8	30,645,081.64
2066/067	42,250	12,601.8	158,805,363.2
Total(∑)	X= 148,241		335,342,664.8

Mean $\overline{X} = \frac{\sum x}{N} = \frac{148,241}{5} = 29,648.2$

$\sigma_X = \sqrt{\frac{\sum(x-\bar{x})^2}{n}} = \sqrt{\frac{335,342,664.8}{5}} = 8,189.51$

$CV_X = \frac{\sigma}{\bar{x}} \times 100 = \frac{8189.51}{29,648.2} \times 100 = 27.62\%$

(Rs. In million.)

FY	Actual Deposit (Y)	$y = Y-\overline{Y}$	$(Y-\overline{Y})^2$
2062/063	19,347.40	(12,325.34)	151,914,006.1
2063/064	23,342.29	(8,330.45)	69,396,397.2
2064/065	31,915.05	242.31	58,714.14
2065/066	37,348.26	5,675.52	32,211,527.27
2066/067	46,410.7	14,737.96	217,207,465
Total	158,363.7		470,788,109.7

Mean$(\overline{y}) = \frac{\sum y}{n} = \frac{158,363.7}{5} = 31,672.74$

$\sigma y = \sqrt{\frac{\sum(y-\overline{y})}{n}} = \sqrt{\frac{470,788,109.7}{5}} = 9,703.49$

$CV_Y = \frac{\sigma}{\bar{Y}} \times 100 = \frac{9703.49}{31,672.74} \times 100 = 30.63\%$

Rs.In million.

FY	X =(x-x̄)	Y= (y-ȳ)	(x-x̄) (y-ȳ)
2005/06	(9,534.2)	(12,325.34)	117,512,256.6
2006/07	(7,300.2)	(8330.45)	60,813,951.09
2007/08	(1,303.2)	242.31	315,778.392
2008/09	5,535	5,675.52	31,418,543.62
2009/010	12,601.8	14,737.96	185,724,824.3
Total			395,785,354

Correlation of coefficient budgeted and actual deposit(r) = $\frac{\sum xy}{n\sigma x.\sigma y}$

= $\frac{395{,}785{,}354}{5\times 8189.51\times 9703.49}$

= 0.9961

Where x=(x-$\overline{x}$) ,y=(y-$\overline{y}$)

Coefficient of Determination(r^2) = 0.9961× 0.9961=0.992

P.E$_r$ = 0.6745 X $\frac{1-r^2}{\sqrt{N}}$ = 0.6745 x $\frac{1-0.992}{\sqrt{5}}$ = 0.0024

6P.Er= 6$\times$ $0.0024 = 0.0144$

Appendix:12

Calculation of correlation coefficient of budgeted and actual LDO

Rs.in million.

Fiscal year	Budgeted LDO (X)	$x = X - \bar{X}$	$x = (X - \bar{X})^2$
2062/063	14,080.00	(6696.4)	44,841,772.96
2063/064	15,644.00	(5132.4)	26,341,529.76
2064/065	19,777.00	(999.4)	998,800.36
2065/066	24,629.00	3852.6	14,842,526.76
2066/067	29,752.00	8975.6	80,561,395.36
Total	$\sum X$=1,03,882		$\sum(X - \bar{X})^2 = 167{,}586{,}025.2$

Mean $(\bar{X}) = \frac{\sum x}{n} = \frac{1{,}03{,}882}{5}$ =20776.4

Standard deviation (σ) = $\sqrt{\frac{\sum(X-\bar{X})^2}{n}} = \sqrt{\frac{167{,}586{,}025.2}{5}}$ =5,789.40

C.V $= \frac{\sigma}{\bar{X}} \times 100 = \frac{5{,}789.40}{20{,}776.4} \times 100$ = 27.86%

(Rs. In million.)

Fiscal year	Actual LDO (Y)	$y = Y - \bar{Y}$	$(Y - \bar{Y})^2$
2062/063	13,287.00	(7,739.2)	59,895,216.64
2063/064	14,378.00	(6,648.2)	44,198,563.24
2064/065	20,182.00	(844.2)	7,12,673.64
2065/066	25,015.00	3,988.8	15,910,525.44
2066/067	32,269.00	11,242.8	126,400,551.8
Total	$\sum y = 1{,}05{,}131$		$(Y - \bar{Y})^2$ =247,117,530.8

Source :Annual report of Nabil Bank Limited.2062/063 to 2066/067

Mean $(\bar{Y}) = \frac{\sum y}{n} = \frac{1{,}05{,}131}{5}$ = 21,026.2

Standard deviation(σy) = $\sqrt{\frac{\sum(Y-\bar{Y})^2}{n}} = \sqrt{\frac{247{,}117{,}530.8}{5}}$ = 7,030.19

C.Vy = $\frac{\sigma}{\bar{y}} \times 100$ = $\frac{7,030.19}{21,026.2} \times 100$ =33.44%

Fiscal year	$X = X - \bar{X}$	$Y = Y - \bar{Y}$	$(X-\bar{X})(Y-\bar{Y})$
2062/063	(6696.4)	(7739.2)	51,824,778.88
2063/064	(5132.4)	(6648.2)	32,121221.68
2064/065	(999.4)	(844.2)	843,693.48
2065/066	3852.6	3988.8	15,367250.88
2066/067	8975.6	11242.8	100,910,875.7
Total			=201,067,820.6

Correlation of coefficient(r) $= \frac{\sum xy}{n\sigma x . \sigma y}$

$= \frac{201,067,820.6}{5 \times 5789.40 \times 7030.19}$ =0.988

Where, $x = (x - \bar{x})$, $y = (y - \bar{y})$

Coefficient of determination(r^2)=0.988$\times$ 0.988 =0.976

P.Er = 0.6745$\times \frac{1-r^2}{\sqrt{N}}$

= 0.6745$\times \frac{1-0.976}{\sqrt{5}}$

= 0.6745$\times \frac{0.024}{2.24}$

=0.00723

6P.Er= 6×0.0723= 0.0434

Appendix: 13

Calculation of correlation coefficient of deposit and loan advance

Rs.In million.

Fiscal year	Actual deposit(x)	X=x-$\overline{x}$	(x-$\overline{x}$)²
2062/063	19,347.40	(12,325.34)	151,914006.1
2063/064	23342.29	(8330.45)	69,396,397.2
2064/065	31915.05	(242.31)	58,714.14
2065/066	37348.26	5675.52	32,211,527.27
2066/067	46410.7	14,737.96	217,207,465
Total	$\sum X$ =158,363.7		$\sum(X - X)^2$=470,788,109.7

Mean ($\overline{x}$) = $\frac{\sum X}{n}$ = $\frac{158363.7}{5}$ = 31,672.74

Standard deviation (σ) = $\sqrt{\frac{\sum(X-\overline{X})^2}{n}}$ = $\sqrt{\frac{470{,}788109.7}{5}}$ = 9703.49

C.V = $\frac{\sigma_x}{\overline{x}} \times 100$ = $\frac{9703.49}{31672.74} \times 100$ =31

Rs. In million.

fiscal year	Loan and advance(y)	*Y=Y-Ȳ*	Y=(Y -ȳ)²
2062/063	12,922.50	(9400.4)	88,367,520.16
2063/064	15,903.00	(6419.9)	41,215,116.01
2064/065	21,759.50	(563.4)	317,419.56
2065/066	27,999.00	5,676.1	32,218,111.21
2066/067	33031.00	10708.1	114,663,405.6
Total	∑y=111614.5		∑(Y-Ȳ)² = 276781572.5

Mean ($\overline{y}$) = $\frac{\sum y}{n}$ = $\frac{1{,}11{,}614.5}{5}$ = 22,322.9

Standard deviation (σ_y) = $\sqrt{\frac{\sum(Y-\bar{y})^2}{n}}$ = $\sqrt{\frac{276781572.5}{5}}$ = 7440.18

C.V = $\frac{\sigma y}{\bar{y}} \times 100$ = $\frac{7440.18}{22322.9} \times 100 = 33.33\%$

FY	X= X-$\overline{X}$	Y= Y- $\overline{Y}$	(X- $\overline{X}$) (Y-Ȳ)
2062/063	(12,325.34)	(9,400.4)	115,863,126.1

2063/064	(8330.45)	(6419.9)	53,480,655.96
2064/065	(242.31)	(563.4)	136,517.45
2065/066	5,675.52	5,676.1	32,214,819.07
2066/067	14,737.96	10,708.1	157,815,549.5
Total(∑)	(484.62)	(0.5)	359,510,668.1

Correlation of coefficient budgeted and actual LDO(r) = $\frac{\sum xy}{n\sigma x.\sigma y}$

$=\frac{359{,}510{,}668.10}{5\times 9703.49\times 7440.18}0.9959$

Where x=(x-x̄) ,y=(y-ȳ)

Coefficient of determination (r²) = 0.9959$\times$ $0.9959 = 0.9918$

P.Er. = 0.6745 $\times$ $\frac{1-r^2}{\sqrt{5}}$

= 0.6745$\times$ $\frac{1-0.9918}{\sqrt{5}}$ =0.0024

6P.Er= 6$\times$0.0024=0.0148

Correlation Coefficient of deposit and total investment

Rs in million.

FY	Actual Deposit (x)	X= (X-X̄)	(X-X̄)²
2062/063	19,347.40	(12,325.34)	151,914,006.1
2063/064	23,342.29	(8,330.45)	69,396,397.2
2064/065	31,915.05	(242.31)	58,714.14
2065/066	37,348.26	5,675.52	32,211,527.27
2066/067	46,410.7	14,737.96	217,207,465
Total	$\sum X$ =158,363.7		470,788,109.7

$\overline{X} = \frac{\sum X}{N} = \frac{158{,}363.7}{5} = 31{,}672.74$

Standard deviation(σx) = $\sqrt{\frac{\sum(X-X)^2}{n}} = \sqrt{\frac{470{,}788{,}109.7}{5}}$ = 9703.49

C.V.=$\frac{\sigma_X}{x}\times 100 = \frac{9703.49}{31{,}672.74}\times 100 = 31\%$

FY	Investment	Y= (Y-Ȳ)	(Y-Ȳ)²
2062/063	6,178.53	(3,733.67)	12,940,291.67
2063/064	8,945.31	(966.89)	934,876.27
2064/065	9,939.77	(27.57)	760.10
2065/066	10,826.37	914.17	835,706.79
2066/067	13,671	3,758.8	14,128,577.44
Total	49,560.98		29,840,212.27

$\bar{y} = \frac{\sum y}{n} = \frac{49,560.98}{5}$ 9,912.206

$\sigma_Y = \sqrt{\frac{\sum(y-\bar{y})^2}{n}} = \sqrt{\frac{29,840,212.27}{5}} = 2,442.96$

CV = $\frac{\sigma_Y}{\bar{y}} \times 100 = \frac{2,442.96}{9912.20} \times 100 = 24.65\%$

Fiscal year	$X=X-\overline{X}$	$Y=Y-\bar{y}$	$(X-\overline{X})(Y-\bar{y})$
2062/063	(12,325.34)	(3,733.67)	46,018,752.2
2063/064	(8,330.45)	(966.89)	8,054,628.80
2064/065	(242.31)	(27.57)	6,680.49
2065/066	5,675.52	914.17	5,188,390.12
2066/067	14,737.96	3,758.8	55,397,044.05
Total	(484.62)	(55.16)	114,665,495.7

Correlation of coefficient of Budgeted and actual LDO (BA) = $\frac{\sum xy}{n\sigma x.\sigma y}$

$= \frac{114,665,495.7}{5\times 9703.49\times 2442.96} =$ 0.967

Coefficient of determination(r^2)=0.967×0.967=0.935

P.Er. = 0.6745 × $\frac{1-r^2}{\sqrt{N}}$=0.6745×$\frac{1-0.935}{\sqrt{5}}$ =0.0196

6P.Er=6× $0.0196 = 0.118$

Appendix 14

Trend Analysis of deposit of Nabil Bank

Rs. In million.

FY	Deposit(Y)	X=t-2065	X^2	XY	Yc= a+bX
2062/063	19,347.40	-2	4	(38,694.8)	18,046.226
2063/064	23,342.29	-1	1	(23,342.29)	24,859.483
2064/065	31,915.05	0	0	0	31,672.74
2065/066	37,348.26	1	1	37,348.26	38,485.997
2066/067	46,410.7	2	4	92,821.4	45,299.254
Total	$\sum y$=158,363.7		X^2=10	XY= 68,132.57	

a= $\frac{\sum y}{n} = \frac{158,363.7}{5} = 31,672.74$

b= $\frac{\sum xy}{\sum x^2} = \frac{68,132.57}{10} = 6813.257$

FY	X=t-3	Yc= a+bX
2067/068	3	52,112.511
2068/069	4	58,925.768
2069/070	5	65,739.025
2070/071	6	72,552.282
2071/072	7	79,365.539

Appendix 15

Trend Analysis of Total Investment

Rs.In million.

FY	Investment(Y)	X=t-2065	X^2	XY	Yc= a+bX
2062/063	6,178.53	-2	4	(12,357.06)	6,538.996
2063/064	8,945.31	-1	1	(8,945.31)	8,225.596
2064/065	9,939.77	0	0	0	9,912.196
2065/066	10,826.37	1	1	10,826.37	11,598.796
2066/067	13,671	2	4	27,342	13,285.396
Total (∑)	Y= 49,560.98		X^2= 10	XY= 16,866	

a= $\frac{\sum y}{n} = \frac{49,560.98}{5} = 9,912.196$

b=$\frac{\sum xy}{\sum x^2} = \frac{16,866}{10} = 1,686.6$

FY	X=t-2065	Yc=a+bX
2067/068	3	14,971.996
2068/069	4	16,658.596
2069/070	5	18,345.196
2070/071	6	20,031.796
2071/072	7	21,718.396

Appendix 16

Trend Analysis of Net Profit

Rs. In million.

FY	Net Profit (Y)	X=t-3	X^2	XY	Yc= a+bX
2062/063	635.30	-2	4	(1,270.6)	572.238
2063/064	673.96	-1	1	(673.96)	708.707
2064/065	746.47	0	0	0	0
2065/066	1,031.05	1	1	1,031.05	981.645
2066/067	1,139.1	2	4	2,278.2	1,118.114
Total	$\sum y$= 4,225.88		X=10	XY= 1,364.69	

a = $\frac{\sum y}{n} = \frac{4{,}225.88}{5} = 845.176$

b = $\frac{\sum xy}{\sum x^2} = \frac{1{,}364.69}{10} = 136.469$

FY	X= t-2065	Yc = a+bX
2067/068	3	1,254.583
2068/069	4	1,391.052
2069/070	5	1,527.521
2070/071	6	1,663.99
2071/072	7	1,800.459