CHAPTER 1

INTRODUCTION

1.1 Background of the study

Nepal is one of the least developed countries in the world, which exhibits a lot of characteristics of economic backwardness such as, very low income, meager use of natural resources, over population pressure, widespread unemployment, weak human factor, insufficient capital, primitive traditional techniques and predominance of agriculture, institutional inadequacies and market imperfection. Agriculture, the major sources of livelihood for Nepalese population, as well as the backbone of the industrial and trading system, has not been receiving as much policy attention as the sector deserves. The investment in agriculture plays an important role in overall growth of the economy in the context of Nepal, where more than 80 percent of the population depends on agriculture. In such a scenario, agriculture based economy alone cannot solve the overwhelming problem of poverty in Nepal, so non-agricultural sectors should also be given due priority. Non-agricultural sectors such as various industries, financial institutions, health and educational enterprises etc. will help in the economic development of the country and solve to some extent the problem of unemployment.

In the long run, financial sectors play a crucial role in the economic growth and prosperity of a country. The concept of financial institution in Nepal was introduced when the first commercial bank, Nepal Bank Ltd. as a semi-government organization was established in 1938 A.D. It was established under special banking Act 1936 having elementary functions of a commercial bank. It became public limited company in 1953 A.D. Later on, in 1957 A.D. the central bank “Nepal Rastra Bank” was established with an objective of supervising, protecting and directing the function of commercial banking activities in Nepal. Another commercial bank fully owned by the government, ‘Rastriya Banijya Bank’ was established in 1966A.D. Later on, Company Act and the Bank and Financial Institution Act 2005 were introduced to further enhance the financial activities in Nepal more effectively and liberalization, several financial institution and commercial banks were established to mobilize scattered funds in the country. Since than many private sectors financial institutions have been established. In Nepal, foreign joint venture banks perform better than Nepalese ones because of their higher managerial efficiency and decision making capability. However, Nepalese Banks have high potentialities to increase their risk attitude and improvement of their internal management.

1.1.1 Commercial Bank in Nepal

In context of Nepal, our history of banking sector is rather more slow evaluation. In 1877 A.D. Tejarath Adda was established by the government. The main purpose of this institution was to provide credit facilities to the general public at minimum interest rate of 5 percent. The establishment of this institution marked the beginning of organized financial institution in Nepal. Then in 1994 B.S. one of the most necessary keys to develop a nation was molded i.e. Nepal Bank Limited came into existence with modern banking capacity and transaction in 30th Kartik 1994 B.S. with authorized capital of Rs.10 million Right from the beginning it carried out the function of a commercial bank. Nepal bank limited has a herculean responsibility of attracting people towards banking sector from pre-dominant traditional transaction and of introducing other banking services as well. It was only in 1956 A.D. that central bank; the Nepal Rastra Bank was come into existence under the Nepal Rastra Bank Act 1955.

In 2022 B.S. another commercial bank was established, i.e. Rastriya Banijya Bank which was fully owned by the government. Only after 2041 B.S., Government of Nepal allowed joint venture banks to operate in the country. Then after, a hoard of joint ventures public limited commercial banks established in the country. At present commercial bank are functions over the nation, which are mention below:

Table 1

List of commercial bank of Nepal

Name of Bank		Date Established
1.	Nepal Bank Ltd.	1994
2.	Rastriya Banijya Bank Ltd.	2022
3.	Agricultural Development Bank Ltd.	2024
4.	Nabil Bank Ltd.	2041
5.	Nepal Investment Bank Ltd.	2042
6.	Standard Charted Bank Ltd.	2043
7.	Himalayan Bank Ltd.	2049
8.	Nepal SBI Bank Ltd.	2050
9.	Nepal Bangladesh Bank Ltd.	2051
10.	Bank of Kathmandu Ltd.	2051
11.	Everest Bank Ltd.	2051
12.	NCC Bank Ltd.	2053
13.	Nepal NIC Bank Ltd.	2055
14.	Lumbini Bank Ltd.	2055
15.	Machhapuchhre Bank Ltd.	2057
16.	Kumarai Bank Ltd.	2057
17.	Laxmi Bank Ltd.	2057
18.	Siddhartha Bank Ltd.	2060
19.	Global Bank Ltd.	2063
20.	Citizen Bank Ltd.	2063
21.	Prime International Bank Ltd.	2063
22.	Sunrise Bank Ltd.	2063
23.	Bank of Asia Nepal Ltd.	2063
24.	Development Credit Bank Ltd.	2057
25.	NMB Bank Ltd.	2052
26.	KIST Bank Ltd.	2065
27.	Janta Bank Nepal Ltd.	2066
28.	Mega Bank Ltd.	2067
29.	Commerz & Trust Bank Nepal Ltd.	2067
30.	Civil Bank Ltd.	2067
31.	Century Commercial Bank Ltd.	2067

Source: Nepal Raster Bank's website (www.nrb.org.np)

1.1.2 Introduction of Himalayan Bank Limited

Himalayan Bank Ltd. (HBL) was established in 1993 in joint venture with Habib Bank Limited. One of the largest and oldest banks in Pakistan having over 1,700 domestic and 65 overseas branches covering all continents and over 1800 correspondents worldwide. Besides, HBL has correspondent arrangement with 178 internationally renowned banks like American Express Bank, Citibank, and ABN Amro etc.

Himalayan bank has always been committed to providing a quality service to its valued customers, with a personal touch. All customers are treated with utmost courtesy as valued clients. The bank, wherever possible, offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Himalayan bank has adopted the latest banking technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for future adaptation to new technology. The bank already offers various services such as SMS banking and Internet Banking to its customers.

Himalayan Bank has access to the worldwide correspondent network of Habib Bank for fund transfer, letter of credit or any banking business anywhere in the world. In the history of banking of Nepal, HBL is the first bank who introduces the services like ATM, Tele-banking, credit card, prepaid-card, premium saving account and online remittance.

Table 2

The Capital Structure of HBL

Authorized capital	Rs. 3,000 million
Issued capital	Rs. 1,600 million
Paid up capital	Rs. 1,600million

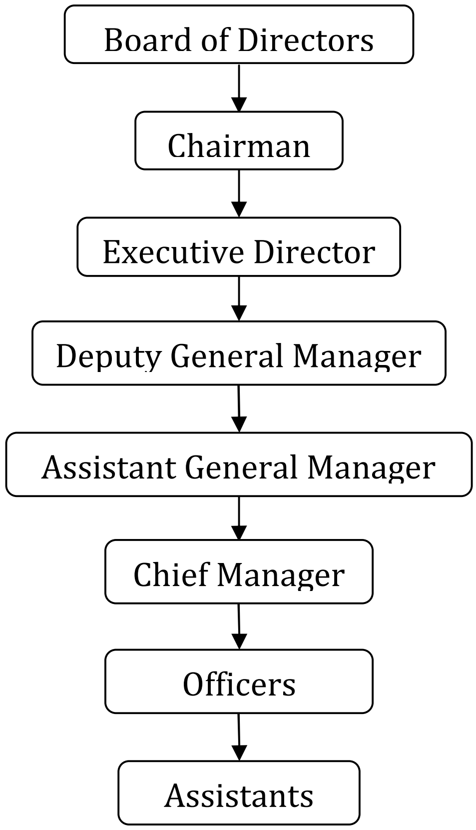
Sources: Annual report of HBL 2009/10

Habib Bank Limited Pakistan holds 20% financial institution holds 15.4% organization holds 50.95% general public of Nepal holds 13.56% and others holds 0.10%. Himalayan Bank Ltd. has access to the worldwide correspondent network of Habib Bank.

Himalayan Bank believes in being peace to peace with technological advancement. Due to the ever increasing need to change and need to be one step ahead, Himalayan Bank Ltd. changed its banking software from Pumori Plus (developed by Mercantile, Nepal) to the international software Globus developed by Swiss group, TEMENOS. All Branches of HBL are integrated into Globus, the single Banking software where the Bank has made substantial investments.

Though Himalayan Bank is fairly young in term of tenure of its operation, it has been the innovator in introducing many new products. With its 36 branches in the operation the bank introduction 365 days banking, visa card, debit card, ATMs, SMS Banking, Internet banking, Any Branch Banking Facility. Living up to the expectations and aspirations of the customers and other stakeholder of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS etc. fee payment facility are some products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software-Himal Remit TM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling banks in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customer's needs and wants stand first. Himalayan Bank has been able to provide customer satisfaction as well as gain a competitive advantage over other banks.

Organizational Structure of HBL



Management Structure of HBL

Board of Directors (BOD)

S.N	NAME	DESIGNATION
1	Mr. Manoj B. Shrestha	Chairman
2	Mr. Ashraf M. Wathra	First Vice Chairman
3	Mr. Prem P. Khetan	Second Vice Chairman
4	Mr. Prachanda B. Shrestha	Director
5	Mr. Bijaya B. Shrestha	Director
6	Dr. Ramesh K. Bhattarai	Director
7	Mr. Sushil Bikram Thapa	Director
8	Mr. Upendra keshari Poudyal	Professional Director
9	Mr. Himalayan Samser Rana	Chief Advisor to the Board
10	Mrs. Ranjana Shrestha	Alternative director
11	Mr. Surendra Silwal	Alternative director

12	Ms. Menuka Shrestha	Alternative director
13	Mr. Rajendra Kafle	Alternative director
14	Mr. Sunil Bdr. Thapa	Alternative director
15	Mr. Bipin Hada	Company Secretary

Management Team of HBL

1	Mr. Ashoke SJB Rana	Chief Executive Officer
2	Mr. Masood UL Hasan	Senior General Manager
3	Mr. Sushil Joshi	General Manager
4	Mr. Basu Dahal	Chief Manager (Executive Administrative officer)
5	Mr. Ujjal R. Rajbandari	Chief Manager (Executive Marketing officer)
6	Mr. Anup Maskey	Chief Manager (Executive Credit Officer)
7	Mr. Pradip N.Rayamajhi	Senior Manager
8	Mr. Rabindra Narayan Pradhan	Senior Manager
9	Mr. Banshidhar Sharma	Senior Manager
10	Mr. Maheshwor P. Joshi	Senior Manager
11	Mr. Sulap Raj Aryal	Executive Operating Officer

1.1.3 Product and Services provided by the bank

The major product & services provided by the Bank is as fallows-

Deposit

a) Fixed Deposit

Fixed deposits can be made for a period ranging from 3 months to one year or over. The interest rate is tied up to the tenure of the deposit.

b) Saving Deposit

Savings deposit account can be opened with some fixed minimum balance in any of branch offices. The minimum deposit to be maintained by the customer varies according to the branch. Customers are provided with free personal accidental death insurance. Customers opening this account get a free cheque book. The bank offers Any Branch Banking (ABBS) facility.

c) Current Account

Mainly intended for business/corporate houses, this account can be opened from any of branches and can be operated from any of Branch of the bank.

d) Premium Savings Account

Premium Savings Account (PSA) is a privileged savings account with a host of convenient features and banking channels to transact through. PSA Customers enjoy a separate privileged counter and an interest rate calculated on daily balance.

e) Super Premium Savings Account

Super Premium Savings Account (SPSA) is a special deposit account designed for the premium category of depositors.

f) Call Deposit

The bank offers short-term term deposit in the form of Call Deposit. This is an interest bearing current account or in other words term deposit with a tenure ranging from 7 days to 3 months.

g) Bishesh Savings Account

'Bishesh Savings Account' is a deposit product targeted to special section of society which includes minors, senior citizens completing the age of 50 years, physically challenged and illiterate individuals.

h) Recurring Savings Account

'Recurring Savings Account' is a 3 years fixed tenure savings account targeted to individuals who would like to save funds in installments for future use. The special attractions of this account are monthly deposit installments of Rs. 1,000.00 or multiple thereof.

i) Jumbo Term Deposit

'Jumbo Term Deposit' is a fixed deposit targeted to individuals willing to deposit specified amount for specified period of time for higher return.

Loan

a) Retail/Consumer Loans

Under this loan bank provide following facility-

i. Hire Purchase Loan
ii. Housing Loan
iii. Subidha Loan
iv. Credit Card Loan
v. Loan against Fixed Deposit Receipt
vi. Loan against Government Bonds & Bonds of Bank
vii. Loan against First Class Bank Guarantees
viii. Loan against Shares

b) Small and Medium Enterprises (SME):

As a step further to help establishment, growth and expansion of small and medium sized enterprises, Himalayan Bank has developed a special loan package meant just to suit small and medium sized enterprises. Business houses coming from industrial, trading and service sector can avail of this facility to meet their short-term and long-term financing needs.

c) Corporate Loan

Under this loan bank provide following facility-

i. Project / Consortium Loan
ii. Non Revolving Cash Credit
iii. Working Capital Financing
iv. Overdraft Facility
v. Demand Loan
vi. Revolving Cash Credit
vii. Export Credit Facilities
viii. Pledge Loan
ix. Clean Bills purchased and discounted
x. Documentary Bills Purchased and Discounted

Himal Remit

HIMAL Remit TM a premium online customer focused and technology oriented Money Transfer product. Himalayan Bank is a pioneer in the field of retail money transfer business with over 12 years of experience in this business. Himalayan Bank Ltd. has the largest network covering all major cities, town and village of the country and is capable of paying at more than 200 locations in Nepal. The product is state of art web based money transfer system. It is easily accessible through the main web domain http://www.himalayanbank.com. It can be directly accessed by all branches thus ensuring prompt execution of the remittance. The product is monitored and serviced round the clock by dedicated Remittance Service Department to deliver a fast and reliable service.

Card service

Himalayan Bank has been a pioneer in introducing a Nepalese domestic Credit Card. Encouraged by the demand of credit card; the bank has introduced “Himalayan Bank Gold Card”. Himalayan Bank is also the member of VISA and MASTER CARD International.

Himalayan Bank Ltd. introduces the first Nepali Credit Card for the domestic market. Now Himalayan Bank Ltd. is offering Visa and MasterCard card, welcoming to a world of exclusive privileges and conveniences to match your discerning taste. This is a further expression of commitment to provide with products tailored to match requirements.

Himalayan Bank Ltd. has always endeavored to provide valued customers like you with products and services having the leading edge in term of quality and efficiency supported by state -of-the- art technology.

Himalayan SMS

One can be in touch with bank anytime and from anywhere and be able to check balance in up to 3 account, status of cheques (encashed or not) and foreign exchange rates with the help of SMS banking.

Other Facilities

Himalayan Bank provides other facilities including merchant banking activities like underwriting of public issue, locker facilities, standing instruction, internet banking, ABBS etc.

1.2 Focus of the study

This study is focused in evaluating the use of different types of functional budgets and corporate planning system for the effective implementation of Revenue Planning in Himalayan bank Ltd. This study is designed to focus the purpose of different kinds of budgets used, the way they are constructed and finally settled and the way they assist the policy making for financial control of Himalayan bank Ltd. The study is intended to clarify the purpose of different budgets and to identify the person responsible for different budgets.

Strategic long-range revenue plan and tactical short–range revenue plan are equally important for the successful operation of a company but this study is designed so as to give more consideration in short range planning. In this context the process and technique of preparing them, responsibility to prepare them, their drawback and other relevant facts as well as their role on overall Revenue Planning will be discussed in detail.

1.3 Statement of the problem

Though banking sector in Nepal plays very important role for its prosperity, it is facing many problem and challenges. The increasing numbers of financial institutions and insurance companies are creating stiff competition in the field of banking sector. The major problem can be viewed from an insignificant or negative growth rate in net profit of these banks in recent fiscal year. These are unhealthy competition among the financial institution, which is creating threat to these banks. Similarly, the mushrooming growth of saving and credit cooperatives without proper control and supervision is also a major threat to the commercial banks in Nepal.

Banking sector has not been responsive enough to meet the growing need of resources to the economy as expected. “Why is so and what are the problems?” is a very important question. In the process of seeking the answer to this question, the researcher of this study has analyzed the present revenue planning of HBL.

Revenue planning helps to identify the strengths and weakness of the firm. Revenue planning means how to make profit to the firm, how to make strong among competitors, how to minimize the losses and maximize the profit of the firm. If revenue of the bank is high than it seems that they are in good position. In present there are social as well as political instabilities in the country, which is directly affecting sector. In this context, HBL is facing many problems. These problems in turn affect the overall performance of the bank. So, the researcher in this study will try to answer the following questions:

1. How far have Himalayan Bank Ltd been able to accumulate deposit and utilize deposit so accumulated?
2. How far this bank is managing their position in relation to the liquidity, assets management and capital adequacy?
3. How sound is the operational results in relation to their profitability?

1.4 Objectives of the study

The main objective of this study is to analysis the revenue planning of HBL. Other specific objectives are:

- To analyses the ratio of revenue sources effectiveness and its factors in HBL.
- To evaluate the efficiency & profitability position of HBL.
- To determine the relationship between interest income, total income and net profit of HBL.

1.5 Significance of the study

Revenue planning is a necessary element for any commercial bank to maintain their position in the market. This study, focus on how well the HBL is able to maintain and estimates its revenues. Revenue planning helps to earn maximum profit for the bank. It also helps to find out the position of HBL in the banking industry.

This study help to provides clear picture of the organization regarding revenue, revenue planning. The analysis over five year data will be helpful to be familiar with the past and present position of HBL. This will indicate it's correct among its innumerous competitors. It also provides actual knowledge about the working style of the organization. This study adds new idea and finding about the concerned joint venture bank.

1.6 Limitation of the study

This study is done for the partial fulfillment of M.B.S. Thus, there are certain limitation in the study, they are:

- This study based on secondary data i.e. annual report and text book.
- This study is to be conducted within Kathmandu valley.
- The data published by HBL and NRB are not in conformity.

1.7 Organization of the study

The study will be divided in five chapters as follow:

Chapter I- Introduction

This chapter includes background of the study, introduction of Himalayan bank, statement of problem, objective of the study, research methodology and important of the study, limitation of the study and chapter plan of the study.

Chapter II- Review of literature

This includes review of different text books, different thesis and review of journals, articles and research studies published by various authors.

Chapter III- Research Methodology

This chapter includes research design, data collection, method and analysis and research variables.

Chapter IV- Presentation and Analysis of data

Data processing, data analysis and interpretation are given in this chapter.

Chapter v- Summary, conclusion and recommendations

This last chapter contains the whole study after which major conclusions and recommendations are provided.

CHAPTER 2
REVIEW OF LITECTURE

2.1 Conceptual Review

In today's fast-paced business environment, revenue planning is essential and is often the first step to determining the organization's overall corporate and strategic objectives for the year. Management needs reliable sales forecast figures, and solid projections are essential to a successful sales strategy and in meeting overall corporate goals.

Revenue Planning is an integrated framework that enables organizations to plan and model sales strategies and ensure timely execution of sales initiatives-all while ensuring that front-line sales people and decision makers have visibility into performance. The revenue planning solution provides the analytics your needs to gain a solid understanding of sales by any customer, product, geography and organizational perspective. As a result, you can isolate trends and relationships and arm your salespeople with the relevant information they need to sale more and sell smarter to their accounts.

Revenue Planning start to become part of a large management process and extend awareness beyond just the sales team; the whole organization begins to realize the potential and starts aiming for the projected sales targets.

Organizations can manage their revenue and encompass the entire process including analyzing revenue on a continuous basis along with frequent forecasting, planning and reporting. To create more realistic and achievable revenue plans and to enable a more effective use of sales time, companies should focus on five key areas throughout the revenue management process:

1. Measure different revenue streams
2. Evaluate revenue assumptions
3. Accurately manage revenue budgets
4. Continuously forecast revenue
5. Consistently analyze & report revenue

Every business should have a revenue plan. Why? Because it's the only way to remain in consciously competition. Organization need to know why an organization win and lose. A plan makes organization think. A plan makes organization document what organization are about to do. And reviewing the plan afterwards gives the opportunity to evaluate where planning went wrong, what faculty assumption made, and how can improve in the future.

2.2 Concept of Revenue

In business, revenue is income that company receives from its normal business activities, usually from the sale of goods and services to customers. In many countries, such as the United Kingdom, revenue is referred to as turnover. Some companies receive revenue from interest, dividends or royalties paid to them by other companies. Revenue may refer to business income in general, or it may refer to the amount, in a monetary unit, received during a period a time.

Profits or income generally imply total revenue minus total expenses in a given period. In accounting, revenue is often referred to as the "top line" due to its position on the income statement at the very top. This is to be contrasted with the "bottom line" which denotes net income.

For non-organizations, annual revenue may be referred to as gross receipts. This revenue includes donations from individuals and corporations, support from government agencies, income from activities related to the organization's mission, and income from fundraising activities, membership dues, and financial investments such as stock shares in companies. For government, revenue includes gross proceeds from income taxes on companies and individuals, excise duties, customs duties, other taxes, sales of goods and services, dividends and interest.

In general usage, revenue is income received by an organization in the form of cash or cash equivalents. Sales revenue or revenues is income received from selling goods or services over a period of time. Tax revenue is income that a government receives from taxpayers.

In more formal usage, revenue is a calculation or estimation of periodic income based on a particular standard accounting practice or the rules established by a government or government agency. Two common accounting methods, cash basis accounting and accrual basis accounting, do not use the same process for measuring revenue.

Business Revenue

Business revenue is income from activities that are ordinary for a particular corporation, company, partnership, or sole-proprietorship. For some businesses, such as manufacturing and/or grocery, most revenue is from the sale of goods. Service businesses such as law firms and barber shops receive most of their revenue from rendering services. Lending businesses such as car rentals and banks receive most of their revenue from fees and interest generated by lending assets to other organizations or individuals.

Revenues from a business's primary activities are reported as sales, sales revenue or net sales. This excludes product returns and discounts for early payment of invoices. Most businesses also have revenue that is incidental to the business's primary activities, such as interest earned on deposits in a demand account. This is included in revenue but not included in net sales. Sales revenue does not include sales tax collected by the business.

Other Revenue

Non-operating revenue is revenue from peripheral (non-core) operations. For example, a company that manufactures and sells automobiles would record the revenue from the sale of an automobile as "regular" revenue. If that same company also rented a portion of one of its buildings, it would record rent revenue as “other revenue” and disclose it separately on its income statement to show that it is from something other than its core operations.

Government Revenue

Government revenue includes all amounts of money received from sources outside the government entity. Large governments usually have an agency or department responsible for collecting government revenue from companies and individual.

2.3 Purpose of Revenue Planning

A revenue planning is a formal statement of a set of business goals, they are believed attainable, and the plan for reaching those goals. It may also contain background information about the organization or team attempting to reach those goals.

The business goals may be defined for-profit or for non-profit organization. For-profit business planning typically focus on financial goals, such as profit or creation of wealth. Non-profit, as well as government agency business planning tend to focus on the "organizational mission", which is the basis for their governmental status or their non-profit, tax-exempt status, respectively—although non-profits may also focus on optimizing revenue. The primary difference between profit and non-profit organizations is that "For Profit" organizations look to maximize wealth versus non-profit organizations, which look to provide a greater good to society. In non-profit organizations, creative tensions may develop in the effort to balance mission with "margin" (or revenue). Revenue planning may also target changes in perception and branding by the customer, client, tax-payer, or larger community. When managing a business, revenue planning, is often confused with the term marketing planning. When the existing business is to assume a major change or when planning a new venture a 3 to 5 year business plan is essential.

Revenue planning may be internally or externally focused. Externally focused plans target goals that are important to external stakeholders, particularly financial stakeholders. They typically have detailed information about the organization. For-profit entities, external stakeholders include investors and customers. External stakeholders of non-profits include donors and the clients of the non-profit's services. For government agencies, external stakeholders include tax-payers, higher-level government agencies, and international lending bodies such as the IMF, the World Bank, various economic agencies of the UN, and development banks.

Internally focused revenue plans target intermediate goals required to reach the external goals. They may cover the development of a new product, a new service, a new IT system, a restructuring of finance, the refurbishing of a factory or a restructuring of the organization. An internal revenue plan is often developed in conjunction with a balanced scorecard or a list of critical success factors. This allows success of the plan to be measured using non-financial measures. Revenue that identifies and target internal goals, but provides only general guidance on how they will be met is called strategic plans.

Operational plans describe the goals of an internal organization, working group or department. Project plans, sometimes known as project frameworks, describe the goals of a particular project. They may also address the project's place within the organization's larger strategic goals.

Revenue planning are decision-making tools. There is no fixed content for a revenue planning. Rather the content and format of the revenue planning is determined by the goals and audience. A revenue planning represents all aspects of business planning process; declaring vision and strategy alongside sub-plans to cover marketing, finance, operations, human resources as well as a legal plan, when required. A revenue planning is a bind summary of those disciplinary plans.

Preparing a revenue plan draws on a wide range of knowledge from many different business disciplines: finance, human resource management, intellectual property management, supply chain management, operations management, and marketing, among others. It can be helpful to view the revenue plan as a collection of sub-plans, one for each of the main business disciplines.

"A good revenue planning can help to make a good business credible, understandable, and attractive to someone who is unfamiliar with the business. Writing a good revenue planning can’t guarantee success, but it can go a long way toward reducing the odds of failure."

2.4 Advantage of Revenue Planning

Scales to thousands of customers and products and is flexible enough to encapsulate the revenue/cost drivers of long term sales contracts. Involves all the required participants into the process and guarantees an accurate plan that drives sound decision making.

Establishing an accurate view of future sales is the foundation of financial planning, for most companies, the revenue planning is driven from the revenue forecast, from ordering supplies, planning operations, projecting inventories, determining headcount and approving capital expenditures. Yet many businesses still create the revenue forecast from an ad hoc, antiquated system supported by linked spreadsheets and where workflow is managed by email.

Top-down, middle-out and bottom-up planning

These modeling tools minimize time wasted building multiple spreadsheets and maximize model flexibility. This flexibility allows managers to analyze the business in a dynamic way: by customer, by store, by location or delivery method and adjust numbers based on changing business conditions.

Flexible, feature-rich budget templates

Revenue planning input templates is rendered in a browser, in an "Excel-like" smart grid. The interface is data driven, dynamic and configurable to your revenue planning dimensional requirements, e.g. product by customer, by channel, etc. These templates handle discrete formulas to manage complex pricing schemes and multi-stage sales contracts. Users can create scenario comparisons in order to drive the re-forecasting process. The system supports complex revenue recognition modeling including perpetual licensing agreements, maintenance revenue calculations, subscription revenue calculations, accretions and amortizations.

Customized workflow

This intuitive process helps users create their forecasts and budgets and allows managers to understand everyone's status in the plan creation and update process. This applies to any type of planning frequency; forecasting once per year, every quarter, or monthly. Workflow reports on where you are in the process, who participated and who has not yet provided their data, including sales, marketing, operations and finance.

Sales and operations planning automation

Revenue planning provides the functionality to automate the “Sales and Operations Planning” (S&OP) process. Utilizing input templates, key team members provide their expectations regarding unit sales and delivery. The group then meets to form a consensus estimate of the expected future sales and delivery. Through this streamlined process, Sales, Operations and Finance can anticipate future performance, manage customer expectations and allocate resources with reduced costs.

2.5 The Fundamentals of Revenue Planning

2.5.1. Managerial Involvement & Commitment & Top Management Support

Top management commitment is the factor that determines the tipping point between potential success and failure when developing and implementing business continuity management projects and systems. In almost all of the cases where we were able to successfully develop, implement and validate a business continuity management system, the topmost contributor to the success was the keen interest exhibited by top management. When we say top management, it implies the Steering Committee formed for the execution of the business continuity project.

The ten things that indicate existence of management support are:

1. Top management was the driver behind the initiation of the business continuity project

In all our successful consulting assignments the reasons for business continuity initiation has been a need felt by top management. The genesis of the need being is either a recent disaster that affected an organization that they knew of or a regulatory mandate to have a business continuity management system in place. It is usually a case of ‘top-down force’ rather than a ‘bottom-up pull’.

2. Top management was the initiator of the project charter

A project charter is a document that formally authorizes a project. A project charter issued by the top management ensures organization wide commitment for the project and the availability of resources.

3. Attendance by top management at the project kick-off meeting

Attendance by top management with an introductory briefing by top management personnel is important to get the organization-wide visibility that a business continuity project needs.

4. Validation of recovery time objectives (RTOs) and recovery point objectives (RPOs)

The BIA is a process designed to prioritize business functions by assessing the potential quantitative (financial) and qualitative (non-financial) impact that might result if an organization was to experience a business continuity event. RTO is the period of time within which systems, applications, or functions must be recovered after an outage (e.g. one business day). RPO is the targeted point in time to which systems and data must be recovered after an outage as determined by the business unit. Top management validates and, where necessary, challenges the RTOs and RPOs obtained.

5. Selection of business continuity and backup strategy

Top management makes the final decision on the business continuity strategy – for example, choosing between a cold site, warm site, or hot site based on the RTO and also the backup strategy based on the RPO.

6. Active participation by top management during emergency procedure drills

Top management actively participates in building evacuation drills, hoax bomb calls, power down procedures, lights out drills, disaster scenario simulations, etc. They make the hoax bomb call, initiate the call tree exercise, activate the fire alarm. This creates awareness on what the objective of the activity is and how the employees are responding to such simulations.

7. Observer during disaster recovery exercises at the alternate site

A top management representation at the alternate site during disaster recovery exercises signifies the importance that is attached to the business continuity project. A follow up by top management is to be involved in the review of the objectives set and achieved during the exercise and the review of the lessons learnt.

8. Attendance at local business continuity forums, symposiums, conferences and training events

Top management representatives should attend business continuity and disaster recovery related conferences, forums, etc. which exposes them to industry best practices and also enable discussions with other participants in the same industry. In our assignments we actually have the Project Sponsor and Project Manager undertake one of DRII's exams. The incentive for them is they understand what is it that we do (no more black box brigade syndrome), they could validate our deliverables and they need not hire a consultant to maintain their plans or, if they did, they knew what to expect.

9. The ability to give an elevator speech on business continuity management

For top management to be able to explain a business continuity management system, its return on investment and its components within the attention span of a spectator is the hallmark of management commitment to understanding the essence of business continuity.

10. Succession planning exercise

Validation whether the successor to the top management representatives is able to perform the same jobs as the reporting manager (top management) is the logical conclusion for an effective business continuity management system.

Top management support!" Everybody who's selling a new method or system says that this is the key to success. As your monthly curmudgeon, I say that if you have to ask for it, you don't deserve it.

"How's the mileage on that yacht?"

"If you have to ask, you can't afford it!"

The same applies to top management support. If you feel you need it, something deeper is fundamentally wrong. And unless you address the root causes, even having top management behind you won't save your project. Of course, if top management is against you, that's a whole different story. In that case, you either sell top management or pack up and go home.

But good idea combined with a good change process shouldn't have to depend on top management support. This month's column reflects on the fundamentals of change management, and the roles that top management should and should not play in bringing about meaningful change.

Why People Request Top Management Support

Generally, the cry for top management support means that someone is trying to implement some change—to be specific, trying to get others to change—and is running into resistance. It may be that IT is "sponsoring" an IT project, for example—and clients are resisting. Or it may be that well-meaning change agents or "process owners" are trying to force change on IT staff.

When faced with resistance to "The Right Thing To Do" from the very people they're trying to help, some change agents ask top management to command people to accept the change; ergo: the plea for top management support.

Why It's Dangerous to Depend on Top Management Support

Note that, in the last paragraph, I said "accept" the change, not "support" the change. There's no chance of support. Once people are set against a change, top management cannot command them to modify what's in their hearts. All that change agents can reasonably ask of top management is to compel unwilling compliance.

2.5.2 Responsibility Accounting

Responsibility accounting is an underlying concept of accounting performance measurement systems. The basic idea is that large diversified organizations are difficult, if not impossible to manage as a single segment, thus they must be decentralized or separated into manageable parts. These parts or segments are referred to as responsibility centers that include: 1) revenue centers, 2) cost centers, 3) profit centers and 4) investment centers. This approach allows responsibility to be assigned to the segment managers that have the greatest amount of influence over the key elements to be managed. These elements include revenue for a revenue center (a segment that mainly generates revenue with relatively little costs), costs for a cost center (a segment that generates costs, but no revenue), a measure of profitability for a profit center (a segment that generates both revenue and costs) and return on investment (ROI) for an investment center (a segment such as a division of a company where the manager controls the acquisition and utilization of assets, as well as revenue and costs).

2.5.3. Effective Communication

Effective communication is critical to your organization's success. Many corporate and government organizations are excellent at taking action, but less confident about communicating with their various audiences.

A Strategic Communications Plan helps by organizing your communications with a written blueprint for actions and activities: what, how, when, where, and to whom you should be communicating.

When properly done, strategic communications planning takes into account all aspects of your organization's public image. It provides criteria for making day-to-day decisions about communications, and a template against which all such decisions can be evaluated. This leads to greater focus and effectiveness.

The plan starts with a clear set of communication objectives. It explains in detail which audiences you wish to reach, what (and perhaps what not) to communicate, the time frame for carrying out these actions, media to be used, and how much each step will cost. It also includes plans for evaluation, so results can be measured and improvements made in the future.

Key learning objectives

- Clarify what you want to communicate
- Choose your intended audience by identifying the best opportunities
- Determine which media will provide you with the best chance of reaching your audience
- Craft your message to heighten its impact and produce maximum results
- Develop effective strategies for measuring each element of your total communications plan
- Establish timelines for the implementation of your communications plan
- Review your communications plan for future success

Who should attend?

Communications professionals including:

- Communications Managers
- Marketing Managers
- Corporate Communications Professionals
- Public Relations Professionals
- Media Relations Managers

2.5.4 An outline of the Fundamentals Concept of Revenue Planning

1. A management process that includes planning, organizing staffing leading and controlling.
2. A managerial commitment to effective management participation by all levels in the entity.
3. An organization structure that clearly specifies assignment of management authority and responsibility at all organization levels.
4. A management planning process.
5. A management control process.
6. A continuous and consistent co- ordination of all the management functions.
7. Continuous feed forward, feedback, follow-up and re-planning through defined communication channel.
8. A strategic (Long-range) Revenue plan.
9. A Strategic (Short-range) Revenue plan.
10. A responsibility accounting system.
11. A continuous use of the exception principle.
12. A behavioral management program.

2.5.5 Realistic Expectation

In Revenue Planning, Management must be realistic and avoid either undue conservation or irrationally optimistic. The care with which budget goals are set for such items are sales, product levels, cost, capital, expenditures, cash flow, and productivity determines the usefulness of profit planning program. For revenue planning purposes enterprise objectives and specific budget goals, should represent realistic expectations it must be related.

a) To their specific time dimension

b) To an assumed external and internal environment that will prevail during that time span within these tow constraints realistic expectations should assume a high level of overall efficiency, however the objectives and goals should be attainable.

Before preparing Concept of Revenue Planning program management have to take a good care that the goal or objective which is going to be determined neither should be low nor would be to high but should be attainable with high level of efficiency. Because former case destroys motivation and later case discourage the implementer. But the good, which will be challenging nature, will be of real value and will keep organization alert, which is the main objective of the realistic expectation.

2.5.6 Time Dimensions

Effective implementation of Revenue planning concept requires that the management of enterprises establish the definite time- dimension for certain types of decision. In viewing time dimension perspectives in managerial planning, a clear cut distention should be made between historical consideration and future consideration. Project plan is done on the basis of degree of activities, where as the periodic plan needs evaluation on the basis of calendar year, month and days. For periodic plan, period reports are prepared and on the basis of time will be done it needed. Periodic planning directly represents a cross sectional focus by time on income determination and periodic performance. Periodic plan are of short and long two categories. In conclusion, we can take the version of Welsch as the concept of comprehensive revenue planning encompasses to strategic planning. The time dimensions should be unique to the enterprises and should be designed to fit its particular needs and characteristics.

2.5.7 Management Control Using in Revenue Planning & Control

The fundamental purpose of management planning is to provide a feed forward process for operation and for control.

The primary purpose of control is to ensure attainment of the objective, goals and standards of the enterprise. Control has many facts, such as direct observation, oral expression narrative memoranda, policies and procedures, reports of actual results and performance reports. Comprehensive revenue planning and control focuses on performance reporting and evaluation of performance to determine the both high and low performance .

2.5.8 Activity Based Costing

Responsibility accounting system generally accumulates costs by department and product costing system associate costs with units of product or service organization also frequently find useful to associate costs with activities. By discomposing an organization production process into a discrete set of activities, and then associating costs with of those activities management is in a better position to determine the costs and benefits of continuing, the activities moreover, by systematically identifying the activities, throughout the organization managers can identify redundant activities.

2.5.9 Zero-Base Budgeting

Under Zero-base budgeting every budget is constructed on the premise that every activity in the budget must be justified. Private and governmental units both have used Zero-base budgeting. In Zero base budgeting there are no givens. In starts with the basic premise that the budgets for the next year are zero and that expenditure new and old must be justified on the basis of its cost and benefits.

Zero –based budget is not a magic formula, but an attitude, woven into a structured analytical process. As most administrators known, the usual approach to budgeting is to being with the present level of operation and spending and them carefully justify the new programs or additional expenditures desired for next year. In Zero-based budgeting there are no "given" it starts with the basic premise that the budget for the next year is zero and the every expenditure, old and new, must be justify on the basis of its cost and benefits.

2.5.10 Behavioral View Point

The behavioral aspect of the management process has been accorded extensive and intensive investigation by psychologists, educators and businessman. The attention is increasing in scope and intensity in recognition that here are many, unknown, misconceptions and speculations concerning the respect of the individual and the group in varying situations. The comprehensive revenue, planning and control approach to managing brings many of these behavioral problems into sharp focuses. A sophisticated view of revenue planning focuses on a positive approach to resolve certain behavioral problem but in many respects it can provide on effective to their partial resolution.

2.5.11 Follow –Up

Follow-up action is an important fact of effective control and re-planning. It is important to distinguish between cause and effect. The important of follow up on Concept of profit planning and control approach is much more follow-up action after a careful. The fundamental hold both good and sub- standard performance should be carefully investigated.

Follow-up action after careful study needed

a. To correct the action of sub standard performance in a constructive manner.

b. To recognize and transfer the knowledge of outstanding performance to others.

c. On the basis of study and evaluation to provide a sound basis for further concept of revenue planning.

Overview of Revenue Planning and Control

Management Function	Sequential Phase of the RPC Process	Primary Responsibility
Planning	1. <u>External Relevant Variables</u> – Identity and Evaluation	Executive
	2. <u>Broad Objectives of the Business</u> – Develop or Revise	
	3. <u>Specific Enterprise Goals</u> – Develop Consistent with item 2 above	
	4. <u>Enterprise Strategies</u> – Specify major trusts to attain the objectives and goals	Middle Level Mgmt
	5. <u>Executive Management Planning Instruction</u> – Specify Planning Premises (or guidelines) for managers (based on item 1-4 above	
	6. <u>Project Plan</u> – develop or over date for each project	
	7. <u>Strategic Revenue Plan (Long Range)</u> – develop for 3.5 or 10 years	
Leading	8. Tactical Revenue Plan (Short Range) - Develop for upcoming year	All Level Mgmt
	9. <u>Implementation of revenue plans</u>- implement throughout the budget year	
Controlling	10. <u>Performance reports</u> - Prepare monthly reports by responsibility	All Level Mgmt
	11. <u>Follow–up</u> – Provide feedback, takes corrective action, and re-plan	

2.6 Basic Assumption & Limitation of Revenue Planning

Revenue planning systems are more common in large companies: to serve management still, the usefulness of revenue planning to very small business could have been circumvented by an early attempt to quality the dreams of head strong but sloppy thinking entrepreneurs who never directly faced the uncertainties of their venture.

But there are so many assumptions of using revenue-planning programmers'. Firstly, the basic plans of business must be measured in terms of money, if there is to be any assurance that money will be available for the needs of the business. Secondly, it is possible to plan for the future of a business in a comprehensive way, coordinating every aspect of the business with every other aspect of establishes optimum profit goals. Thirdly, revenue planning is preplanning not merely what to do it things workout as forecasted, but also what to do if things workout differently form the forecast.

Because effective budgeting requires co- ordinate planning, it is essential that all persons participating in the building of the budget are planning towards the same objectives are contemplating the same company, industry and general economic conditions this can be accomplished by issuing a statement of basic assumption prior to the start of the budgeting system.

In developing and using a revenue planning and control programmed, the following main limitations are usually given against revenue planning & control

- It is difficult, if not impossible to estimate revenues & expenses in our company realistically.
- Our management has not interest in all the estimate and schedules. Our strictly informal system is better and works well.
- It is not realistic to write out and distributed our goals, polices & guidelines to all the supervisors.
- Budgeting places too grot a demand on management time, especially to revise budgets constantly. Too much paper work is required.
- It takes away management flexibility.

- It creates all kinds of behavioral problems
- It places the management in a strait jacket.
- It adds level of complexity that is not needed.
- It is too costly, aside from management time.
- The manager’s supervisors & other employees hate budgets.

2.7 Budgeting as a Tool of Revenue Planning

In modern times the business enterprises as will other nonprofit concerned organizations are preparing budget every year or future certain period. A budget is a formal statement of the financial resources to be used for an organization planned activities for a given period of time. Budgets serve the organization in the planning function but they have key roles in organizing and controlling function as well. The vignette demonstrates how important budgets are to small as well as large corporations.

Budgeting, as a tool of planning and control is closely related to the broader system of planning and control is an organization. Planning involves the specification of the basic objectives that the organization will purse and fundamental polices that will guide it. In operational terms if involve the step of setting objectives, specifying goals, formulating strategies and expression budgets. A budget is a comprehensive and co-ordinate plan, expressed in financial terms, for the operations and resources of an enterprise for some specified period in the future.

“A budget is a quantitative expression of a plan of action and an aid to co ordination and implementation. Budgets may be formulated for the organization as a whole or for any sub unit. Budgeting includes sales, production, distribution and financial aspects of an organization. Budget programs are designed to carryout a verity of functions, planning, evaluating, and performance, coordinating activities, implementing plans communicating, motivating and authorizing actions.”

Budgeting is a tool of achieving management objectives. According to IM, Pandey, “Simply stated the process of preparing a using budgets to achieve management objectives is called budgeting. More specifically a comprehensive planning and control or budgeting is a systematic and formalized approach for stating and communicating the firms' expectations and accomplishing the planning co-ordination and control, responsibilities of management to maximize the use and control responsibilities of management in such a way as to maximize the use of given resources."

Budgetary control is a system, which uses budget as a means of planning and controlling all aspect of producing and selling commodities or survives. ICMA defines budgetary control, as it is the establishment of budgets relating the responsibilities of executive to the requirements of a policy and the continuous comparison of actual with budgeted results. Either to secure by individual action the objective of that policy is to provide a basis for its revision.

In summary, the budget involves the statement of plans, the co-ordinations of these plans into well- balanced programs and the constant watching of an actual operation to ensure that they are kept in line with the predetermined plans. In this way limits are set on expenditure, standards of performance are established, and forward thinking is made an essential part of the business management. Care must be taken however not too tall into the error of regarding the budget as an end in itself. It is means to an end. It is not a method of business management, but an aid to clear thinking and its fundamental object is to enable considered intention to be substituted for opportunism in management.

2.7.1 Objective of Budget and Budgetary Control

The basic objectives of budgets and budgetary control are:

1. To smooth out seasonal variation in production by developing new "fill in" products there by accomplishing one phase of economic planning. To confirm with good business practice by planning for the future.

2. To coordinate the various divisions of a business namely production, marketing, financial and administrative division by consultation among the divisional beads and mutual company policies.

3. To operate most efficiently the divisions, departments and cost centers of a plant.

4. To establish divisional and departmental responsibilities.

5. To provide a method of measurement of operating activities and financial position both where standards are and not lisped.

6. To forecast operating activities and financial position.

7. To provide more definite assurance of earning the proper return on capital invested.

8. To add in obtaining better inventory control and turnover.

9. To provide waste, to reduce expenses and to obtain the income desired.

10. To aid in controlling cash.

11. To centralize management control.

12. To show management where action is needed to remedy a situation.

13. To obtain a more economical use of capital

14. To ensure that adequate working capital is available for the efficient operation of the business.

2.7.2 Classification of Budget

It may be classified from various points of view depending upon the various bases adopted for such classification:

A. According to Time Factor

B. According to Functional

C. According to Flexibility

A. In terms of time factor budget is classified into three types: -

i) Long-term budget: These budgets are concerned with planning the operations of firm over a prospective of 5 to 10 years. They are usually informed of physical quantities. A long term revenue planning is one that attempts to forecast conditions for a considerable future period. This period may be and usually is, for a coming calendar of fiscal year. Business practice usually limits budgets to such a period, because of the uncertainty and difficulty of carrying forecast into longer period. For some purpose, as planning is the construction of new factories or given investors and understanding of the possibilities of a business, long-range forecasts or budget may be prepared. Long range budgeting as means of planning for the future is frequently useful for the government planning agencies and economic studies.

ii) Short-term budget: - These budgets are usually for a period of a year or two years. They are usually in the form of production plan in monetary terms. Revenue plan of this kind can be prepared more accurately.

iii) Current budget: - These budgets cover a month or so and are the short-term budgets adjusted to current condition or prevailing circumstances.

B. In terms of Functional classification:

On the basis of classification budgets correspond and are co terminus, with a particular function and are integrated with the master budget of the business. These are called functional Budgets, whose number depends upon the size and nature of the business. The usual functional Budgets of a business are:

- Sales Budgets
- Selling & Distribution Cost Budget
- Purchase Cost Budget
- Personal Budget
- Research Budget

– Cash Budget
– Plant Utilization Budget
– Office & Administrative Budget
– Capital Budget
– Master Budget

C. In Terms of Flexibility

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

(ii) Flexible Budget: Flexible expenses budget is complementary to tactical revenue plan. They help to provide expenses plans for tactical revenue plan and expenses plans adjusted to actual output for comparison with actual expenses in periodic performance report.

The concept of flexible expenses of flexible budget is that all expenses are incurred because of passage of time, output, activity or combination of time and output or activity.

The following are the features of flexible budgeting.

(i) Expenses or costs must be identified into fixed and variable expenses or costs.

(ii) Expenses must be related output or activity.

(iii) Output or activity must be measurable.

(iv) Flexible expenses budget for each expenses must be for specified time period and relevant range of output.

(v) For planning and controlling purpose, flexible budget formula must be developed for each expense in each responsibility center.

The primary objective of flexible budget is to show how, and to what extent, each expense in a responsibility is changed by the amount of work done. We classify the expenses or costs into three categories.

(i) Fixed cost: Fixed cost is also called time cost or capacity cost. Fixed costs do not change in short term period within a relevant range. They accrue primarily with the passage time. Fixed costs are caused by holding of assets and other factors of production in a state of readiness to produce. Therefore they are frequently called capacity costs.

Fixed expense such as depreciation, tax insurance etc. are caused by management decision and salary, advertising and research expenditure are set by management discretion on a short-term basis. They will change by reason of changes in basic structure of business operating method and discretionary changes in management policy.

(ii) Variable costs: Variable costs are based on activity. The variable costs should be zero at zero activity. They change directly with changes in activity level in responsibility centre. Therefore, if output is doubled, the variable expenses is doubled, if output increases by 15% the variable expenses also increase by 15%, if output is zero, the variable cost also zero.

(iii) Semi- variable cost: Semi-variable are expenses a significant portion of company expenses. Semi-variable expenses also change with changes in output or activity but not in proportion to changes in activity or output semi variable expense have some of the characteristics of both fixed and variable costs. Semi variable expenses are caused by combined effect of passage of time, activity or output and management discretion decision.

2.7.3 Requirement for Effective Budget

a. Support of Top Management:- The budget programmed can only be successful when top management offers the whole hearted support and when all mangers are motivated about the implementation of budget programmed.

b. Clearly defined organization:- Business organization should be defined as to provide maximum benefits. There should be a sound plan with well defined and adequately maintained responsibilities. Records should be clear consistently departmentalized and established in such a manner as will indicate definite responsibility on each unit or section of the business.

c. **Accurate accounting system:-** Accounting system should be developed so far to hold each part of the organization, to its responsibilities. The budget fosters coordinated action and whenever this is broken down or interfered with the responsible factor should be unmistakably related.

d. **Unambiguous policy:-** A budget programmed is always based on certain fundamentals, the collection of which is called the "policy" of the business. Naturally, therefore, no programmed can be prepared without the knowledge of the business policy to be adopted during the period covered by two budgets.

e. **Preparation by responsible executives:-** Formation of budget in the participation of executive who are entrusted with the performance and in complementation is one of the essentials of effective budgeting.

f. **Logical sequence in the budget preparation:-** It is essential that proper procedures should be evolved for the preparation, submission , examination and review of budget figures in logical sequence.

g. **Constant Vigilance:-** An effective system of budgetary control requires that provision must be made for the comparison of budget and actual results at frequent intervals. As soon as unfavorable trends are detected immediate action should be taken to remedy them.

h. **Continuous Budget Education:-** An essential condition for the success of budgeting is that it must be able to sustain the interest of these who should the responsibility of putting Budget proposal into effect. This needs continuous "budget Education" which is concerned with briefing the employees of the under taking on the objectives, potentials and techniques of budgeting as well as making them understand its uses and limitations.

i. **A degree of Flexibility:-** Flexibility for both possible and unforeseen circumstances requires essentially in budgeting.

2.8 Development of the Revenue Plan

For the development of sound profit planning certain steps that an enterprise should take to establish as the foundations are as follows:

1. Top management commitment and understanding.
2. Identification and evaluation of enterprise's characteristics and environmental factors controllable and non-controllable.
3. Evaluation of organizational structure.
4. Organism of accounting system in such a way that provided data should be particularly useful for planning.
5. A policy determination must be made about the time dimensions to be used for revenue planning purpose.
6. A program of budgeting should be developed to inform management at all level about (a) the purpose of program (b) the manner in which it will operate, including the basic management policies and guidelines for its administration (c) the responsibility of each level of management in the program and (d) a way in which the program can facilitate the performance of each manager's functions.

2.8.1 Cash Flow Budget

Cash is the most liquid assets. It is one major responsibility of management to plan, control and safe guard of the cash of enterprises. "The planning and controlling of the cash inflows, the cash outflows and the related financing is important in all enterprises. Cash budgeting in an effective way to plan and control the cash flows, assess cash needs, and effectively use excess cash. Primary objectives are to plan the liquidity position of the company as a basis for determining future borrowing and future investments. For example, excess cash if not invested incurs an opportunity cost that is loss of ht interest that could be earned on the excess cash. The timing of cash flows can be controlled in many ways by the management such as increasing the effectiveness of credit and collection activities, making payment by time drafts rather than by check, making payments on the last day of discount periods batching payments and giving discounts on cash sales." A cash budget is a detailed estimate for some future period of time of cash inflows from all sources, cash disbursement for all purposes and the resultant cash balance. It is the process of forecasting the expected receipts and expected payments of cash to meet the future obligations. It is an effective way to plan and control the cash flows; assets cash needs and effectively uses excess cash.

The primary purpose of the cash budget is to

1. Give the probable cash position at the end of each period as a result of planned operations.
2. Identify cash excesses or shortages by times periods.
3. Establish the need for financing and/or the availability of idle cash for investment.
4. Coordinate cash with (a) total working capital (b) sales revenue (c) expenses (d) investments, and (e) liabilities.
5. Establish a sound basis for continuous monitoring of the cash position.
6. Indicate the availability of cash discounts.
7. Preserve liquidity

The preparation of cash budget is relatively simple matter in an undertaking with a complete system of budgetary control because most of the information needed for the preparation of cash budget is contained in budgets its formulation. In case a business is satisfied to confine its system of budgetary control to cash and fixed assets budgets, the preparation would become a little more involved due to the fact that the information usually contained in various operating budgets under a comprehensive budgetary system will have to be somehow assembled and this is likely to prove difficult owing to the absence of detailed budgeting.

There are three methods usually used in preparation of cash budget. These methods are:

(a) Receipt and Payments methods

(b) Adjusted profit and loss methods, and

(c) Balance sheet method

Specimen of Cash Receipt and Disbursement

Particulars	Month	Month	Month
Opening Balance	**xxx**	**xxx**	**xxx**
Add: Receipts:	**xxx**	**xxx**	**xxx**
Cash Sales	xxx	xxx	xxx
Account receivable	xxx	xxx	xxx
Other Income	xxx	xxx	xxx
A. Total Receipts	**xxx**	**xxx**	**xxx**
Payments:	**xxx**	**xxx**	**xxx**
Cash purchase	xxx	xxx	xxx
Account payable	xxx	xxx	xxx
Wages, salaries, and others	xxx	xxx	xxx
Real rate and taxes	xxx	xxx	xxx
Dividends and interests	xxx	xxx	xxx
B. Total Payments	**xxx**	**xxx**	**xxx**
Add Minimum Balance			
C. Total Need			
Surplus/Deficits (A – C)	**xxx**	**xxx**	**xxx**
Financing			
Loan			
(Interest)			
(Loan)			
(Repayment)			
D. Effect			
Closing Balance (A + D – B)			

Representing different approaches to the preparation of cash budget the first method is useful over short periods while the other two methods are generally, used over long periods.

2.9. Cost-Volume-Profit and Contribution Analysis

The analysis of relationship between cost, volume and profit is known as CVP analysis. It is an analytical tool for studying the relationship between volume, cost, price and profit. It is also an important tool, used for profit planning in a business. There are three factors of cost volume profit analysis, which are interconnected and dependent with each other. For example, profit depends upon sales; selling price to a greater extent will depend upon the volume of production.

Cost volume profit analysis is great helpful in managerial decision-making. Specially, cost control and profit planning is possible with the help of CVP analysis. Generally, cost volume profit analysis provides the answer to the questions such as:

(i) What sales volume is needed to avoid losses?

(ii) What sales volume is needed to earn a desired net profit?

(iii) What will be the effect of change in price?

(iv) Which product or operation of a plant should be discontinued and so on?

In the scheme of cost volume profit analysis, an attempt is made to measure variations of cost with volume cost may depend on volume which in its turn, depends on demand while profits depend on the price that can be obtained for the goods manufactured placed in the market less the cost thereof. The general impression to the effect that an increase in production would automatically increases the profit does not hold good where the profits, that a procedure can earn on a longer turnover, are not as high as those he can get on a lower turnover owing to fall in the level of profits being more than the gain arising from the increase in turnover due to fall in price. A business most incurred certain minimum expenditure on fixed and semi-variable charge. Such expenditure must be paid out of the marginal profit earned on each unit of production with the result that a minimum volume of business becomes essential, the direct variable cost of each article sold being covered by the sale proceeds.

“Its usefulness to management is as follows:

1. Management plans future operations with cost volume profit analysis: Profits do not just happen; they must be managed and planned. By estimating what the selling price, unit variable cost, total fixed costs, and sells volume will be next period, management can estimate the next period or future profit. By using several ways management can estimate. This approach can be used to determine the effects of changes it may wish to make in any of the variables.

2. Management uses the budgeted amounts to control operation: Management should use cost volume profit analysis to determine the probable effects of various alternatives, which may be considered.

3. Management uses CVP analysis to analysis past performance management should determine the reason for differences, or variances, between budgeted and actual results. An accounting reports summarizing differences is often called a variance report. CVP analysis is an integral part of management's administrative function. It can make an important contribution to planning organizing and controlling. It provides a framework for planning future operations and a means for determining the likely effects of various ways of organizing those operations. It also can use to control current operations by comparing actual with planned results."

The following are some of the static assumptions upon which this analysis is based.

1. All costs can be classified as fixed or variable: The principle of cost variability is valid. Cost can be resolved into their fixed and variable component.
2. Fixed costs will not change over the entire capacity range or remain constant.
3. The behavior of costs will be linear (i.e. will show as a straight line on a chart), and variable costs will change in direct proportion to changes in volume.

4. Unit of product selling price are homogeneous (i.e. all alive), or the proportions of different types of products with different prices will not change in the 'sales mix'.
5. There is no significant difference between production and sales in the period being analyzed.
6. There are no changes in material price or wage rates, no design changes in the product, no methods changes in manufacture, or any significant change in the efficiency or productivity during the period being analyzed.

2.9.1 Meaning of Break Even Analysis

Break-Even–Analysis is the term to study of the interrelationship between cost volume and profit at various level of activity. It is the most widely known form of the CVP analysis. Therefore, the CVP analysis is also called as BE Analysis.

The BEP is used under BE Analysis. BEP is the level of activity at which total cost equal to total revenue. In other word, BEP is a point of "No profit no loss". If the sales or production is higher than the BEP volume, there will be a profit. In the same way if the sales (production) are less then BEP sales there will be a loss.

"Break even analysis is a method of relating fixed costs, variable costs, and total revenues to show the level of sales that must be attained if the firm is to operate at a profit." "It may be interpreted in two senses narrow sense and broad sense. In narrow sense it refers to a system of determining that level of operation where total revenues equal total expenses i.e., the point of zero profit. Taken in its broad sense, it denotes a system of analysis that can be used to determine the probable profit at any level of operations."

2.9.2 Methods of Break Even Analysis

1. Mathematical or Algebraic Formula Method

In order to understand mathematical relationship between cost volume and profit it is desirable to understand the following four concepts, their calculation and application.

i. Contribution Margin: It is the difference between the sales and the marginal cost of sales and it contributes towards fixed expenses and profit. The main aim of contribution will first go to meet fixed expenses and then to earn profit contribution can be represented as:

Contribution = Selling price – Marginal cost

Or, Contribution = Fixed expense + Profit

Or, Contribution – Fixed expense = Profit

Contribution is different from the profit, which is the net gain in activity or surplus and remains after deducting fixed expenses from the total contribution.

ii. Profit Volume (P/V) Ratio: The profit volume ratio is one of the most important ratios for studying the profitability of operations of a business and establishes the relationship between contribution and sales. It helps to find out which product is more profitable. Higher the P/V ratio, more will be the profit and lower the P/V ratio, lesser will be the profit.

Hence, it should be the goal of every concern to increase or improve the P/V ratio.

It can be done by:

i. Increasing the selling price per unit;

ii. Reducing direct and variable costs by effectively utilizing men, machines and materials.

iii. Switching the production to more profitable products showing a higher P/V ratio.

The P/V ratio is very useful and is used for the calculation of:

$$\text{(i) Break even point } X \frac{\text{Fixed cost}}{\text{P/v ratio}}$$

(ii) Value of sales to earn a desired amount of profit $X \frac{\text{Fixed cost } \Gamma \text{ Desired profit}}{\text{P/v ratio}}$

(iii) Variable costs = Sales (1 – P/v Ratio)

(iv) Profit = (Sales x P/v Ratio) – Fixed cost

(v) Fixed cost = (Sales x P/v Ratio) – Profit

(vi) Margin of safety $X \frac{\text{Profit}}{\text{P/v ratio}}$

Required Production or sales to recover the losses $X \frac{\text{Fixed cost } \Gamma \text{ Amount to be recovered}}{\text{P/v Ratio}}$

iii. Break Even Point: A business is said to break-even when its total sales are equal to its total costs. It is a point of no profit or loss. At this point, contribution is equal to fixed cost. A concern, which attains breakeven point at less number of units will definitely be better from another concern where breakeven point is achieved at more units of production.

The break-even point can be calculated by the following formula.

Break even point (in unit) $X \frac{\text{Total fixed expenses}}{\text{Selling price per unit} - \text{Marginal cost per unit}}$

Or, $X \frac{\text{Total fixed expenses}}{\text{Contribution per unit}}$

Break even point based on total sales $X \frac{\text{Fixed cost}}{\text{P/v Ratio}}$

iv. Margin of Safety: It is the difference between the actual sales and the sales at break-even point. Margin of safety is the excess production over the break-even points out put. Sales or output beyond breakeven point is known as margin of safety because it gives some profit, at breakeven point only fixed expenses are recovered. It can also be expressed in percentages.

Margin of Safety (m/s) = Present sales – B.E. sales

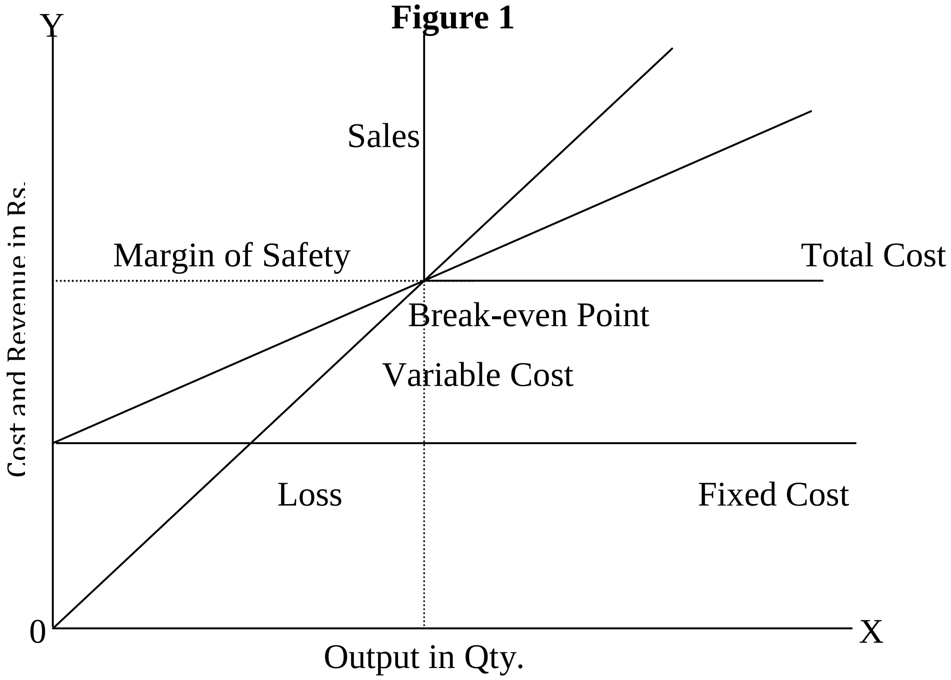
Margin of safety $X \frac{\text{Profit}}{\text{P/v Ratio}}$

Larger margin of safety is the best, which is an indicator of the strength of a business.

2.9.3. Graphic or Chart Method

The break – even point can also be determined with the help of a graph. A simple illustration of break-even chart is given below

Figure 1



Sales volume is shown in x axis and cost/ revenue is shown in y-axis. Fixed cost is always equal within a certain level of activity, so the fixed cost line is parallel to x-axis. Total cost increases with increase in sales volume, so the total cost line is slopping upwards to right side. The total cost line starts from point C. OC is indicates the level of fixed cost. OC is also total cost when the sales volume is zero. The sales revenue line originates from the origin because sales revenue is zero when the sales volume is zero. The sales revenue line is also slopping upwards to right.

An equilibrium point between total cost line and total revenue line is known as breakeven point where both the cost and revenue is equal at OP and the break even quantity is OQ. If the actual sales volume is more than break even sales, the firm will earn profit and if the actual sales are less than the break even sales, the firm will suffer a loss.

2.10 Role of the Ratio Analysis in Revenue Planning

Ratio analysis of business enterprise centers on efforts to drive quantitative measures or guides concerning the expected capacity of the firm to meet its future financial obligations or expectation. Present and past data are used for the purpose and whatever extrapolations necessary, they are made to provide an indication of future performance. A ratio analysis the process of determining and interpreting numerical relationship based on financial statement. Ratio analysis is the powerful tool of company's strength and weakness analysis. It is an index for evaluating the performance of the company.

"A comparison of ratios of the same firm over time is important in evaluating changes and trends in the firm's financial condition profitability."

The relationship between two accounting figures known as simply ratio, it is expressed in mathematical terms. The relationship can be expressed as percent (cost of going sold as percent of sales) or as a quotient (Current asset as a certain number of times the current liability). A ratio is not more difficult to calculate and understand.

2.10.1 Types of Ratio

Several ratios can be calculated from the accounting data contained in the financial statement.

In general the following ratios are on practices.

1. Analysis of short-term financial position or tests of liquidity.
2. Analysis of long- term financial condition or tests of solvency.
3. Test of profitability
4. Test of overall profitability

2.10.2 Relation with Revenue Planning

The ratio analysis can be of invaluable aid to management in the discharge of its basic functions of forecasting, planning, coordination, communications and control. By on analysis study of the past performance of the business, it helps in predicting and projecting the future it assets in communication by conveying and formulation, which is pertinent and purposeful, to those for when it is meant, it promotes coordination by a study of the efficiency of the business it paves the way for effective control of business operations by undertaking an appraised of both the physical and monetary targets. It is therefore, ratio analysis is an integral part of profit planning system.

2.11 Completion and Implementation of Annual RP

2.11.1 Completion of the Revenue Plan

The development of an annual revenue plan ends with the planned income statement, the planned balance sheet, and the planned statement of cash flows. These threes statement summarize and integrate the detailed plans developed by management for the planning period. They also report the primary impacts of the detailed plans on the financial characteristics of the company.

Prior to distributing the completed revenue plan, it is genera rally desirable to restate certain budget schedules so that technical accounting mechanics, computations, and jargon can be avoided as much as possible. The redesigned budget schedules should be assembled in logical order, reproduced, and distributed before the first day of the planned budget period. The revenue plan completion date in important issuance of a profit plan after the beginning of the budget period is one sure way to destroy much of the budget potential. Timely completion of the budget suggests the need for a budget calendar.

2.11.2 Implementation of the Revenue Plan

Implementation of management plans that have been developed and approved in the planning process involves the management function of leading subordinates in attaining enterprise objectives and goals. Thus effective management at all levels requires that enterprise objectives, goals, strategies, and policies be communicated and understood by subordinates. There are many facts involved in management leadership. However, a comprehensive profit planning and control program may aid substantially in performing this function. Plans strategies, and policies developed through significant participation establish the foundation for effective communication.

It is desirable that the distribution of the profit plan includes a “statement of planning premises” from the top executive that emphasizes performance, challenge, and positive motivation. After distribution of the revenue plan conferences should be scheduled. These conferences are intended to build revenue consciousness, performance orientation, and aggressive, yet flexible, application of the plans to attain the objectives. These conferences also should cover the broader spectrum of the management process, including positive reinforcement and other behavioral issues. The conferences also should emphasize aggressive action and flexibility in implementing the plans and the control process. Special emphasis should be devoted to the manner in which unanticipated events and problems will be handled at various management levels.

2.12 Performance Report

Performance reporting for internal management use is an important part of a comprehensive revenue planning and control system. These reports serve to motivate managers to perform in conformity with expectation. Moreover, they signal upper management, when operations are not proceeding to the plan.

Performance report is a tool to give information to the management with performance measurement actual results planned results and variances. Variance may be favorable and unfavorable and various causes of unfavorable variance are controllable and uncontrollable.

It gives all these information with account or percentages etc. It prepares generally monthly basis and follows a standardized format, which helps to compare actual results and planned objectives and goals of the enterprise. A performance report should not be too long and complex and unnecessary data. Management should follow up it's for the effective revenue plan.

The effective performance report should be

i) Tailored to the organizational structure and locus of controllability.

ii) Designed to implement the management by exception principle.

iii) Repetitive and related to short time periods.

iv) Adapted to the requirements of the primary users.

v) Simple, understandable, and report only essential information

vi) Accurate and designed to pinpoint significant distinctions.

vii) Prepared and presented promptly.

viii) Constructive in tone.

Performance report should distinguish clearly controllable and non-controllable item. The actual results are compared with objectives and the management analyzes standards and the differences, performance report is designed carefully to show the title and headings. It should not posses technical jargon, complex, tabulations are irrelevant information.

In addition to control implications, performance reports offer management essential insights into all facts of operational efficiencies. Performance reports pose critical behavioral problems because inefficiencies as well as efficiencies of individuals are pin pointed and reported.

As performance reports shows variances, expressed in amounts as well as percentage of the planned or budgeted amount, statistical control unit should also be developed to determine the significance of variances. Monthly performance report should show the performance for the period being reported and cumulative variances to date such reports are usually prepared for each responsibility center.

2.13 Analysis of Budget Variance

The difference (deviation) between planned result and actual result is called variance. Performance reports show such variances, and then the next step comes to analyze such variances to identify the underlying causes behind it, for managerial planning and control process. A basic feature of performance reports is the reporting of variances between actual results and planned or budgeted goals. If a variance is significant, a careful management study should be made to determine the underlying causes. The underlying causes, rather than the actual results, should lead to remedies through appropriate corrective action by management. Variance analysis involves a mathematical analysis of two sets of data in order to gain insight into the underlying causes of a variance. Variance analysis has wide application in financial reporting. Variances are analyzed in the following areas:

i) Raw material variances
ii) Labour variances
iii) Overhead variances
iv) Sales Variances
v) Profit Variances

"There are numerous ways to investigate variances to determine the underlying causes. Some are the following:

i) Conferences with responsibility center managers and supervisor and other employees in the particular responsibility center involved.
ii) Analysis of the work situation including the flow of work, co-ordination of activities, effectiveness of supervision, and other prevailing circumstances.
iii) Direct observation.
iv) On the spot investigations by line managers.
v) Investigations by staff groups.
vi) Internal audits
vii) Special studies.
viii) Variance analysis

Following are the basic steps in analyzing variances;

i. Setting standards
ii. Measurement of performance

iii. Analyzing variances

iv. Take corrective action

Variance should be broadly grouped under two categories; favorable and unfavorable, variance, further, should be classified as controllable and uncontrollable. If unfavorable variances are raised due to controllable causes, then related center managers are accounted for responsibility.

Variance can be either plus or minus, depending upon whether actual results are greater or less than standard results. Since standard result is a measurement of what a particular result ought of be, any deviation form it can be interpreted as good or bad, favorable or unfavorable to the attainment of the organizations profit goals. Since variances can reflect clearly and correctly the causes for deviations of actual from standard performance. The major purpose of variance analysis is to enable management to measure performance against predetermined norms to seek out the causes for the standard results, and to institute corrective action.

2.14. Review of the Research Work

More than thirty researches have been made in the area of Revenue Planning in Nepalese context for the fulfillment of Master's Degree of business administration. Those researches have been made of both manufacturing and non–manufacturing concern. Whatever the research in the area of revenue planning have been made are also not in depth. Also the research which have been made ready been made are not sufficient dissertations have been submitted in the topics of revenue planning in Nepal.

2.14.1 Mr. Parajuli (1989)

Mr. Agni Dhar Parajuli have submitted thesis on "Revenue planning in manufacturing public enterprises of Nepal", specific reference to Bansbari Leather and Shoe Factory and Dairy Development Corporation. He has tried to point out the nature of management, quality of managerial knowledge and prevailing practices of revenue planning and premises for adopting revenue planning in DDC and BLSF public enterprises. He explored the data of seven years (from 2038/39 to 2044/45). He has examined the applicability of profit planning in Nepalese's manufacturing enterprises taking only two manufacturing government enterprises.

In his research he has used primary as well as secondary data published documents i.e. booklets, magazines were used as the secondary sources of data.

Objectives

1. Examine how far the profit planning system of BLSF and DDC has applied.
2. Sketch the trend of profit and problems of planning in these two manufacturing PEs.
3. Pictures the planning diversification of this PEs (in respect of resource mobilization)
4. Examine the revenue planning of BLSF and DDC on the basis of overall managerial budgeting.

Major Findings of DDC and BLSF

1. There is no adequate co-ordination system and realization of objectives between the different levels of management.
2. Very few managers are competent to identify the relevant factors/ variables manipulate them for the successful formulation and implementation of the plan.
3. Enterprise has no any financial plan of enterprises they have only sales and production target.
4. There is no any practice of revenue planning. So it must be necessary to practice revenue planning.

Recommendations

1. The enterprises should be necessary to develop the alternative for the earning of revenue.
2. The goals and objective should be clearly and adequately spelled out enterprise should develop the systematic.
3. Periodic performance reports detailed by assigned responsibility for the accomplishment the planning objectives.
4. Enterprise should define the short–range revenue plans detailed by relevant responsibilities as a systematic and formalized approach for accomplishing the planning co-ordination and control responsibilities of management.
5. There should be annual evaluation by the executive committee of the statement of broad objectives of the enterprise.
6. There is necessary to formulate the revenue planning calendar.
7. There is necessary to develop the basic strategic by the executive management.

2.14.2 Mr. Bhandari (1992)

Mr. Gopi Bhandari has conducted a research on the topic “Revenue Planning in Manufacturing Enterprise of Nepal” A case study of Royal Drugs Limited. The main objective of his research was to examine the present planning premises adopted by RDL. The nature of data used was secondary as well as primary sources of data. The study covers the time period from FY 2039/40 to 2048/49.

The Major Findings of RDL

1. The company has not maintained the broad and long range objectives and periodic performance report systematically.
2. Only higher level executives are informed with the firms objectives and goals where as works are to be completed by lower level participants.

3. There is no participation of lower management regarding planning and decision making activities i.e. lack of coordination. There is lack of coordination to develop plan and strategy.
4. The management does not prepare the micro and macro level planning systematically.
5. Low quality or raw material is becoming the main causes of low efficiency.
6. Return on investment ratio contribution margin ratio, sales investment ratio is not satisfactory.
7. The company is unable to achieve as its predetermined target due to non-availability of cost planning and appropriate pricing policy.
8. The goals and objectives of the company are not clearly spelled out.
9. There is no provision of training for the employees and no responsible accounting system.
10. There is no systematic and effective sales and production plan.

Conclusions

1. There is no well established coordination system among the employees in various levels regarding the broad objectives. Duties and responsibilities are not identified between various levels of management.
2. Few managers are competent for company's success in formulation and implementation of the plan. Some manager's can't analyze company's internal and external environment.
3. Lower level management is unknown to implement goals and .
4. Every enterprise should have clear knowledge of segregating cost deficient knowledge of segregating cost has caused companies to bear large loss. The products costs committed and managed cost are not identified in this company.
5. Though the sales plan is prepared annually it is haphazardly made and result variation from the actual sale. This plan is based specially on the

past experience. It does not consider the future causalities. Generally it is seen that the sales is increasing annually.

6. The production plan essentially based on sales plan still and unless the sales it forecasted production plan means nothing. The record shows that the actual production has not achieved the forecasted yet. One of its causes may be twenty percent idle capacity of the company.
7. This company has not prepared systematic plan such as direct labour material inventory variable costs and other expenses.
8. The company should necessarily develop the alternatives way to earn the revenue.

2.14.3 Mr. Dumre (1993)

Mr. Karnal Prasad Dumre has conducted a research on the topic "Revenue Planning in Manufacturing Enterprise of Nepal" A case study of Dairy Development Corporation Company Limited. The main objective of his research was to highlight the current practices of revenue planning and control and its effective necessary in Nepalese PEs. The nature of data used was secondary as well as primary sources of data. The study covers the time period of 5 years i.e. from FY 2045/46 to 2049/50.

Objectives

1. To analysis statistic on DDC identify tends over time in such variable as level of output prices cover of production value added by processing composition of output profitability.
2. To analyze the various functional budgets adopted in DDC.
3. Examine the practice and effectiveness of revenue planning in DDC.
4. To evaluate the variance between forgets and actual of the enterprise for accomplishing.

Major Findings of DDC

1. In Nepalese manufacturing PEs goals and objective are written but are not adequate for development of enterprise.
2. In Nepalese manufacturing PEs there exist planning section but there in no clear systematic of planning. Plans are prepared on adhoc basic with out analysis of environment.
3. There is no detail and formal guidelines lower levels management or department managers for the purpose of developing RPC.
4. There is no proper planning for cost control mechanism and performance reporting.
5. The enterprise is not position on bear the financing of research and to increase the plant capacity because of the poor commercial performance.
6. Costing is done by traditional method that is no precise distinction be made regarding the nature of the cost as variable and fixed as controllable and uncontrollable, direct or indirect etc.
7. The profitability of DDC is low and capacity utilization has been lowest.

Recommendations

1. DDC should clearly define objectives target strategies and programs.
2. Soul analysis should be adopted.
3. Line and staff authority and responsibilities should be clearly defined.
4. Trained and qualified manpower of budgeting and planning should be hired and present manpower should be trained to develop the implement of revenue plans effectively.
5. Market situation on demand and supply should be carried out.
6. The annual plans should be in line with the strategic plan modern strategic management system should be introduced instantly especially in the present context of privatization boom in the centuries.
7. It is strongly suggested to the DDC that is should be quite attentive while adding more capital and manpower.

2.14.4 Mr. Ojha (1997)

Mr. Khegendra Prasad Ojha (1997) has conducted a research on the topic "Revenue Planning in Manufacturing PEs, A case study of Royal Drugs Limited and Herbal production and processing company Ltd.," submitted to the faculty of management, central department, T.U. in partial fulfillment of master degrees in management.

Mr. Ojha has tried to point out some features and problems of revenue planning in the context of Nepalese manufacturing enterprise in his research work "Revenue planning in public enterprises in Nepal." Mr. Ojha has focused his study to highlight the current practices of revenue planning and its effectiveness in Nepalese EPs. The time period covered by this research was 5 years from FY 1991/92 to 1995/96. The data and other necessary information were collected by using secondary as well as primary sources.

Objectives

1. To highlight the current practices of revenue planning and its effectiveness in Nepalese EPs.
2. To analyze the various functional budgets adopted in these EPs.
3. To evaluate the variance between targets and actual of the EPs.
4. To draw pictures of revenue planning process adopted in those two EPs with theoretical prospective.

Major Findings Regarding of RDL

1. Inadequate planning of revenue due to lack of skilled planner.
2. Inadequate authority of responsibility to planning department.
3. Lack of co-ordination among department.
4. Failure to establish adequate forecasting system.
5. Unnecessary centralized decision making & planning system.
6. Failure to achievement due to inadequate evaluation of internal & external variables.

7. Lack of entrepreneurship and commercial concepts in overall operation of the enterprise.
8. Red-Tapism in implementation please of revenue plans.
9. Inadequate planning of revenue due to lack of skilled planners.

2.14.5 Miss. Acharya (1999)

Miss Mina Kumari Acharya has conducted a research on the topic "Revenue Planning in Manufacturing Enterprise of Nepal" A case study of Himal Cement Company Limited. The main objective of her research was to highlight the HCCL, to analyze the various functional budgets that are prepared by HCCL, to evaluate the variable between target and actual achievements and recommendation for improving the revenue plan. The nature of data used were secondary as well as primary i.e. published and unpublished relevant documents, report of auditor, personal interview, questionnaire etc. The study covers the time period of 5 years i.e. from FY 2050/51 to 2054/55.

Major Findings of HCCL

1. The company has not maintained the broad and long range objectives and periodic performance report systematically.
2. There is lack of coordination between the executive levels and lower level personnel to develop the plan and strategy.
3. Company should have to utilize its capacity to meet the target production which will provide encourage to get revenue.
4. There must be opened separate revenue planning unit and have to appoint revenue planning director to achieve company's goal.
5. Planned sales only 70% achievement.
6. Company should try to increase its market share.
7. It should be benefited to prepare a realistic sales plan.

Recommendations

1. Should re-formulate its short-term goals and policies.
2. To consider break even analysis while preparing sales plan.
3. To increase the good financial position.
4. It should analyze it's variance in effective way.
5. Revenue plan manual should be communicated from top level to lower levels.
6. Should try to increase its market share.
7. To concept revenue planning and control should be applied in HCCL to improve its overall performance.

2.14.6 Mr. Adhakari (2009)

Mr. Tulshi Adhakari have submitted thesis on "Revenue Planning" A case study of Everest Bank Ltd., submitted to the faculty of management, central department, T.U. in partial fulfillment of master degree in management.

Mr. Adhakari has tried to evaluate the various problems in the revenue planning in banking sector. He has tried to focus in the practices of revenue planning and its effectiveness in Nepalese banking sector. The research covers 5 year of period from 2001/02 to 2008/09. In his research he has used primary as well as secondary data published documents i.e. booklets, magazines were used as the secondary sources of data.

Objectives

1. To review the revenue planning effectiveness in Everest Bank Ltd.
2. Analysis the variance between budget & achievement.
3. Examine the liquidity & profitability position of Everest Bank Ltd.
4. Evaluate the relationship between income source, expenses & net profit of Everest Bank Ltd.

Major Findings of Everest Bank Ltd.

1. There is adequate co-ordination system and realization of objectives between the different levels of management.
2. Effective revenue planning has help Everest bank to obtain its target goal.
3. The efficient management of liquidity has helped the Everest Bank to capture the good market position.
4. To expand the Bank market share, the Bank should focus in providing quality services to its customer.
5. There is high degree of relationship between the interest income, interest expenses, operation expenses & net profit.
6. The Bank should expand its revenue sources such as remittance.
7. To be in safe position the Everest bank should invest in safe sector where there is easy return & its must diversify its investment in various sector.

CHAPTER 3
RESEARCH METHODOLOGY

3.1 General

This chapter refers to the overall research method comprising the theoretical aspect to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspect and logical aspect. On the basis of historical data, performs a well-designed quantitative research in a very clear and direct way, using both financial and statistical tools. This research is descriptive, analytical as well as exploratory in nature. For this purpose data has been managed in proper form for interpretation and explanations wherever necessary. Details research methods are described in following headings.

3.1.1 Research Design

Research design means the definite procedures and techniques which guides the study and profound ways for research viability. Research design is the main part of the thesis or any research work. Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research question and to control variances. The research design opted for the study is basically descriptive one. Permanent data and information required for the study are collected, evaluated and analyzed systematically to arrive at a certain conclusion.

The present study is mainly related with the quantitative plans and accounts of BNL, so analytical approach has been considerably adopt to present the data. But the quantitative aspects of this research such as, effectiveness of revenue planning in this enterprise problems of formulating and implementing the revenue plans, theoretical prescriptions and views of the top personnel and other middle staff are explained where over necessary. In this respect the present study has followed the analytical as well as descriptive approaches in research designs.

3.1.2 Research Methodology

It is based an account statement and other information covering 5 to 7 years fiscal years of Himalayan bank Ltd. The research study has followed basically a case study of revenue planning of Himalayan Bank Ltd. to evaluate the budgeting system in use. Therefore, the documents used in the study covers:

- Annual report of Himalayan bank Ltd.
- Magazine, Newspapers, Booklets, Documents.
- Published books, Journals relating to Himalayan bank Ltd.
- Government Report, Bulletin and Other published statement of Himalayan bank Ltd.
- Previous studies made in this field.

Analysis, flexible budget, variance analysis, ratio percent, time series, mean, correlation, regression as tools may be used as per need. This research work is however, analytical as well as exploratory depending upon the nature of issue for necessary. For this purpose data has been managed in proper from, interpretation and explanations wherever necessary.

Revenue planning has two dimensions; strategic or long-range and tactical or short-range revenue plans. Five years data is taken for long-range planning & one-year data for short range planning. Long-range trend are taken for the fiscal year from 1995-96 to 2009-10, actual details are taken from the accounting records of fiscal year 2009/2010.

3.1.3 Data Collection Procedure

Analysis is specially based upon secondary data to fulfill the objectives of the study. The research study has followed basically a case study of revenue planning of HBL to evaluate the budgeting system of HBL. The necessary data for the purpose is taken from annual report of HBL, magazine, newspapers, booklets, and documents, published books, journals relating to HBL, government report, bulletin and other published statement of HBL and previous studies made in this field.

3.1.4 Method of Analysis and Presentation

Methods of analysis are applied as simple as possible. Results are presented in tabular form based on which clear interpretations are given. Detail calculations, which cannot be shown in the body part of the report, are presented in appendices at the end of this study. To make this study more simply and easily understandable charts, diagrams and graphs have been used. And finally summary, conclusions and recommendation are presented.

3.1.5 Tools Used

To analyze the selected data some financial and statistical tools are used. For the collected data are managed, analyzed and presented in proper tables and formats. Those tables and formats are interpreted and explained wherever necessary.

The financial and statistical tools used are CVP analysis, BEP analysis, Ratio analysis, S.D., Mean, Coefficient of variation, Graphs, Diagrams and Flexible budgets, Variance analysis etc. have been used as per need.

3.1.6 Research Variables

Financial and physical targets for specific goals, sales, production, finished goods, inventory expenses, capital expenses, man power planning capacity utilization, cash budgets, profit and loss accounts, balance sheets relating to long- term and short term periods of Himalayan Bank Limited are the research variables of present study.

3.1.7 Data Analysis Tools and Technique

As the data used for this study is secondary data, they are managed in proper table, format and diagram with meaningful interpretation. Various statistical, financial as well as mathematical tools have been used to make the result more effective, convenience, reliable, authentic and complete. The following tools were used to present the data.

a. Ratio Analysis
b. Time series Analysis
c. Arithmetic mean
d. Standard Deviation
e. Co-efficient of Variation
f. Correlation Analysis
g. Probable Error

3.1.7.1 Ratio Analysis

A ratio is a statistical yardstick by means of which relationship between two or various figures can be compared or measured. Ratio analysis is an important and age-old technique of financial analysis which is calculated from past financial statements. It is a process of identifying the financial strengths and weakness. It helps in planning; forecasting and they act as index of the efficiency of the enterprise. Ratios are exceptionally useful tools with which one can suppose the financial performance of the enterprise over a period of time, with the help of ratio analysis conclusions can be drawn regarding several aspects. Ratio analysis play a very important role in the interpretations of the financial statements correctly and to make the figures comparable and more meaningful. Ratio is generally express in percentage, proportion and charts. This study “Revenue Planning, study on Himalayan Bank Ltd.” has been used the following ratio analysis;

Total operating Expenses to Interest Income Ratio

Total Operating Expenses to Interest Income

=Total operating Expenses\Interest Income

Interest Expenses to Interest Income Ratio

Interest Expenses to Interest income = Interest Expenses\Interest Income

Interest Income to Total Income Ratio

Interest Income to Total Income = Interest Income\Total Income

Net Profit to Total Income Ratio

Net Profit to Total Income =Net Profit\Total Income

Interest Expenses to Total Income Ratio

Interest Expenses to Total Income=Interest Expenses\Total Income

Total Operating Expenses to Total Income Ratio

Total Operating Expenses to Total Income

=Operating Expenses\Total Income

3.1.7.2 Time Series Analysis

A time series shows the relation between two variables, one being the time. It helps in understanding the past behavior of a variable in the time series. By observing past data, one can observe what changes took place in the past. With the help of past and present data, it helps in future forecasting and planning and factors affecting them will make possible to estimate possible future sales for the given period of time. A straight line trend shows the relationship between actual sales years. To fit the straight line trend, the time factors are consider as independent variables and actual sales is considered as dependent variables. In this section, the least square method of time series is used for analyzing Net profit, interest income, total income and total deposit.

The straight line trends between the dependent variable y and the independent variable x (i.e. time) be represented by the equation: $y=a+bx$…..(i)

Where,

y=the value of dependent variable

a=y intercept or value of y when x=0

b= slope of the trend line i.e. increment rate for the give time period

x=value of independent variable

Since, scribe had used odd number (N) of year figure i.e.,

The value of x is calculated by taking the Middle year as base year and taking deviation between concerning year and the base year.

The normal equations that fit the above trend line are,

$\sum Y=a+b\sum x$

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

Since $\sum x=0$, substituting the value of $\sum x$ in above two normal equations, we get,

$a=\sum y/N$ and $b=\sum xy/\sum x^2$

Then for any given value of independent variable x, the estimate value of y denoted by y_c given by equation is $y_c=a+bx$.

In the thesis, the trends of Net Profit, interest income, total income and total deposit of HBL are analyzed by using trend analysis.

3.1.7.3 Arithmetic Mean

Arithmetic Mean or simply a 'mean' of a set of observation is the sum of all the observation ∑divided by the number of observations. Arithmetic mean is also known as the arithmetic average.

The formula to calculate mean is given by,

Mean $x=\sum x/n$

Where,

X=arithmetic mean

N=number of observation

$\sum x$=sum of all the values of the variable x

3.1.7.4 Standard Deviation

Standard Deviation has been used wherever the mean is calculated to study the deviation of the data from the mean. Here standard deviation is used as a measure of dispersion. It has also been used as a measure to identify the risk. Higher the deviation means greater the risk and vice versa. Mathematically, it is defined as the positive square root of their arithmetic mean of square of the deviation of the given observation from their arithmetic mean of a set of value. Karl Person introduced the concept of Standard Deviation in 1983 and this is denoted by the small Greek letter σ(read as sigma). It can be computed by using formula.

S.D. (σ) = $\sqrt{\sum x_{2/n}}$

Where, $\sum x^2$= Sum of square deviations =$\sum(x\text{-}x)^2$

N=number of observation

3.1.7.5 Coefficient of Variation

The relative measure of dispersion based on the standard deviation is known as the coefficient of variation. It is dependent of unit. So, two distributions can bitterly be compared with the help of C.V. for their variability. Less the C.V. more will be the uniformity; consistency etc. and more the C.V. less will be the uniformity, consistency etc.

C.V. is defined by

C.V.=σ/x*100%

Where,

C.V.= Coefficient of variation

σ= Standard deviation

x=Mean

3.1.7.6 Correlation Analysis

In practical life, two or more than two variables may impinge into single economic and social phenomena. To know the relationship between those variables one can use a statistical tool called Correlation Analysis is the statistical toll that is used to describe the degree to which one variable is linearly related to other variables. Variables are used be correlated when change in the value of one variable appears to be linked/accompanied with the change in another variable. The point to be noted, that correlation analysis tells up the extent to which two variables are correlated. Correlation Analysis doesn't clarify about cause and effect. Even if two variables are highly correlated to each other no one can say which variable is the cause and which one is the effect.

Correlation Co-efficient

The correlation between two variables is measured by correlation co-efficient. There are different methods of calculating correlation e.g. Scatter Diagram, Karal Pearson's Method, Spearman's Rank Correlation etc.

Karl Pearson's correlation method is used in this study. According to this method, correlation coefficient is calculated as follows:

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

Where, r=Coefficient of Correlation

n=number of observation in series x and Y

$\sum x^2$=sum of squared observations in series X

$\sum y^2$=sum of squared observations in series Y

$\sum xy$=sum of product of observations in series X and Y

x= X-x

y=y-y

The value of correlation lies between -1 to +1. Positive value of correlation coefficient reflects that increase or decrease in the value of one variable subsequently increase or decrease in another variable. Similarly negative value of correlation denotes that increase or decrease in the value of one variable subsequently decrease or increase in the value of another variable. In the thesis the correlation is used to know the relationship between the Net Profit and Total Income, Net Profit and Interest Income and Total Income and Interest Income.

CHAPTER 4

PRESENTATION AND ANALYSIS OF DATA

This chapter involves 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 the major finding of the study.

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. It's truly helpful to exploit maximum benefit and correct the weakness to meet challenges. Here, relevant ratio is calculated and appropriate interpretations are made. Analysis of financial ratio shows the performance of the HBL.

4.1 Ratio Analysis

4.1.1 Analysis of internal income with total operating expenses

Interest income is the main source of income of a respective bank. To get more interest income, bank should prepare a plan for the interest income. To generate interest income, a bank should invite its collection deposit in profitable sectors. Loans and advances, bank overdraft, investment are the main source of interest income. The operating expenses are important expenses in any kind of organization. It includes the expenses which is necessary to incur daily official function such as house rent, electricity and water, repair and maintenance, stationery, furniture, insurance, advertising, legal expenses office equipment, managerial expenses. The following table shows the ratio between interest income and total operating expenses of HBL for five years period from FY 2005/06 to 2009/10.

$$\text{Total Operating Expenses to Interest Income} = \frac{\text{Total Operating Expenses}}{\text{Interest Income}}$$

Table 4.1

Analysis of interest income with operating expenses of HBL.

Fiscal Year	Operating Expenses	Interest Income	Ratio (%)
2005/06	1213.13	1626.47	74.59
2006/07	1381.19	1775.58	77.79
2007/08	1460.28	1963.65	74.37
2008/09	1694.08	2342.20	72.33
2009/10	2439.62	3148.61	77.48
Mean			75.31

Source: Annual report of HBL (Rs.In millions)

Table 4.1 shows the ratio between total operating expenses and interest income of HBL, which is the fluctuating trend. The ratios are 74.59%, 77.79%, 74.37%, 72.33% & 77.48% for the 5 years respectively. The highest ratio is 77.79% in FY 2006/07, while the lowest ratio is 72.33% in FY 2008/09. The mean ratio is 75.31%.

Table 4.1 shows that the interest income and total operating expenses of HBL have been increased yearly but the ratio are unstable. The ratio for FY 2005/06 74.58% is and it is in increasing trend; i.e. 77.79% in FY 2006/07 respectively. But in FY 2007/08 and FY 2008/09, the ratios are 74.36% and 72.33%, which have been decreased comparatively. The in FY2009/10 the ratio increased to 77.48%, the ratio is higher than mean ratio 75.31%. it shows that the HBL is able to collect its interest income effectively.

4.1.2 Analysis of interest expenses with interest income

Interest expenses are the main source of expenditure of a respective bank. It is occurred while collecting deposit. If the expenses are higher the cost of fund becomes expensive. So, these expenses should be lower to increase its profit. Interest income is the main source of revenue in the bank. The difference between income and expenditure drive the profit for the bank. This ratio measures the gap between interest income & interest expenditure.

Interest Expenses to Interest Income = $\frac{\text{Interest Expenses}}{\text{Interest Income}}$

Table 4.2

Analysis of interest expenses with interest income of HBL

Fiscal Year	Interest Expenses	Interest Income	Ratio (%)
2005/06	648.84	1626.47	39.89%
2006/07	767.41	1775.58	43.22%
2007/08	823.74	1963.65	41.95%
2008/09	934.78	2342.20	39.91%
2009/10	1553.53	3148.61	49.34%
Mean			**42.86**

Source: Annual report of HBL (Rs.In millions)

Table 4.2 shows the ratio between interest income and interest expenses. The mean ratio of the five years is 42.86% which indicates that in the average percentage of interest expenses and interest income is 42.86%. In first, third and fourth years, FY 2005/06, FY 2007/08, FY 2008/09 the ratio is 39.89%, 41.95 and 39.91% which are below the average ratio. In FY 2006/07 and 2009/10, the ratio are 43.22% and 49.34%, are in increasing term to meet the average ratio.

For FY 2006/077, 2007/08 & 2008/09 the ratio is in decreasing trend, where as in FY 209/10 the ratio is increased to 49.34%, which is also higher than average ratio 42.86%. This indicate that the HBL was able to increase its interest income than its interest expenses.

4.1.3. Analysis of interest income with total income

Interest income and Total income are the income of any kind of organization. Interest income is the main sources of income of any respective bank. If the interest income is higher, total income will be increased and vice versa. The high ratio indicates the high contribution made by the lending and investing activities and vice versa. To increase interest income, bank should be lent its deposit on profitable sector.

$$\text{Interest Income to Total Income} = \frac{\text{Interest Income}}{\text{Total Income}}$$

Table 4.3

Analysis of interest income with total income of HBL

Fiscal Year	Interest Income	Total Income	Ratio (%)
2005/06	1626.47	2044.26	79.56
2006/07	1775.58	2164.26	82.04
2007/08	1963.65	2430.94	80.78
2008/09	2342.20	2926.64	80.03
2009/10	3148.61	3723.88	84.55
Mean			**81.39**

Source: Annual report of HBL (Rs.In millions)

Table 4.3 shows the ratio between interest income and total income of last five years is satisfactory. Interest income to total income ratios in FY 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 are 79.56%, 82.04%, 80.78%, 80.03% and 84.55% respectively. The mean ratio is 81.39%.

The interest income and total income are interrelated with each other so higher the ratio shows the higher interest income and vice versa. The interest income is the main source of revenue of the bank; table 4.3 shows the ratio of income interest in total income. The above calculation of ratio of HBL shows that in FY 2006/07 & in 2009/10 the ratios are higher than mean ratio i.e. 81.39%, which indicate that the bank is able to earn higher interest income in those years than other FY with in five year.

4.1.4 Analysis of net profit with total income

The analysis of net profit with total income shows that portion of net profit on total income. Net profit is derived from income over expenditure. To increase net profit, there should be proper use of resources and reduce its expenses. The net profit measures the success of a firm in every aspect of its operation and strategy. So, the bank must increase its total income and reduce its expenses to increase net profit.

$$\text{Net Profit to Total Income} = \frac{\text{Net Profit}}{\text{Total Income}}$$

Table 4.4

Analysis of Net Profit with Total Income of HBL

Fiscal Year	Net Profit	Total Income	Ratio
2005/06	457.46	2044.26	22.38%
2006/07	491.81	2164.26	22.72%
2007/08	635.88	2430.94	26.16%
2008/09	752.82	2926.63	25.72%
2009/10	508.81	3723.88	13.66%
Mean			**22.13%**

Source: Annual report of HBL (Rs.In millions)

Table 4.4 shows the ratio between net profit and total income. The ratios are in changeable trend. The FY 2005/06, the ratio is 22.38% and the ratio is in increasing term which is 22.72% and 26.16% in FY 2006/07 and 2007/08. The ratio for FY 2009/10 is 13.66% which is below the average ratio i.e. 22.13%. Comparing to FY 2009/10, HBL had gained a higher ratio than the average ratio on past 4 years i.e. FY 2205/06 to 2008/09. It indicates that HBL was able to make high percentage of total income to its net profit. Because of increasing in operating expenses, overhead expenses and personal expenses for last years from FY 2009/10 causes the bank to operate below average profit ratio even though the HBL's total income is increasing. So, to increase profit, HBL should reduce its expenses.

4.1.5 Analysis of Interest Expenses with Total Income

Interest expenses are important expenses in any kind of bank. Total income measures productivity of any concerned organization. The position of total income should be higher than total expenditure to get more profit, so a bank should try to increase its total income.

$$\text{Interest Expenses to Total Income} = \frac{\text{Interest Expenses}}{\text{Total Income}}$$

Table 4.5

Analysis of Interest Expenses with Total Income of

Fiscal Year	Interest Expenses	Total Income	Ratio %
2005/06	648.84	2044.26	31.74
2006/07	767.41	2164.26	35.46
2007/08	823.74	2430.94	33.89
2008/09	934.78	2926.63	31.94
2009/10	1553.53	3723.88	41.72
Mean			**34.95**

Source: Annual report of HBL (Rs.In millions)

Table 4.5 shows the ratio between interest expenses and total income. The ratios are is in increasing trend from 2005/06. The ratios for last 5 years in FY 2005/06 to 2009/10 are 31.74%, 35.46%, 33.88%, 31.94% and 41.72% respectively.

The total income of HBL is in increasing trend and in the same ratio, the interest expenses is also increased. The increased ratio shows that the major portion of income is spend as interest expenses. The increment of interest rate is the cause of increase on interest expenses. This may affect negatively on profitability of bank. So, HBL should sell those products (deposit) with less cost (interest) and invest in those projects with higher returns, from where higher revenue can be earned.

4.1.6 Analysis of total operating expenses with total income

Operating expenses are the expenses which are done to run an organization smoothly. It includes the expenses which is necessary to incur on daily official function such as house rent, electricity and water, repair and maintenance, stationary**,** furniture, insurance, advertising, legal expenses, office equipments, managerial expenses. Total income measures productivity of any concerned organization. An organization should utilize its resources properly to increase the total income and reduce its operating expenses. The following table shows the relationship between total operating expenses and total income.

$$\text{Total Operating Expenses to Total Income} = \frac{\text{Operating Expenses}}{\text{Total Income}}$$

Table 4.6

Analysis of Operating Expenses to Total Income of HBL

Fiscal Year	Operating Expenses	Total Income	Ratio (%)
2005/06	1213.13	2044.26	59.34
2006/07	1381.20	2164.27	63.82
2007/08	1460.28	2430.94	60.07
2008/09	1694.08	2926.64	57.88
2009/10	2439.62	3723.87	65.51
Mean			**61.33**

Source: Annual report of HBL (Rs.In millions)

The ratio of operating expenses on total income of HBL is changeable. In FY 2005/06, the ratio is 59.34%, and after that it is in increased to 63.82% in FY 2006/07. In FY 2007/08 and 2008/09 the ratio are 60.07% and 57.94% that has been decreased comparatively. The mean ratio is 61.34% which is able to meet in 2006/07. Increase in operating expenses indicates that, large portion of total income is spending in operating expenses, which will decrease operation profit.

During the study period, the operating expenses of HBL have increased yearly which is affecting directly to the total income. If the operating expenses are increased, net profit will be decreased and vice versa. The increased in operating expenses may be the cause of expenses made for different purposes, like expanding new branches, providing good facilities to the customer by lunching new technology, to maintain the good relations between industrial and business etc. though these kinds of expenses will encourage collecting funds from various sources, ultimately increasing its revenue. But in the other hand reduce the income of bank so, HBL should plan to reduce its operating expenses or should increase its total income to improve its profitability.

4.1.7 Analysis of interest expenses with total Deposit

Deposits are the main sources of fund collection from account holders for the security and the transaction motives. Deposits are the foundation upon which banks thrive and grow. It also creates the liability of bank. It represents the ultimate sources of bank profits and growth. It should be refund after certain period with reasonable interest. From the deposit, bank should generate profit after paying interest so that this ratio should be less. The interest to total deposit shows the average cost of the fund that bank uses.

$$\text{Interest Expenses to Total Deposit} = \frac{\text{Interest Expenses}}{\text{Total Deposit}}$$

Table 4.7

Analysis of Interest Expenses with Total Deposit of HBL

Fiscal Year	Interest expenses	Total deposit	Ratio (%)
2005/06	648.84	26490.85	2.45
2006/07	767.41	30048.42	2.55
2007/08	823.74	31842.79	2.59
2008/09	934.78	34681.35	2.69
2009/10	1553.53	37611.20	4.13
Mean			2.88

Source: Annual report of HBL (Rs.In millions)

Table 4.7 shows the interest expenses on deposit over the period of 5 years. The ratio in FY 2005/06,2006/07, 2007/08, 2008/09 and 2009/10 are 2.45%, 2.55%, 2.59%, 2.69% and 4.13% respectively. The average interest on deposit for 5 years is 2.88%. The interest payment ratio on deposit is in increasing trend which shows that the collection of deposits are increasing yearly and the payment of interest rate is also higher.

But from FY 2005/06 to 2008/09, the ratios are below the average due to low interest rate in the deposit accounts. FY 2009/10, the ratio is above the average ratio which is positive aspects of HBL. The positive outcomes are the attraction of large number of customers: the huge number of deposit collection and invest in portfolio basis to minimize the risk. It can be see that Bank has introduced many product/services and has built a reputation of delivering the highest quality of professional services.

4.2 Statistical Analysis

Statistical may be defined as the collection, presentation, analysis and interpretation of the numerical data. So, in this study, various statistical tools like Time series Analysis, Mean, Standard Deviation, Correlation and Test of signification are used to analysis the data. The collected data of HBL has been presented systematically in table and graphical forms. Necessary and required interpretation and conclusion has been drawn.

4.2.1 Time Series Analysis

A time series shows the relation between two variables, one being the time. It helps in understanding the past behavior of a variable in time series. By observing past data, one can observe what changes took place in the past. With the help of past and present data, it helps in future forecasting and planning and the factors affecting them will make possible to estimate possible future sales for the given period of time. A straight line trend shows the relationship between actual sales years. To fit the straight line trend, the time factors are consider as independent variables and actual sales is considered as dependent variables. In this section, the least square method of time series is used for analyzing Net profit, Interest Income, Total Income and Total Deposit.

Table 4.8

Trend Analysis of Net Profit of HBL

FY(t)	Net Profit(y)	x=t-2007.5	x^2	xy	Trend Values (y_c)
2005/06	457.46	-2	4	-914.92	496.61
2006/07	491.81	-1	1	-491.81	532.99
2007/08	635.88	0	0	0	569.36
2008/09	752.82	1	1	752.82	605.73
2009/10	508.81	2	4	1017.62	642.10
	∑y=2846.78	**∑x=0**	**$\sum x^2$=10**	**∑xy=363.71**	

Source: Annual report of HBL (Rs.In millions)

FY 2008 is assumed as base years therefore the value of x in mid time is Zero and negative before the base year and positive after the base year.

Number of Years (n) =5 since, ∑x=0,

$a=\sum y/n=2846.78/5=569.36$

$b=\sum xy/\sum x^2=363.71/10=36.37$

The equation of straight line trend is y=a+bx, substituting the values of the constants a and b in equation we get the required trend line i.e., y=569.36+36.37x

Hence, the required straight line trend of Net Profit of HBL is y=569.354+36.37x. The above trend line indicates the positive profit figure for the future so that the average increment in net profit per year is 36.37million. As the value of *b* is positive it represents the trend is in increasing trend.

For trend Values;

When, x=-2, y=569.36+36.37× (-2) = 496.61 `

x=-1, y=569.36+36.37× (-1) = 532.99

x=0, y=569.36+36.37× (0) = 569.36

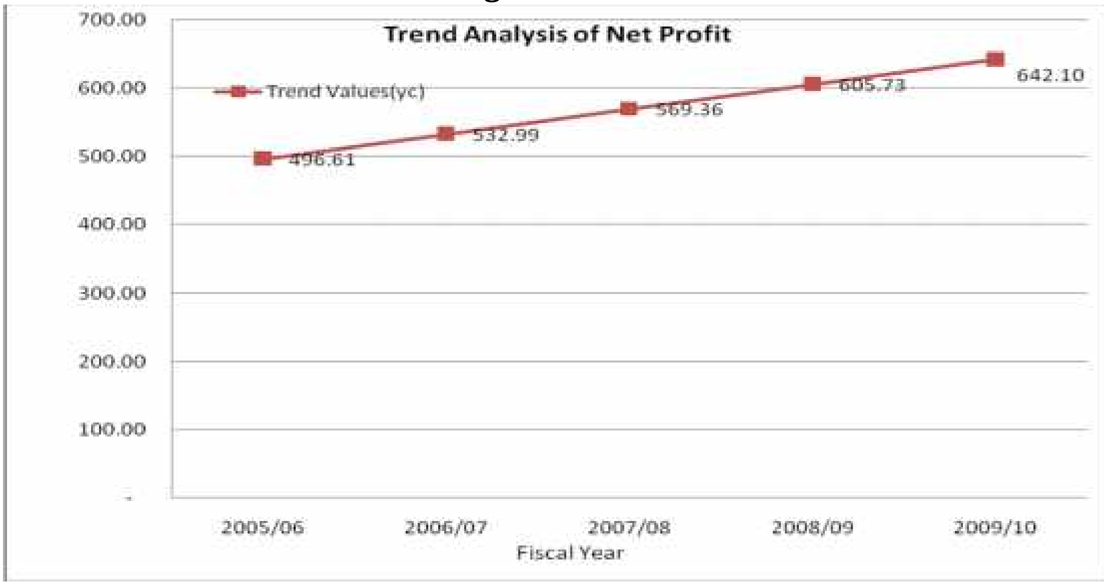
x=1, y=569.36+36.37× (1) = 605.73

x=2, y=569.36+36.37× (2) = 642.10

The trend values of net profit from FY 2005/06 to 2009/10 are 496.61, 532.99, 569.36, 605.73 and 642.10 million respectively.

By plotting the above trend values in the graph, we get the straight line trend of the observed 5 fiscal years.

Figure 2



During the study period, the net profit of HBL is in increasing trend which shows that HBL have made a good profit with remarkable performance. The increasing trend of net profit indicates that the HBL is in profitable position. It also indicates that the HBL is also to manage its liquidity position. The profitability is only possible with well managed liquidity. The increasing trend of net profit shows the efficiency of HBL.

Table 4.9

Trends Analysis of Interest Income of HBL

FY(t)	Interest Income(Y)	x=t-2007.5	x^2	xy	Trend value (y_c)
2005/06	1626.47	-2	4	-3252.95	1449.13
2006/07	1775.58	-1	1	-1775.58	1810.21
2007/08	1963.65	0	0	0	2171.30
2008/09	2342.20	1	1	2342.20	2532.39
2009/10	3148.61	2	4	6297.21	2893.48
	$\sum y$=10856.51	**$\sum x$=0**	**$\sum x^2$=10**	**$\sum xy$=3610.88**	

Source: Annual report of HBL (Rs.In millions)

FY 2007/08 is assumed as base years therefore the value of x in mid time is zero and negative before the base year and positive after the base year.

Number of years (n) =5, since, $\sum x=0$ so,

$a=\sum y/n=10856.51/5 = 2171.30$

$b=\sum xy/\sum x^2=3610.9/10 =361.09$

The equation of straight line trend is y=a+bx, substituting the values of the constants a and b in equation we get the required trend line i.e., y=2171.302+361.09x

Hence, the required straight line trend of interest income of HBL is y=2171.302+361.09x.

The positive trend line of interest income shows the positive aspects for the coming future so that the average increment in interest income each year will be 361.09 million.

For trend Values,

When, x=-2, $y=2171.302+361.09\times(-2) = 1449.13$

x=-1, $y=2171.302+361.09\times(-1) = 1810.21$

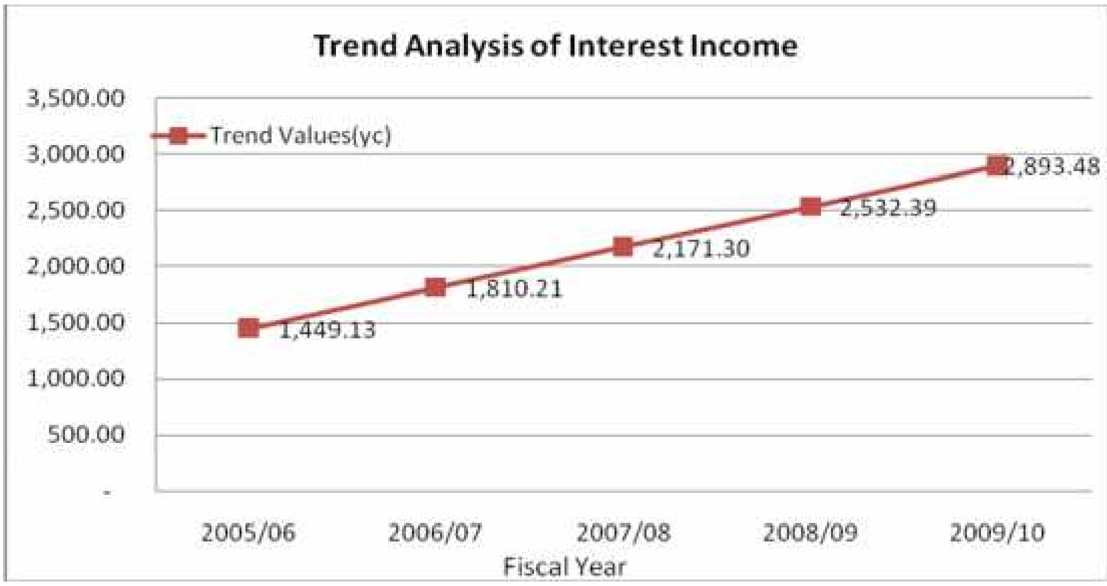
x=0, $y=2171.302+361.09\times(0) = 2171.30$

x=1, $y=2171.302+361.09\times(1) = 2532.39$

x=2, $y=2171.302+361.09\times(2) = 2893.48$

The trend values of interest income from FY 2005/06 to 2009/10 are 1449.13, 1810.21, 2171.30, 2531.39 and 2893.48 respectively. By plotting the above trend values in the graph, we get the strength line trend of the observed 5 fiscal years.

Figure 3



During the study period, the analysis of 5 years shows that the interest income of HBL is in increasing term which reveals that HBL is investing its deposit in profitable sectors to meet its target. The interest income is the main source of revenue for any respective banks. So HBL should prepare a proper plan for the interest income to get the same ratio or more in the future.

Table 4.10

Trend Analysis of Total Income of HBL

FY(t)	Total Income(y)	x=t-2007.5	x^2	xy	Trend value (y_c)
2005/06	2044.26	-2	4	-4088.52	1833.67
2006/07	2164.26	-1	1	-2164.26	2245.83
2007/08	2430.94	0	0	0	2657.99
2008/09	2926.63	1	1	2926.63	3070.16
2009/10	3723.88	2	4	7447.76	3482.32
	∑y=13289.97	**∑x=0**	**$\sum x^2$=10**	**∑xy=4121.61**	

Source: Annual report of HBL (Rs.In millions)

FY 2007/08 is assumed as base years therefore the value of x in mid time is zero, Negative before the base year and positive after the base year.

Number of years (n) = 5, since, ∑x=0, so,

a=∑y/N=13289.97/5=2657.99

$b = \sum xy / \sum x^2 = 4121.61/10 = 412.16$

The equation of straight line trend is y=a+bx, substituting the values of the constants a and b in equation we get the required trend line i.e. y=2657.99+412.16x

Hence, the required straight line trend of total income of HBL is y=2657.99+412.16x.

The above trend line of total income is in positive figure. The average growth in total income will be 412.16 million every year which indicates the good position HBL. For trend values,

When, x=-2, y=2657.99+412.16× (-2) = 1833.67

x=-1, y=2657.99+412.16× (-1) = 2245.83

x=0, y=2657.99+412.16× (0) = 2657.99

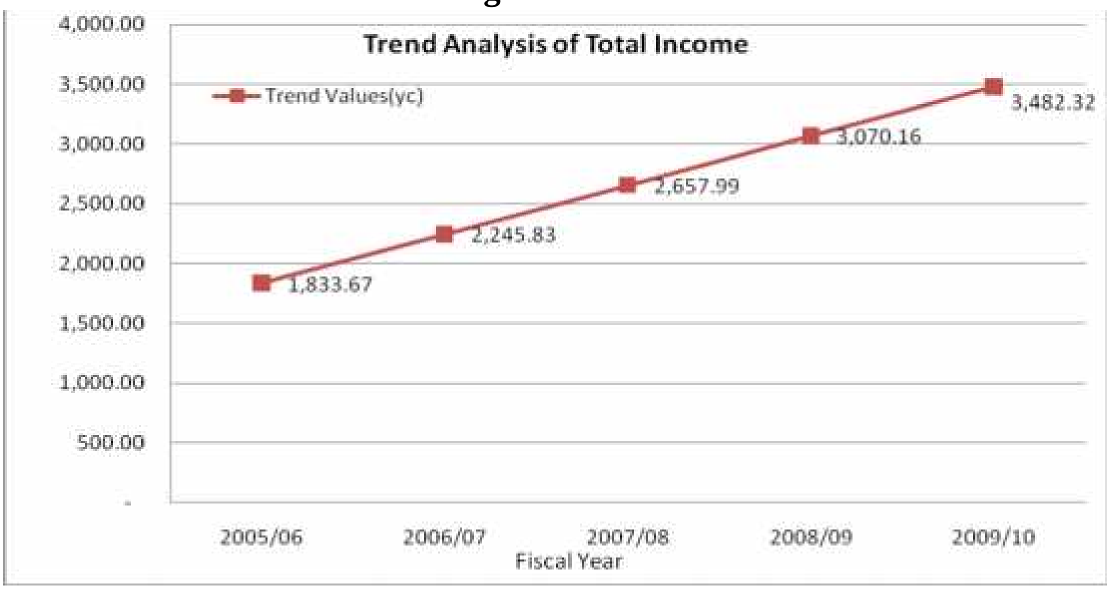
x=1, y=2657.99+412.16× (1) = 3070.16

x=2, y=2657.99+412.16× (2) = 3482.32

The trend values of total income from FY 2005/06 to 2009/10 are 1833.67, 2245.83, 2657.99, 3070.16 and 3482.32 million respectively.

By plotting the above trend values in the graph, we get the straight line trend of the observed 5 fiscal years.

Figure 4



The analysis of HBL from 2005/06 to 2009/10, show that the total income of HBL is also increasing yearly. It is the positive aspect of the bank because increase total income also indicates increase in the revenue for bank. The analysis of 5 years shows that the total income in increasing trend , which reflect the efficiency of HBL 7 its profitability position.

Table 4.11

Trend Analysis of Total Deposit

FY(t)	Total Deposit(y)	x=t-2007.5	x^2	xy	Trend Value(y_c)
2005/06	26490.85	-2	4	-52981.70	26,760.20
2006/07	30048.42	-1	1	-30048.42	29,447.56
2007/08	31842.79	0	0	0	32,134.92
2008/09	34681.35	1	1	34681.35	34,822.28
2009/10	37611.20	2	4	75222.40	37,509.65
	∑y=160674.61	**∑x=0**	**$\sum x^2$=10**	**∑xy=26873.63**	

Source: Annual report of HBL (Rs.In millions)

FY 2007/08 is assumed as base years therefore the value of x in mid time is zero and negative before the base year and positive after the base year.

Number of years (n) =5 Since, ∑x=0, so

$a=\sum y/n=160674.61/5=32134.92$

$b=\sum xy/\sum x^2=26873.63/10= 2687.36$

The equation of straight line trend is y=a+bx, substituting the values of the constants a and b in equation we get the required trend line i.e. y=32134.92+2687.36x

Hence, the required straight line trend of Total Deposit of HBL is y=32134.92+2687.36x

The above trend line of total deposit shows that the growth rate of deposit will be increased by 2687.36 million every year. As the value of b is positive it represents the trend is in increasing trend.

For trend values,

When, x=-2, $y=32134.92+2687.36\times(-2) = 26760.20$

x=-1, $y=32134.92+2687.36\times(-1) = 29447.56$

x=0, $y=32134.92+2687.36\times(0) = 32134.92$

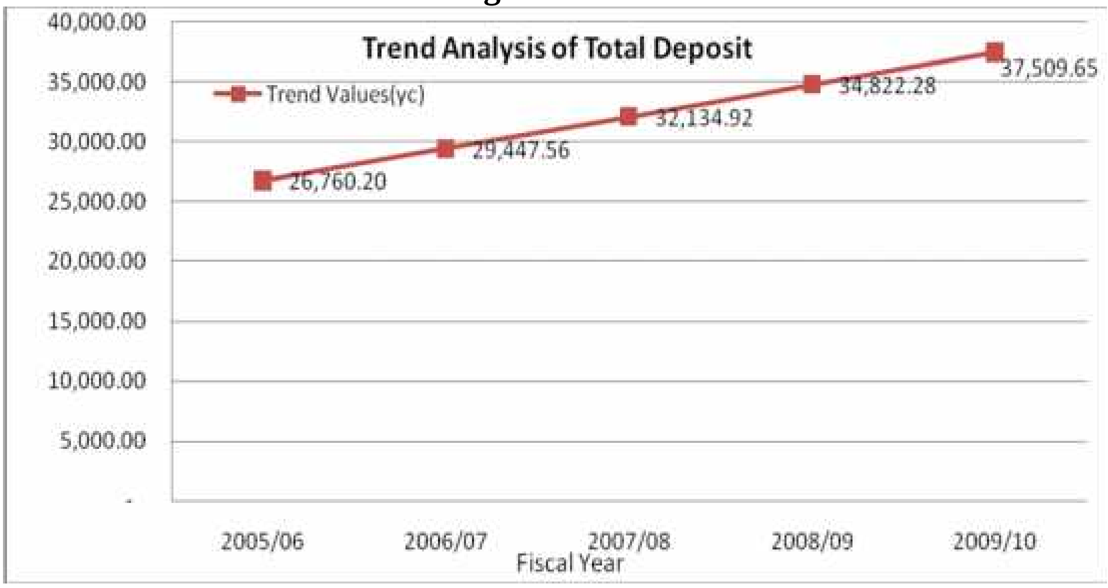
$$x=1, \quad y=32134.92+2687.36\times(1) = 34822.28$$

$$x=2, \quad y=32134.92+2687.36\times(2) = 37509.65$$

The trend values of Total Deposit from 2005/06 to 2009/10 are 26760.20, 29447.56, 32134.92, 34822.28 and 37509.65 million respectively.

By plotting the above trend values in the graph, we get the straight line trend of the observed 5 fiscal years.

Figure 5



The trend analysis of Total Deposit for the 5yrs shows the collection of deposits made by HBL is tremendously changeable. Deposits are the main sources of fund collection from account holders for the security and transaction motives and create the liability of bank. So, the analysis reveal that FY 2005/06, HBL was unable to collect the enough deposit might be due to low interest rates payment on deposits, inflation or poor strategies to determine and satisfying customer's need. Since FY 2006/07 to 2009/10, the collections of deposit are higher, HBL has introduced many product/services to the customers and has built a reputation of delivering the highest quality of professional services, so the positive outcomes are being participated in different activities by the large no. of customers; the huge no. of deposit collection and the lower interest payment. HBL has been succeeding to make a good decision power to invest its deposit collection in beneficial areas and secured sectors.

4.2.2. Correlation analysis

Table 4.12

Correlation Analysis between Total Income and Net profit of HBL

Year	Total Income(x)	Net Profit(y)	$X=x-\bar{x}$	$Y=y-\bar{y}$	XY	X^2	Y^2
2005/06	2044.26	457.46	-613.73	-111.90	68674.38	376669.42	12520.71
2006/07	2164.26	491.81	-493.73	-77.55	38287.10	243773.26	6013.38
2007/08	2430.94	635.88	-227.05	66.52	-15104.54	51553.52	4425.44
2008/09	2926.63	752.82	268.64	183.46	49285.04	72165.30	33659.04
2009/10	3723.88	508.81	1065.89	-60.55	-64535.13	1136112.96	3665.82
	$\sum x=$ 13289.97	$\sum y=$ 2846.78	$\sum X=0$	$\sum Y=0$	$\sum XY=$ 76606.84	$\sum X^2=$ 1880274.47	$\sum Y^2=$ 60284.40

Source: Annual report of HBL (Rs.In millions)

Mean of total income $(\bar{x})$

$=\sum x/n = 13289.98/5 = 2657.994$

Mean of total income $(\bar{y})$

$=\sum y/n = 2846.78/5 = 569.356$

Standard Deviation of Total Income (σ_x)

$$=\sqrt{\frac{X^2}{n}} = \sqrt{\frac{1880274.47}{5}} = 613.23$$

Standard Deviation of Net Profit (σ_y)

$$=\sqrt{\frac{Y^2}{n}} = \sqrt{\frac{60284.40}{5}} = 109.80$$

Coefficient of Variation of Total Income (C.V. of x)

$=\sigma_x/\bar{x} = 274.24/2657.994 = 10.32\%$

Coefficient of Variation of Net Profit (C.V of y)

$=\sigma_y/\bar{y} = 49.11/569.356 = 8.62\%$

Since, the C.V. of total income is higher than the C.V. of net profit, the variation of total income of HBL is greater than net profit.

Coefficient of Correlation between Total Income and Net Profit **(r)**

$=\sum XY/(\sqrt{\sum X^2}\sqrt{\sum Y^2})$

$=76584.1536/(\sqrt{1880280.669}\times\sqrt{60290.3694}) \quad =0.23$

The above statistical calculation shows the value of correlation coefficient between total income and net profit of HBL is 0.23 is positive. The positive value of correlation coefficient shows that their direction of movement is the same. It means that when total incomes of HBL increase, its net profit also increases and vice versa.

Table 4.13

Correlation Analysis between Interest Income and Net Profit of HBL

Year	**Total Income(x)**	**Net Profit(y)**	**$X=x-\bar{x}$**	**$Y=y-\bar{y}$**	XY	**X^2**	**Y^2**
2005/06	1626.47	457.46	-544.83	-111.90	60964.52	296841.91	12520.71
2006/07	1775.58	491.81	-395.72	-77.55	30686.66	156595.90	6013.38
2007/08	1963.65	635.88	-207.65	66.52	-13813.84	43119.35	4425.44
2008/09	2342.20	752.82	170.90	183.46	31353.63	29206.13	33659.04
2009/10	3148.61	508.81	977.31	-60.55	-59172.09	955130.93	3665.82
	$\sum x$ =10856.51	$\sum y$= 2846.78	$\sum x$=0	$\sum y$=0	$\sum XY$ =50018.88	$\sum X^2$ =1480894.22	$\sum Y^2$ =60284.40

Source: Annual report of HBL (Rs.In millions)

Mean of interest income $(\bar{x})$

$= \sum x/n= 10856.51/5=2171.302$

Mean of net profit $(\bar{y})$

$= \sum y/n=2846.78/5=569.356$

Standard Deviation of interest income (σ_x)

$$=\sqrt{\frac{X^2}{n}}=\sqrt{\frac{1480894.22}{5}}=544.22$$

Standard Deviation of net profit (σ_y)

$$=\sqrt{\frac{Y^2}{n}}=\sqrt{\frac{60284.40}{5}}=109.80$$

Coefficient of variation of interest income (CV of x)

$= \sigma_x / \bar{x} = 544.23/2171.302 = 25.06\%$

Coefficient of variation of net profit (CV of y)

$= \sigma_y / \bar{y} = 109.81/569.354 \quad = 19.29\%$

Since the CV of interest income is higher than net profit, the variation of interest income of HBL is greater than net profit.

Coefficient of Correlation between interest income and net profit (**r**)

$= \sum XY / (\sqrt{\sum X^2} \sqrt{\sum Y^2})$

$= 50018.88 / (\sqrt{1480894.22} \times \sqrt{60284.40})$

$= 0.17$

The above statistical calculation shows the value of correlation coefficient between interest income and net profit of HBL is 0.17 is positive. The positive value of correlation coefficient shows that their direction of movement is the same. It means that when interest income of HBL increases, its net profit also increase and vice versa.

Table 4.14

Correlation Analysis between interest income and total income of HBL

Year	**Total Income (x)**	**Net Profit(y)**	**$X=x-\bar{x}$**	**$Y=y-\bar{y}$**	XY	**X^2**	**Y^2**
2005/06	1626.47	2044.26	-544.83	-613.73	334381.03	296841.91	376667.40
2006/07	1775.58	2164.27	-395.72	-493.73	195379.70	156595.90	243769.00
2007/08	1963.65	2430.94	-207.65	-227.06	47148.56	43119.35	51554.27
2008/09	2342.20	2926.64	170.90	268.64	45910.05	29206.13	72167.49
2009/10	3148.61	3723.87	977.31	1065.88	1041688.69	955130.93	1136090.66
	$\sum x$ =10856.51	$\sum y$ =13289.98	$\sum x=0$	$\sum x=0$	$\sum XY$ =1664508.02	$\sum X^2$ =1480894.22	$\sum Y2$ =1880248.82

Source: Annual report of HBL (Rs.In millions)

Mean of interest income $(\bar{x})$

$= \sum x/n = 10856.51/5 = 2171.302$ $(\bar{x})$

Mean of total income $(\bar{y})$

$= \sum y/n = 13289.98/5 = 2657.996$

Standard deviation of interest income (σ_x)

$$= \sqrt{\frac{X^2}{n}} = \sqrt{\frac{1480894.22}{5}} = 544.22$$

Standard deviation of total income (σ_y)

$$= \sqrt{\frac{Y^2}{n}} = \sqrt{\frac{1880248.82}{5}} = 613.23$$

Coefficient of variation of interest income (CV of x)

$= \sigma_x/\bar{x} = 544.223/2171.302 = 25.06\%$

Coefficient of variation of total income (CV of y)

$= \sigma_y/\bar{y} = 613.233/2657.99 = 23.07\%$

Since the C.V of interest income is greater than C.V of total income, so that the variation of interest income of HBL is greater than total income.

Coefficient of correlation between interest income and total income (r)

$\mathbf{= \sum XY/\sqrt{\sum X^2}\sqrt{\sum Y^2}}$

$= 1664508.02/\sqrt{1480894.22}\sqrt{1880248.82}$

$= 0.9975$

The above statistical calculation shows the values of correlation coefficient between interest income and total income of HBL is 0.9975it indicates that the degree of relation between HBL's interest income and total income is significantly positive. The positive value of correlation coefficient shows that their direction of movement is the same. It means that when interest income of HBL increases, its total income also increases and vice versa.

4.3 Major Findings

The main findings of the study derived on the analysis of financial data of HBL which are given below;

- ✓ The ratio of total operating expenses to interest income of HBL which is in fluctuating trend. The ratios are 74.59%, 77.79%, 74.4.37%, 72.33% and 77.48% for the 5 years respectively. The highest ratio is 77.79% in FY 2006/07, while the lowest ratio is 72.33% in FY 2008/09. In FY 2005/06, 2007/08 and 2008/09 the ratio are in decreasing line it might be because of the over expenditure under personnel/office overhead.
- ✓ The mean ratio of total operating expenses to interest income is 75.31% which HBL has been succeed to achieve it in FY 2006/07 and FY 2009/10 comparatively. The increased in ratio shows that HBL has the largest no. of deposits collection and invested on profitable sectors to get maximum profit to meet its target average ratio.
- ✓ The analysis of interest expenses to interest income ratio measures the gap between interest income and interest expenditure which indicates that in the average the percentage of interest income is 42.86%. Since FY 2006/07 and 2009/10 HBL is able to achieve the average ratio.
- ✓ The interest expenses to interest income ratio are 39.89%, 41.95% and 39.91% in FY 2005/06, 2007/08 and 2008/09, which are below the average ratio. In FY 2006/07 and 2009/10, the ratios are 43.22% and 49.34% which is in increasing term to meet the average ratio. In FY 2006/07, 2007/08 and 2009/10 the ratio are in increasing term which ravels that lower rates of interest to be paid on large time deposits might be the reason of huge no. of collection of deposits and the investment that has been made in beneficial areas.
- ✓ Interest income and total income both are the income of any respective bank and are interrelated with each other so higher the ratio shows the higher interest income and vice versa. The ratio of interest income to total income ratio of HBL for last 5 years is satisfactory. The ratios are 79.56%, 82.04%, 80.78%, 80.03% and 84.55% respectively. The mean ratio is 81.39%.

- ✓ The analysis of net profit with total income shows the portion of net profit on total income. The net profit to total income ratios are in changeable trend. Comparing to recent 2 years from 2007 to 2009, HBL had gained a higher ratio then the average ratio on 2009/10. It indicates that HBL had made a good profit with remarkable performance. Because of increasing in operating expenses, overhead expenses and personnel expenses for last 2 years from FY 2007/08 to 2008/09 causes the bank to operates below average profit ratio.
- ✓ The ratio of interest expenses to total income ratio shows the relationship between interest expenses and total income. The average ratio of HBL is 34.95% which has been able to meet this ratio in the FY 2009/10. The ratios for last 5 years in FY 2005/06 to 2009/10 are 31.74%, 35.46%, 33.88%, 31.94% and 41.72% respectively.
- ✓ The ratio of interest expenses to total income shows the major portion of income is increasing to spend as interest expenses. The increment of interest rate and the no. of interest bearing account are the cause of increase on interest expenses which may affect negatively on profitability of the bank.
- ✓ The ratio of operating expenses on total income of HBL is unstable during the study period of 5 years. This ratio analysis signify that if the operating expenses are increased, total income will be decreased and vice versa. The operating expenses of HBL have been increasing yearly during the analysis period, which shows the direct affect on total income. The increased in operating expenses may be the cause of expenses made for different purposes, like expanding new branches, providing good facilities to the customers by lunching new technology, to maintain the good relations between industrial and business etc.
- ✓ Interest expenses to total deposit ratio of HBL indicate how effectively the bank has mobilized its deposit. The ratios in FY2005/06 to 2009/10 are 2.45%, 2.55%, 2.59%, 2.69% and 4.13% respectively. The average interest on deposit for 5 years is 2.88%. the interest payment ratio on deposit is in

increasing trend which shows that the collection of deposits are higher yearly and the payment of interest rate is also increasing.

- ✓ The interest expenses to total deposit ratio from FY 2005/06 to 2007/08 are below the average might be due to the poor decision of investment policies, higher payment of interest rates on deposits and on loan, taken from Nepal Raster Bank. From FY 2008/09, the ratios are able to meet the average ratio which is positive aspect of HBL. The positive outcomes are the attraction of large no. customers; the huge no. of deposit collection, and invest in portfolio basis to minimize the risk. It can be seen that Bank has introduced many product/services and has built a reputation of delivering the highest quality of professional service.
- ✓ The trend line of net profit of HBL indicates the positive profit figure for the future so that the average increment in net profit per year is 36.37 millions. As the value of *b* is positive it represents the trend is in increasing trend.
- ✓ The positive trend line of interest income shows the positive aspect for the coming future so that the average increment in interest income of HBL each year will be 361.09 million.
- ✓ The HBL's trend line of total income is in positive figure. The average growth in total income will be 412.16 million every year which indicates that the good position of HBL.
- ✓ The trend line of total deposit of HBL shows that growth rate of deposit will be increased by 2687.36 million every year. As the value of *b* is positive it represents the trend is in increasing trend.
- ✓ The calculation of C.V. of total income and net profit are 10.32% and 8.63%. The C.V. of total income is higher than net profit; it shows the variation of total income of HBL is greater than net profit.
- ✓ The calculated C.V. of interest income and net profit are 25.06% and 19.29%. The calculated C.V. of interest income is higher than the C.V. of net profit which indicates that the interest income has less consistency than the net profit of HBL.

- ✓ The C.V. of interest income and total income are 25.06% and 23.07%. The C.V. of interest income is greater than the C.V of total income, so that the variation of interest income of HBL is greater than total income.
- ✓ The calculation of correlation coefficient between total income and net profit of HBL is 0.23 which indicates that there is positive relationship between total income and net profit.
- ✓ The calculation of correlation coefficient between interest income and net profit of HBL is 0.56 which indicates that there is positive relationship between interest income and net profit.
- ✓ The calculation of correlation coefficient between interest income and total income of HBL is 0.9975 which indicates that the result is significant and there is higher degree of positive relationship between interest income and total income.

CHAPTER 5
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepal is a developing country. Nepal is dependent upon the agriculture sector. Nepal has mixed economy where private sector and public sector have been working side by side. In Nepal, most of the organizations were established with objectives of creating employment opportunities, mobilization of natural sources and earning reasonable profit necessary for the development of the country. But they have no clear-cut goals and objectives and are suffering from serious problem of under utilization of their capacity.

The economic development of country depends upon the development of commerce and industry and there is no doubt the banking promoters the development of commerce because banking itself is the part of the commerce. The process of economic development depends upon various factors, however economists are now convinced that capital formation and its proper utilization plays a paramount role of rapid economic development.

The evolution of the organized financial system in Nepal is not more than six decades. After declaration of free economy and privatization policy, HMG encouraged the foreign banks for joint venture in Nepal. As a result, Nepalese bank and financial sectors have greater network and access to national and international markets. 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 saving collected as deposits. Commercial banks, by playing active role, have changed the economic structure of the world, have its own role and contribution in the economic development, and also maintain economic confidence of various segments and extend 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 economic development formulation of sound investment policies and planned effort pushed forward the force of economic growth. The objective of modern commercial banks is to provide various services to their customers in view of facilitating their economic and social life.

The income and profit of the bank depends upon its lending procedure, lending policy and investment of its fund utilize in different securities. Commercial banks able to utilize its deposits properly i.e. providing loans and advances or lending for a profitable project, the reason behind it is lack of sound investment policy. The main objective of this study is to evaluate the profit planning policies adopted by HBL which helps to analyze revenue management and planning process in HBL. The study is totally based on secondary sources of data and required data have been collected by using various published and unpublished sources.

There are total 31 commercial banks have been operating in Nepal till now which are considered to be the population of the study. HBL is a joint venture with Habib Bank Limited, the first commercial bank of Nepal with maximum shareholding by the Nepalese private sector. Besides commercial activities, the bank also offers industrial and merchant banking. It has been taken as a simple of the study and collected the data have been analyzed by using various financial tools and statistical tools like ratio analysis, time series analysis and correlation coefficient etc. the study covers the analysis of only 5 years i.e. FY 2005/06 to 2009/10 and data was obtained from annual reports of HBL.

5.2. Conclusion

On the basis of analysis and major finding of the fifth chapter, following conclusions can be made;

- The ratio analysis of total operating expenses to interest income from FY 2005/06 to 2009/10 is in fluctuating trend. The analysis shows that there are increased in interest income and operating expenses but in the comparison to interest income, the HBL has made an over expenditure under various overhead expenses.
- The ratio of total operating expenses to interest income for two years i.e. 2006/07 and 2009/10 indicates over average ratio. That increasing ratio of interest income is grater than operating expenses. Through this it can be concluded that interest income is increasing & HBL is operating effectively.
- The ratio of interest expenses to interest income is less than average ratio 42.86% in FY 2005/06, 2007/08 & 2008/09.but ratio is above average in FY 2006/07 & 2009/10. In FY 2006/07 to 2008/09 that interest is in decreasing trade, where as 2009/10 it increases. From this it can be concluded that the HBL is trying to utilize its resources effectively & increase its interest revenue in compression to interest expenses.
- The ratio analysis of interest income to total income of last five years is satisfactory position. It shows how effectively HBL has been maintaining its liquidity position. The average ratio of interest income to total income is grater than 80% which indicate that the HBL has been utilizing its resources effectively. The major source of revenue, interest income plays grater role in total income. It indicates that the fund management of HBL is efficient & effective.
- The analysis of net profit with total income shows the portion of net profit of total income. Comparing to recent 4 years from 2005/06 to 2008/09, HBL had gained a higher ratio than the average ratio on year i.e. 2009/10. It indicates that HBL had made a good profit with remarkable performance. Because of increasing in operating expenses for FY 2009/10 cause the bank to operate below average profit ratio. From this it can be concluded that HBL is able to increase its net profit portion from total income but due to increase in operating expenses in FY 2009/10 the ratio is below average.

- The ratio analysis of interest expenses to total income is unstable during the study period. The increased ratio shows that the major portion of income is increasing to spend as interest expenses. Due to increase in completion in banking sector the interest ratio has been increasing. Due to this the ratio of interest expenses to interest income in FY 2006/07 to 2008/09 is decreasing. But the HBL is able to reduce interest expenses in FY 2009/10.
- The ratio of operating expenses on total income of HBL is changeable. During the study period, the operating expenses have increased yearly which is affecting directly to the total income. The increased in operating expenses may be the reason of expenses made for different purposes, like expanding new branches, providing good facilities to the customers by lunching new technology, to maintain the good relations between industrial and business etc.
- Interest expenses to total deposit ratio over the period of 5 years of HBL is satisfactory. The interest payment ratio on deposit is in increasing trend which shows that the collections of deposits are increasing yearly and the payment of interest rate is also higher.
- The trend line of net profit of HBL shows the average increment in net profit per year i.e. 36.37 million which indicates the positive profit figure for the future. The increasing trend line of profit figure specifies the future of HBL is promising for future betterment. The straight line trend of net profit is y=569.354+36.37x.
- The positive trend line of interest income shows the positive aspect for the coming future so that the average increment in interest income each year will be 361.09 million. The straight line trend of interest income is y=2171.302+361.09x, which indicate efficiency of HBL.
- The trend line of total income is in positive figure. The average growth in total income will be 412.16 million every year which indicates the positive of HBL. The straight line trend of total income of HBL is y=2657.99+412.16x.

- The positive trend line of total deposit shows that the growth rate of deposits will be increased by 2687.36 million every year. The straight line trend of total deposit of HBL is y=26836.75+2687.36x. This indicates that the HBL will have required fund for investment in future.
- The value of correlation between total income and net profit of HBL is 0.23 which indicates that there is positive relationship between total income and net profit.
- The value of correlation coefficient between interest income and net profit of HBL is 0.56 which indicates that there is positive relationship between total income and net profit.
- The value of correlation coefficient between interest income and total income of HBL is 0.9975 which indicates that there is high degree of positive relationship between total income and net profit.
- Banks are facing with higher operating costs in comparing to reduced bank changes and interest earned in recent years. To control the operating cost, they have increasingly turned toward automation and electronic networks to replace labor based production systems, especially for taking deposits, dispersing payments and making credit available.
- The HBL has established itself as the power to lead and being the largest bank in terms of network and branches with a wide network of ATMs and offering including a range of diversified service products.
- HBL has introduced many product/services and has built a reputation of delivering the highest quality of professional services.

5.3 Recommendations

As the bank pursuit to be the power to lead, the following suggestions are recommended.

- Minimum cash balance of HBL Ltd is high. The increase in number of commercial bank, finance companies with simple deposit policy have affected the deposits of HBL. So, HBL is recommended to.

A. Simplify present complicated and lengthy depositing process.
B. Set a more convenient minimum balance requirement to open an account
C. Provide incentive for attracting new fixed depositors

- The unlimited goal of a commercial bank is to maximize its profit. Profit margin is always influenced by not only spread rate but also customer balance and deposit mix decision. So bank are more bound with and influenced by charges, fees and facilities. So HBL should reduce interest in deposit and increase in facilities.
- In today globalize economy, different new business and financial concepts have been developed to enhance and move forward in this competitive market. So, HBL should develop a special investment promotion unit for seeking profitable investment opportunities and identifying promising small entrepreneurs.
- The yield on assets might vary with the size of the loan or deposit. Administrative cost saving help to allow lower rates of interest to be changed by banks on larger loans and higher rates of interest to be paid on larger time deposits.
- Bank should be able to maintain adequate amount of liquidity to provide loan to the customer at the time of their necessities as well as to refund to the depositors. So, sound liquidity should be maintained by HBL.
- Bank is also a profit earning organization. So, while lending loan it should consider the profitability associated with that lending. It means HBL should identify the profitable opportunities for lending purpose. The loan provided by bank should be able to generate different kinds of resources then only customer can repay principle as well as interest amount.
- To maintain the solvency position of the bank, its investment should be in the sectors where it is easy to return that amount.
- It is also recommend to the bank that it should operate news branch in all strata of the society in urban and rural areas through network expansion and creative product both on deposit and lending facilities to more customers.

- ❖ Through the various ratio analyses, the operating expenses of HBL are increasing yearly. Though the expenses made for different purposes, it reduces the income of the bank. So, HBL should plan to reduce its operating expenses or should increase its income to improve its profitability.
- ❖ Considering the growing competition in the banking sector, the business of the bank should be customer oriented. So, HBL is recommended to adopt innovations and services to the customers and should involve in different kind of social and community development activities to provide more personalized services and better environment for its customer; it is an effective tool to attract retains the customers.

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